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About the Author

Zoltan Szakal is the founder of two highly successful Accounting/ERP software consulting practices. He is currently serving as the president of Black River Technologies Inc. His focus is to help clients improve their businesses through strategic initiatives. Over the last 30 plus years Zoltan has been assisting businesses in strategically improving their decision making, efficiencies and ERP processes.

Today, with his laser focus on the Wealth Management sector, Zoltan is helping firms improve and streamline their processes and procedures to bring greater efficiency and actionable reporting to the entire organization. Zoltan's goal in any engagement is to help the Family Office that has long been held back by systems simply not equipped to serve its specific accounting and ERP needs.

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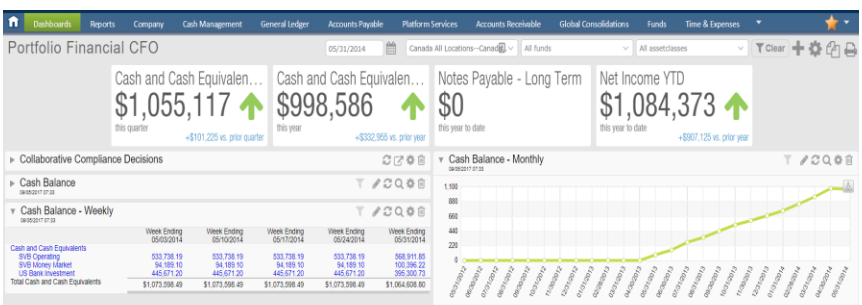
Executive Summary

Many of today's Family Offices are using accounting systems that do not, and cannot, perform at the level required to provide results that are timely and actionable. Whether they are running entry level software packages such as QuickBooks or Peachtree, or legacy systems such as Dynamics GP, these systems were simply not designed to handle the ever-changing requirements of today's modern family office. The following points, coined by Black River Technologies as the Seven Financial Wonders of the Family Office, are some of the key areas where the right ERP system makes the difference between simply plodding ahead with the rest of the world or having information that creates a high achieving efficient organization.

Understanding of Financial Goals

A key tenet to financial success in any organization is fully understanding it's financial goals and ensuring that the road to those goals is measurable. Attaining, the summit is obviously the goal of climbing a mountain, knowing where you are at every point in the journey is equally important because by not having this information you will never know how far along the path you are at any given time. And if that is true, how could you possibly know how much further you must go? Or how far you have come for that matter.

Financial goals can be varied. Be it the return on an investment or the reduction in the time to perform a specific task, goals must be concrete and **progress towards them must be measurable**. The average business will set budgets and then review them against actuals on a periodic basis, usually monthly. But what if you could review your progress weekly or even daily. Would that alter your actions. Invariably it would. If you can measure your performance every step of the way, your chances of achieving the desired outcome are greatly increased simply because you have more opportunity to make course corrections on your way to the desired result. Think of it as keeping score throughout the journey. If you have a goal and a timeline, finding out that you are nowhere near the goal at the "11th hour" is too late. But knowing where you are at every step of the way will give you the chance to change your tactics, your actions, or even your strategy to greatly increase your chances in achieving "the summit".



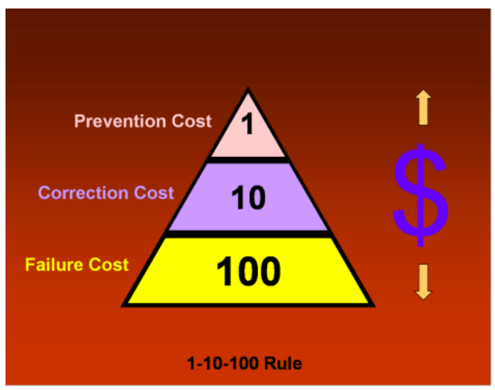
Sample Intacct Dashboard with Performance Cards

As a side note, dashboards, such as the one shown above, i.e. concise information, delivered digitally in real time, is the overwhelming preference of today's millennials. If a system cannot provide meaningful information when they want it, in the way they want it, problems are sure to arise.

Relying on Excel for Reporting

We have all been there and many remain inexorably trapped there. Excel is a fantastic tool – no argument. But should we rely on it when we are reporting to the Board on the billions we have in Assets Under Management, or should we be using our accounting system, our single source of truth? Just let that settle in for a moment. Family Offices using QuickBooks are a good example of this excessive reliance on Excel for reporting. In everything from consolidations (more on this later) to the location of a fixed asset including a picture, Family Offices everywhere are relying on Excel to handle this reporting.

Let's look at the following illustration[1] of the 1-10-100 rule and view it as it relates to Excel data entry. Verifying data accuracy at the point of entry costs $1, correcting the data costs $10, and if no action is taken the cost is $100. [2]



This same rule applies at the point of data entry into the accounting system, by re-entering that data for further reporting in Excel all the costs have doubled. By relying only on your ERP system for reporting and not doing all that data manipulation in Excel, you could be saving countless dollars. When we are talking about our business, it is not too much to expect our accounting system to report exactly the way we want it to. One of the keys to eliminating the reliance on Excel for reporting is having an accounting system in place that has the flexibility to report in the format that is most useful to the audience.

Integration Between Systems

Many Family Offices use multiple pieces of software to track their diverse activities. As a couple of examples, Addepar, for investment management and TriNet, for HR and Payroll, are great solutions for the areas of the business they serve. But invariably they operate as silos. Meaning they are independent of one another and likely independent of the accounting system that is in place. One of the overarching deficiencies in many Family Offices is not having one place where all information can be viewed at a glance on one screen. How are our Assets Under Management performing this month as compared to last, how is our overall portfolio doing over time? Often, the answers to these simple questions must be gleaned from various sources, other than the ERP system. Wouldn't it be great if it was centralized? Again, this is an integral requirement of an efficient Accounting/ERP system – the ability to draw real time data and information from third party applications to present in concert with financial data to gain the most possible benefit from all the information at hand. In other words, information from various systems, looked at on its own, clearly has value. But aggregating the information from these disparate systems immediately creates a new environment, that environment best described by Aristotle - "The whole is greater than the sum of its parts".

