



## Striking Out On His Own

*“If I had gone with Morningstar Office and Back Office Services from the start, I could have saved myself a lot of time, energy, and money.”* –Mike Bradley, CFA

Mike Bradley has relied on Morningstar for investment research and portfolio analysis since he first became an advisor. In fact, having Morningstar at his side is part of the reason he felt confident that he could thrive as an independent. So when Bradley left his broker-dealer to start his own practice, Bradley & Company, LLC, in September 2007, the decision to use Morningstar Office was an easy one.

The Web-based application combines timely research with client-friendly reports that, as Bradley puts it, “instill a tremendous amount of confidence in my clients.” In one case, he says, a Morningstar research report helped him win some business by showing a prospective client that the corporate bonds in his portfolio were much “junkier” than the client had been led to believe. “Reports

such as the Portfolio Snapshot™ and X-Ray® are both comprehensive and impressive,” Bradley says, “and this makes the sales process very, very easy.”

Of course, an advisor needs more than research and portfolio analysis. Bradley also knew his business required a reliable, cost-effective portfolio management and reporting platform. It’s here that Bradley learned the first of a few hard lessons—ones that cost him more than \$50,000 in his first year as an independent.

### **Lesson 1: Avoid Massive Startup Costs**

Looking back, Bradley admits that when searching for a portfolio management and reporting platform, he simply overlooked Morningstar Office. He viewed Morningstar as a world-class research and portfolio analysis provider, but didn’t look to it for performance reporting. He didn’t realize that Morningstar had most of the capabilities he

was looking for and that, unlike other accounting systems, has no required start-up costs and does not require expensive servers.

And because it has all of Morningstar’s research databases, including hedge funds, offshore funds, fixed income, and ETFs, he and his staff did not need to spend time every day reclassifying securities. Using the all-in-one solution, Bradley’s team could produce clear and consistent reports that combined performance reporting with Morningstar analytics, providing a more effective way to communicate with his clients.

Instead of using Morningstar Office, Bradley initially went with a well-established brand name for his performance reporting needs. He paid \$10,000 for the firm’s software and \$5,000 for a server to house the software and his data—an initial outlay of \$15,000, along with thousands of dollars of monthly server maintenance fees. These start-up costs represented a significant sum for an advisor with roughly 40 clients and \$30 million under management.

### **Lesson 2: Keep It Simple**

Having chosen his performance-reporting platform, Bradley then turned his attention towards simplifying his practice. He wanted to outsource the daily import and reconciliation of client accounts so that he could free his portfolio administrator’s time for more client-facing activities. Bradley doesn’t regret his decision to outsource the daily import and reconciliation of client accounts, but he does regret the third party he initially chose.

Bradley added to his expenses by hiring a well-known outsourcing service for \$2,000 a month to handle the daily download and reconciliation of his clients’ data. However, it wasn’t long before Bradley and his staff grew frustrated with the service. The company had trouble updating his clients’ portfolios on a timely basis, and frequent data miscues left Bradley questioning the

	Initial Solution	Morningstar Services	Total Savings
Portfolio Accounting System	\$10,000	Included	
Server Hardware	\$5,000	Not Necessary	
Server Maintenance Fee (\$500/month)	\$6,000	Not Necessary	
Tech Support for Server Architecture (\$1,000/month)	\$12,000	Not Necessary	
Planning Software	\$3,500	Included	
Morningstar Research	\$3,400	Included	
<b>Total Software and Hardware Cost</b>	<b>\$39,900</b>	<b>\$5,400</b>	<b>\$34,500</b>
Daily Data Import and Reconciliation	\$24,000	\$5,160	\$18,840
<b>Total Software, Hardware, and Services Cost</b>	<b>\$63,900</b>	<b>\$10,560</b>	<b>\$53,340</b>

accuracy of the numbers. Lacking confidence in his data, Bradley was uneasy each time he met with clients.

“At the core of what we do is to reduce the stress level for clients and help them invest their money intelligently,” Bradley says. “But you can’t reassure and help your clients unless you can present them with data that is both very accurate and current.”

While Bradley was struggling with his third-party provider of import and reconciliation, Morningstar introduced its own Back Office Services™ group to support Morningstar Office subscribers.

By switching to Morningstar for both his performance reporting and his back office needs, Bradley eliminated the headaches and expenses caused by working with multiple vendors. The people who developed Morningstar’s research databases and download the data are within easy reach of the Morningstar engineers who designed the software. Client and portfolio data is downloaded and reconciled seamlessly because it’s all part of the same in-house system.

