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'Black sheep' of the financial industry helps small businesses

San Francisco Business Times - by [Nonna Gorilovskaya](#)

As an independent financial adviser, Chad Parks often recommended that his small business clients provide retirement plans for their employees. Few objected to his advice, but many had trouble finding an affordable plan.

Parks soon realized that most companies with staffs under 100 had no plan at all. With millions of potential customers, "it was a wide-open market opportunity," Parks said. In 1999, he launched **Online 401(k)** to fill in the gap.

The San Francisco company offers 401(k) plans with multiple investments over the Internet for a set monthly fee. The plans start at \$145-per-month for a two to 10 employee company.

The fee-per-service model was unusual in the industry. Small businesses are unattractive customers for traditional 401(k) providers like insurance companies, which often charge asset-based fees. Employees are often unaware of the various "hidden" charges because they don't have to be legally disclosed.

"We are the black sheep of the financial industry. We are doing it very differently, but we are doing it differently successfully," said Parks, the company's CEO. In 2006, Online 401(k) had revenue of \$2.3 million and has grown 57.3 percent over the last three years, while remaining a small business itself with 40 employees.

The company has prospered by keeping its hands off clients' assets and not going after the bigger fish. If anything, said Parks, Online 401(k) has narrowed its target to firms with under 50 employees. The company has 3,100 clients and Parks expects to add another thousand next year.

Half of its business comes from direct channel like pay-per-click advertising. In recent years, Parks has focused on working more with financial advisers, who account for another 40 percent.

The rest comes from small payroll companies, whose partnership with the 401(k) provider gives them in edge in competing against giants like ADP.

As the company grows, Parks says his biggest challenge is retaining the entrepreneurial daring, to be "willing to jump off the cliff and take those chances consistently" -- but not thoughtlessly.

Parks has never been tempted to micro-manage. "I don't want to be controlling everything. I want to go on vacation, and I've been able to go on vacations because I have been able to build it bigger than me," he said.

Legislative changes in Washington, D.C., promise an even rosier future for Online 401(k).

The Pension Protection Act of 2006, for example, encouraged companies to automatically enroll their employees and made it easier for 401(k) providers to offer investment advice. Parks is working to establish an automatic enrollment program and eventually hopes to offer managed portfolios on a fee-for-service basis.

The biggest payoff for the company, however, may come if a recent bill introduced by Rep. George Miller (D-Martinez), which mandates full fee disclosure for 401(k) providers, becomes law.



A crusader against excessive fees, Parks sees the bill as laying the groundwork for Online 401(k)'s next battle.

"We are going to challenge the industry to say: 'Why do we need to have this fee model on investments inside retirement plans?' We won't win some friends, but we'll also win a lot of business."

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