

What have you done for me lately?

The family office value proposition

The Resilient Family Office: Adapt, Innovate, and Transform
From the National Family Office Forum
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Introduction

What is in a value proposition? Some say it is an organization's *promise* to provide value to its customers. Many go further, emphasizing the importance of how the organization actually *delivers* on that promise of value.

Either way, developing a value proposition bears particular challenges for single-family offices (SFOs). One challenge is the typical SFO's richness of benefits, which seems difficult to distill, much less convey. Another is the unique organizational structure of an SFO. While other organizations have industry standards to guide them, SFOs often must look to one another for leading practices.

With that in mind, Deloitte hosted a series of breakout sessions on the family office value proposition in February 2018 during the biennial National Family Office Forum. Roughly 100 people gathered in four conference rooms at the Deloitte University facility in Westlake, Texas. Their mission? Evaluate where SFOs stand today, then brainstorm innovative ideas that might be used to define the value of the SFO going forward.

We consolidated the ideas and drew out the highlights. Here they are—along with, we hope, a dash of inspiration for taking your own family office to the next level.

Themes



Defining value

An SFO defines its value by the services it provides and the people who deliver those services—all build on a foundation of responsiveness, confidentiality, and objectivity. Agreement between family members and the family office on how value is defined ultimately informs how services are offered, delivered, and evaluated.



Enhancing value

With the essentials in place, a family office can look to strategies that enhance the value of its contributions. From business processes (automated or not) to investment services, from governance and risk to education of family members, the aim is to continuously improve in anticipation of family needs.



Measuring value

Budgets, benchmarks, and risk-versus-return analyses are all hallmarks of family office measures. So are fee arrangements, both fixed and variable. Even so, measurements of qualities that cannot be counted—think expertise or client service—are just as important for answering questions about family office value.



Communicating value

A vision keeps a family office on track. A family office brand informs families on what they can expect from their SFO and what is unique about the service it offers. These attributes, paired with a modern, programmatic approach to communications, provide a powerful way for family offices to convey their value to the clients they serve.



Theme 1: Defining value

Scope of services

A key enabler of defining value is managing the scope of services an SFO offers. This involves identifying the services themselves—including, over time, which ones to add or eliminate—as well as the parties responsible for providing the services.

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Scope of services



How we define value today

A range of value-defining models exists today. Services can be unrestricted and all-inclusive, or defined and listed in an annual schedule of fees. Likewise, one SFO might be reactive to the needs of family members based on direct requests, while another operates against a strategic plan with one, three, and five-year goals set out by the CEO and presented to principals.



Innovative ideas for defining value

- A formal menu of services that the SFO can provide—and a clear understanding, in alignment with the family, on what it cannot provide
- Proactive services based on a global perspective of the family
- A family office manual for services and processes
- Identification of services that are outsourced
- Periodic survey to identify services wanted by family members
- An approved process to pivot quickly when a family member's needs change
- Use of the annual family meeting as a platform for working with family members on a strategic plan and garnering their buy-in



Talent resources

Talent resources, another important value driver, are often the subject of ongoing assessment. Part of that process is to evaluate the talent within an SFO. Another part is to map the capabilities of that talent to the services the SFO can provide.

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Talent resources



How we define value today

Most family offices strive to create effective, synergistic teams, recognizing that an engaged team is more likely to deliver value to the family. Many SFO executives make time to mentor and coach their family office staff. The family principal or other stakeholders may conduct an annual review of the SFO.



Innovative ideas for defining value

- Involvement of stakeholders in review of the family office personnel
- Development of the team through training and mentoring
- Incentive compensation, such as bonus plans and co-investments, to motivate and retain key executives
- A compensation package designed to match team members' efforts and contributions
- Training of resources through job shadow programs
- Flexible work arrangements and remote work opportunities to attract quality personnel



Table stakes

Responsiveness, privacy, confidentiality, independence, and objectivity—all are table stakes of operating a family office. They provide the SFO with the trust and influence it needs to serve the family effectively.

