



**Advent**

## **Best Practices in Revenue Management for Investment Firms**

A Practical Guide to Improving Billing  
Workflow and Enhancing Client Service

Advent Software, Inc.

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## The Case for Best Practices in Revenue Management

Revenue management is an often overlooked area of opportunity for investment management firms. Simply by improving the accuracy of fee calculations, accelerating cash flow, and controlling disbursements systematically, firms stand to minimize any lost revenue from errors and gain significant incremental profitability. By making these improvements, firms can add tens of thousands of dollars to their bottom lines—no small feat in today’s challenging environment—and reduce their overhead costs while improving client service.

Unfortunately, even sophisticated firms with strong performance records are often lax in their revenue management practices. A recent Tower Group report notes that most fee-based managers rely on legacy homegrown or specially built systems to calculate fees and support their billing processes. At many firms, these systems are temporary, makeshift solutions understood by only a few people. In the absence of industry standards, the resulting process can be labor intensive and time consuming, with a high risk of errors—and a concurrent risk of unhappy clients. Meanwhile, cash that could be earning interest sits idle or uncollected.

Transferable and repeatable best practices in revenue management—and automated systems that support them—have begun to emerge in the investment management industry. Firms that follow these practices realize significant time savings in their billing process and can redeploy labor to revenue generating activity. They experience fewer errors and spend less time rechecking invoices for accuracy, resulting in a reduction in client complaints, credits, and write-offs. With timely and accurate invoicing, these firms accelerate their cash flow and improve productivity of capital, gaining efficiency in both internal and external financial reporting.

Investment firms pride themselves on making as much money as possible for their clients. By improving the way they manage revenue, they can do the same for themselves. This document identifies the pain points associated with billing, collections, and disbursement. Additionally, it outlines a set of best practices that are key to creating a more disciplined, systematic, and efficient revenue management process.

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## Managing Client Fee Structures and Account Information

### Customized Fee Schedules: The Fewer, The Better

While flexibility in pricing is a competitive necessity, the range of customized fee arrangements for different clients is perhaps the single biggest challenge in the effort to automate and accelerate the billing and collection process. In an ideal world, the best practice would be a single pricing structure for all clients—but this approach, of course, is not realistic. Firms need to be client-centric rather than operations driven. The opposite extreme is having a unique fee structure for each client or, more commonly, creating a new fee structure for each new account.

The real world best practices strike a pragmatic balance:

- **Build in flexibility.** Have a dedicated revenue management system that centralizes client rules, enables flexibility, and allows you to categorize accounts in a manner that best suits your business needs—whether by fee structure, product line, individual managers, or other operating criteria.
- **Eliminate exceptions.** Set up a limited number of fee structure rules that enable you to accommodate a variety of client needs—that offer clients choices instead of carte blanche. Reuse existing rules instead of creating new ones. If some exceptions are genuinely unavoidable, strive to keep them to a minimum.
- **Build a process.** Set up and follow a repeatable, reusable process for calculating fees and producing invoices. Regardless of the myriad variations of calculations, a sophisticated revenue management system will allow the process to always be the same.

Not only do these practices streamline the billing process and improve accuracy, they also make management reporting easier, providing a clearer picture of what a firm is earning and owed at any given time.

### Consolidating Client Data

At many firms, client data is kept in multiple locations. It is often left to individual managers or support staff to maintain their own client records. Sometimes the same client data is housed in two different systems—and when one record is updated, the other becomes incorrect.

Disparate client data slows down the fee calculation process. Best practices in client record-keeping are designed to streamline the process and ensure more consistent accuracy:

- **Centralize data.** Have a central repository for client account data that includes fee arrangements.
- **Standardize account set up.** Follow a consistent process for setting up new accounts. Consistency up front is the key to avoiding pains later in the process.

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- **Start out right.** Be organized from the time an account is acquired. Do not wait until the period-end billing to set up the account.

### Reporting Data in Different Views

Effective management reporting normally includes being able to sort and analyze data from a variety of perspectives. In-house, spreadsheet-based systems, however, do not allow much reporting flexibility. Best practices in reporting should include using a system that gives you different views of the same data.

- **Maintain flexibility.** Do not name or organize accounts or invoices to satisfy a single, specific reporting purpose. Instead, assign separate attributes or different fields so the data can be sorted in a variety of ways after the initial set-up. Do not set up data in a structured manner that may assist in the invoice process but limit management reporting capabilities
- **Label accounts intuitively.** Do not name your accounts with cryptic codes that may become incompatible with new billing systems or incomprehensible to new employees in the future.
- **Avoid lock-in.** Use filters and queries to achieve flexible reporting and listing of fees. Do not use hard coded reports that have the logic built in and can only be used for a single purpose.
- **Businesses will change over time, even simple businesses.** Allow for change and plan for it. Custom solutions (reports, spreadsheets, databases) may work for your current environment, but do not necessarily accommodate growth. Consider a revenue management system with a plethora of features, even some outside of your current needs, as these features may come in handy when you need them later.

