

Developing a Financial Services Practice

Financial services practices provide from one to many different financial services. There are firms that are “one stop shopping” and others that specialize in one area. The background of financial service providers can be in any field. However, the most successful will generally have had formal training in one or more of the areas of accounting and taxes, finance, financial planning, and insurance.

This document consists of 2 parts:

- Developing a Financial Services Practice (this document)
- Financial Services Practice: A Case Study

Identifying the Right Services to Provide

With a background and interest in accounting and financial management, you can begin your own practice. However, which services to include is one of the most important and difficult decisions.

Types of Financial Services

There is an incredible range of financial services that can be offered to clients, and likewise an incredible range of clients you can serve. It is this flexibility that makes setting up one’s own practice appealing. You can allocate your time and resources in the areas of your choosing.

However, because you are the primary decision-maker, it is easy to be sidetracked. For example, a client may request services that offer increased revenue, but are just outside of your experience or expertise. Pursuing this opportunity may result in a poor allocation of your resources and decreased net income.

When beginning, the best procedure is to pull back to the basics:

1. Concentrate on services that you are experienced and comfortable in, and that provide at least a minimum required income.
2. Devote time to other services and activities as time, resources, and willingness allow.

3. Continually evaluate all of the services you are performing. Are they generating appropriate income? Are they compatible with your other services? Are you enjoying the work?
4. Formally add services and clients to your practice as it grows.

The first step is the most important. You must determine where to focus your practice. Your services can range from training and consulting to in-depth financial planning and investment management.

Accounting System Consulting

You can provide software setup and training for the client, with the actual contact being a high-net-worth individual, an office manager, or other CPA or accountant.

Activities

- Setting up the client's accounting system.
- Initial and ongoing training.
- Special projects, such as designing custom systems.

Advantages

- Flexible scheduling and obligations; can be limited to a day's or week's work, or ongoing consulting.
- Opportunity for follow-up work as software and accounting systems change.
- Opportunity for follow-up work as personnel changes.
- Low capital and relatively few resources required depending on the number of clients you wish to serve. It can even be a one-person job.

Challenges

- Market is currently flooded with existing software tutorials and training classes; consulting assignments may be hard to come by for a new practice and inconsistent even for an established practice.
- High level of computer technical skills required.
- Not only must you determine which accounting system is appropriate for the client, but you also need to be honest even if the best system for the client isn't one you are an expert with.

Financial Reporting and Review

Report production and review is definitely a step up from software consulting, but it is not yet true financial management. The client still does the primary input and decision-making. It can include data entry through report review or just a review of the client's data input. This service can cover investment portfolio tracking and financial statements for individuals, partnership reporting, trust and estate reporting, and retirement plan reporting.

Activities

- Entering financial data.
- Producing reports.

- Reviewing of reports.

Advantages

- The work is ongoing by nature.
- A staff person can perform work.
- With proper training a staff person requires minimum supervision.

Challenges

- The perceived value added is not as high as other services. Therefore, the hourly billing rates will not be as high.
- Keep labor cost in line with the billing rate.

Business Management

This is full involvement in the client's financial affairs, stopping short of financial planning and investment management.

Activities

- Paying of bills on a recurring basis
- Producing and circulating financial statements
- Reporting of income tax data

Advantages

- When services are performed well and there is a good relationship between client and professional, client develops a strong dependency on the services.
- Personal satisfaction the professional receives from a close relationship with the client can be very rewarding.
- Billing rate is higher because of more responsibility.

Challenges

- Labor intensive
- High level of responsibility to ensure funds are properly collected, disbursed, and accounted for.
- Managing the liability exposure that can result from errors.

Income Tax Planning and Preparation

This can be done on a stand-alone basis separate from the business management services described above or combined with those services. The best approach depends on the skills and interest level of the principals in the firm.

Activities

- Preparing quarterly tax estimates
- Developing strategies to minimize income taxes through tax planning.
- Preparing annual tax returns.

Advantages

- By having access to the detail business management records, you are able to provide a higher quality of tax services than a firm that only does tax-related work is.
- Because you control the detail accounting records, you are not dependent upon receiving information from someone else before you can do your tax work.
- Billing rates are higher due to higher level of expertise required.

Challenges

- How to bill for the services when the nature of the work can vary due to tax law changes and the client's situation.
- Staying current on tax law changes.
- Managing the heavy workload of the tax season.

