

THE SHERIDAN ROAD MAP



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THE RELATIONSHIP MANAGER

CRM software can help you grow your business, but many advisors don't take advantage of all the technology has to offer

When you think of growing your financial advisory business, there is what can seem to be an unending array of strategies and tactics. Google the phrase "growing your financial advisory business" and you'll receive more than five million results, from articles to seminars to consultants for hire, all sharing great ideas. A common theme you'll find in almost every business growth program is maximizing the use of technology. From leveraging social networks for finding new prospects to using software to create more professional client and prospect presentations, the right technology can help you work faster and smarter than you ever thought possible.

One of the most powerful business-building technologies introduced into financial advisory practices over the past decade is customer relationship management software, or CRM. While portfolio management, financial planning, document management and other technologies have certainly made being an advisor easier (or more complex, depending on how you look at it), those tools are generally used to improve the service provided to existing clients. CRM, on the other hand, can be an incredibly powerful tool for business and profit growth by increasing a practice's efficiency, by automating marketing tasks, and by organizing a pipeline of new business.

However, in a spring 2011 survey conducted by ActiFi, a practice management software and solutions firm serving the financial services industry, the majority of advisors report

that they are still not maximizing their CRM usage. Even though CRM systems have matured, with many systems built specifically for financial advisors, most firms are only scratching the surface when it comes to taking advantage of key features that are designed to help advisors grow their practices.

"To start your CRM evaluation, identify what business objectives your firm is trying to achieve."

At ActiFi, our team has collectively worked with thousands of advisors. As it relates to technology, we usually see what we call the 98:1:1 technology selection ratio.

When purchasing and implementing a technology solution within a practice, advisors typically spend 98% of their time and money selecting the technology. Yet they only spend 1% of their time and money improving processes to take advantage of the capabilities the technology offers and the other 1% on training to ensure the employee behavioral change necessary to use the new technology.

Spending the vast majority of resources on the purchase selection process may seem logical. In reality, however, this almost always results in implementation and adoption challenges. What is more effective is a resource budget balanced between the technology, business process improvement and training/behavioral change. It needs to be closer to a 33:33:33 ratio.

First Third—Selecting Your CRM Options

How do you select a CRM technology? Is your decision based

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on how many bells and whistles the technology has? Is it based on the cost? Or is it based on what other advisors are using? While those are all valid ways to identify CRM options, actually selecting what CRM is best for your firm needs to be a very thoughtful process, and personalized to your firm's unique goals.

The ActiFi 2011 CRM survey found the following core functionalities that CRM solutions offer and that are most desired by financial advisory firms.

1. *Contact Management*. Refers to your firm's use of the CRM to capture and maintain prospect and client information such as addresses, phone numbers, spouses' names, birthdates, etc.
2. *History*. Refers to your firm's use of the CRM to capture in one place all the details of prospect and client calls, emails, letters and meetings.
3. *Templates*. Refers to your firm's use of agendas, letters, checklists, follow-ups, reminders and other templates stored in the CRM and created systematically when needed for internal work or external client communication.
4. *Task Management*. Refers to the ability to delegate and manage work by creating reminder tasks for you, creating tasks for others to perform by certain dates, and employees' use of CRM task lists to manage their work. This also includes reporting to ensure that the team is staying on track with what they are supposed to accomplish.
5. *Sales Management/Pipeline Management*. Refers to your firm's use of the CRM for prospect tracking, sales stage tracking and reporting, allowing you to manage prospects and move them toward becoming clients.
6. *Dashboards*. Refers to your firm's use of the CRM to automatically create graphs and reports detailing key performance indicators for the firm, such as assets managed, clients served, client meetings held, fees generated, sales pipeline, etc.
7. *Integration*. Refers to whether your firm's CRM is integrated with the firm's portfolio management, financial planning, document management or other applications.
8. *Workflow*. Refers to the CRM's capability to store embedded workflows that are manually kicked off or triggered by an event or task being created in the CRM. An example is when your receptionist schedules an "annual review meeting" with a client and the CRM automatically generates seven tasks for three staff members that need to be accomplished prior to the meeting.

Use this list as you think about your firm's growth objectives and how CRM technology might help you accomplish your goals. Study these eight features and think about how your firm could benefit from any one. Then envision what your firm might look like if you had a CRM solution that accomplished your desired result. As you look at possible vendors, consider ranking them on these eight functionalities and their importance to your goals.

Second Third—Evaluating Your Business Objectives

All too often businesses make technology purchases based on the technology's features. A key question you need to ask yourself is, do you actually need all of those features? If you have all of the fancy "bells and whistles," will your people actually use them? Think about the software you have installed on your computer right now. How many of the features in Excel, PowerPoint, or even Outlook do you actually use? If you're like most people, you probably use significantly less than 50%.

A better way to start your CRM evaluation is to identify what business objectives your firm is trying to achieve from the technology purchase. Make your goals very clear, write down your objectives and ensure that everyone in your firm agrees that they are important.

