The Integration Challenge

Harness Your Technology to Drive Productivity and Efficiency
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Harvest Your Technology to Drive Productivity and Efficiency

Technology is one of the key drivers of success for advisory firms. According to a recent financial performance study from InvestmentNews/Moss Adams, new technology investment was the number one profitability initiative named by survey respondents—with three of the industry’s top six profitability initiatives being technology related, including automation and integration.

“New technology investment was the number one profitability initiative named by survey respondents”

According to the 2012 InvestmentNews RIA Technology Study, more than half of the respondents indicated that they will be increasing spending on technology in 2013. Software enhancements are the number one area of focus for technology spending for 68% of those surveyed.

The importance of technology rises in line with a firm’s emphasis on growth—the higher the growth target, the more important advisor technology is. But most important is what advisors want technology to do for their practices: their reliance on technology investment to fuel growth translates directly into expectations of higher productivity. Survey respondents’ top consideration when investing in technology was improving the firm’s productivity. At 43% of firms, this was far and away the most cited reason for technology investment—nearly twice as common as the next highest answer (Exhibit 1).
Integration Is a Key Path to Higher Productivity

Within this context, it’s not surprising that technology integration is fast becoming a centerpiece of advisory firms’ technology strategies. In 2010, only a minority of firms cited integration as a profitability driver, however, now a large majority of firms is targeting integration as a driver of operational improvement over the next few years—a significant increase over current levels. In addition, 41% of firms have begun to factor integration capabilities into the technology buying decision.¹

“[It also can help address a key priority for all firms, which is] freeing up more partner time for business development—not just for growth, but also for profitable growth.”

— Jon Patullo, Managing Director, Technology Product Management. TD Ameritrade Institutional

¹Source: InvestmentNews 2011 RIA Technology Study

Exhibit 1: Top 5 Considerations When Investing in Technology

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Expected Benefit to the Client</th>
<th>Increased Profitability</th>
<th>Expected Benefit to Staff</th>
<th>Expected Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity Gains</td>
<td>43%</td>
<td>22%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Expected Benefit to the Client</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased Profitability</td>
<td></td>
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<tr>
<td>Expected Benefit to Staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: InvestmentNews 2013 Adviser Technology Study
“When one looks at all the profitability metrics that matter, technology can play a decisive role in improved performance: increasing assets under management per employee, and revenue per employee, which support both larger operating margins and higher professional compensation.”

– Jon Patullo

Why integration? By integrating two or more technologies, firms are expecting to make significant headway on a wide range of challenges. The hoped-for result is improved internal performance (e.g., efficiency of process and reduced manual input time), which will result in a higher quality experience for clients and more profitable growth for the firm (Exhibit 2).
Exhibit 2: Primary Reasons for Integrating Systems

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More Efficient Processes</td>
<td>56%</td>
</tr>
<tr>
<td>Improved Productivity</td>
<td>16%</td>
</tr>
<tr>
<td>Reduced Manual Input</td>
<td>14%</td>
</tr>
<tr>
<td>Increased Accuracy</td>
<td>5%</td>
</tr>
<tr>
<td>Improved Client Satisfaction</td>
<td>4%</td>
</tr>
<tr>
<td>Cost/Expense Reduction</td>
<td>3%</td>
</tr>
<tr>
<td>Faster Turnaround Times</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: InvestmentNews 2013 Adviser Technology Study

This paper covers key issues in designing and adopting an integration plan, including:

- The challenges of working around legacy systems, and the preparatory work often required to get the most from a technology integration initiative: focusing on your firm’s identity and mission; thoroughly mapping your current processes; and having deep knowledge about your current systems and technology environment.

- The right framework for designing an integration initiative: it focuses on streamlining processes and workflows. It is not just about buying capabilities or functionality. The effort must be aimed at process improvement, and it requires advisors to be “systems thinkers”: designing new processes from end to end, using technology to reduce steps and strengthen results.

- An overview of the varying degrees of integration available to advisory firms, and the potential benefits of each.

- A roadmap to develop an integration strategy: five key questions that can guide advisors in deciding what they want from an integration effort, how to get there, and how to help them reap the desired rewards.
Integration Bullseye: Growth and Sophistication Without the Incremental Costs

Profitable growth is a key challenge for advisory firms. That is, adding more clients and assets without adding incremental costs to fuel that growth. In addition, as client needs become more complex, advisors often need to support more and more complex products and services.

Clients may also be imposing high expectations on their advisors’ technology platforms, based on rapid increases in the speed, usability and flexibility of consumer technology—compared to financial management technology, which has advanced more slowly. Finally, the industry’s competitive pressures are increasing as larger firms raise the bar in terms of overall business management skill. As they push the entire industry toward greater emphasis on professional practice management, technology investment becomes an ever more important driver of business value.

“As they push the entire industry toward greater emphasis on professional practice management, technology investment becomes an ever more important driver of business value.”

