

THINGS TO KNOW

LPL's Dan Arnold: Tech Will Fuel Our Growth

By Steve Garmhausen

LPL Financial, already the biggest independent broker-dealer, is spending big on technology as a lever to continue its rapid growth.

"We're making a major investment in technology [for] both the future of our enterprise and the value we provide advisors," president and CEO Dan Arnold tells Barron's Advisor in our newly launched weekly Q&A feature [sign up here].

The company, with 16,174 advisors, will spend close to \$120 million this year and another \$135 million in 2019. That doesn't include the recent \$28-million purchase of digital tool maker AdvisoryWorld. Wall Street likes LPL's direction; its stock (LPLA) was up nearly 9% over the past year, while Morningstar's Capital Markets sector was down 17%.

While expounding on LPL's growth plans and its tech push, Arnold also shares what he's learned from a blockbuster acquisition. In 2017, LPL bought broker-dealer network National Planning Holdings. Of NPH's 3,200 advisors, LPL ultimately recruited 2,000.

One big takeaway from the experience, says Arnold: There's room for LPL, which has increased assets 36% over the past two years to \$681 billion, to get better at buying and absorbing other businesses. That should be a sobering thought for its competitors.



Illustration by Kate Copeland

Q: Dan, describe the level of opportunity you see for the advisor industry right now.

A: I see [great] opportunity at a macro level in the growing demand for financial advice as the world gets noisier and more complex. There's growing demand across all demographics; in fact, we've seen millennials seek financial advice at a higher rate than their parents and grandparents.

In most of the marketplace, we still see that individuals prefer to receive advice from a trusted financial professional who will help them plan to solve their problems, but just as importantly provide ongoing support and make sure they execute that plan.

Q: The trick is to seize that opportunity, of course. What's LPL's growth strategy over the next several years?

A: Growth sits at the center of our strategic framework. And we feel organic growth is the best way to drive the returns on the investment we make in growth.

We see it through three lenses. The first is attracting new advisors to our platform: How do we create a more appealing platform, at a lower price, with the versatility in our model to continue to attract advisors at a good solid pace?

The second lens that we look through is helping our existing advisors grow. Again, we think about helping them differentiate and position themselves to win. And then obviously you want to provide those advisors who are on your platform a great service experience such that they're getting great value in the partnership and you tend to retain them over time.

We do believe we can complement that organic growth with M&A activity. That type of activity would be focused on scale plays, which are how to we potentially do some of what we did with M&As where we find other broker-dealers and RIAs that are looking to strategically assess their options. We think we can put together great compelling valuations and provide nice capabilities to attract those advisors

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as we move forward. So we do see that type of M&A as an opportunity.

Finally, I think you will see us use M&A to accelerate the expansion of our capabilities. If we think we can acquire it at a good value and deliver capabilities faster than building them, we would always be open to exploring that.

Q: Speaking of M&A, the heavy lift of recruiting and integrating National Planning Holdings' advisors has been well publicized. What have you learned from the experience?

A: Acquisitions can absolutely come with their set of challenges. NPH was no doubt a learning experience for us, because some things you get right and some you are going to miss, and you've got to learn from both.

From a financial and a strategic standpoint, our insight was that we have a structure in vertical integration that can help us put together M&A transactions that can create greater value. That certainly was a positive outcome.

We absolutely validated the capabilities in our model, and in many cases provide greater value for the advisors once they moved over. I think we've been able to demonstrate to those NPH advisors the commitment we make to our advisors' success, and our willingness to partner and create personalized long-term relationships with them. I think that was some of their concern prior to the transaction.

Q: Where did you find room for improvement?

A: I think that where we can improve is more on the operational front and the integration front. Where you are going to integrate a transaction of that size, there are a lot of places where we need to rethink our processes, or need to introduce new technology.

It also puts stress on our operations, and we had to look at ourselves and really challenge ourselves: How do we think about our service model very, very differently than we had at this point?

We actually believe that big is not a problem if you are willing to build a service model that creates a differentiated experience at scale. And we

realized that we needed to rethink our service model.

Q: So that's what you've been doing?

A: We are going through the process of re-engineering how we think about our service model, making it simpler for the advisor to engage and do business with us. [It] means you have to modernize your policies, processes and procedures.