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### Standardized Billing Periods

Just as customized fee structures can inhibit efficiency, so can customized billing cycles for different clients—some on calendar quarters, rolling quarters, monthly, or more. The problem is compounded if the billing process is inconsistent, resulting in an inordinate amount of time spent on billing.

- **Define period end.** Have as few billing cycles as possible, and ideally have all clients on the same cycle. It is better to have one cycle for 1,000 clients than four for 250.
- **Standardize the workflow process.** Don't do piecemeal billing. Do not let exceptions be the rule.

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## Period-End Invoice Generation

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- **Use a checklist.** This will help you stay on track and help new employees get up to speed. Add to it as your process changes.

### Managing New Accounts and Closed Accounts

Accounts will come and go in any given cycle between billing. It is inefficient to set up or close each one individually as it occurs, but delaying until billing time makes for an inconsistent billing process.

- **Set up weekly.** Designate a day each week to set up new intra-period accounts. Set up all accounts that have come in over the preceding week on the same day.
- **Close out weekly.** Similarly, designate a day each week to close accounts that have withdrawn from the firm and issue final bills.
- **Separate from billing process.** Do not wait until period end to set up or close accounts.

Tip: Most harried situations of “bill it now before the assets are gone” can be resolved with good client communications. Remember, the client hired you and paid for a period of time. They will pay if you keep the situation in check.

### Improving Invoice Accuracy

Manually checking invoices for accuracy is time consuming; hence, many firms tend not to do it. Inaccuracy in billing, however, can threaten client relationships. A client that questions a charge may soon start questioning the firm’s overall competence in managing money. Firms that follow best billing practices can avoid those awkward conversations with clients.

- **Start at the source.** Make sure the source data used for fee calculations, namely the clients’ positions and portfolio valuations, are fully reconciled before they are imported into the billing system.
- **Be transparent.** Have a billing format that shows all calculations that go into the fee, not just the bottom line.

The other key about transparency is that it leads to fewer difficult discussions with clients.

- **Demonstrate value.** Use the invoice to demonstrate the discount the client is receiving, based on the value of his or her assets. Refer to your investment agreement in the bill as a way of encouraging the client to place more assets with you.

# Billing Best Practices



March 31, 2008

Jane Jones  
1234 State St.  
Chicago, IL 60619

Code: jones  
ID : 112

Fully disclose fees to clients and all interested parties.

MANAGEMENT FEE: Jones Family

3/31/2008 Portfolio Value: \$ 7,202,497.88

Quarterly Fee Based On:

**Equity**

\$ 1,000,000 @ 0.75% per annum	\$ 1,875.00
\$ 1,500,000 @ 0.65% per annum	\$ 2,437.50
\$ 707,270 @ 0.50% per annum	\$ 884.09

Demonstrate value by clearly displaying the fee breakpoints. Combining the assets of the four accounts allows a higher tier to be reached.

**Fixed Income**

\$ 500,000 @ 0.50% per annum	\$ 625.00
\$ 1,179,401 @ 0.40% per annum	\$ 1,179.40

Reusable fee structure.

**Cash**

\$ 2,315,827 @ 0.10% per annum	\$ 578.96
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Quarterly Fee: \$ 7,579.95

For the Period 1/1/2008 through 3/31/2008

<u>Account</u>	<u>Account Value</u>
Kenneth Jones Living Trust	\$ 2,666,794.28
Emily Jones	\$ 2,406,700.00
Jones Family TTEE	\$ 379,003.60
Emily Jones IRA	\$ 1,750,000.00
Total	\$ 7,202,497.88

Allocating the fee between accounts in the relationship provides transparency.

Label accounts clearly and intuitively.

- Account: 234569 at TD Waterhouse was debited \$ 1,070.11 to pay this invoice.
- Account: 3654984 at TD Waterhouse was debited \$ 3,585.62 to pay this invoice.
- Account: 56789315 at TD Waterhouse was debited \$ 498.15 to pay this invoice.
- Account: 3654984 at TD Waterhouse was debited \$ 2,426.07 to pay this invoice.

Automate updates to custodians for debiting fees.

Invoices should match and disclose the investment management agreement.

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## Audit Readiness

Firms that rely on their portfolio accounting systems or use standard spreadsheet software for billing are at a disadvantage in the event of an audit. Such systems cannot store actual bills. If an examiner wants to see what a client was billed in a certain period, the fee must be recalculated.

- **Save invoices electronically.** Use an electronic invoice system with easy search and retrieval capabilities that can reproduce an exact bill with the rules as *they were applied at the time*. This last point is especially important for audits in case fee arrangements have changed since the bill was originally issued.

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## Managing Receipts

### Keeping a General Ledger

Fee calculation and invoicing are one side of revenue management; a comprehensive system must also take into account the collection and management of the revenue stream, which present their own challenges.

Many firms post revenues and expenses on a general ledger. However, standard accounts receivable systems that feed into general ledgers are not designed to accommodate the unique characteristics of the investment management business. A custodian may issue a single payment that covers multiple accounts, and an investment firm must be able to reconcile it against multiple client invoices. Firms also need a mechanism to track invoices that have not been paid.