Many, if not all, of these challenges can be addressed by technology and practice management—especially moving toward more integrated technology environments. Integration can help firms get more out of what they spend. Specifically, it can help increase the productivity of staff at all levels, and streamline workflows and business processes, which can be a huge potential boon for the firm.
By getting technology systems to talk directly to each other—sharing data and interacting with each other to complete key workflows—business processes may be greatly simplified, with greater reliability and efficiency. Reducing manual steps and human intervention can free up staff time from rote administrative tasks, allowing more time for client-facing activities that generate value for clients and the firm.

**Challenged by History: Building a House One Room at a Time**

One of the biggest challenges to effective systems integration is the fact that many legacy systems were not built for integration. While integration is increasingly built into newer systems, many advisory firms have acquired technology over a period of years, in a fragmented technology market where integration standards were historically weak or nonexistent. So while firms with non-integrated systems may feel that their systems work well, they also want their technology to run better and be more efficient—without suffering the cost of replacing existing systems just to get an integration benefit.

“There are potentially high costs and lots of time involved in researching and implementing new systems,” says Spenser Segal, CEO and founder of ActiFi. “Most advisors want to keep the systems they currently own, but still get the benefits of integration, including higher profitability and efficiency.”

Alex Murguia, a principal with McLean Asset Management, and a technology entrepreneur, likens the integration problem to building a house. “Imagine you started with one room. Then built on another room. And then just kept growing by building one room at a time. What you end up with is a mansion built by addition, which can often be clumsy in its design, and probably not as functional as a house designed all at once from the beginning.”

**Out of the Starting Gate: Prerequisites to Effective Integration**

Murguia and Segal both argue that even with mature systems, if those systems have been kept up to date and they have the right capabilities, integration efforts are not only manageable, but the benefits are well worth the effort. And here, while advisors may be most concerned about time commitment and cost, experts interviewed for this report suggest that advisors’ primary concerns should be: strategic planning, knowledge of processes, and familiarity with current systems.

- **Know who you are and what you want:** According to Murguia, it’s important for advisors to know what kind of practice they want to run and build a strategy around it. He says: “In the simplest example, a one-person shop is going to have very different systems and integration needs than a firm that wants to be more institutional and get to $1 billion in assets in five years.”

Jeff Powell, managing partner and founder of San Francisco-based wealth management firm Polaris Wealth Advisers, LLC, says that serving sophisticated clients imposes high demands on the firm in staying on top of client service processes. “With the reports available in our new CRM system, I can
see with greater clarity the frequency of client touches, who is receiving what kind of communication, and is the work getting done on time by the right people. That level of transparency is an exceptionally important feature to the way we do business.”

Know your current processes: Segal emphasizes that advisors need to be able to map all their key processes before they can begin to see where integration may create productivity gains. “One hundred percent of the business value of integration comes from process improvement, not from simply getting two systems integrated and talking to each other,” he says. For example, Powell says his firm has a very strict protocol for following up on client referrals, which includes a handwritten note to the prospect after the first contact, as well as a thank you note to the referral source. “With just one click of a button I can see how well that process is being followed across the firm,” he says.

Know your current systems: Advisors who don’t fully understand the functionality of their current systems are at a disadvantage. “If your target is CRM integration with other systems, but you’re only using CRM as a glorified rolodex, then you need to start by fully understanding what your CRM is capable of and making the most of it,” says Segal. “Then you can figure out where the gaps are that need to be filled.”

Exhibit 3: Potential Challenges and Benefits of Technology Integration

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Time commitment of principals to manage the process</td>
<td>▶ Increased efficiency and productivity means more time for client-facing activities</td>
</tr>
<tr>
<td>▶ High cost of new technology and/or upgrades to existing systems</td>
<td>▶ Increase ROI by reducing costs through automation, minimizing manual work</td>
</tr>
<tr>
<td>▶ Lack of dedicated team resources for implementation</td>
<td>▶ Maximize your team’s overall productivity by leveraging industry-leading solutions</td>
</tr>
<tr>
<td>▶ Lack of understanding of current business processes and strategies</td>
<td>▶ Clarity around business processes and strategies</td>
</tr>
<tr>
<td>▶ Inadequate training on current systems, or inadequate knowledge of their functionality</td>
<td>▶ Higher reliability and accountability, fewer errors and corrections</td>
</tr>
<tr>
<td>▶ Inconsistent client service</td>
<td>▶ Increase in quality of client experience and client satisfaction (e.g., timeliness and thoroughness)</td>
</tr>
</tbody>
</table>
Reaping the Rewards

With proper attention to such big-picture issues, technology integration can potentially deliver enormous benefits. For the firm it can deliver scale: more productive work with less wasted effort, generating more revenue for less cost. For clients, the experience may be much improved: faster process with less waiting between steps, more thorough with fewer errors, and fewer demands on the client’s time and attention.

That may seem like a lot to expect from a technology initiative, but many advisors are reaping just such rewards. And survey data suggest that the entire industry is optimistic about even greater integration benefits in the future. "Though current experience with integration is somewhat mixed, advisors are definitely optimistic," says Jon Patullo, “About 26% of advisors say that they can’t currently identify appropriate integration solutions. But vendors are working overtime to get new solutions to market. And, nearly 90% of advisors expect significant increases in productivity and efficiency once those solutions are integrated."^2

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“About 26% of advisors say that they can’t currently identify appropriate integration solutions.”

