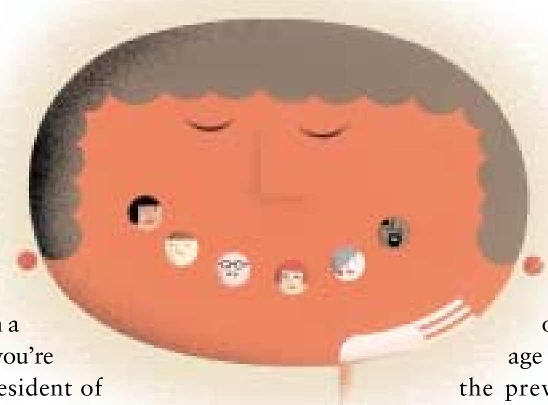
The Price of Productivity

As margins shrink, advisers find imaginative ways to keep staffers happy and hardworking

Ken Masson



KATHY BOYLE WRESTLES WITH a spice mill in the kitchen of her New York office late one morning in November as she answers her phone to talk about the challenge of nurturing her small financial-advisory practice during a lengthy downturn. "In a bear market, clients question what you're doing for them," says Boyle, president of Chapin Hill Advisors, whose average client has more than $1 million in assets. "You have to do more to service them." And for Boyle, that translates into doing more for employees as well—to motivate the staff she counts on to handle such diverse tasks as preparing performance reports and getting cookies sent out to welcome new clients.

"Oh, great, I just broke the pepper mill," she says, as she puts the finishing touches on one of the five gourmet vegetarian meals she prepares each weekend for her staff of four. And what's to be gained from such pampering? "There's a value added for both of us," says Boyle. "They don't have to go out and spend money. And they don't leave the office, so it's very productive."

Getting more for less from staffers is a growing challenge facing the entire industry, according to a study released in August by the Financial Planning Association. Not that business has been bad, exactly. The *2002 FPA Financial Performance Study of Financial Advisory Practices* reports that the typical firm increased its assets under management by 16.7 percent in 2001, primarily by adding new clients. Nevertheless, firms suffered from declining profitability, a slide that can be attributed only partly to poor market performance.

Illustrations by Terry Allen

Client portfolios at firms surveyed suffered a relatively modest 5.3 percent decline in 2001, compared with a loss of 11.9 percent for the Standard and Poor's 500 stock index.

Yet compensation for owners of advisory firms dropped on average from $144,662 in 1999, the year the previous study was conducted, to $139,073 in 2001. The reason is rapidly rising overhead expenses: namely, professional salaries, administrative salaries, and the cost of employee benefits. Those expenses rose 12.7, 78.4, and 35.5 percent, respectively, for firms participating in both studies. So advisers looking to protect their profit margins have a tough choice, says Rebecca Pomering, a business-consulting manager at Moss Adams, an accounting and consulting firm in Seattle, which conducted the study for the FPA: either increase revenue by boosting employee productivity or find a way to reduce staff salaries and benefits.

For Boyle, who depends on her employees to help provide the high-touch, personalized service her clients demand, laying off workers is out of the question. "Are you kidding?" she says. "I can't be all things to all people." Boyle expects a great deal of effort from her staff, and in return she works at fostering a collegial office environment in which employees feel they can grow professionally. In addition to providing lunch—which she figures works out in midtown Manhattan to be a $3,600 annual benefit—she takes staff out for dinner or drinks once a month. She also pays 100 percent of health-care costs and during the summer lets employees take turns at having a half day off on Fridays. Nevertheless, she must pay well to attract top-notch people, so payroll is her biggest expense, as it is for most advisory-firm owners. "If you need to conserve cash flow, laying off employees is just not an option in this market," she says. "Maybe it's a choice for a larger firm, but when you're a staff of five, one person is 20 percent of the workforce."

Like Boyle, most independent advisers WEALTH MANAGER spoke with are unwilling to lay off workers even in the face of soaring employee compensation—particularly for support and administrative staff, whose pay rose to 12.5 percent of revenue in 2001 from 7.5 percent in 1999, according to the FPA survey. And firms determined to employ the best talent face stiff competition. Some advisers turn to consultants like Kimberly Kitts, president of Marquis Consulting in Orleans, Mass., for advice on how to keep a lid on staffing costs. One of Kitts's clients was drawn into a bidding war over a key employee, a phenomenal worker. Still, when the rival firm offered the manager $100,000 for a job that normally paid about $60,000 in the regional marketplace, the client reluctantly said goodbye. "If you have a really exceptional person," says Kitts, "you might pay a premium of more than 10 percent of what the job's worth, but paying a 70 percent premium is insane."