Financial Planning and Investment Management

Advisory services can be done on a stand-alone basis or as part of the business management services described in the previous section. It can be done using an hourly charge, fixed fee, asset management fee (a percentage of assets managed), or commissions. It can include a combination of several of the above means. The best solution for your practice will depend upon your preference, training, licensing and regulatory restrictions.

Activities

- Developing comprehensive investment strategies for clients.
- Implementing an investment strategy through the selection of specific investments.
- Monitoring investments to ensure they continue to meet the needs of the client.
- Reporting to the client how the investments you selected have performed.

Advantages

- Allows for fees based on a percentage of assets managed. This enables you to receive higher hourly rates for your time.
- Means you receive enough fees from a client to enable you to spend the time with the client to establish and maintain a solid relationship.

Challenges

- Having the in-house expertise to perform the services the client requires at the level your clients deserve and expect.
- Your performance is based on the market's performance. When financial markets perform poorly, clients can become dissatisfied.
- Managing the liability from investment errors.

Full Financial Management Services

Full accounting and financial management includes all of the services included in this section, from maintaining the client's accounting system to managing the client's assets and advising the client. Whenever necessary, you can use outside specialists to do those functions which the office is not staffed to handle.

These are the services that a family office provides to its family member clients.

Activities

- All of the activities listed in the services above.
- Selecting outside professionals for the services you choose not to provide.
- Monitoring the performance of outside professionals.

Advantages

- Because you have a comprehensive relationship with a client, strong performance in one area can carry you through times when there is disappointing performance in another area.
- When the services work well and the client relationships are strong, the professional can feel a high level of personal satisfaction.

Challenges

- Time intensive.
- Managing clients' expectations for the services you can provide and maintain the level of profitability you desire.
- Occasionally needing to convince the client that the services are worth the fees you must charge.

Choosing a Service

You may begin with a client in any of the above areas depending on your expertise, the client's needs, and your ability to sell your services to the client. Your early success is based on staying focused. Either focus your efforts on compact services such as tax preparation or system training for many clients, or on full financial management for a few clients. Generally, the income generation per client is smaller at the consulting and financial planning level and greater at the business and investment management level.

System training and consulting are the easiest to provide, but can be fairly inconsistent, as can stand-alone financial planning. The financial review and management services are steady, ongoing sources of income. Therefore, one path to take would be to begin with a training and consulting service and converting it into a full financial management service.

Marketing Your Practice

No matter whether you are just starting or have a steady existing practice, you should always be marketing. Marketing includes finding new clients, obtaining referrals and, as described below, expanding services to existing clients. A consistent focus on marketing will alleviate the pressures and fears of losing clients. If a client leaves or you terminate the relationship, he or she can be replaced with a new client.

Referrals and Sources

For a new or growing practice competing against established firms, the best marketing technique may be *personal referrals*. Sources for these referrals can be:

- **Existing clients** — Explain to your clients that efficiently obtaining new clients reduces the amount of time spent looking and therefore leaves more time working with existing clients.
- **Accounting peers and other professionals** — Referrals can come from long-time colleagues or even from a passing acquaintance. Return the favor by referring work to them as appropriate. Avoid competition by setting up rules with a particular referral source so the two of you have a comfortable relationship. Furthermore, avoid losing the referral source by discussing his or her services with your clients.
- **Friends and family** — Let people know what you do for a living. Offer financial advice when appropriate. Pursue the subject of referrals only if they ask questions or show interest in other ways.

When starting a practice, don't be finicky about the referrals you receive. Don't lose a good source by turning down a referral, or not following up on one. Conversely, don't spend any more time than you need on a referral that cannot be assisted by your current services. Refer that person to someone else and hope the favor is returned.

Be patient as you develop referral sources. Be persistent (but not a nuisance) with the referrals themselves. It may take years before a particular source pays off. It may be just a matter of timing in turning a referral into a new client.

Developing Unique Services

Look at the services offered by others and come up with ways to improve on them. This will give you an edge during your presentations, as well as convince the potential client that only you can offer him or her the appropriate level of service.

Screening Potential Clients

Always screen potential clients to make sure their needs and temperament fit well within the services you offer. It can be tempting to stretch your services for a prospective client, or train the client to fit within the parameters of how you do business, all in the name of generating revenue.

If you are presented with an opportunity to expand your services, realize that following through may require changes in your practice, including personnel and technology.

If a client relationship is not progressing the way you want, be up-front with the client. Explain the issues to the client and offer to help the client find someone else to service him or her. This will either end the current relationship with the client or favorably change the nature of the relationship, making your work more enjoyable.