— Jon Patullo

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To help advisors select and implement the best integrations for their businesses and to get the most value from their technology investment, firms like TD Ameritrade Institutional are developing tools to help advisors navigate through the expanding universe of solutions. “The Veo® Platform’s Integration Analyzer™ is an interactive, web-based tool that allows advisors to evaluate integration levels between multiple applications and to create and compare unique scenarios to identify the most efficient solutions to suit their business needs,” says Chris Valleley, Director, Technology Product Management, TD Ameritrade Institutional.

^2Source: InvestmentNews 2011 RIA Technology Study
Tech Integration: 
Primarily a Process Challenge, 
Not a Systems Challenge

One of the first steps to effective integration is to put it in the right perspective. Spenser Segal is concerned that too many advisors look at integration in a vacuum—e.g., how to link their CRM system to their portfolio management system. He urges firms to avoid thinking about productivity gains purely in such technical terms.

He says that the right way to think about productivity is in terms of more accurate or more efficient business processes: for maximum impact, integration has to be tackled as a process challenge. Segal uses the example of client meetings: “Most firms I know wish they had a magical prep-for-client-meeting button. It would book a room, send a reminder, print a report, etc. But prepping for client meetings is different at every firm, so the preparation process is different. An asset manager might need different reports than a wealth manager, for example. And thus the technology and integration demands for that process will be different.”

Jeff Powell says, “To me, when we discuss integration, what we are really talking about is processes. That is, being able to facilitate a process from the beginning to the end and make sure that nothing falls through the cracks.”

Using integration to streamline those workflows and reduce staff time is what will have the biggest impact on the firm—because macro processes involving many people, many steps and multiple systems (e.g., prepping for a meeting, rebalancing portfolios, on-boarding new clients) make up a large share of employee expense. Complex processes are also usually managed across technology platforms and systems. And it is in those cross-platform activities that integration can help simplify a workflow process and eliminate manual tasks. According to Segal, “Advisors do a good job of buying systems with strong capabilities, but they need to do a better job of changing their processes to fully leverage their investment in the technology.”
“Advisors do a good job of buying systems with strong capabilities, but they need to do a better job of changing their processes to fully leverage their investment in the technology.”

– Spenser Segal, CEO and founder of ActFi

**Thinking in Terms of Processes Not Tasks**

The problem, says Segal, is that people are not built to be “systems thinkers”—i.e., having the ability to analyze and assess a system from end to end, including the parts of the process they are not involved in. He says that, “We tend to start with our jobs—which is what we know. We think that if we can improve our job, then everything else down the line will be better. But that’s not usually the case. Many times we optimize a specific task while at the same time sub-optimizing the overall process, because we can’t see the potential impacts many steps further up or downstream.”

He recommends that advisors articulate the business outcome they want (e.g., 50% reduction in time spent on trading) and then think through the many steps upstream and downstream in the process. Many times, existing processes are insufficient to meet the goals, and those processes will have to be changed. When existing manual steps and work-arounds are eliminated, it often changes people’s roles and responsibilities. This is a key point, as Segal cautions, “Optimizing someone’s job, or a specific task, is really the tail wagging the dog. In reality, when you use integration to optimize an entire process, someone’s job responsibilities and tasks may have to change.”
Future State of the Account Opening Process

To understand integration’s potential impact it would help to look at a common, repetitive process that advisors have to implement over and over as their practice grows: the account opening process. In its traditional form this is an intensive manual process that requires collecting lots of data, filling out multiple forms, and managing multiple communications with clients and custodians.

Yet, with the advent of systems integration—in addition to automation—this process can be simplified and shortened, with a huge potential benefit for advisory firms and their clients. As shown in Exhibit 4, integration and automation can help advisory firms minimize manual steps in the account opening process: from pulling forms, to entering data, to checking paperwork, to making phone calls, to mailing physical documents.

In addition, integrated systems can dynamically analyze applications in real time to flag potential problems—e.g., a missing margin form. Because such error checks can be built into the pre-submission process, application paperwork is to some extent “pre-approved”; this can help reduce the chance that the firm would submit paperwork that is incomplete or inaccurate. There should be no need to wait on a rejection from the custodian to identify and correct any errors. This can help eliminate a lot of back and forth between custodian and advisors.

In this example, the main benefit to the firm is that the entire account opening process can potentially be reduced from weeks to a day or even minutes—a vast improvement in both efficiency and the quality of the client experience. In addition, the firm can minimize paper generation, lower staff costs, decrease cycle times, and reduce errors. In short, the firm can generate more revenue with less work.

