Business Best Practices

Not Your Ordinary TPA (Part 1)

In 2000, Microsoft was the most valuable firm in the world with a market capitalization of $510 billion dollars. In that same year, Apple was an after-thought, with a value of $4.8 billion. A group of Microsoft engineers was not content to rest on the company's laurels. They had proposed an e-reader device with a touch screen that could eventually be incorporated into a mobile phone. Executives nixed the idea as unworkable and not consistent with Microsoft Office, the company's most profitable product. Steve Stone, a founder of Microsoft's technology group, said in Vanity Fair *in August 2012: "Windows was the god—everything had to work with Windows. Ideas about* mobile computing *with a user experience that was cleaner than with a PC were deemed unimportant by a few powerful people in that division, and they managed to kill the effort."*

By Sarah L. Simoneaux and Chris L. Stroud

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The result of focusing only on Office? Just one of Apple's products—the iPhone—now has larger sales than all of Microsoft. In the quarter ended March 31, 2012, the iPhone had sales of $22.7 billion; Microsoft Corporation as a whole earned $17.4 billion. Microsoft's failure to plan and to change—and the failure to realize it was in the technology business, not the Microsoft Office business—created what is now referred to as Microsoft's "lost decade."

Although retirement services companies and TPA firms are much smaller than Microsoft or Apple, the principles of business are the same: (1) identify who you and your customers are, and (2) listen to what they say and value. More importantly, repeat (1) and (2) regularly to avoid the Microsoft pitfall.

This article is Part One of a three-part series on how not to be an ordinary service provider. Part 1 will explore who you are and how to identify your customers. Part 2 discusses your relationship with customers and how to determine what they value. Part 3 concludes with the products and services you should be considering and how to innovate with technology.

Who Are You?

When I was a TPA, I had a sign behind my desk that said "RTFD." Administrators who I supervised knew that meant that, before they me asked a question, they had to "Read the %^&%* Document." Or, as my more politically-correct partner, Chris, likes to put it: RTDF, i.e., "Read the Document First." Just like a firm's clients, a TPA needs a guiding document that is regularly read and reviewed.

A retirement service provider firm's clients, referral sources, and employees should be able to clearly articulate the vision of the company. While many TPAs focus on marketing plans and selling their services, they often do so without a written business plan. A business plan identifying who you are, with a mission, values, and measurable goals, should be in place and communicated to stakeholders before tackling the marketing plan. We often hear from TPA employees in brainstorming sessions that they are unclear on the vision and goals of the firm. One administrator told us, "We are a really high-touch service firm, but no one outside the company knows that about us." Another commented, "We are not clear on the firm's goals and objectives and even what services are available for our clients." TPA owners and management should write down the strategy and vision that is "in their head" and clearly communicate that vision to their internal and external partners.

SI Group is a successful TPA firm in Hawaii, but its owners knew they needed a plan for the future. The vision in their plan focused on their employees' expertise: "a team of dedicated and credentialed employees providing superior consulting and administration services." The firm's mission statement followed that vision:

> Plan Administrators need independent guidance from consultants who have solid, proven experience coupled with a diligent approach to staying abreast of the technical details of the field. SI GROUP is a leader both locally and nationally through rigorous training of its employees and a work environment that fosters personal and professional growth to maximize each person's potential.

When the owners realized their core value focused on credentialed employees, it followed naturally that the firm should attain the ASPPA Service Provider Certification, which it did in 2011.

Remember, however, the Microsoft and Apple cautionary tale. Microsoft had a plan with mission, vision, and values. However, it failed to update the plan in light of emerging trends. A business plan only works as a living, breathing document. SI Group holds annual brainstorming sessions with its staff to help them update the plan and communicate their goals to their referral sources and clients. More importantly, SI's staff "owns" the results of the brainstorming sessions and the updated business plan goals. When employees have a say in the direction of the company, they are more likely to work to achieve those goals.

To get an external perspective, SI Group surveys advisors and clients to attempt to anticipate future needs, in addition to asking about the value of their current service offerings. Surveys should be short (usually less than 10 questions) and ask pointed questions, not only about what the firm is doing well, but also what it is doing poorly. Clients and referrals sources are more likely to complete surveys if the questions are tailored to them and asked not too frequently (once or twice each year works well). Like employees, survey respondents want to know that they have been heard. Send the summarized results of the survey back to everyone who had an opportunity to participate in the process, regardless of whether they completed the survey, along with how you are taking action on items identified by respondents.

Who Is Your Customer?

Take a look at not only your current retirement services clients, but your referral sources as well. Develop a profile of your ideal referral source and compare it to your current advisors and brokers. Does the profile match the group with whom you are working? Secondly, are you vulnerable because you are dependent on one or two advisors or providers? If so, consider broadening your referral base to avoid the business risk of one advisor moving a block of clients to a competitor. Lastly, are your plan's goals achievable with the current type of clients and referral sources with whom you are working? Consider not only the type of client, but also whether their plans (and other plans from the same advisor or broker) are profitable over time.

After looking at your current customer base, create a profile of who your targeted customer should be. Consider if you would rather have:

- 40 start-up plans;
- 20 $500,000 plans;
- 10 $1 million plans; or
- One $10 million plan.

Although a $10 million plan will generate substantially larger fees than a start-up plan, can you administer it profitably? A firm should have the staff and systems in place to retain this size plan. A larger plan will likely have higher expectations of a service provider and also be more likely to move its business than a smaller plan. On the other hand, a company focusing on plans with $500,000 to $1 million in assets will need a staff who should be taking on more plans per administrative team with established systems to increase efficiency.

Once you have identified your current and future customers, go back to the business plan. Do your plan's goals match your ideal clients and advisors? If so, you will want to update or create your marketing and sales plan to target these customers. When SI Group went through this exercise, it discovered that it needed to rename the firm and update its Web site to reflect its new brand and its new targeted market. As a result of the sales and marketing plan and its implementation, the company has increased its revenues 40 percent in the last 18 months.

When creating your strategies and updating your sales and marketing plan, you will need to factor in what your customers value and what issues are most important to them. We will explore these concepts in depth in the next issue. ■