### Lesson 3: Accountability Is Key

When data issues arose between his outsource firm and portfolio accounting software provider, communication was poor and often contentious. No one took

accountability, as each party blamed the other for the problems. While they battled it out, Bradley and his staff were often left to resolve the issues on their own.

Bradley assessed his situation. The excessive costs of his performance reporting platform, the inefficiency of his outsourcing partner, and his desire to simplify his practice led him back to Morningstar.

He saw the inherent benefits of working with a company that developed both the portfolio management software and the system of daily import and reconciliation of clients’ data. There would be no more finger pointing if problems arose. “Based on my experience with Morningstar’s support specialists,” Bradley says, “I knew we could count on Morningstar to service this critical part of our practice.”

### Morningstar Office: The Complete Solution

Bradley saw additional benefits in going with Morningstar. Unlike his old portfolio management and reporting platform, Morningstar Office automatically classifies holdings, generates well-designed reports, and requires no expensive servers to maintain. In short, he says, Morningstar Office is the complete solution.

“There is no other reporting tool that does what Morningstar Office does,” Bradley says. “It’s unique in that it combines the high-quality research and portfolio analysis

that Morningstar is known for, with a very accurate reporting tool. If I had gone with Morningstar from the start, I could have saved myself a lot of time, energy, and money.”

Bradley estimates that he would have saved more than \$50,000 in the first year, if he had used Morningstar Office and its Back Office Services team (see table to left for details). “And these figures don’t fully represent the benefits to my business because they don’t take into account the fact that my staff is happier, my customers are happier, and, as a result, I’m happier,” he says.

Bradley is pleased because Morningstar helped save him money and he believes it helped him grow revenue as well. By freeing up his portfolio administrator’s time for more client-facing activities, he took a cost center and changed it into profit center. In all, he estimates that switching his performance reporting platform to Morningstar Office and using Back Office Services added more than \$70,000 to his firm’s bottom line (see Running the Numbers for details).

Bradley has learned a lot about setting up an RIA practice in the past year. With his current setup, using both Morningstar Office and Back Office Services, he and his staff feel comfortable managing their current client base and are well positioned to handle future growth.

“No matter how you calculate it,” Bradley says, “using Morningstar Office for my research and portfolio accounting needs is saving me money. Morningstar can do it all for you. Using Morningstar, I have been able to scale down administrative tasks and reduce my costs, all while improving the service I provide to my clients.” ■■■

# Running the Numbers



## Case Study Facts

Average portfolio administrator's salary (including benefits)	\$50,000
Average portfolio administrator's hourly wage	\$25
Portfolio administrator hours/week	40
Portfolio administrator weeks/year	50
Total hours portfolio administrator works/year (40 hrs x 50 wks)	2,000
Hours/week portfolio administrator spent on importing and reconciliation (Bradley estimated between 10–15 hrs/week)	12.5
Hours a year saved by outsourcing (12.5 hrs x 50 wks)	625

Bradley's decision to outsource his back office tasks was based on two important considerations. First, he wanted to reduce the stress level of the office and, second, he wanted to maximize profits.

While we know that Bradley's initial scenario was not working, the following tables compare the actual costs (including opportunity costs) of his initial solution to his Morningstar solution.

## What is the Cost or Benefit of Outsourcing?

	Initial Solution (\$2,000/mo)	Morningstar Services (\$430/mo)
Annual cost of outsourcing	\$24,000	\$5,160
Portfolio administrator's wages saved by outsourcing (\$25.00/hr x 625 hrs)	\$15,625	\$15,625
<b>Extra Cost (Solution 1) and Savings (Morningstar Solution) of Outsourcing</b>	<b>\$8,375</b>	<b>(\$10,465)</b>

Assuming Bradley did not reallocate the portfolio administrator's time to another task, he would have saved \$15,625 a year.

When we subtract the portfolio administrator's wages from the Annual Cost of Outsourcing, we see that Solution 1 is costing Bradley an extra \$8,375 a year while using Morningstar to perform these duties will save him \$10,465 a year.

By moving the daily import and reconciliation tasks to Morningstar, he could realize a savings of \$18,840 a year.

The savings above assume that Bradley would no longer need his portfolio administrator for the 625 hours that she would have spent on importing and reconciliation. In Bradley's case, he wanted to retain the portfolio administrator for more client-facing duties.

