



CHAPTER 48

Should You Choose a Single-Family Office or a Multifamily Office?

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What are the criteria or circumstances that warrant a family to establish a family office of its own (a single-family office or SFO), rather than purchasing those services from a multifamily office (MFO) organization? This article explores these two specific pathways, identifying the setup, offerings, costs, styles, and merits of the SFO model and comparing it to the use of a MFO platform.

What Are SFOs versus MFOs, and How Do They Differ? What Services Are Offered?

The wealth-management industry generally defines a family office as an organization dedicated to serving wealthy individuals and/or families on a diverse range of financial, estate, tax, investment, financial, accounting, and personal family needs. I define a family office as much more: it is a unique family enterprise offshoot created to provide tailored wealth management solutions in an integrated fashion while promoting and preserving the identity and values of the family.

The family office provides a structure that helps a family preserve four capitals: (1) business, (2) financial, (3) family, and (4) social impact or philanthropic. The family office is also a unique family business created to provide tailored wealth management solutions in an integrated way, while promoting and preserving the identity and values of the family.

Why does a family or entrepreneur typically set up a family office? Common goals of family offices include building family capital; organizing, simplifying, and scaling family wealth services to a family group; driving business and wealth transfer planning and continuity; sustaining wealth across generations; managing risk, privacy, and security; and perpetuating shared family values and



324 Wealth of Wisdom: The Top 50 Questions Wealthy Families Ask

cohesiveness. Specific needs often addressed by family offices include, but are not limited to, financial planning, tax planning, income protection, life planning, retirement planning, estate planning, investment planning, and capital planning.

Yet those families who decide to setup a family office need to be cognizant that a family office is a business that is built from the ground up and must be maintained over time just as any other business would. It requires a formal business plan, legal structure, a mission statement, strategic plan, an organizational structure, and the administrative and human resource requirements that come with it.

SFOs are designed to serve the bespoke needs of the family; therefore, many services may be provided in-house. As such, the benefits families enjoy include a high level of control, customized and dedicated service, privacy, and a family-first orientation. Family assets of \$250+ million are typically required to support an SFO infrastructure on an ongoing basis. Some families establish an office that may be dubbed a coordinator office with less in assets, when they are able to justify the expense and overhead because a key member of the operating team may be running it with only a bookkeeper or accountant on staff.¹ An analysis of strengths, weaknesses, opportunities, and threats (SWOT) when considering an SFO pathway is presented in Figure 48.1.

Strengths	Weaknesses
Control	Attracting/Retaining Talent
Customized, Dedicated Service	Cost Controls
Privacy and Anonymity	Access to Products/Services
Alignment and Integration	Operational Efficiencies
No SFO Competition	Service Level Inadequacies
Patient Capital	Bridging Family Continuity
Wealth Preservation	Urgency Toward Strategic Planning
Family First	
Opportunities	Threats
Open Architecture	Managing Scope
Co-Investments	Controlling Costs
First-Class Service	Compensation Challenges
Collaboration	Generational Mathematics
Sharing/Streamlining Costs	Family Conflict
Peer-to-Peer Exchange	Succession Planning
SFO Best Practice Information & Research	Keeping Family On Board

Figure 48.1 Single-family office SWOT analysis.

Source: Kirby Rosplock, *The Complete Family Office Handbook* (New York: Bloomberg Press, 2014).

¹Thomas J. Handler, "twenty-first Century Family Office Structures," Thomas J. Handler, Presented by Family Office Association, 2017.



Should You Choose a Single-Family Office or a Multifamily Office? 325

In contrast, a MFO is defined as a commercial enterprise designed to take advantage of aggregating assets under management (AUM) or advisement from many different, unrelated families, and typically offers a broader array of bespoke services than the average retail private bank, wealth management or brokerage firm. These services may include investment management and oversight, manager selection, due diligence, risk management, aggregated reporting, family education, family governance, capital sufficiency analysis, concierge services, bill payment and/or tax and certain legal advice. MFO services are provided to multiple unrelated families, and a study indicates that they average approximately 83 client relationships, each of whom typically would have a net worth of around \$50 million.² By pooling unrelated family assets, MFO clients are able to achieve economies of scale, obtain broad, comprehensive services, and gain access to higher caliber professional and advisory talent than what they may be able to afford or justify if they were setting up a family office on their own.

The larger-scale MFOs also may have drawbacks. These may include increased bureaucracy, a lack of personalization and ability to customize, and an institutionalized service offering that is rigid and inflexible to bespoke needs. An analysis of SWOT when considering an MFO pathway is presented in Figure 48.2.

