Mistakes To Avoid With Your New 401(k) Product Or Service

By Ary Rosenbaum, Esq.

I've been in this 401(k) business for 25 years. I've seen a lot of good ideas and a lot of bad ideas, which doesn't include the two people I know sitting in Federal prison for embezzlement. There are certainly great ideas that people have brought to me over the years and some of them have succeeded I'm always amazed by the great ideas that fail, simply because of poor execution. There have been some really bad ideas in this business that have had greater success than some good ideas. As I always say, if superior things win out, then Betamax would have beaten VHS. This article is all about what to avoid when you develop a great idea that could help you with your business.

The idea needs to stand out

When I started my ERISA practice, I knew I needed something to stand out among other ERISA attorneys because the retirement plan practice is something that existed long before ERISA. Since I hated my time working for two law firms in 3 years, I decided my law practice would charge a flat fee, similar to what I charged as an ERISA attorney working for third-party administrators (TPAs). Any idea, whether it's something novel or tried and true (such as an advisory practice), it has to be something that can stand out among the competition.

Find your audience

When I started working at that semi-prestigious law firm on Long Island, I thought I could generate business for my ERISA practice by meeting the law firm partners and seeing if I could get referrals to their existing clientele. I thought it was a slam dunk because the partner would get 50% of the fees I would bill. The only problem is that most of these law firm partners were former solo practitioners and protected their clients the way an armored truck protects their customer's cash. While I networked with small businesses that went nowhere, I decided that financial advisors were going to be the best referral sources since they do the most hand-holding with retirement plan sponsor clients. When I mentioned my services for 401(k) plan sponsors to one financial advisor, he asked: "What's in it for me?" Well, that's what started the article writing because I figured if I helped advisors with getting clients with my 401(k) plan sponsor-targeted article, that would help me get clients. You need to discover your audience. That could be 401(k) plan sponsors, that could be accountants, that could be financial advisors, that could be TPAs and that could be attorneys. If you're selling an advisor tool, it's easier to deal directly with advisors. If you're selling a 401(k) plan sponsor tool, then find out how you can get referrals to plan sponsors.

Have financial backing

When I started my own practice in 2010, everyone advised me that it would take two years to build it. It started off very slowly until I discovered the power of social media a few months in. It took a lot of capital to start a website, hire a media advisor (big mistake), print out stationery, and pay the bills while I wasn't billing. I had the financial saving reserves to make a go. Around the time that I started, I was contacted by someone who wanted to start their own 401(k) advisory business. They hired me to draft their advisory agreements, as well as pay a monthly retainer for my legal advice. This new advisor quit his non-advisor job at a Fortune 100 company to start his practice, a practice that didn't last six months because he didn't have the capital to do it. One of the best ideas I ever heard about 401(k) plans that I promoted was a website that would provide a rebate to 401(k) participants for shopping and have the money deposited in their 401(k) account. This website pre-dated EvoShare for a couple of years. If I told you this company's name, you wouldn't have heard of it because it pretty much flopped before it

gained any traction because of a lack of financial backing. Even if you use free social media, any good 401(k) idea is going to take shekels and plenty of it (dollars too).

Talk less, do more

When I didn't make the law journals at law school, because my writing was a better fit for articles like this (you may think otherwise), I came up with the idea of starting my own law journal. I proclaimed myself the Editor in Chief of the American University Washington College of Law with no plan on how to start it. I talked to the Dean of the law school who provided no encouragement and that was that. Two times in the history of my practice, I tried to help two TPAs launch multiple employer plans (MEPs). Both times, the TPAs claimed they would revolutionize the space and make mincemeat of the biggest players out there. The problem is they talked and they talked, letting two major MEP changes that destroyed their chances before they came up with a product (the Department of Labor TAG MEP opinion in 2012 and the implementation of Pooled Employer Plans (PEPs)). As someone who is on the borderline of having Attention Deficit Disorder (ADD), I understand procrastination. However, I procrastinate on things that I don't want to do like cleaning the house. If you have a great 401(k) idea, ADD and/or procrastination won't help.

Find the right partners

I knew a financial advisor who had a business relationship with a few trade associations and generated a very successful closed MEP with a decent TPA and 3(38) fiduciary partners. At a certain point, the growth of the MEP stagnated and he ended up with disputes with his plan provider partners. This advisor's idea was that the other plan providers should help with distributing and selling the MEP. The advisor claimed that a new TPA would promise to market the plan and a new 3(38) fiduciary would do the same. The problem is that he replaced his providers with larger providers. A TPA and ERISA 3(38) fiduciary that are "McDonald's size" providers have relationships with larger advisors and broker-dealers. These providers thought this advisor was "small potatoes" and there was no support to grow the plan. The new TPA even suggested that the advisor merge his MEP with a new PEP that they were going to start with one of the largest insurance agencies in the country. If you need help from any partners, make sure these are partners that will actually support your endeavors. It has to be concrete, it has to be in writing, otherwise, it's nothing. I'm not suggesting that larger providers can't be partners, but you need partners that are hungry and will actually support you.

You only have one chance at a launch

First impressions mean the most and it took me a while to overcome that with my first meeting with my mother-in-law. When it comes to launches, the public isn't as forgiving as Esther Eisner was. You can have a great idea and it won't matter if the launch is bobbled. In 2013, Burger King introduced a new french fry, that was advertised as a healthy alternative to their traditional french fries. Satisfries used a less porous batter, which caused the fry to absorb less oil than regular fries during cooking. While Satisfries were made with a healthier recipe that had less saturated far, Burger King failed to convey the difference to their customers. The fries were also more expensive than Burger King's regular french fries and failed to sell. The product was discontinued less than a year later. Poor marketing doesn't sell great products and services. There are certainly a lot of experienced marketing professionals whose expertise is in the 401(k) space, consider hiring them.

THE ROSENBAUM LAW FIRM P.C.

The Rosenbaum Law Firm P.C.
734 Franklin Avenue, Suite 302
Garden City, New York 11530
(516) 594-1557

http://www.therosenbaumlawfirm.com
Follow us on Twitter @rosenbaumlaw