

Is Your Broker Obsolete?

By Stephen A. Saenz, April 1996

“If we had similar progress in automotive technology (as we have had in information technology) today, you could buy a Lexus for about \$2. It would travel at the speed of sound and go about 600 miles on a thimble of gas.” — John Naisbitt

A recent ad in a major new magazine shows an investor transacting business in front of a computer. The headline says it all, “Your broker is now obsolete!” On television, well before the market opens, a global financial news network runs a commercial that features the blade of a guillotine slamming down. The announcer exclaims, “No wonder they call it an execution,” referring to a stock trade made by a full-service broker. Ouch!

For many years now, we have been hearing about the “information revolution.” Indeed, most people would agree that we are now in the Information Age. Consider the following tidbits of information trivia:

- In 1991, for the first time ever, companies spent more money on computing and communications equipment than they spent on industrial, mining, farm and construction equipment *combined*. That was five years ago!
- A *weekday* edition of The New York Times contains more information than the average person was likely to come across in a lifetime during 17th century England.
- The home video camera you use to take pictures of the kids contains more processing power than the old IBM 360, the incredible machine that gave birth to the mainframe computer age.

What is going on here? Do we really understand the magnitude of the changes that are taking place around us? Do we fully appreciate the speed at which this thing called “technology” is coming at us? I don’t know about you, but I am beginning to wonder.

As I travel around North America, speaking to brokers and those who have a vested interest in seeing brokers succeed, I get a sense of complacency. The prevailing attitude throughout our industry seems to be that there will always be a need for full-service brokers. It seems that many among us feel that the Information Highway thing is nothing more than a “bunch of hype” or, at best, is a “long ways off.” And, besides, all of this “information” just confuses our clients. Clearly, they need us more than ever! Oh, really?

In his thought-provoking book, *A Monster Under The Bed*, Stan Davis presents an interesting thesis. Davis suggests that we are no longer in the Information Age. Instead, we have actually begun to transition into

a new era he calls the Knowledge Age. According to Davis, you have to convert information into knowledge if you want add value to your customer relationships. He suggests that, in order to survive in this new era, you must build knowledge into your products and services. He calls these “smart products.”

If you think about it, Davis’ argument makes sense. Information, today, is a commodity. If anything, there is too much of it. In fact, a lot of it is free! The Internet is a case in point. The question is not whether investors will *need* full service brokers in the future. Undoubtedly they will. The question is whether they will be *willing to pay* brokers (or money managers for that matter) for their services.

Today’s information technology has already produced some incredible benefits. One of these is that it enables us to do things better, faster and cheaper than ever before. Hammer and Champy (*Reengineering The Corporation*) refer to this as the “disruptive power” of technology. That is, technology allows us to break the old ways of doing things and become more efficient. Asset allocation software, manager databases and performance measurement tools are good examples of this phenomenon in our industry. The good news is that the technology, itself (hardware and software) is getting cheaper by the day! This means that more and more people will be able to take advantage of it. The bad news is that your customers, as well as your competitors, will soon have the same tools you now use to make a living. Indeed, if you look closely, you will find that some of these tools are out there already and, worst of all, they’re free! Yes, free. Could it be that the technology revolution is in the process of rendering much of what we thought was “value added” (us) into a mere commodity?

So what does a concerned citizen do? In short, STAY INFORMED! Avail yourself of (and learn how to use) the technology that is available today. The technology, itself, is very affordable. The real cost lies in learning how to use it! Above all, please don’t be a victim of the “you don’t know what you don’t know” syndrome. This is a case where, what you don’t know CAN hurt you. This is also a time to be out, GATHERING ASSETS. If you don’t have time to do it, hire someone who does. If you can’t afford such a person, borrow the money! When the price wars come to our industry (yes, price wars) the size of your *asset base* will determine if you will be among the survivors.

At the very least, we must ask ourselves if we are in the information business or if we are in the knowledge business. If we are still in the former, we might just wake up one day and find that our broker is, indeed, obsolete. Ouch!