For example, are you looking to create efficiencies by having advisors delegate non-client facing tasks to others so your advisors can spend more time meeting with prospects and clients? Are you looking for a way to manage a prospect pipeline so you can better forecast revenue?

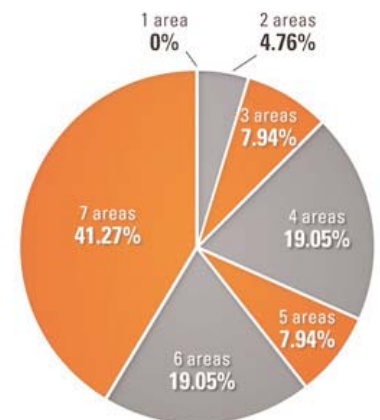
Be very specific with your goals. For example, if you want a method to automate agenda creation and tracking referral conversations, make sure that the strategic objective is very specific: "We want to ensure our agendas are consistent and client-centric while managing and tracking at least 10 referral conversations per month across the firm through our client meeting process yielding four new client referrals per month."

The more specific you can be with your business objectives, the easier it will be to identify the CRM solution that best meets what you want to accomplish. Or said another way, once you know what you want to do, you can then find the solution offering the features that match your firm's goals.

Next, prioritize your objectives based on the aforementioned eight CRM functionalities. Although most CRM solutions offer these eight functionalities, they certainly don't offer all eight equally.

Determine what is most important to your firm and then use that as a guide when interviewing potential vendors. Ask vendors to show you specifically how they can accomplish your unique goals and your specific strategic objectives. Don't allow vendors to "wow" you with fancy charts and screen animations. Instead, share your objectives, ask the vendor for specific examples on how their system has helped other advisors with similar objectives and ask for references.

% OF ADVISORS NEED TO IMPROVE IN "X" AREAS



Results of ActiFi's 2011 CRM Survey

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Final Third—Training and Using

Congratulations ... you've selected a CRM solution and it's now operational on everyone's computer. Now what? Unfortunately, it's not as easy as hitting the "On" button and magically having every staff person start using the technology correctly.

In fact, for many firms, actually selecting and installing the technology is the easy part. Especially for successful firms that have a history of running the business in a certain way, the actual training and usage of the CRM is the most difficult one-third.

Behavioral change is surprisingly difficult—do not underestimate the effort it will take to consistently get everyone in the firm to optimally use your new technology. The 2011 ActiFi CRM study clearly shows that the biggest breakdown occurs in training, incentivizing the correct behavior and measuring behavior to ensure that the desired results are achieved. It's not that your staff doesn't want to do the right thing—they do. Rather, it's incredibly easy to slip back into doing things the old way.

For example, let's take a successful advisory practice. Sally, the administrative assistant, has been with the firm for 20 years. Sally has a great system for scheduling prospect and client meetings—she uses sticky notes on her PC. One day Sally shows up to work and there's a new CRM system installed on her computer. Your IT person spends 20 minutes showing Sally how to log in and do specific tasks, including the scheduling of prospect meetings. For a few weeks, Sally gives it a try. But she ultimately gets frustrated because what takes her 20 seconds with sticky notes now takes her 50 seconds (or sometimes more).

What Sally doesn't realize is the "downstream" impact of her decision. By Sally not entering the data in a timely or correct fashion, the entire pipeline reporting system breaks down and the business objective of better managing sales reports does not get realized. It's not that Sally is a bad employee. Rather, Sally has never been taught the importance of her role in the overall sales management process. In addition, she was never rewarded for doing the right activity, nor held accountable for doing tasks the wrong way.

As we mentioned above, incentives and measurements are an important part of an effective implementation. We encourage advisors to create visibility into the business metrics that should be most improved by the CRM implementation. If certain milestones are achieved, everyone involved should be acknowledged and rewarded for their role. Remember: the activities that are monitored and the activities that get rewarded are usually the activities that get done.

Inevitably, there are occasions where high performing employees are not effectively completing or executing assigned tasks. This almost always boils down to one of three issues and it is the job of the leader to determine how they should be addressed. The three issues are:

1. *Will*—Does the employee have appropriate motivation?
2. *Skill*—Is this a task they know how to complete?
3. *Time*—In addition to their day job, do they have the time to complete this task?

For example, in the 2011 ActiFi CRM study, for firms that have had their CRM systems installed for more than three years, more than 40% of firms reported that of the eight CRM functionalities described earlier, they needed to improve in seven of the areas. Almost 90% of firms reported they needed to improve in at least four of the core functions. What this clearly shows is that even within the core functions of a CRM, most firms are not fully getting the return on their CRM investment.

