FAMILY OFFICE BEST PRACTICES FOR
SELECTING ENTERPRISE SOFTWARE:

A comprehensive approach to a critical business decision

Many family offices have started to think about refreshing their enterprise technology solutions given the availability of more robust and integrated solutions. The increase in cloud-based software options, as well as the shifting trend toward remote work (check out our roundtable discussion on how COVID-19 tests the family office model), have prompted many family offices to assess existing and new technology solutions to support operational improvements.

Family offices realize the importance of an enterprise solution in advancing their mission, which often includes preserving and growing the family wealth for future generations and charity. But historically, general enterprise solutions have had a hard time meeting the unique functional needs of the family office — the ability to manage multiple asset classes (including a family's personal assets), public and alternative investments, personal bill pay, general ledger and portfolio accounting capabilities, and all other back office functions. As a result, many family offices run highly customized applications and use a combination of spreadsheets, side systems, and manual processes. These workarounds, however, hinder information visibility and resource efficiency, and they circumvent good internal control and operational best practices.

It's hard to stay current on the ever-changing landscape of technology solutions in the marketplace. Software vendors continually change their product offerings and end support for legacy offerings. Some vendors merge with or acquire other software vendors to grow their clientele or software capabilities.

When embarking on a software selection initiative, the family office's end goal should be to choose and implement a solution that not only fits its needs today, but also is flexible and scalable so the system can grow with the office as it evolves. In theory, this makes perfect sense. In reality, many family offices find it difficult to assess and optimize their existing applications while identifying gaps that require new solutions. Other family offices are unsure how to pursue a methodical approach for evaluating vendor options, select the vendor that best aligns with their needs, and guide the family and the family office through implementation and change.

Cloud technology and the family office

The evolution of cloud technology is creating new opportunities for improved security, performance, efficiency, and innovation. In addition, the cost savings that cloud-based technology offers make enterprise solutions more affordable and accessible for smaller and medium-sized family offices.

For many family offices, especially those with few IT resources, the decision to select a cloud-deployed solution is a strategic one. Many family offices don't have the budget to hire the full suite of IT expertise required to host and manage these systems on-site. Cloud vendors have large dedicated teams and investments focused on keeping their systems and data secure. Other benefits to cloud deployment include cost savings on technical infrastructure and minimizing risks associated with outdated software.

> "For many years, our family office insisted on hosting our software on-premise, primarily for security reasons. After learning about the robust resources and dollars that SaaS/Cloud software vendors invest in data security, I was confident our data was more secure hosted off-premise. The vendor-hosted strategy also took pressure off my IT staff that didn't have the skill set to manage security in the first place."
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> **Family office CIO**

Starting the software selection process: Needs assessment and requirements gathering

Many family offices skip a critically important first step in the software selection process: performing an objective organizational needs assessment. This includes identifying current software gaps, internal control and process improvements, and future functional and technical needs to find the best-fit solution for today and the future. It's easy to confuse this needs assessment with the free consulting session many vendors offer when pitching their software, but it's not the same. In fact, a detailed needs assessment can also uncover viable alternatives to replacing your current software. Some family offices find that optimizing and/or expanding their current software is a feasible path forward, while others find that entirely outsourcing the family operations is the best option.

Efficiently staffed family offices, often referred to as "skinny family offices" (for more on this, see our latest white paper on the new family office 5.0 model), simply don't have the resources to manage a software selection project. Larger family offices that may have the resources often still engage an independent advisor for software selection to gain further specialized expertise in family office operations, the vendor software marketplace, and the software selection process itself.

> "Leveraging a structured selection process, we identified a SaaS solution that aligned with critical needs while offering tools for open integration and a platform for functional expansion in the future. The organization was able to realize significant process automation, increased throughput, and greatly improved reporting capabilities allowing real-time information visibility and access."
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> **Family office COO**

Begin with the end in mind: Key selection criteria

As a family office embarks on its enterprise software selection initiative, it's important to identify the selection criteria upon which your decision will be based. To do this, you'll need to define your IT strategy, understand the unique needs of your family office, and identify the desired focus. Selection criteria are often categorized and prioritized within four buckets: functionality, technical aspects, vendor organization, and cost. Cost is always an important factor, but many family offices are finding that they can leverage their investment for longer if they focus on selecting software that aligns with their strategic innovation and evolution goals.

> "We spent significant time gathering and reconciling financial data for our family members. Leveraging a structured selection process, we were able to identify critical functional requirements, then align those with a solution to eliminate ancillary applications and provide flexible reporting tools to better serve them."
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> **Family office CFO**

THE FOLLOWING QUESTIONS REPRESENT SOME OF THE CHIEF CONSIDERATIONS IN EACH CATEGORY:

SOFTWARE FUNCTIONALITY

1 What functional requirements must be supported by a new solution?

2 What functional gaps are we looking to resolve?

3 What type of user experience do we want?

4 Are there family needs, such as self-service information access and real-time reporting, that we need to consider?

TECHNICAL ASPECTS

1 Do we prefer an on-premise, hosted, or software as a service (SaaS) offering?

2 What implications does our choice have on cost as well as performance, backup, recovery, security, and regulatory compliance?

3 Are there integration needs with our current systems that will impact our choice?

VENDOR ORGANIZATION

1 How long has the vendor supported the software solution?

2 What's the vendor's presence and market strategy in the family office industry?

3 Has the vendor implemented the software for a family office that functions similar to ours?

COST

1 Is the software licensed or subscription-based? How are the fees determined (by user, transaction, module)?

2 Are there one-time as well as annual fees?

3 How will third-party licensing costs be managed?

Mitigate risk prior to implementation: Contract negotiations

The contract negotiation process is an opportunity to reduce your total cost of ownership for the software and mitigate risks prior to implementation by preventing surprises that can cost money and time. Software vendors provide clients their standard contract and Statement of Work for the software and implementation as well as ongoing support services. At this time, the family office should include important protections in the contract to minimize risks associated with implementation and detailed service-level agreements (SLAs) for ongoing support. This ensures your software is consistently available with little to no downtime. Many of our family office clients benefit from contract concessions recently negotiated by other family offices to speed up the negotiation process.

There's no doubt that leveraging new technologies offers family offices opportunities to innovate, lower spending, and align their overall technology strategy to current and future-state needs. Ensuring your family office is able to achieve these benefits depends on selecting the right system and implementing it successfully.

"Our software vendor's standard contract included payment terms that required us to pay for the software subscription at the time we kicked off implementation, despite us not having access to the system for use at that time. We went through a rigorous negotiation process with our consultant assisting on our behalf that ended with our software vendor agreeing to waive our first-year subscription fees."

Family office attorney

Bios

Natalie Schwarz, PMP | Management & Technology Consultant

Natalie is a certified Project Management Professional with more than 11 years of professional service experience consulting for a wide range of clients and industries including family offices. She specializes in helping clients assess, plan for, select, and implement enabling technologies within their organization. Her areas of expertise include business process optimization specifically within financial process areas, large-scale project management, and software needs assessments, selections, and implementations.

Jack Kristan, CPA, CIA, MBA | Partner

Jack is a partner in our firm's risk and accounting advisory services team and member of the family office services group. He specializes in operational reviews and business process and internal control consulting to family offices. He presents regularly on the topic of internal controls to the family office exchange and other family office-focused organizations and societies.