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Table stakes



How we define value today

The typical SFO has employees who are passionate about the service they provide and evaluate their decisions through a lens of what is best for the family. They project a confidence in the services the SFO is providing to the family.



Innovative ideas for defining value

- A decision-making process first designed with an unbiased perspective, then evaluated for alignment with family goals and values
- Assumption of the role of family educator, aided by effective communications tailored to family needs



Theme 2: Enhancing value

Modernization

One way of enhancing the value of a family office is through modernization. This can include changing business processes to create efficiencies in overall work flow. It can also include technology to save time and reduce the risk of error.

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Modernization



How we enhance value today

Some family offices use customer relationship management (CRM) systems to organize all non-financial family data. In addition, many SFOs have automated their reporting, sometimes consolidating it or setting it up to occur in real time. That said, spreadsheets remain a mainstay, particularly for modeling, forecasting, tax reporting, and data aggregation. Another challenge: keeping up with US tax reform.



Innovative ideas for enhancing value

- Workflow software applications
- Mobile access to real-time investor data and reports
- Software that tracks personal information to the family member level
- Reporting that is standardized, integrated, and automated
- Tools to aggregate data and bridge independent software packages so they work together seamlessly
- A cloud-based portal for approvals and data distribution
- Cloud software processes to automate updates
- Robotic automation for repetitive tasks
- Structural changes to respond to the new tax rules



Governance and risk management

An integrated approach to governance and risk management can help the SFO connect strong compliance processes with many of the key attributes of an effectively-run family office, including cost management, workforce performance, and asset protection for subsequent generations.

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Governance and risk management



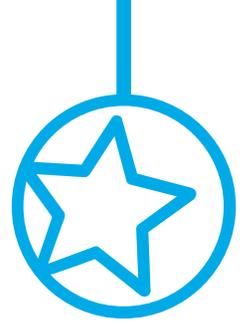
How we enhance value today

An SFO provides the structure and process for fiduciary decision-making, along with documentation of fiduciary risk. SFOs also participate in investment meetings with a family council, board, or investment committee, and many oversee a family-wide insurance program. Manual processes are still widespread, however, especially when distributing information and gathering signatures for approval.



Innovative ideas for enhancing value

- Standardized policies and procedures
- Outside board members and/or a junior board
- Multiple signatories for trust withdrawals
- Electronic signature capabilities for all family members
- Annual cyber defense testing
- Demystifying the tax function to SFO and family
- Greater focus on non-financial service offerings



Family education

Family education—particularly when it comes to motivating the next generation—is a top family office priority. The SFO’s ability to help subsequent generations understand the principal’s goals, values, and aspirations is closely linked with the will of the family to be responsible stewards of their legacy.

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Family education



How we enhance value today

Philanthropy, research and planning, and estate tax matters continue to weigh significantly among the typical SFO’s scope of services. But inter-generational transition remains a concern, and many SFOs are challenged to engage all generations on the various issues arising from that.



Innovative ideas for enhancing value

- Enhancing financial literacy through use of external advisers
- Education of senior generation on the importance of younger generation involvement with family matters
- Education of next generation family members in foundation rules
- Education of family in the SFO and its objectives
- Philanthropy projects to facilitate the transition of younger generations into positions of authority
- Adaptation to next-generation communication and engagement style



Theme 3: Measuring value

Quantitative measurements

The power of quantitative measurements is in their consistency, reliability, and ease of analysis. However, data can be scarce and sometimes misleading, underscoring the importance of collecting multiple metrics to tell a compelling story of SFO value.

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Quantitative measurements



How we measure value today

Many metrics in use among family offices are related to cost. For example, an SFO might look at budget to actual variances, tax savings vs. fees incurred, or the cost of in-house vs. outside resources. Other common measures include portfolio growth, efficiency improvements due to technology, and retention rates of both clients and personnel.



Innovative ideas for measuring value

- Comparison of SFO cost savings measures with prior years and with other family offices
- Comparison of investment returns with a relative peer index
- Assessment of internal controls' effectiveness at avoiding errors
- Measurement of employee retention rate
- Engagement of outside board for objective measurement



Qualitative measurements

An analysis of qualitative measurements can explain the *how* and *why* of family office value, provided it is carried out in the context of what the family genuinely expects from the SFO.