Building Client Relationships

Personalize Your Service

Stay in touch with your clients. Develop a procedure of updating clients with a personalized cover letter with some analysis of what happened during a particular period. Include the things you did during the period and other areas of personal interest to the client. Occasionally ask the client to evaluate the your services.

Adding Services

With every client, actively pursue additional services that may be appropriate for that client. It may take years of building a relationship and then recognizing a single opportunity when it presents itself. Show the client the benefits of additional services. As with referrals, be persistent in following up. This way you can turn small, one-time jobs into major continuing clients.

Personnel

In deciding how large an organization (personnel, tools, and other resources) you want, there are two important considerations:

- The more complex the services you offer, the more resources you need.
- The larger the staff, the more resources it takes just to manage personnel.

Staff Skills

Selecting the right type of personnel is arguably the single most important task in establishing and maintaining a financial practice. Many skills, such as good judgment and effective interpersonal communications (especially with your clients!), are important. Furthermore, an effective employee must also have the ability to manage financial information with a computer. When hiring staff, previous experience in this area is helpful, but often not required. The most critical skills to look for are:

- Attention to detail and accuracy with numbers and procedures.
- Ability to work closely with other members of the office.
- Ability to learn software and practically apply program features to the needs of the office and its clients.

Training

A professional, qualified, and well-trained staff is critical to an efficient and successful practice. Good training can result in:

- **Increased quality of information** — “Clerical-level” employees are able to perform basic reviews of financial reports and correct or at least point out, more obvious problems. This minimizes the review time of high-level employees.

- **Ability to perform each other's work** — For offices with several bookkeepers, this approach provides improved continuity of work. If one bookkeeper is unavailable or backlogged with work, another person can step in to handle part of the workload since he or she is familiar with the system, if not the actual entity and data maintained by the other person. This keeps the accounting records up to date and balances the workload. This usually results in better office moral and happier family members.
- **Staff reduction** — Hiring and training the right employees results in major increases in office productivity. Effective implementation of Financial Navigator can result in fewer staff being required to perform the same amount of work.
- **Job satisfaction** — By changing the focus from basic bill paying and bookkeeping to meaningful financial reporting, family office employees find much more personal and professional satisfaction from their work. This can result in lower staff turnover, higher commitment to quality work, and more motivation for professional development.

Office Tools and Other Resources

The technology revolution made data entry, calculation, and communication incredibly easy, efficient, and cost-effective. With laptop computers, modems, faxes, cellular telephones, and voice mail, you can always be in touch with your clients and your employees. Additionally, with current computer technology, you can look professional without having a large staff for clerical work.

Computers

When purchasing and setting up a computer system, evaluate your current needs *and* anticipate your future needs. Although a system you have now may be more than you need, it may not be adequate after twelve months. It is much more cost-effective to buy the computer once, as opposed to adding equipment later. Upgrading later costs both money and the time it takes to install the new hardware.

At the same time, it is important to build your systems around established and proven technologies. Using technologies that are not yet widespread or are still being developed can also be a mistake. Striking the right balance is critical.

Network

If you have more than one person working in the same office or building, it is best to set up a network so that files can be shared easily. It also allows everyone to access the same peripherals, especially printers.

Printers

Laser printers are best for fast, day-to-day, black-and-white printing. Inkjet printers are best for high-resolution color printing. If you are running a number of people on a network, it is a good idea to have a laser printer on the network so everyone has access to it.

Other Communication Tools

- **Fax Machine** — Provides easy transfer of documents.
- **Modem** — Provides access to the Internet, including e-mail. With the proper software, also allows you to fax from your computer and access other computers.
- **Voice mail** — Provides a professional appearance without the expense of having someone answer your phones.

Software

Certain general programs are necessary to maintaining a functional office. Others are not necessary, but may increase your productivity. However, the specific software you use is a matter of preference.

- **General office software** — Word processing, spreadsheet, and personal management software. Software packages from Microsoft, Corel, and Lotus, among others, contain these types of programs.
- **Accounting and financial management software** — Depending on your needs, this can include programs for general accounting, financial planning, business management, investment management and analysis, tax planning and preparation, or other financial software.
- **Internet software** — Software for sending and receiving e-mail, as well as browsing the World Wide Web and downloading files. Netscape Navigator and Internet Explorer have all of these capabilities.
- **Other communication software** — Other programs allow you to send and receive faxes on your computer, as well as access other computers at remote sites.