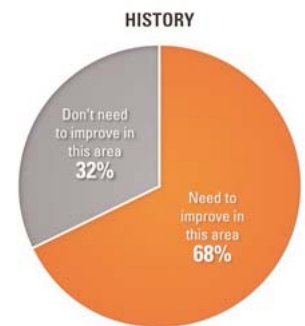
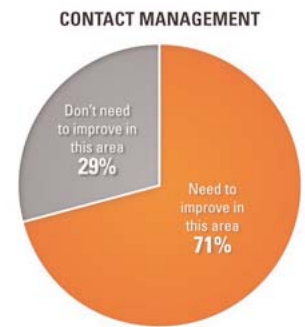
We have often observed that a high performing employee may have a very low readiness on a specific CRM task. Using our Sally example, a superb assistant might not be motivated ("will") to implement a CRM system because she feels that the technology will make her job more difficult. Or, you may assign an important CRM workflow mapping process to an advisor who is spending 50+ hours a week meeting with clients and doesn't have the time to get the task accomplished at a high quality level. When you're noticing will, skill, or time issues, you have a few options:

1. Understand what would be required to provide the appropriate level of motivation.
2. Provide training or an outside resource that the employee can work with to get the speed to accomplish the task.
3. Assign the task to someone else.

As it relates to training, it's also very important to remember that everyone learns differently. Some people like to attend a presentation. Some like to read the manual. Some like to figure it out on their own, and some need hand-holding, especially those who are not comfortable with technology.

What is imperative is that before you implement CRM, you first find out how each individual prefers to learn. Then set up opportunities for every staff person to learn what they need to do with the new CRM system, and make sure the learning program is tailored to best fit each staff person's unique learning style.

Contact management and client history are two



Results of ActiFi's 2011 CRM Survey

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of the eight core CRM functionalities. Arguably, they are the reasons many firms purchase CRM in the first place—to track prospects and clients, and centralize their activity and contact history in one central place.

Yet in the 2011 ActiFi CRM study, 71% of advisors felt they needed to improve their CRM usage for contact management, and 68% stated they needed to better take advantage of history functionality. As it relates to the sales and prospect management functions of CRM, a whopping 81% of advisors state they need to improve in this area—arguably the core CRM function as it relates to business growth.

For many of these firms, the problem isn't that the technology doesn't work as expected. Rather, it's an issue of people in the firm not inputting their prospect and client data correctly and in a timely manner. When talking to advisors and other firm staff members, what we hear as the root cause of that issue is more often than not: "I was never properly taught how to input the data, and why it's so important in the first place."

Finally, it's imperative to have regularly scheduled update meetings to discuss the CRM implementation. Bring the original goals and objectives you established to the meeting and check in to see if they are being met. For example, you said that you wanted four new client referrals per month. Are you getting

the referrals? Are your meetings more consistent and client-centric? If you're not achieving your goals, figure out why. Either adjust the activities, or modify the objective based on your new learnings.

CRM can be an exceptionally powerful tool in your business growth arsenal. Technology itself, however, is not going to be the cure to your firm's ills, nor is it going to be the magic elixir that helps you grow at double-digit rates. However, CRM technology can enable smart people with a defined and well-understood process to do their jobs much more efficiently, effectively and profitably.

Remember that the technology itself is only one-third of the equation. Thus, two-thirds of your resources (both time and money) must be spent on your process—define your objectives so they are understandable and realistic for all—as well as training, incentivizing and monitoring your staff to ensure everyone knows their role, and that your goals are being met. Follow the 33:33:33 rule with CRM technology and you'll be amazed at the role it can play in helping you grow a more effective, efficient and profitable business.

By Spenser Segal • Investment Advisor, July 2011

SEC RAISES THE BAR

Entry into private equity, venture capital and hedge funds just got more difficult

In section 418 of the Dodd-Frank Act, the Securities and Exchange Commission is directed to adjust for inflation the dollar amount thresholds specifying who, exactly, qualifies to invest with advisors that charge performance fees.

As it currently stands, clients must have a net worth of more than \$1.5 million to invest with a fund manager, such as a private equity or venture capital firm, that collects performance fees. According to rule 205-3 of the Investment Advisors Act, the client is also expected to have at least \$750,000 under management with the advisor.

The SEC intends to bump up the threshold to a \$2 million net worth and \$1 million of assets under management. Moreover, the Commission is also proposing amendments to exclude the value of a person's primary residence from the net worth calculation and also provide a method for calculating future inflation adjustments.

As of early June, a handful of advisors had issued comments

on the proposal that for the most part resisted attempts to adjust the "qualified client" threshold. Bulldog Investors' Phillip Goldstein took another tack, with a tongue in cheek indorsement. "Some critics may nitpick and say that this is patronizing nanny-style regulation and that it smacks of class discrimination because it prevents average investors from hiring investment advisors that get paid for outperformance. They should get over it," he wrote.

Goldstein later added: "If someone is envious of the freedom of the wealthy to hire the best money managers, nothing is stopping that person from becoming wealthy himself as long as he does not do so by hiring a performance-based investment advisor."

The Dodd-Frank Act requires the SEC to issue an order regarding the inflation adjustments by July 21, 2011 and every five years thereafter. The SEC will be taking additional comments until July 11.

Mergers & Acquisitions, July 2011



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