

## Commoditization of Retirement Services Record Keeping

Turning the threat into a competitive advantage by James Lord

**A commoditized world.** We have reached a point in the record keeping industry where many of the traditional services have become commoditized. Sponsors have become more aware of what they need to offer in terms of competitive benefits for their participants. At the same time, heightened awareness of fiduciary risk is driving a convergence toward more conservative, standard, and proven choices of services that offer a lower-risk profile and inherent legal protections like QDIA and Safe Harbor.

Changes in the regulatory environment like 404c and Fee Disclosure have homogenized and further eroded differentiation in the business. Similarly, participants are savvier about what services to expect since many have participated in more than one plan over their careers with exposure to multiple record keepers.

Today, participants and sponsors alike have clear expectations and are aware of investment and control choices that run the gamut from age-based funds to self-directed brokerage.

*What used to be considered cutting-edge services, like web-based access, transactions, and retirement planning tools, as well as fiduciary toolkits and education are no longer differentiators.*

This perceived fungibility, along with increased pressures on operating costs, and a more acute awareness of fiduciary responsibilities, is putting growing pressure on client retention and pricing. Sponsors are increasingly putting record keeping administration out to bid; the commoditization is clearly fueling this volatility.

**The threat of commoditization.** Recognizing this trend, many industry leaders are focused on identifying and investing in next generation differentiators. While this is clearly a key component to winning head-to-head, it is important not to ignore the issue of the commoditization of the core services. The threat for established players in this market stems from the legacy of organically developed, highly-configurable, flexible services. This flexibility is often viewed internally as *the* differentiator that wins and retains business. But while the addition of a particular service or feature may have played a significant part in winning a certain deal in the past, its perceived residual importance is often overvalued.

*In reality, the operational inefficiencies driven by a continuously growing flexible offer, based on the perceived need to accommodate a nearly infinite number of scenarios and exceptions, are a significant driver of record keeping costs and an obstacle to growth.*

By contrast, a new player would be able to take advantage of the industry maturity and build a more simplified offer around a more finite set of services and choices at a much lower cost.

**Turning commodity into competitive advantage.** For established record keepers, the key to turning this commoditization into a competitive advantage is to dramatically simplify, rationalize, and truly productize their core offer. This, in turn, will facilitate the transformation of the delivery model from “engineer-to-order” to “assemble-to-order” by applying manufacturing best practices to record keeping. While not easy, this transition can deliver a dramatic and sustainable impact to the business.

**Understanding your offer.** Transforming from “engineer-to-order” to “assemble-to-order” starts with inventorying and rationalizing your entire offer and capabilities. The value derived from this process will come from your ability to harness your deep organizational and industry knowledge to stratify and rate the relative preference of each service option for each market segment. Understanding what should be treated as an exception is critical to providing transparency around decisions that can drive hidden risk and costs. This process is complex, as it requires objective analysis through multiple lenses including market competitiveness, risk, and execution capability. During this phase it is important to benchmark and bring in an external point of view to assess the competitive landscape and market trends.

**Productizing your offer.** To take advantage of a mature manufacturing model, it’s important to fully productize your services. This means taking the seemingly infinite number of service options and configurations and engineering them into discrete service items (SKUs) which can be competitively positioned in the market for specific segments, while being “manufactured” for a known cost. Often times what appears to be a finite offering from a marketing and sales perspective, turns into massive variations and permutations in the operations environment due to incomplete or unbounded product definitions.

*The key to driving scale and predictability in a manufacturing model is absolute clarity and line of sight between what has been sold and how it is manufactured.*

This starts with a master item catalog, which is actively managed. Every item in the catalog has a complete bill of materials, fully describing the resource requirements and specifications. By harnessing your deep industry expertise, client intimacy, and institutional knowledge, you can engineer a finite set of standard service configurations that embody your brand’s unique

value proposition. This is first done at the individual service level and then by packaging individual service configurations into best practice service bundles based on which configurations best meet the needs of particular client segments.

**Positioning and sustaining your new offer.** Adoption and success of this more finite offer is highly dependent on both internal and external positioning. Although it is a rationalization exercise, it is critical that the new offer is not perceived as constraining, but rather a menu of the perfected recipes of the master record keeping chefs. Each preferred option should be constructed with its respective positioning as to why it’s better for the Participant (e.g. retirement readiness, worry-free) and the Sponsor (e.g. ease of administration, lower risk). By showing a client how adopting a particular service configuration or bundle positions them in the competitive context relative to their peers, is a powerful, value-added way to frame the discussion.

*The ongoing value and sustainability of productization requires the implementation of true product ownership and the adoption of a full development lifecycle management.*

For example, it requires options to be phased out and clients to actively migrate, as more preferred options are developed. Otherwise, the variability and associated operational costs will creep back in.

**Building the end-to-end process.** In a physical product-operating model, the process is glued together end-to-end using order management. Proposals are bound to the catalog using quotes, which ultimately evolve into work orders to the factories or pick lists to the warehouses. Out-of-the box technologies that structure the data and workflow are readily available to support this process from sales through fulfillment. In a productized service-operating model, these same concepts apply. Information gathered from the client is staged

around process tollgates and is naturally leveraged downstream throughout the delivery chain on an evolving order. This is extremely powerful, as the entire organization is connected with the latest information from a single trusted source.

**Benefits of a manufacturing model.** One powerful benefit of this approach is higher predictability and visibility of costs. Where today it may not be feasible to estimate the costs and resulting P&L impact from a particular service configuration, based on hundreds of answers on a questionnaire, it is much more practical to estimate a standard cost for each of the 12 standard testing and reporting packages. The benefits of transforming your delivery model and productizing your offer can be quantified across multiple areas.

A catalog of well-defined service configurations along with a tight order management process can lead to higher levels of automation around document generation and record keeping systems configuration. It can also provide a base on which to codify your institutional knowledge and controls around potential product and service incompatibilities.

*The most powerful value driver for your organization is having a single trusted source of the exact portfolio of services and service options for each client.*

This will provide a higher level of confidence that you are administering the plan correctly.

**Food for thought.** We may depend on engineers at Mercedes and Honda to design to the 5-star crash testing rating, so we don't expect the dealer to ask us which type of lock washer we want in the passenger's door. If they did, it would raise concerns about the consequences of our decision and require us to educate ourselves in order to feel comfortable with our decision. Although flexibility is generally beneficial, too many options and choices can actually lower the perceived value proposition of a brand and erode your customer experience.

Given the inevitable market maturation trend, adopting a new delivery model and fully engineering the commoditized portion of your offer will let you "manufacture" differentiation by making it easier to do business while lowering record keeping costs.

**This is more than theory.** We at BridgePoint have practical experience in guiding large organizations through this evolution from vision to impact.

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