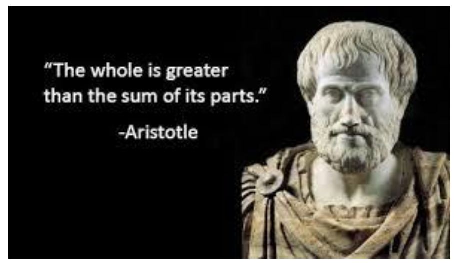


Chart of Accounts

Given the nature of the Family Office ecosystem, new projects coming on stream or the addition of specific departments for a variety of reasons, are matter of course occurrences. The purchase of a new property, the grouping of various high value investments under one legal umbrella, risk and liability mitigation, are reasons new entities are added in a Family Office. These factors, and others, are the leading cause of the never-ending growth in the Chart of Accounts (COA) in a traditional/legacy "segmented account" environment. Over time, the COA can easily grow to be in the thousands and with the passage of enough time, become virtually unmanageable for reporting purposes. Even when properly managed the size of the COA adds to the complexity of reporting and adds to the potential margin for error.

The concept of Dimensional reporting does away with the issues noted above with the added benefit of keeping the COA at a very manageable level. At a fundamental level, dimensional reporting can be explained as adding a tag (or tags) to a transaction that can then be reported on but are not connected to or dependent on the COA. Let's take Location as a dimension example. A new property is purchased and for the purposes of our example there are 50 active, location related accounts in use, e.g. rental income, utilities, property maintenance etc. In a segmented COA environment, adding a location means adding 50 accounts. In a Dimensional reporting environment, only the original 50 accounts are required because each transaction can be "tagged" with the Location to which it applies, thereby allowing reporting on any location (or any combination of Locations) - with only a total 50 accounts in use.

This reporting methodology allows for more focused analysis thereby allowing for better decisions.

Visibility

All businesses rely on accurate and timely information, to move forward, to make long term strategic decisions or short term tactical ones. One of the objectives of an accounting solution is to provide a completely reliable, single source of truth. A couple of points about what a system that provides the visibility required today should be.

A modern general ledger is more than a standard chart of accounts – it allows for the management, analysis and presentation of financial information in a way that is of the most benefit to the business without adding complexity to the chart of accounts or the need for using external reporting tools. Modern accounting systems should adapt to the optimal business structure and workflows rather than limit the flexibility of the business or force the organization to re-implement software or re-write custom code.

A modern accounting system provides in-depth, real-time insight into the business, allowing it to capitalize on new business opportunities or quickly recognize the need for corrective action. The system must provide a thorough picture of the financial performance of the organization, from high level summaries down to the underlying data. And it should do all this in a user-friendly manner.

Consolidations

Consolidations are especially crucial to a Family Office as they tend to have more entities in play than the average organization. Family Office ownership structures are becoming more convoluted and increasingly challenging when it comes to accounting consolidation. Going back to the QuickBooks scenario, if there are let's say 35 entities, to perform consolidations, each entity must be logged into and then the file exported. These 35 files must then be brought together, usually in Excel, to prepare a consolidated statement. Given the complexity in the structure of many Family Offices and the stakeholders in play, there may have to be variations in the consolidation, i.e. different versions for different family members. This variable only adds to the time and effort required to execute the task in Excel. It also adds to the margin for error and as discussed in point 2 above, the cost of errors can mount up quickly.

An accounting system well suited to today's Family Office should have real-time, continuous consolidation. Yes, this means the ability to pull a consolidated statement with simply one mouse click. Many Family Offices spend an untold number of hours performing consolidations (this means in the 10 to 100-hour range) whereas this should be a process that literally takes only seconds. Furthermore, the data should be drillable so that immediate analysis of the underlying data can occur when those "what's this?" questions are invariably asked.

Collaboration

Collaboration is an absolute must in any Family Office. Dealing with non-routine transactions – clarifying policies, gathering missing information, resolving exceptions – can slow down or derail critical financial processes. Collaboration, within the accounting system, can solve this problem. A secure social layer embedded into the financial management system, that spans every process and device will allow team members and stakeholders to cooperatively resolve issues that will undoubtedly arise.

Collaboration will speed up and better control accounting processes and will provide complete context, from participants as they work towards resolution. Situations do not have to be explained multiple times and back and forth email threads become a thing of the past. It is always best to communicate where the issue is.

When everyone is on the same page, issues get resolved more quickly and the operation runs more smoothly. By having an ERP system with a collaboration social layer embedded, communication and teamwork is improved with decisions and processes expedited across the company. [3]

This is a somewhat revolutionary concept in the world of accounting software, but one that can do nothing but ease the burden of resolving day to day issues. The bonus is that while any accounting system will record the “when” and “how much”, an embedded collaboration social layer will also permanently capture the “why”, which as accountants know, will please any auditor.

Conclusion

While any of the points above warrants its own article, this article hopefully provides a good overview of the key pain points Family Offices suffer and a glimpse at the path forward to relieving them.

There is considerable diversity amongst Family Offices when we look at the whole spectrum. In terms of their specific requirements and more importantly their pain points however, they are surprisingly similar.

Due diligence is the key. Given the Seven Financial Wonders highlighted in this article, the features and functionality required by todays Family Office start to become clear. Don't be afraid to ask questions. Challenge the answers. With enough discourse, it will become clear whether or not the software you are considering is right for your Family Office.

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