Still, advisory-firm owners are expecting more from their employees as they take on an increasing number of clients just to keep revenue flat. That's because hiring additional staff is simply too expensive. Kitts estimates that smaller firms pay full-time employees up to a 50 percent markup over their salary in benefits. So she advises some clients to use temporary help or flexible arrangements. Another of Kitts's clients—Eliot Weissberg, president of the Investors Center in Avon, Conn.—cut costs by offering flextime to semiretired workers. About five years ago, Weissberg spotted a local ad for a seniors job bank. He placed a call and soon hired a woman who'd just retired from a large insurance company. She wanted her afternoons off, but she agreed to work mornings part-time, pitching in with administrative and support duties. Weissberg now employs four semiretired individuals, all of whom he finds to be motivated and professional. And they come at a reasonable wage. "To them, it's not only about the money they're earning; it's also about staying active," says Kitts.

And what about turnover? It's virtually nonexistent, says Weissberg. "They tell me their goal is to stay here forever."

Mark Spangler, president of Spangler Financial Group in Seattle, is another adviser who's found a pool of less costly workers. His three employees are all mothers with young children who, like Weissberg's retirees, want flexible work arrangements: two come into his office and the third works off-site from Charlotte, N.C., keeping his portfolio-management software up-to-date.

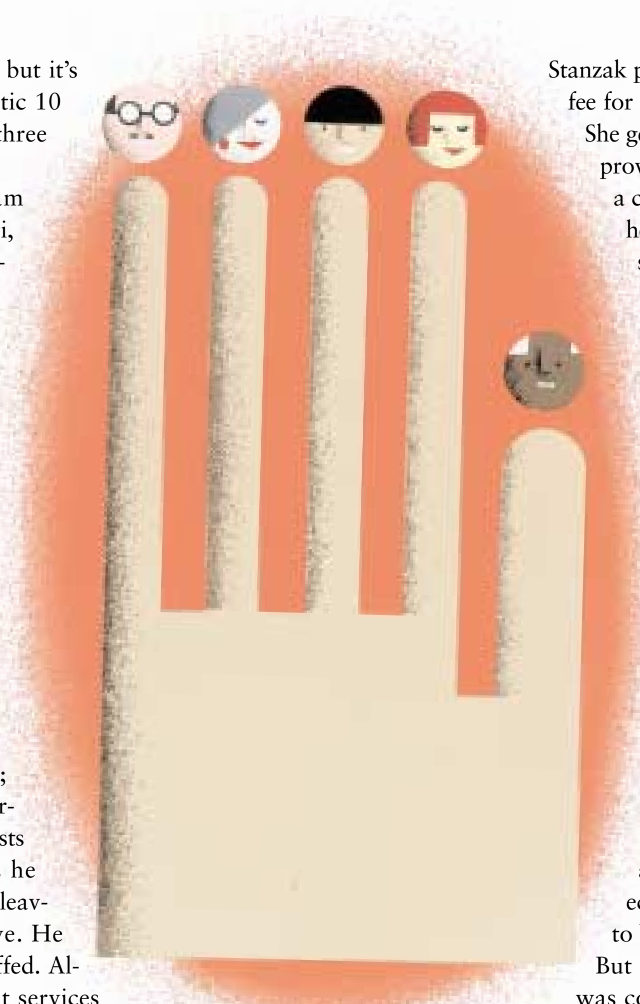
When Spangler opened his practice 20 years ago, he used a more traditional model, but for years he had trouble with turnover. So when one of his employees approached him a few years ago to discuss resigning because of a scheduling conflict, Spangler saw another solution. "I told her I just wanted the job to get done and suggested that she come up with a schedule that worked for both of us," he says. "And that's where it started. Each employee that's come on since has pretty much followed the same pattern."