And then we ultimately had to go through a cultural transformation and really make sure that this commitment to the advisor, and this customer-centric-mindset, is at the heart of everything that we do.

Q: What's a specific example of an improvement you're looking to make?

A: Streamlining the data or input we were gathering [using forms] that either access the data from somewhere else or that don't require the population of data. That's a great example of where you're making it simpler and easier to do business.

Where you [once] required a process through which the advisors go gather certain information, or get certain approvals or requirements, that just isn't necessary given new technology or access to new data. You've got other mitigating ways to supervise, oversee or collect that data.

We have lots of opportunities to modernize our playbook, and we're in the process of doing that. We've probably approved as many as 300 of those types of improvements in 2018, and we are going to take on sort of a same agenda in 2019.

Q: Back to M&A: Would a market slowdown present an opportunity for acquisitions?

A: As an acquirer, I think you have to be watchful and thoughtful about valuation as the economic tides may turn. But then you also potentially may find opportunities that may not have presented themselves without the tougher economic challenges.

Q: In the event of a prolonged market slowdown do you think a significant number of businesses would be at risk?

A: For advisors who are going through

the process of transitioning their practice or re-positioning their practice, I don't believe it's ever too late.

Markets are tough. That said, sometimes a tough market forces people to make that pivot. And if you're able to do that, then I still think you can re-position and survive.

For those advisors who don't make a pivot at all, I think it does call into question how they sustain themselves if [market weakness] is prolonged. It becomes a tougher formula.

Q: What would you say is the biggest challenge individual advisors face right now?

A: Probably the greatest challenge is the pace of change. It challenges advisors to constantly think about how they have to evolve their value proposition and their practices capabilities.

Q: How is LPL helping its advisors adapt to the rapid change?

A: I look for key leverage points to help advisors pivot with respect to the pace of change. How do we make it easier for them to operate, lower their cost and improve the service experience they deliver to their clients? How do we help improve and enhance the quality of their advice so that it helps them differentiate themselves?

And then, how do we find key leverage points in their overall practice management [to] enhance the scalability of their business? We see two key leverage points. Technology is one, and then wrapping that technology around human [intellectual property] so it drives behavioral change and performance change in their practice.

Q: What's a specific technology project you're excited about?

A: We've talked a lot about helping the advisors digitize their practices – and this gets back to how do you lower their cost, improve and enhance the service experience and create scale ability in your practice. One of the things we've done is working on completely digitizing a really important workflow: taking someone who is a prospect, using digital capabilities turn them into a client, and then using digital capabilities to enrich how you serve and support them.

That journey from prospect to ongoing client is where we see six different technology components. If you inte-

grate them, you are creating an end-to-end digital experience.

In order to attack that, we are building our own capabilities, but we are also bringing in third-party capabilities and integrating them together. This is to give the advisor a choice around how to ultimately construct that digital workflow.

Q: What about client-facing technology?

A: The concept on the client front is, anywhere I am, via any device, at any time. We've complemented our [advisor-facing technology] by building an entirely new digital portal. This is where [advisors] get into thinking about "Hey, how do I serve my end client? How easy do you make it for me to engage in an administrative task digitally? What's technology can I provide to help transform my clients' experience around how they engage with

me, access data, [gain] insight on how they're performing relative to their goals and objectives?"

Q: You're not just buying new stuff though; it sounds like you're building around technology.

A: Yeah, we believe it's a context shift from thinking about technology as a utility to thinking about that technology as a true asset of the firm. We believe that creates a transformational requirement, and how you think about the skills and capabilities of leaders.

We brought in a new head of technology about 18 months ago to help lead us on this journey and this transformation. For innovative, capable engineers, we've tended to look for people outside of the financial services space that bring a different way of thinking about how to solve all these problems.

Q: Final question: What will the

industry look like in five years?

A: I think we'll see more consolidation occurring across the entire ecosystem of the industry; distribution as well as asset management and potentially even down at the advisor level.

I am really hopeful that it will look more diversified than it does today; the landscape of America is changing and we need to embrace that. I think you'll see more advisors focused on specializing so that they can solve complex problems for a unique set of clients and really differentiate themselves.

Finally, how we serve those over 65 will become a more and more significant priority. We've been focused on millennials the last couple of years, but this growing population of 65 and over, and how they are transforming the vision of retirement will be a big priority.

Q: Thanks, Dan.

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