To get these benefits, the firm has to make sure it has the right resources and capabilities: i.e., that it has a CRM system and knows how to use it; that the firm’s CRM system can talk to the custodian’s system (utilize logic stored at the custodian level to initiate and run automated

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### Potential Benefits of an Integrated/Automated Account Opening Process

- Enables a better client experience—faster results with fewer errors and less back and forth communication
- Faster review and approval enables advisors to begin investing clients’ funds sooner
- Creates an audit trail
- Eliminates manual steps
- Speeds up processes by performing verifications and data transfers
- May eliminate delays due to rejection of incomplete or incorrect data—which is caught before submitting paperwork
- Performs steps in parallel, creating additional process efficiencies
Exhibit 4: Automating the Account Opening Process

Traditional Account Opening Process

- Print out TD Ameritrade Institutional Account Application
- Access CRM system to get prospect data
- Get client signature from CRM to complete Account Application
- Physical delivery of application to TD Ameritrade Institutional
- Enter application information into Veo®

Integrated Account Opening Process

- Create pre-filled TD Ameritrade Institutional application in CRM system
- Get client e-signature
- Electronic delivery of application to TD Ameritrade Institutional

▶ Saves time
▶ Enhances professional appearance
▶ Reduces postage and printing expenses
▶ Reduces error rate

processes); and that the firm has implemented internal technology solutions, such as e-signature, that are required for integrated systems to function.

Finally, one of the most important outcomes of such an effort is that once the new process is in place, someone’s job may change. Once manual tasks have been eliminated, staff can be freed up and reassigned to other work. That’s something the firm and its staff have to be prepared for, and they should know in advance where those resources will be redeployed to maximize the firm’s revenue and profitability potential.
In the previous case study, one can easily see how integration may save time and money—by allowing real-time communication between different systems inside and outside the advisor’s office. It can help eliminate manual data entry, manual error checks, filing costs, communications by phone and mail, and a range of other activities that can slow down the account-opening workflow.

It’s also easy to see how other processes in the firm could be enhanced in a similar fashion. Prepping for a client meeting, for example, could be simplified if financial planning and portfolio management systems could talk to each other. Rebalancing portfolios could be faster and more accurate if activities like suitability checks and comparisons to model portfolios could be automated. Even simply beginning the day with an automated data download could save time over manual processes.

Varying Degrees of Integration

But “integration” can mean many things to many people. Even in the examples above, integration can be achieved in different ways, each with a different outcome and set of benefits. It’s important to understand the options, in order to know what’s possible given the capabilities of your current systems, and what’s appropriate given your goals and resources.

“At TD Ameritrade Institutional, we use four basic categories to analyze a system’s integration capability and functionality,” says Chris Valleley.

- **Data exchange/single sign-on.** An RIA logs in once and can move data between software applications by manually transferring files. Example: Importing fees from a portfolio management system to the RIA’s CRM system.

- **Automated web services.** With no keystrokes or other actions, real-time data flows seamlessly between software applications. Example: The office CRM system receives changes to client account positions or balances as they occur in the trading system.

- **Intuitive navigation between applications.** In one click, an RIA can complete a task that combines similar features within two separate applications. Example: To send a client a check, the RIA clicks a button in the CRM system that launches and populates the check-writing page on an account management platform.

- **Embedded functionalities and workflows.** An RIA can stay on the same screen within one application while triggering a series of requests in a second application. Example: A portfolio rebalancing application generates a series of orders and delivers them to the trading system for execution without leaving the rebalancing tool to log into the trading system and import trades.
The goal of integration is to make significant gains in process efficiency. For example, manually completing all of the tasks required to submit management fees can be a time consuming and cumbersome process (Exhibit 5). Pushing the management fee report directly to the custodian’s platform eliminates manual steps (saving time), and potentially reduces errors because the data is sent directly, with no intermediate steps where human intervention can cause mistakes. The ability to pull data can have much the same benefit—e.g., pulling real-time data from the custodian to feed investment policy software. Automatic pushing and pulling of data can thus reduce professional time spent on what may currently be very time-intensive activities.

Exhibit 5: Hypothetical Case–Automating Management Fee Billing

Management Fee Billing Process

<table>
<thead>
<tr>
<th>PREVIOUS WORKFLOW</th>
<th>NEW WORKFLOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log In to Portfolio Management System</td>
<td>Log In to Portfolio Management System</td>
</tr>
<tr>
<td>Run Management Fee Report</td>
<td>Run Management Fee Report</td>
</tr>
<tr>
<td>Export Management Fee Report</td>
<td></td>
</tr>
<tr>
<td>Save Report to Computer</td>
<td></td>
</tr>
<tr>
<td>Log In to Custodian System</td>
<td></td>
</tr>
<tr>
<td>Navigate to Management Fee Import Function</td>
<td></td>
</tr>
<tr>
<td>Load Saved Management Fee File</td>
<td></td>
</tr>
<tr>
<td>Click Button to Submit Fees to Custodian</td>
<td>Click Button to Submit Fees to TD Ameritrade Institutional</td>
</tr>
</tbody>
</table>
The deepest level of integration—embedded functionalities and workflows—is often organized around a “hub” format, in which one system allows access to the functionality and feature sets of other systems—without having to launch or enter those systems. Many firms look to their CRM system to act as the hub for the entire technology environment (Exhibit 6). The case study on page 17 describes the potential benefits of this approach.

