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THE NEW FAMILY OFFICE 5.0 MODEL:
**A flexible solution
for the evolution
of the family business**

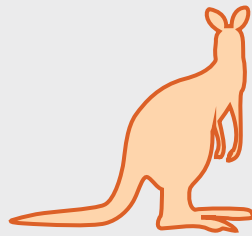
While the goals of most family offices remain constant, family office operating models are continually evolving. Learn how current trends and new technologies are giving families unprecedented flexibility when selecting the right family office structure.

The four phases of the evolution of the family office

More than 10 years have passed since we began discussing the evolution of the family office from a family business. We illustrate this evolution with our now “semi-famous” kangaroos as shown in the illustration below.

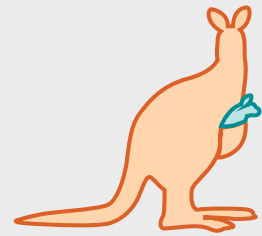
The evolution of the family office

Phase I



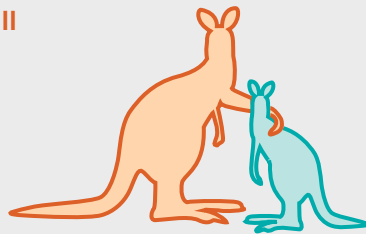
Family business

Phase II



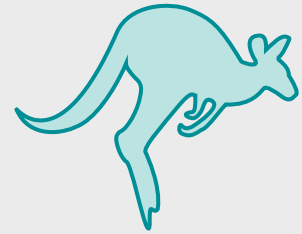
Family office operates inside the family business

Phase III



Family business & family office working together

Phase IV



Independent family office overseeing all of the family's assets

One goal that hasn't changed is many families still want to pool their diversified assets and work together to preserve and grow the family wealth for future generations and philanthropic causes. The long-term success of a family office remains dependent on maintaining family harmony, shared values, a united family mission, and a thoughtful governance structure.

Family office operating models

When considering the options of operating a family office, there are still four basic family office structures:



Single-family office (SFO)



Multi-family office (MFO)



Virtual-family office (VFO)



Hybrid-family office (HFO)

Choosing an optimal family office structure is more complex today since the SFO, MFO, and VFO models are merging into a single HFO model. One reason being new technology such as software systems, video technology, smartphones, and portals are all accessible anywhere and anytime through the cloud. Technology has also enabled the outsourcing of professional services and the ability of a family office to collaborate remotely with family members, outside advisors, and their own staff.

Aside from technology, trending issues that are now considered key decision points in selecting a family office model include the unprecedented generational shift in wealth and leadership in both the family business and the family office, availability of talent, cybersecurity threats and strong internal controls, the private trust company, social impact and direct investing, and — more recently — the pandemic.

Steps to building a family office

Step One

in the process of building a family office is to understand and document the family's goals, needs, and objectives in a draft of a family mission statement. This can be a time-consuming process, usually requiring input from many stakeholders and should be a living document. Moreover, a family mission statement can set the stage for what can ultimately contribute to a positive family office culture.

Step Two

is to determine the services needed to support the family and their mission. Common services provided by a family office are summarized below.

- Income tax, gift & estate tax function
- Investment function including reporting
- Back-office bookkeeping, bill pay & lifestyle
- Support for trusts & legal matters
- Family foundation & active charitable activities
- Family governance
- Family communication & education
- Personal financial planning
- Cyber protection
- Risk compliance including internal controls
- Management of homes, art work, planes, boats, insurance & healthcare
- Support for the direct investment function including real estate & private equity

Step Three

is to begin the modeling phase with alternative family office structures that consider cost, availability of staff, office space, desired service levels, and insource/outsourcing solutions that support the family's needs and mission.

Step Four

is the implementation phase. This should include an annual assessment of operations and controls and the ability to make changes in the model to account for new best practices and changing circumstances.

The following trends are expected to have a significant impact on the family office 5.0 model



Family offices are building a direct investment function. This has been accomplished by pooling significant assets throughout multiple generations creating scale to execute a long-term diversified portfolio in real estate, venture, buyout, or other private assets classes. To support the direct investment function, some family offices have built internal resources like a fund sponsor, while others have utilized a boutique approach.



Other family offices are operating with large asset pools and using only a small number of staff by partnering with other organizations. These offices may provide a few in-house functions that could include managing the personal assets (homes, art, planes), personal bill pay, and the charitable function. Other experienced staff in this skinny family office often serve as the quarterback, trusted advisor, and liaison between family members and outsourced service providers. Outside services often include investment advisory and performance reporting, bookkeeping, and the estate, gift, and income tax function.



We're witnessing a rapid consolidation of the MFO industry and continued growth of the VFO model. Many MFOs are now strategically partnering with other professional organizations to focus on their core value-added services. The SFO model is now a barbell approach of skinny SFOs on one end and larger more sophisticated SFOs on the other end. Finally, the new and improved HFO borrows the best of the best from the SFO, MFO, and VFO models.

If there are successful families or successful family businesses, the evolution of the family office will continue. The family office 5.0 structure must be strategic to the family mission and embrace technology and flexibility within their operating model. This will prepare the family to adapt to changes in the world and the generational shift in wealth and leadership of the family business and family office.

Please contact us with any questions.



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Brian is a tax partner and part of the leadership of the firm's family office services group. He provides family offices and ultra-high-net-worth families with comprehensive planning in all areas of tax, including individual, flow-through, and wealth transfer matters. He frequently consults with families in matters relating to family office structuring, charitable planning, and other family office operational matters.