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Qualitative measurements



How we measure value today

A family office is often valued for its ability to meet requests from family members. For that reason, many SFOs gauge their effectiveness on an understanding of client satisfaction, comfort, and happiness with their services. Another qualitative measure of SFO value is the absence of negatives, such as bad publicity or security breaches.



Innovative ideas for measuring value

- Clear business goals for each SFO team member, with measurable objectives and annual review
- Client happiness thermometer and barometer
- Survey with detailed discussions to understand stakeholder values, expectations, and feedback
- Ongoing monitoring of confidential, tough issues that build confidence with family members



Theme 4: Communicating value

Vision and/or brand

No two SFOs are the same. A family office can respond to this distinctiveness by building its vision and/or brand using the same tools and approaches of successful commercial businesses.

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Vision and/or brand



How we communicate value today

The annual family meeting is where SFOs do much of their brand-building, from gathering testimonials to assembling a chart of the family vision. Some SFOs keep the momentum going with recurring reminders of accomplishments, such as the family office's cost-effectiveness and investment performance measures. Other branding practices include standardized communications, a family office mission statement, and a tax return signing party showcasing some of the SFO's volume of work.



Innovative ideas for communicating value

- Documenting milestones in the history of the family and SFO
- Periodic updates on family office goals
- Annual retrospective of the past year's accomplishments with a specific focus on measurable and intangible items
- Concise descriptions of family office services
- A professional marketer to illustrate value provided to the family members
- Development of family and SFO strategies, to include short-term and long-term goals
- Tracking of issues and development of a network to help resolve them



Communication methods

The communication methods an SFO chooses can help to improve decision-making, prevent misunderstandings, and reduce the impact of interpersonal dynamics.

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Communication methods



How we communicate value today

Some family offices adapt their communications according to generational preferences. For instance, a G1 family member might prefer telephone or face-to-face interaction while subsequent generations favor text messages or email. SFOs often back up ad-hoc communications with recurring meetings, an annual letter, a newsletter, or a trusted family website.



Innovative ideas for communicating value

- A mobile app for sharing family information
- An online dashboard for family members with real-time reporting, communication, and investment monitoring
- Secure (multi-factor authentication) portal with up-to-date information for investors and family members
- Quarterly/semi-annual meetings with younger generations
- Quarterly in-person meetings with family office personnel
- Communication in more than one language to accommodate all family members
- Opportunities for family members to interact with their peers served by other family offices



Communications through family life events

Well-crafted, thoughtfully-timed communications through family life events such as marriage, death, birth of a child, or health issues, is an important way for a family office to help families deal with conflicts and changes that might otherwise affect the family unity and management of their wealth.

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Communications through family life events



How we communicate value today

When a life event occurs to a family member, it is not uncommon for the SFO to go into “fire drill” mode. The result? Reactive communications, inconsistent messaging, and time taken up in one-on-one conversations with individual family members.



Innovative ideas for communicating value

- A schedule of formal, structured family communications
- Engagement of specialists outside the SFO with expertise to discuss life events
- A plan for life events incorporated into the scope of family office services
- Family group meetings to include parents, children, and advisors

About the National Family Office Forum

The Deloitte National Family Office Forum is a biennial gathering of single-family office executives at Deloitte University's Leadership Center in Westlake, Texas. The ideas presented here reflect the output of breakout sessions that took place during the 2018 forum. Below is feedback received from Forum participants:

"Great discussions. Great format. Learning much more from my peers than I could through a presentation."

"Good brainstorming."

"Excellent facilitation of challenging subjects!"

"Good session. Moderators were great."

"Enjoyed the session and thought it was a very important and relevant topic. It was evident that much advice preparation was put into the questions for the working groups to discuss. Well done!"

"Definitely enjoy the small group brainstorming and presenting to the larger group."

"Very good session, good interaction with group members, good exchange of ideas."

If you would like to discuss any of the idea shown here, or join us for future meetings, please contact us.



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