Exhibit 6: Hub Systems Allow Access to the Functionality of Other Systems

One system acts as a direct interface for other systems—allowing access to the functionality and feature sets of those other systems

Advisors looking to accomplish deep integrations would likely need to work with their vendors and custodians to ensure that these efforts are implemented correctly. Such sophisticated technology solutions are often the most difficult for advisors to build internally. And with the speedy rate of development in the market, there may even be off-the-shelf solutions that could help advisors save time and money on their integration efforts.
Targeting Systems “Interaction” as a Driver of Efficiency

According to Murguia, while all these strategies can have benefits, advisors targeting significant efficiency and productivity gains would be best served by high level integrations. “If you can create an ecosystem in which all your key systems can interact with each other, then you really have something,” he says. “Saving one step in a workflow does not do very much in terms of overall efficiency.”

“If you can create an ecosystem in which all your key systems can interact with each other, then you really have something,”

– Alex Murguia, a principal with McLean Asset Management

Thus, he suggests that advisors should focus on getting software systems to “interact” or that can be “bolted on” with each other by pushing and pulling data. Such data accessibility between systems, he believes, is the foundation of effective integration strategies. “I would suggest viewing your operating system the same way you view your smart-phone. When you want new services or enhanced capabilities you search the app store and bolt on the functionality you want. For example, if you want help designing process within the Salesforce platform you can purchase a phenomenal app called Process Composer. I think this view of systems design is going to be the standard for the foreseeable future.”
How a Cloud-Based Hub
Improved Reporting & Transparency

**Firm:** Polaris Wealth Advisers, LLC  
**AUM:** $360 million  
**Location:** San Francisco, CA  
**Staff:** 2 principals, 4 advisory professionals

**Integration Challenge:** Provide greater visibility for management and advisory professionals in two key areas:
- Client’s complex financial lives—including investment holdings, reports, financial plans, contacts/touch points, etc.
- Firm performance—including asset flows, revenues, new business development and lead tracking, costs, etc.

Data has to be accessible any time from anywhere. As the firm expands geographically, we need to preserve the confidentiality of each advisor’s book of business.

**Solution:** Cloud-based CRM and sales management software that integrates with other systems (e.g., portfolio management) and allows the firm to build customized reports suitable to their management needs and strategic goals.

To attract and retain clients with a high level of service, Powell says that, for years, he has focused on process as a driver of both efficiency and quality. “I’m a firm believer of being successful on purpose,” he says. “I can give you every detail of every step that goes on from the moment that I get referred a client to the end of their first full year of being a client. What we have done is create a process for everything.”

But as the firm grew in number of client relationships, sophistication of client needs, and now geographic regions, Powell began to realize that even though his CRM system supported robust process and workflow management, it did not provide the transparency he was looking for. “I knew that we had a need, but I did not know there was technology available to solve it,” he says.

According to Powell, reporting was the key functionality that he was missing and that an integrated system has to provide. “We segment our client base. So having the right people looking at the right things is very important, especially as we expand geographically. Measurement is also essential. You have to be able to hold yourself accountable to the rules that you’ve set as a firm. With almost 400 relationships I need to be able to see at a glance what everyone is doing. But more important, I need to see that they are executing on the right processes so that clients continue to get the experience they expect from Polaris.” Finally, he points out that his client service
model demands immediate accessibility to information about client relationships. “We need to be able to have very educated conversations with clients whenever and wherever they need it.”

He says that the optimal solution was to use a single system as the hub for the entire technology environment: “The only way that you’re going to be able to do all the things we need to do is by having it hubbed and having it in the cloud.” Everything from a client’s financial plans to account balances, to advisor pipelines and asset flows are all tied into the CRM system. And feeding all the data to a central point enables the firm to perform a wide range of analytics and reporting—providing just the kind of transparency Powell was looking for.

Introduction to Operating in “The Cloud”

Over the past few years, “cloud computing” has been gaining in popularity with businesses of all kinds, and it is opening up new possibilities for advisors. In “the cloud,” as it’s known, third-party providers host both systems and data—which in many cases relieves advisors of the burdens of owning those applications, managing data centers and servers, creating business continuity and disaster recovery plans, etc. It can also help address overhead cost and resource issues.

With regard to integration, cloud applications typically (though not always) include intuitive navigation between systems; meaning they provide more than simply single sign-on. Cloud integrations actually take you to the application you need to use. Applications can be accessed on any web-enabled mobile device, such as a tablet computer.

The concern identified by most advisors is security. Can they trust the cloud? Our answer is a qualified yes. Cloud computing can offer many benefits, but the risks and benefits both have to be evaluated for each potential vendor. And advisors should not move to a cloud solution without robust answers to key questions about security and reliability. A cloud provider should be able to offer impeccable security qualifications, a detailed service level agreement, and a robust disaster recovery plan. Some appropriate questions for providers of cloud computing could include:

- How long have you been in this line of business?
- What certifications does the vendor carry? (e.g., ISO27002, ISO17799, SAS70)
- What is the applications service level? (i.e., percent of up time)
- What are the disaster recovery and business continuity plans and how often are they updated and tested?
- What type of data encryption methods does the vendor support?
- How does the vendor segregate client data?
- How is the vendor protecting the “perimeter” from hacking or intrusion?