- **Use a sub-ledger.** Create a sub-ledger within the revenue management system for tracking individual invoices and payments.
- **Keep the general ledger clean.** Avoid filling the general ledger with individual invoices and payments. That level of detail is not necessary for generating a balance sheet; rather, use the sub-ledger to feed summary data into the general ledger.
- **Consolidate receipts.** Increase efficiency by combining receipts and make a few large deposits, rather than a number of small deposits.

Encourage clients to pay out of the account or wire the payment. Custodians should also wire payments.

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## Managing Overpayments, Underpayments, and Write-offs

An accurate picture of revenue must take into account adjustments for payments that differ from the invoice amount. The best practice is to keep the adjustment notices separate from the invoices themselves, so as not to alter revenue projections in your sub-ledger.

- **Keep invoices separate.** Do not put a past due amount, credit, or refund on a current invoice, nor add or deduct such amounts to or from the fee. In the case of an outstanding payment, reissue the original invoice as a second notice (commonly called a “dunning notice.”)
- **Record revenue as gross.** Do not make deductions or adjustments in the revenue column. Record revenue as gross revenue, and account for costs, adjustments, and write-offs as expenses.

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Many firms have revenue-sharing agreements with outside parties, such as brokers, as well as internal staff, such as managers who meet certain goals. Revenue share calculations for different parties should not dilute the revenue stream. Rather, they should be treated as expenses when they are actually paid.

- **Record revenue as gross.** Again, keep the revenue column clean. Do not subtract revenue share payments from your revenue projection. Record them as expenses.
- **Follow a disciplined system.** Put your process for disbursing revenue-sharing payments in writing, share it with your revenue share partners, and follow it consistently.
- **Maintain agreements.** Store all revenue-sharing agreements and make them easily accessible.
- **Be transparent.** Make all payments accurately. With each payment, include a statement that demonstrates how the share was calculated.
- **Pay after you collect.** You should make payments on a scheduled basis, but do not pay any parties before you have actually collected the fees. Your system should allow you to calculate payments based on money collected, rather than amounts billed but still outstanding.
- **Create an audit trail.** Keep a history of all revenue-sharing payments that can be retrieved easily to show when payments were issued, to whom, and in what amounts.

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## Revenue-Sharing Agreements

## Revenue Forecasting and What-if Scenarios

Revenue forecasting is an essential part of business planning and determining resource needs. A variant of forecasting is to create hypothetical scenarios that enable you to anticipate the unforeseeable.

- **Forecast annually.** At a minimum, doing a revenue forecast once a year is considered a best practice for the investment industry.
- **Create what-if scenarios.** Your initial forecast is based on certain assumptions that may change in the course of the year. What-if scenarios enable you to gauge the impact of changing conditions on your revenue. These include:
  - Significant changes in the market
  - Clients acquired and lost
  - Changes in your billing process and fee structures
  - Changes in your account minimums
- **Track against forecast.** Monitor your run rate on an ongoing basis, compare it against your forecast, and make adjustments as warranted.



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## Make the Most of Your Revenue

Automation has touched virtually every aspect of the investment process and made it possible for asset managers to achieve ever-increasing levels of efficiency. It has been slower, however, to penetrate the accounting function. Today's technology solutions streamline the invoicing process and enable firms to get a comprehensive view of their revenue stream. To the extent that those solutions integrate with portfolio accounting systems, they can further improve billing speed and accuracy.

Investment managers look closely at the cash flow of the companies in which they invest. If they look as closely at their own cash flow, they will see many opportunities for improvements—both cost-saving and income-generating. By employing purpose-built revenue management technology and following a set of industry best practices, they can realize the benefits of smoother cash flow, better operational efficiency, compliance readiness, superior client service, and enhanced profitability.

### About Advent Software

Advent Software, Inc., a global company, has provided trusted solutions to the world's leading financial professionals since 1983. Firms in 60 countries use Advent technology and manage investments totaling US \$18 trillion. Advent's quality software, data, services, and tools enable financial professionals to improve service and communication to their clients, allowing them to grow their business while controlling costs. Advent is the only financial services software company to be awarded the Service Capability and Performance certification for being a world-class support organization

### About Advent Revenue Center®

Specifically designed for investment managers, Advent Revenue Center is Advent's comprehensive solution for revenue management, complex fee calculation, and invoice production. It integrates with client relationship management (CRM) systems, streamlines new client fee structures, and simplifies tracking your deposits and receivables. Advent Revenue Center is designed to create a best practices revenue management workflow. Its distinctive rules-based structure automates complex fee calculation and invoice generation. Advent Revenue Center reduces manual intervention in the period-end fee collection process and efficiently utilizes IT resources.

### Can Your Firm Benefit from Advent Revenue Center?

Find out with our easy-to-use, interactive, online calculator:  
[www.advent.com/solutions/revcentercalculator](http://www.advent.com/solutions/revcentercalculator)



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