Spangler says the young moms he's worked with over the years are the most talented, hardworking, loyal employees he's had. But his main reason for bringing in moms—who often waive health insurance because they're covered under their husbands' plans—was simply because it's a good business practice, something he believes is lacking in the financial-services industry.

When it comes to good business practices, few advisers consider managing a staff to be one of their strengths. But that's the skill they need to solve the productivity problem and restore margins, which is especially true for advisers trying to manage a growing business, says Pomering, who works with advisory firms on practice-management issues, particularly staff compensation. "Some salaries have gone up in proportion to revenue," says Pomering. "It's great to increase salaries, it's great to increase staff, but it has to be proportionate to how you're growing revenue."

According to the FPA study, the typical firm's productivity dilemma has to do with how it uses support staff to make them and the professional staff more productive. Support personnel are defined as paraplanners or junior professionals, who aren't typically responsible for producing revenue; administrative personnel are secretaries, receptionists, and clerks. Many firms are changing the composition of their staff, replacing administrative workers with costlier support staff in an effort to boost productivity. Great idea, says Pomering, but too often the execution is poor. "Many practitioners struggle with delegating the appropriate level of work to support staff because they're reluctant to let go of the reins." Can an owner learn to delegate better? "Most can," says Pomering. "But those who can't shouldn't be hiring support staff."

For those who must have staff, the key to maximizing productivity is in clearly defining the roles and expectations of each position, says Pomering. That way both the employee and the practitioner know whether the employee is underperforming. The next step is to set up a compensation structure that reflects the expectations of the job. "To help control costs, a lot of people are moving some portion, or a larger portion, of compensation to variable, or incentive, compensation," says Pomering. "They'll say, 'Yes, your



salary can go up next year, but it's not going to be an automatic 10 percent increase like it was three years ago.' "

That's the strategy Ram Kolluri has adopted. Kolluri, president of GlobalValue Investors in Princeton, gathered his associates together last spring so they could collectively set revenue and asset targets and establish an incentive-based profit-sharing plan. "Once upon a time," says Kolluri, "we routinely gave out bonuses at the end of the year to demonstrate our generosity. Those days are gone. But instead of it becoming part of the problem, we made it part of the solution by saying, 'Here's an incentive program; let's all pull together.' " Nevertheless, Kolluri had to cut costs significantly, and in 2002 he laid off three professionals, leaving him with a staff of five. He considers the firm understaffed. Although the quality of client services continues as before, "we're just making do," he says. "We actually put a sixth spot for an analyst in the budget, but every month we say we simply can't afford it, so the position remains unfilled."

Janet Stanzak, president of SilverOak Wealth Management in Minneapolis, is another independent adviser managing to get by with a bare-bones staff. In September Stanzak had to lay off a part-time employee whose compensation was far higher than her position warranted. The reduction left Stanzak with a staff of five. But Stanzak manages her workload as well as her expenses by outsourcing. She relies on an unusual business arrangement: her practice is affiliated with an accounting firm in Minneapolis, Silverman Olson Thorvilson & Kaufmann.

Advisory-firm owners expect more from employees as they take on an increasing number of clients just to keep revenue flat

Stanzak pays the accounting firm a fixed fee for a "bucket of support services." She gets access to a comptroller, who provides her with financial services; a computer technician, who keeps her network running and updates software; a receptionist; and a marketing person. Because she pays a flat fee, Stanzak saves on a number of expenses. "With an employee you pay salary, FICA, health insurance; you pay for parking; you provide a cell phone; you do all these things," she says. "So you want to be sure that the people you bring on board as employees are the right people."

When each employee is all-important, few things are worse than hiring someone who's all wrong. Boyle has experienced a few disasters. Early last year she hired a high-profile former senior executive of a cultural institution to bring in not-for-profit business. But the woman couldn't type and was computer illiterate, Boyle says. "She couldn't even send e-mail. She dragged our productivity down tremendously. And she would take naps in the middle of the day."

But Boyle has a plan for growth that can weather such temporary storms. She wants to hire a full-time administrator who can take some of the burden off her office manager and associate adviser. Then the associate can take on some of Boyle's responsibilities so she can concentrate more on higher-net-worth clients. "After all," she says, "there are only so many hours in the day. It's just that I, for some reason, keep thinking it's 30."

Ken Masson is senior editor of WEALTH MANAGER.