Strengths	Weaknesses
Scale	Client/Advisor Load (+/-)
Comprehensive Services	Institutionalize Service Offering
Streamlined and Efficient	Access to Products/Services
Integration	Group Think
Breadth of Resources	Customization of Personalization
Top Talent and Retention	Bureaucracy
Centralized Data Management	
Opportunities	Threats
More for Less	Getting Too Big Too Fast
Learning Curve	Maintaining Close Relationships
Open Architecture	Overpromising
"One-Stop Shop"	Talent Retention and Turnover
Sharing Costs for Specialty Services	Ownership and Leadership Alignment
Access to Investment Managers, Products, and Research	Corporate Culture
Thought Leadership and Innovation	

Figure 48.2 Multifamily office SWOT analysis.

Source: Kirby Rosplock, *The Complete Family Office Handbook* (New York: Bloomberg Press, 2014).

²Family Office Exchange, "2012 FOX Multi-Family Office and Wealth Advisor Benchmarking Study," Chicago, IL, 2012.



SFO Setup: What Are the Triggers, and What Does it Cost?

Building an SFO can be a major undertaking and can extend several months or even years, depending upon family, business, and liquidity considerations. The creation of an SFO is typically initiated by some type of triggering event, be it the sale of a company; the exit from a large, illiquid position or holding, such as the sale of real estate; the death, illness, or incapacitation of a key family leader; or the transition of ownership of family holdings from one generation to the next. Most families or entrepreneurs may initially attempt to solve for these types of family office needs with a group of trusted advisors and/or executives embedded in their operating entities. However, the reliance on an informal operating approach may lead to conflicts of interest as well as challenges when/if key staffers leave or eventually wear too many hats within the broader business structures.

The process of setting up a formal SFO requires a great deal of planning to properly scope, design, prototype, test, and launch the office. Typically, family office consultants or advisors are brought in to provide expert guidance, recommendations, and best practices to customize the build-out for the needs of the family. One study reveals that the internal family office costs to operate a SFO on average is 64 basis points (BPs) or 0.64% of AUM. These overhead expenses typically include staffing compensation and benefits, office operations, internal investment management, and internal regulatory, communications, and technology costs.³ External investment and advisory costs should also be quantified and considered when capturing the full family wealth management expense to establish a family office.

MFO Service Options: Who Decides to Join an MFO, How much does it Cost, and What is the Typical MFO Client Profile?

The option to become a client of an MFO has become far more mainstream over the last 25 years. There are a variety of different types MFOs, from those that only focus on investment management and may be classified as ‘outsourced CIOs’, to those that actually provide no investment function and may be built off of a professional services platform, such as a law firm or accounting firm, and everything in between. For example, there are several MFOs that were once accounting practices that now operate and offer primarily services related to accounting, bill pay, tax administration, or lifestyle planning.

Most MFOs, however, are full-service and offer both investment management and a breadth of services. A typical client of an MFO may be an individual with anywhere from US\$15 to US\$500 M net worth, who desires an MFO to

³The Cost of Complexity, Understanding Family Office Costs, Expanding to include Investment Cost Data, Family Office Exchange, 2011.



Should You Choose a Single-Family Office or a Multifamily Office? 327

manage an account sized as little as \$10 M to as much as his or her whole investable net worth. MFO clients may want more independence from being an operator of their wealth and prefer to delegate to experts or an MFO wealth advisory team to manage their investments and/or wealth management affairs. Particularly for families in transition from one generation of wealth ownership to the next, with no clear family leader or operator to administer the wealth, an MFO can be an invaluable partner. MFOs often will take accounts as small as \$5–\$10 M and will provide better pricing the more wealth a family designates to them to manage. Other MFOs may have a higher minimum account sizes of \$25 M or \$50 M as they typically only desire to serve a large client whereby they can offer a broader integrated service offering at a premium. Professional service-based firms with no asset management offering may provide a billable hour-type arrangement, retainer fee-based arrangement, or a project-based arrangement for à-la-carte-type services. Again, aligning the services received with the structure of the fee is critical when evaluating MFO providers.

A Case in Point⁴

The Bennington family was an enterprising family into its third and fourth generations, with three main family branches and more than 60 family members. The origins of wealth and business stemmed back to the early 1900s, as gregarious brothers started from humble beginnings to build what would become a large, complex family enterprise with multiple subentities and trusts.

Fast-forward to the late 1990s. The death of the patriarch from the second-generation precipitated family owners to consider the long-term viability for the collective family enterprise and the ensuing liquidity. In the early 2000s, the family determined to divest from several key family holdings including real estate, agribusiness, among other holdings. This provided family groups with augmented liquidity and an increased the need for thoughtful wealth management, more comprehensive integrated planning for tax and state considerations, and broader multigenerational family member education, planning, and preparation. The family was at a crossroads.

Although the family remained close, tied by the shared ownership of several of the operating companies for more than 100 years, the family also realized that the different branches had different needs when it came to their wealth, estate planning, philanthropy, and investment planning.