Using Financial Navigator as Part of Your Practice

Financial Navigator has the ability to pull together into one database all of the client's financial information. FN is appropriate for individuals, individuals with a sole proprietorship service business, partnerships, or corporations with a service type business. However, it may not be appropriate for large businesses with large or complicated inventories and receivables. It may or may not be appropriate to use FN along with some other type of inventory, receivable, investment, or property management software.

Building the FN Client Relationship

The client should be able to rely upon your expertise to help make the proper decisions for him or her, both at the beginning of the relationship and as conditions change. If you do not, you will probably pay for it later on. Your practice can be based on the software you use, but do not expect to make it strictly a Financial Navigator practice.

FN Service Providers

Becoming a Financial Navigator Service Provider is another way to stabilize your practice. As a Service Provider, you can perform many of the activities

described on pages 126-129. Additionally, with your experience of the Financial Navigator software and the support and assistance of the Financial Navigator Int'l team, your clients can have confidence in your work and your practice.

Setting Up Financial Navigator

Once you have added a new client to your practice, setting him or her up in Financial Navigator is just a matter of getting the right information and entering it into FN.

Collect the following information from the new client:

1. Canceled checks and check registers since the beginning of the year.
2. Bank and reconciliation statements since the beginning of the year.
3. Name, address, account number, and a brief description of the vendors for all payments the client has made or plans to make during the year. A copy of the client's most recent bill/invoice with this information should be sufficient.
4. Credit card statements since the beginning of the year.
5. Brokerage account statements since the beginning of the year.
6. A list of all assets, including the following information:
 - Acquisition date
 - Original cost and tax basis
 - Additions, deletions, return of capital, improvements (dates and amounts)
 - Depreciation
 - Current value
7. A list of all liabilities, including the following information:
 - Date of loan
 - Amount
 - Interest
 - Term
 - Payment terms
 - Current outstanding balance
 - Loan number
 - Contact (telephone number)
8. Contracts, leases, agreements, and other documents affecting the client's financial affairs.
9. Insurance policies and the most recent statements of payments and values.
10. A monthly schedule of the client's projected income and expenses for the remainder of the year.
11. The most recent tax return

Client's Data Files

Once you have received and reviewed this information, continue by creating the client's FN data on your system.

Follow these steps:

1. Review the client's financial information.
2. Discuss the information with the client and his or her accountant to determine the anticipated results of moving to Financial Navigator.
3. On your system, create the client's chart of accounts with appropriate format types, tax codes, account qualifiers. Review with the client.
4. Enter beginning balances for assets and liabilities. Enter cost and tax basis, acquisition date, and other information as appropriate.
5. Enter names of payees and payors. Enter addresses, phone numbers, and other contact information as appropriate.
6. Setup automatic entries for loan payables and receivables.
7. Setup automatic entries for other payees and payors as necessary.
8. Setup check-writing options and confirm check stock.
9. Enter necessary transactions from beginning of year to current date.
10. Discuss necessary reports with the client and accountant. Run the reports from beginning of year to current date.
11. Set up automatic reports.

Client's System

After you have created the client's data files, install FN and load the client's data onto their system

Follow these steps:

1. Install Financial Navigator on the client's computer system if it hasn't been done already.
2. Copy the data files you prepared to the client's system.
3. Provide training to the client for operating FN.
4. Discuss with the client and accountant management of the data files. Determine if the client's set or your set is the master copy.
5. Discuss with the client and accountant the procedures necessary for periodic and year-end reporting for taxes and other statements.
6. Review with the client and accountant the following continuing services that can be provided.
 - Complete business management
 - Periodic write-up work

- Periodic financial review
- Installation and setup of FN add-on products, such as CheckForm Navigator, Navigator Access, StockWeb, or others

FINANCIAL

NAVIGATOR

How to Reach Us

Information and Sales: 800 468-FNFN (3636)
 Fax: 650 962-0730
 Web site: www.finnav.com
 E-mail: customerservice@finnav.com
 Technical Support: 650 962-8510
 Hours: Monday - Friday 7:30 a.m. - 4:30 p.m. PT
 Business Address: 254 Polaris Ave
 Mountain View, CA 94043
 Telephone: 650 962-0300

Trademark Acknowledgments

Financial Navigator, Navigator, Advanced Reports, CheckForm Navigator, Navigator Access, Navigator DataBridge, Navigator Impressions, and Navigator StockWeb are trademarks or registered trademarks of Financial Navigator Int'l.

Windows is a registered trademark of Microsoft Corporation. Other product names mentioned in this reference material may be trademarks or registered trademarks of their respective companies and are hereby acknowledged.