If a cloud provider can give satisfactory answers to these questions, then these services may be a good choice to ease the technology management burden, while pursuing a comprehensive integration strategy.
CHAPTER 4

Five Key Questions to Drive Any Integration Effort

The processes that can benefit most from integration are those that require taking data from one system and putting it into another, as well as repetitive processes that include a lot of manual tasks. Simplifying these processes, and automating them, brings more efficiency and accuracy and frees up time for other activities.

Spenser Segal suggests that advisors thinking about integration—and more precisely, integration as a way to increase productivity—can use the following five questions to guide them through the effort:

Question 1: Where is the greatest opportunity or most significant roadblock?

A roadblock could be a process that has become so painful that it’s problematic—e.g., quarterly rebalancing that’s so painful and time consuming that staff dread it, and/or avoid it. A roadblock could also be a process that’s so inefficient that it’s preventing the firm from reaching its objectives—e.g., Consider the following hypothetical challenge: “Growing from $500MM to $1B would triple our trading volume, but we can’t afford to triple our trading staff, or our time allocation to that function; we need to be more efficient with trading if we’re going to grow.”

Because the primary value from integration is driving a tangible business outcome such as increasing process efficiency, advisors should first identify where a lack of process efficiency has created intolerable pain points or growth roadblocks. Those are the places where the firm will gain the most from its integration efforts.

Question 2: What will integration do for me?

Once the advisor can see where process inefficiency is causing problems, the next step is to figure out specifically where integration could help. The advisor has to have a clear answer to the question: How can integration help me get to a future state where this process is simple, fast, efficient and reliable? Consider the hypothetical example below, focused on rebalancing:

- Current state (a firm with manual processes): The investment committee meets and determines targeted allocations. The advisor manually pulls up spreadsheets and compares client portfolios to the model. Manual calculations are required to assess what action is required for each portfolio. Trades are input manually. Reconciliation and report generation is performed manually.
Future state (the firm moves to integrated processes): Models are embedded in the rebalancing system. They dynamically pull client holding data from the portfolio management system, analyze it, and generate a list of accounts with deviations. The rebalancer would identify necessary trades and the advisor would simply review those recommendations—making adjustments where necessary. With an automated trading system, those trades would flow through to the custodian’s platform. The portfolio management system would then automatically pull real-time data and generate any necessary reports and documentation.

“Because the primary value from integration is increasing efficiency, advisors should first identify where a lack of efficiency has created intolerable pain points or growth roadblocks. Those are the places where the firm will gain the most from its integration efforts.”

In this example, we can map out where systems integration can eliminate manual steps. We can also see very clearly: which systems need to communicate and for what purpose; and which data need to be pushed or pulled, where and when. Finally, we can also see where time is being freed up so that it can be reallocated—e.g., if the senior advisor is doing the manual analysis and trading, then that time could be reallocated to new business generation; or if a service level advisor is handling those manual rebalancing tasks, then he or she could spend more time on investment research.

The key take-away here is that the advisor must be able to answer the question: what is integration going to do for me? The answer has to be specific enough to provide a roadmap that will guide both the systems upgrade, as well as the process improvement effort.
Question 3: How do I get there?

Once the roadblock is clearly articulated, and the future state well-defined (with tangible goals and metrics), then the advisor can move to designing an integration strategy that can solve the specific business problem they have identified, rather than solving a generic “integration” problem focused solely on technology. Experts interviewed for this report offered three key suggestions to guide the technology selection part of the effort.

- Alex Murguia suggests that the place to start is with the firm’s identity and philosophy. He says, “Some advisors have the staff and expertise and would rather reconcile the data themselves, but don’t want the cost of running a data farm, backup solutions, etc. That’s a distinct philosophy that will dictate a specific solution set. Other firms may want to offload all of it. Again, the approach to doing business creates a different solution set. So, first you need a clear idea of who you are and what kind of business you want to run.”

“So, first you need a clear idea of who you are and what kind of business you want to run.”

– Alex Murguia

- Spenser Segal reminds advisors that they need to be very careful in assessing how much the solution actually relies on technology, and not training, staffing, process design, or some other non-technology issue. Sometimes technology will solve the problem, but most times it is technology paired with some other kind of effort involving human behavioral change. In addition, if a technology upgrade is necessary, how customized does it need to be to solve the problem—i.e., will an off-the-shelf solution be adequate even if it’s not perfect? It’s important to have a clear understanding of what technology can and can’t do—to make sure you’re only buying the technology that you truly need, and that it will do the job it’s intended to do.

- In that same vein, Murguia advises against thinking of technology in utopian terms—i.e., that it can solve 100% of every problem. He says that in his experience, “Any technology solution is only going to get you 80% of the way there, and each different solution is going to offer a different 80%. Flip that around and you can see that each potential solution is going to leave you with a different 20% work-around. So you have to ask yourself, which 20% work-around is going to be easiest for the firm to manage?”