One family, which we will call Branch A, decided they wanted to re-invest the capital into bespoke direct investments, such as commercial buildings, real estate partnerships, pharmaceuticals, etc. They had a more aggressive

⁴This is an actual family-office case that has been anonymized to protect the family's privacy and confidentiality. Additional fictionalized data has been added to obscure its identity.

**328 Wealth of Wisdom: The Top 50 Questions Wealthy Families Ask**

investment approach and wanted to be very hands on with their investments. Plus, they had members of the family being groomed to take on leadership roles within their family. Ultimately after evaluating several MFO options, conducting the business case analysis, and becoming well educated about the family office landscape, they opted to establish their own SFO.

Branch B had more fragmented, dispersed wealth and business ownership. Further, they realized that each family subgroup had different lifestyle needs, investment goals, and risk tolerances. Although they looked at joining with Branch A's SFO, they determined that the approach to investing, the limited services that Branch A was looking to include in their family office mandate, coupled with the divergent legacy goals, made it a poor fit.

Consequently, Branch B did a similar evaluation of the family office space, determined that they did not have enough synergy as a family group to want to setup their own family office and eventually evaluated different MFO providers to suit their individual needs. Some of the subfamily groups from Branch B decided to pool their capital for increased scale to better negotiate with the MFOs to bring down the pricing and to increase overall services. At the same time, the individual subgroups of Branch B could have their family affairs managed independent under the umbrella of the MFO, allowing them to maintain their level of privacy between the family subgroups of Branch B.

Branch C took a slightly different approach from A and B. They chose to work with an MFO service provider-type firm that specialized in accounting. They received aggregated reporting, trust accounting support, tax preparation and administration, tax planning, and reporting support and coordination with their financial, investment, and fiduciary advisors. Branch C had a more traditional, conservative approach to their wealth management and opted to keep the bulk of their wealth with legacy financial institutions that had served the family for generations. They were able to supplement the noninvestment related services they did not receive from their financial and banking relationships with an accounting-based MFO platform that also helped keep the family connected.

Ultimately, each family branch found the solution that was most appropriate for their needs. The key lessons learned were to focus on the long-term goals for the wealth, investment philosophy, and risk tolerance, understand the price of control and privacy to setup an SFO and to weigh these against the scale, aggregation, and integration that an MFO platform may provide.

Finally, they were able to look at what would build the greatest level of harmony and cohesion among the broader multigenerational family and recognized, that giving family members the autonomy to identify an appropriate wealth management solution – whether SFO, MFO, or some variation of the two – allowed the family to better solidify family relations and trust, rather than locking family members into a legal structure where goals, needs, and long-term values could not be aligned.



Closing Thoughts

At the end of the day, there is no right or wrong answer to the family office question, although there are pros and cons to each approach. You must examine your family's needs and expectations realistically and find the solution that is the best fit for you. Some questions for further consideration are presented to assist in this process. Additional recommended reading is also cited.

Questions for Further Reflection

1. Do you believe your family has the capability and capacity to be a good family office operator? Is there interest, skill, and experience within the family to take on a leadership role?
2. How highly do you value things like control, privacy, and tailored customized services? Are you willing to pay extra for such things?
3. How amicable are relationships within the family? How might an SFO structure be a potential area of conflict or an opportunity to build cohesion and continuity?
4. How fee- or price-sensitive is the family, and are the costs to set up and operate a family office sustainable over multiple generations?
5. What might an MFO platform provide in terms of broader services, integrated wealth, and investment advice, and/or continuity for your family?

Additional Resources

Kirby Rosplock, *The Complete Family Office Handbook: A Guide for Affluent Families and the Advisors Who Serve Them* (New York: Bloomberg Press, 2014).

Kirby Rosplock, *The Complete Direct Investing Handbook: A Guide for Family Offices, Qualified Purchasers, and Accredited Investors* (New York: Bloomberg Press, 2017).

EY Family Office Guide, 2016.

Biography

Kirby Rosplock, PhD, is a recognized consultant, researcher, innovator, advisor, author, facilitator, and speaker in the family business and family office realms. She is Founder/Principal of Tamarind Partners, a family-office consulting firm.

Dr. Rosplock grew up in a business-owning family as a fourth-generation family member, beneficiary, trustee, board member, and trustee of her family's foundation. For nearly a decade, Dr Rosplock also served as director of research and development at GenSpring Family Offices.

Dr Rosplock has a BA from Middlebury College, an MBA from Marquette University, and a PhD from Saybrook University. Her dissertation was "Women's Interest, Attitudes, and Involvement with their Wealth" (2007). She is author of

**330 Wealth of Wisdom: The Top 50 Questions Wealthy Families Ask**

The Complete Family Office Handbook, A Guide for Affluent Families and the Advisors Who Serve Them (Wiley/Bloomberg, January 2014) and its companion, *The Complete Direct Investing Handbook, A Guide for Family Offices, Accredited Investors and Qualified Purchasers* (Wiley/Bloomberg, May 2017).

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