Business Best Practices

Not Your Ordinary TPA (Part 3)

This article is part three of a three-part series on how not to be an ordinary service provider. Part 1 explored who you are and how to identify your customers, and Part 2 discussed the relationship with the customer and what services they value. This final article in the series concludes with the products and services your firm should be considering and how to innovate with technology.

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Nordstrom developed a reputation for great customer service, but their flagship stores carried mostly expensive products. They wanted to keep their superior service model and expand their customer base to include bargain-hungry shoppers. To fill that need, they created Nordstrom Rack, an outlet version of their department store. However, they brought the excellent customer service model to the outlet store.

I recently shopped at the Nordstrom Rack in the middle of Manhattan, and as you might expect, it was packed with people. It was also packed with Nordstrom staff, directing customers to dressing rooms and helping them to find merchandise. When I decided on my purchase, I sighed loudly looking at the checkout line snaking through the aisles. Hearing my sigh, my daughter said, "Oh, mom, standing in line to pay is so old school." She held up her hand and a staff member came up to us with an iPhone credit card reader and promptly checked me out. When I commented about the long line, she pointed out the personnel with iPhones methodically checking out customers in line. Before I could ask why they still had registers, she smiled and said, "Our goal is to get rid of the checkout line altogether by next year. We think this system works much better. What do you think?" She had me at hello.

The Nordstrom example above shows how your firm can offer new products and services—and innovate with technology—but still retain the all-important human connection. Retirement services providers and TPAs can follow the Nordstrom model to effectively compete in an increasingly commoditized industry.

3(16) Services vs. 401(k) in a Box

Many TPAs and TPA/recordkeepers advertise that they provide boutique, hands-on service. However, as fees get compressed in a cost "race to the bottom," providing this level of service for all plans becomes unprofitable and ultimately unsustainable. And, remember the example of my business owner husband, Peter, who said, "I lost you at 401(k)." (See Part 2 of this series.) He and other small business owners do not really value what retirement service providers do. However, when the service involves Peter's "what's in it for me" comment, he is very interested in the value/cost discussion. In fact, he is paying an additional fee for 3(38) fiduciary services because it helps with his liability and his employees like the model portfolios.

TPAs considering offering 3(16) plan administrator services can follow the 3(38) fiduciary services model and charge additional fees for this service. Service providers can also identify additional products and services valued by their advisors and clients and charge for those special offerings. First of all, the fees should be reasonable and competitive for the services provided. As Tom Kmak of Fiduciary Benchmarks points out, "Benchmarking fees without looking at the value of the services provided is like saying the score of the game is 14." Secondly, service providers should adjust their business plans, goals, and objectives to provide a roadmap for the new service (see Part 1 of this series). Nothing will alienate customers and referral sources faster than a poorly executed product with inadequate staffing and/or technology.

The traditional TPA boutique model works well for those offering a 3(16) services model. However, service providers can offer a "Nordstrom Rack" model to compete at a lower fee level by offering "401(k) in a box." The first key to making this model work is to set fairly narrow design parameters, for example, safe harbor and standardized eligibility provisions, and automate the processes that plan sponsors don't really value. More importantly, the second key to "401k in a box" is to offer a high service level backed by technology, similar to Nordstrom Rack's roving personnel and iPhone checkout option. It seems counter intuitive to have experienced, consultative personnel manage this model, but they will make it work by differentiating the service from other "box" style offerings. Profitability can be achieved because this type of staff member can handle more plans and effectively identify, and sell, clients who should be moved into the high-touch more customized model.

Partnerships

As the TPA profession consolidates and fees are compressed, companies have learned the benefits of partnerships. Partnerships with other service providers allow a small or midsize firm to offer both boutique and volume services. Local TPA firms provide administration and compliance services to their plans and advisors while partnering with national recordkeeping providers. Many defined contribution TPAs partner with TPA firms who offer defined benefit and cash balance plan design and administration. An emerging partnership area over the past few years has been larger open architecture TPA/recordkeepers partnering with TPAs who do not do daily valuation recordkeeping in-house.

Focusing on the specifics of what the firm does well, rather than trying to be all things to all clients, is what a good partnership arrangement can support. With an effective partnership arrangement, your firm can *offer* all services to a client without having to *perform* all services independently.

Technology

Technological advancements dominate every aspect of our lives, not just retirement plan services. In a recent study by the American Banker's Association, 100 percent of customers under age 55 preferred online banking. Even when taking into account older customers, 40 percent still preferred to automate their banking. Although retirement services firms feel they are keeping up with the latest technology, we see many companies who are one or two steps behind their competitors. Effective use of technology is essential to developing customer-oriented, consultative staff, which is what clients value. Do we want employees running and re-running compliance tests or talking to customers about good plan design?

Before throwing software at your employees, identify the problem you are trying to solve or lay out in detail the service that you intend to offer to clients and advisors. Next—and we can't say this enough—*involve the staff in choosing the software they will be using*. The most common frustration we hear from staff is that software was forced on them without their input and without adequate training. Use a brainstorming approach and/or create a task force of employees from various areas to create a needs analysis, evaluate the software, and help create an implementation plan for how the software will work within the firm.

Technology should not only enable staff to spend more time with customers, it should also increase profitability. Workflow systems should not only do task tracking and contact management but should also provide management reporting, improve turnaround times, and increase the number of plans administered without increasing staff. Most commercial valuation systems offer batch processing across multiple plans for common tasks such as data scrubbing, determining eligibility, and compliance testing. Automating the distribution process can increase profitability by over 50 percent, and decrease processing time from two weeks (or more) to three days. Despite firms offering distribution services and online automated distribution options, this process is still surprisingly paper-reliant and staff-intensive in many firms.

Conclusion

We live in a world where change is the only constant. To stay relevant in the rapidly changing retirement services industry, we must always question the status quo and seek new ways to improve our products and services. The purpose of this three-part series is to help you examine your firm objectively and give you a framework for making positive changes. As Harvey Golub said when he was CEO of American Express, *"To succeed, I believe an organization has to change and adjust before it is forced to do so by external forces. It must reinvent itself and become the very company that could put itself out of business before someone else does."* ■