Within the context of the firm’s identity, and a realistic understanding of the technology’s ability to solve the problem, advisors can whittle down the choices and work with vendors to find out what options may best suit the firm’s needs.
Question 4: How do I get it adopted?

Study data suggest that follow-through is key to implementing any technology effort. Top performing firms\(^3\) tend to stretch their implementation over longer periods of time and allocate more resources to training. As a result they are much less likely to blame their software for any snags in the implementation phase.

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“Advisors tend to spend 98% of their effort and attention on the technology purchase, and 1% each on process improvement and 1% on behavioral change.”

– Spenser Segal

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Follow-up is crucial to the successful adoption of new technology. According to Segal, “Advisors tend to spend 98% of their effort and attention on the technology purchase, and 1% each on process improvement and 1% on behavioral change. In reality, they should be spending an equal amount of time and money on each of those three parts.” Many firms judge the success of new technology rollouts by evaluating improvements to process efficiency. If efficiency gains are not apparent, the implementation may be viewed as a failure.

Murguia agrees, and he warns that process improvements need to be embedded into the way the firm operates. Otherwise advisors could end up becoming serial purchasers of new technology, and still never get the benefits they need. Murguia says he designates one staff person to drive the integration effort—making sure that process improvements are realistic to the way the firm works, and are fully adopted to make the best use of the integrated solution.

Their attention to follow-through is supported by industry data. “Most advisors rated the return on investment for technology spending as medium to high, but they still have some deep and persistent frustrations with technology implementation,” says Jon Patullo. “Given the higher rate of satisfaction of top performers, particularly in software, we question whether the majority of advisors are investing enough time in planning, implementation, and follow-through to realize their desired return.”\(^4\)

\(^3\)Defined as the top 25% of firms in the InvestmentNews 2013 Adviser Technology Study, based on a composite score that included: profitability (earnings before owner compensation), growth (compounded annual revenue growth rate), and productivity (revenue per total staff).

\(^4\)Source: InvestmentNews 2011 RIA Technology Study
Part of that follow-through involves communicating with and motivating staff to get them to adopt the new technology and fully utilize its capabilities. According to Jeff Powell, “Getting them on board and selling them on the process is critical. Nobody likes to feel like they are wasting time relearning something for no reason, but if you can show them the benefits that will be available to them through the upgrade, it can be a significant motivator.” He says that his team uses online education tools and videos from technology providers, and they take full advantage of telephone support when faced with a particularly complex challenge. But motivation is a critical driver of change. “When people see how the new technology ties into the things they already do—in a way that improves their productivity—that is huge.”

**Question 5: Am I getting the result I targeted?**

Once a technology integration has been rolled out, it is critical to monitor the result and quantify the business value that may (or may not) be materializing from that effort—especially where specific goals were set out in advance.

Jeff Powell says “One of my favorite quotes is from John Adams who said, ‘Begin with the end in mind.’ You need to envision your desired end result and then work your way backwards. Technology is a great example of how that works. What is the end result that you want? Will your chosen solution get you there? And what do you have to do between here and there in order to achieve it?”

At McLean Asset Management, Alex Murguia says that his firm has a dedicated resource assigned to each key system, to ensure that functionality is being fully utilized, workflows are appropriate, and the firm is achieving the intended results. “The last thing you want is a fire drill every six or eight months where you’re trying to figure out why things aren’t working,” he says. “When you don’t have continuous monitoring it’s easy to find yourself in that situation, and then blame the software because ‘things don’t integrate.’ When in reality it’s some other issue, like a process that’s broken, a workflow that’s not being implemented, or a lack of training.”

**New Wine Into Old Casks**

At this point, firms with mature technology platforms may be asking themselves whether integration is even an option—whether their systems are up to the demands. The answer is that strictly from a systems perspective there is no reason to assume that age is a barrier to integration.

The kinds of integrations discussed here generally require a modern technology framework that includes capabilities like web-service interfaces. But if a system has been kept up to date and includes web-enabled functionality, then even mature systems can support significant integration.
The bigger issue is the philosophy and technology of the specific vendor. For example, deeper integrations require an ability to embed external functionality. Some technologies allow it, and some don’t. If the vendor is using a technology that doesn’t support this kind of embedding, then this type of integration is not possible with that system. But that’s not a question of age; it’s a question of how open the vendor’s technology platform is and how willing they are to enable those kinds of interfaces.

**Patching versus Replacing**

Many firms may also be facing the tough question of whether an integration is best implemented by updating or patching current systems, versus replacing them with new systems. The InvestmentNews 2013 Adviser Technology Study suggests that few advisors want to replace entire systems just to get an integration benefit. And with many off-the-shelf solutions now available, it may not be necessary. Segal suggests that the key issue to focus on is business value: will the business value exceed the cost? He says, “Sure, all things being equal, more integration is better. But only to the degree that it drives business value and can yield a tangible return on investment.”

“Sometimes incremental steps like upgrades can take a process to a new level and improve things without huge cost.”