## How Much Additional Revenue Could the Portfolio Administrator Bring in?

	Est. Revenue Brought in by Employee	Annual Revenue	Hourly Revenue
Mike Bradley (advisor)	60%	\$180,000	\$90
Administrative assistant	10%	\$30,000	\$15
Portfolio administrator	30%	\$90,000	\$45
<b>Total Annual Revenue</b>		<b>\$300,000</b>	

Based on Bradley's first year revenues of \$300,000 and the distribution of responsibilities, we estimated how much revenue could be attributed to each of the three individuals within the firm.

If we estimate that the portfolio administrator brings in approximately \$90,000 (\$45/hr) a year in revenue, we can determine that with an extra 625 hours, she could potentially bring in \$28,125 in revenue (\$45.00 x 625 hours).

This number could be larger if you were to take the net present value of the revenue, in an effort to determine the lifetime value of the customer. This is reasonable, considering the portfolio administrator's time would be spent directly enhancing the relationship with the client, and thus strengthening it for the future.

“Using Morningstar Office and Back Office Services, I have been able to scale down administrative tasks and reduce my costs by more than \$50,000, all while improving the service I provide to my clients.” –Mike Bradley

### What is the True Cost of Outsourcing?

	Initial Solution	Morningstar Services
Annual cost of outsourcing	\$24,000	\$5,160
Portfolio administrator's wages applied to client facing duties (\$25.00/hr x 625 hrs)	\$15,625	\$15,625
<b>True Cost of Outsourcing (Outsourcing + Port Admin's Wages)</b>	<b>\$39,625</b>	<b>\$20,785</b>

Now that we know the approximate additional revenue that the portfolio administrator could bring in, having switched from back office duties to more client-facing duties, we need to examine the total cost of outsourcing for each solution.

To do this, we need to add the annual cost of outsourcing to the portfolio administrator's wages that Bradley is still paying. We can see that Bradley's initial solution was costing Bradley nearly twice as much as the Morningstar solution.

The actual cost was likely a great deal more considering the fact that both he and his portfolio administrator spent lots of time trying to fix the problems they experienced as a result of their outsourcing provider. Effectively, they were paying more than twice as much for a product that wasn't meeting their needs.

### What is the Net Effect of Outsourcing?

	Initial Solution	Morningstar Services
Incremental revenue from outsourcing back office (\$45/hr x 625 hrs)	\$28,125	\$28,125
Cost of outsourcing (outsourcing + portfolio admin's wages)	(\$39,625)	(\$20,785)
<b>Loss/Profit from Outsourcing the Back Office</b>	<b>(\$11,500)</b>	<b>\$7,340</b>

Now that we have the true cost of outsourcing, we can subtract that cost from the incremental revenue from freeing up the portfolio administrator's time to work on client facing duties (\$28,125) to determine the net effect of outsourcing.

When we look at the net revenue brought in by outsourcing the back office we see that Bradley was much better off with Morningstar's solution.

Conservatively, his initial solution was costing him an extra \$11,500 a year. In reality, the cost was likely much greater as both Bradley and his portfolio administrator were spending many hours each week on data importing and reconciliation.

The excessive time spent on back office tasks prevented them from bringing in additional revenue.

With Morningstar's Back Office Services, he was conservatively adding \$7,340 to his bottom line. Again, in reality, this number is likely much larger because Bradley had more time to bring in new clients and his portfolio administrator had more time to proactively service the current ones.

### All In: Where Did Bradley Come Out?

	Initial Solution	Morningstar Services	Difference
Total software, hardware, and services cost	\$63,900	\$10,560	\$53,340
Net revenue brought in by outsourcing the back office	(\$11,500)	\$7,340	\$18,840
<b>Benefit of Using Morningstar Office and Back Office Services</b>			<b>\$72,180</b>

When we add up the cost of the software, the hardware, the IT support and the net revenue number brought in by outsourcing, it's clear that Morningstar offers a far more cost effective solution for Bradley's practice.

By initially piecing together his solution, he had an unreliable, inconsistent, and expensive solution. If he had chosen Morningstar's all-in-one solution, he would have streamlined his practice and allied with a reliable partner.

While making things simpler for his firm, Bradley would have saved more than \$50,000 dollars on software, hardware, and services costs. In addition to saving money, he could have given his clients better service while at the same time bringing in nearly \$19,000 in additional revenue.

When you add the cost savings together with the additional revenue brought in, Bradley and his firm would have been better off—by more than \$70,000. Clearly, Mike Bradley made a smart decision for his firm by switching to Morningstar Office.