— Alex Murguia

Murguia points out that sometimes the issue is just one of habit. Mature systems and processes that have been in place for years may be adequate, even if they are not optimal. “Could things be more efficient?” he asks. “Probably. But is it painful? Oftentimes, it’s not. It’s just a matter of stepping back and asking whether there is a better way. Sometimes incremental steps like upgrades can take a process to a new level and improve things without huge cost.”

On the other hand, if the challenge is deep and fundamental, and if it can’t be addressed with inherited processes and technologies, then that may require a fundamental solution like replacing an entire system. “You don’t want to be pennywise and pound foolish,” he says. “If your business requirements are fundamentally at odds with your capabilities and you can’t make it better with what you have, then patches and upgrades are probably not the right solution.”
Evolution of an Integration Strategy

Firm: McLean Asset Management Corporation
AUM: $630 million
Location: McLean, VA (with satellite office in Bedford, NH)
Staff: 3 principals, 9 advisory professionals

Integration Challenge: Maintain centralized portfolio management solution while accommodating growth in advisory staff, as well as data access for clients, and real-time link to financial planning software.

Interim Solution: Create a customized link between portfolio management system and financial planning software.

Long-Term Solution: Move to a new portfolio management system, including an outsourced solution for some data management functions (e.g., reconciliation).

McLean Asset Management was founded in 1984 as an insurance and financial planning firm. The firm took on its current form—as a diversified investment and wealth manager—in 2001. Over the years the firm has grown through the addition of professional advisors. And according to managing principal, Alex Murguia, as the firm brought on new advisors, and adopted a new business model, the demands on the firm’s technology began to change.

“Our portfolio management solution is centralized and we wanted to keep it that way to prevent errors and workflow issues.” But he says that as more and more advisors joined the firm, administrative staff were getting more and more one-off requests for reports and data. “We wanted to give advisors everything they needed, but we also wanted to keep our centralized approach. For a while we were able to manage it as a workflow issue, but we knew that in the long-term it was unsustainable.”

Soon after, another data-access issue cropped up. As a growing wealth manager, Murguia says that the firm had an increasing need for a real-time data feed into its financial planning system. “Initially we wrote a customized script that enabled updated information to flow to the financial planning suite. But it was a bit temperamental, and served as another red flag that we were approaching the limits of the portfolio management system we had.”
“But no matter what degree of integration is being pursued, it should be driven by a strategic business need—and by the goal of creating value for the firm and its clients.”

Finding a New Solution for McLean

Murguia says that, as the firm grew, they compiled a list of service level needs they would expect from an upgraded portfolio management system—the three key needs being centralized data management, advisor support, and integration with their financial planning suite. To those they added web-based account access for clients; then they made sure the vendor could “check all the boxes” on that list.

“...The new system is actually a little out of our weight class,” says Murguia. “But it’s cost-effective and leaves room for growth. The vendor also brought an outsourcing option to the table. Our value proposition is not reconciling data, for example. By outsourcing those types of activities we can reduce our risk and improve our productivity.

McLean’s example effectively illustrates that different integration strategies can be used at different times for different reasons. But no matter what degree of integration is being pursued, it should be driven by a strategic business need—and by the goal of creating value for the firm and its clients.
The Integration Challenge

One of the key issues with technology—especially the integration part of the technology challenge—is that advisors often feel forced to come up with solutions without having thought through the fundamental strategic problems. “Integration” tends to crop up as a narrow technical issue, and is often addressed that way. In reality, complaints about lack of integration merely highlight a larger productivity issue, caused by process inefficiency.

Too often, advisors start with the technical challenge—i.e., the mechanics of getting two systems to talk to each other. Instead, they should first be defining the desired business outcome (whether that’s less pain and wasted effort, or more revenue and profit, or all of the above), and then identifying what’s getting in the way of that outcome. For this reason, integration has to be seen in the context of the existing ecosystem, which includes both technologies and behaviors. A firm may put in place an industry-leading integration—complete with embedded functionalities and workflows—and still not be able to take full advantage of it because the technology is not enabled in the way that the firm does business.

In this regard, there are no shortcuts. The technical challenge of integration is merely a sub-set of the larger strategic challenge of running and growing a business. You must first define the business needs and goals. Then, the right plan will naturally follow. Part of the answer may involve technology—and part of it might not.

When it does involve technology, there are many integration options out there, and they are getting better all the time. The advisory industry is also evermore optimistic about the power of these solutions and their ability to drive profitable growth. But to get those benefits, firms would do well to remember the human element at the heart of every practice. Integration is just an enabler, designed to help you and your team work faster and smarter, with stronger, more reliable results. And that’s an outcome we should all be rooting for—to benefit firms and their clients alike.
**Next Step**

To learn more, visit tdinstitutional.com/supporting-rias/innovative-technology.page.

Try the Veo® platform’s Integration Analyzer™ to help you better identify the technology solutions that will add the most efficiency to your business: tdinstitutional.com/integrationanalyzer.

To find out if any applications you currently use are integrated with the Veo® platform or to activate an integration, contact TD Ameritrade Institutional Technology Services at 800-431-3500, option 3 or email techservices@tdameritrade.com.

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