



PODCAST TRANSCRIPT

Fulfilling the Dream of Best of Breed Tech Stacks for Family Offices with Sue McDermott of Addepar

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Mark Wickersham (00:36):

Alright, Sue McDermott, happy to have you on the podcast. Thank you for taking some time. Could you just explain a little bit about your role at Addepar and how Addepar serves family offices?

Sue McDermott (00:49):

Absolutely. So I am a program director on the partnerships team at Addepar. I've been with Addepar about four years. I know you know this, but I'll share with the audience that prior to Addepar, I spent about 20 years servicing largely single and multifamily offices from an operational and technology support perspective. But joined Addepar four years ago. At the beginning of this year, I joined the partnerships team and I oversee a collection of partners that provide augmented or auxiliary or ancillary services to family offices. As you know, many are small businesses. They don't always have the resources in every corner that they need. So whether that is technology selection, technology operation, maybe a family office has the wealth and complexity that's well suited to a platform like Addepar, but maybe they have less than five employees and they really want some help with some of that every day burden of data management. The partners that I engage offer a range of technology and services that are well-suited to family offices.

Mark Wickersham (02:24):

Well, great move by Addepar by the way. Hiring you. I think it's a tremendous asset that they have with the family office space. Obviously the key to, we've talked about this with ecosystems, is that one plus one equals three with the ecosystem, but they need to be nurtured. They need to be help put together and help define because the clients on their own can't necessarily do it. So just talk to me a little bit about.

Sue McDermott (02:49):

I think about it a little bit like restaurants in New York City, there are some really awesome places to go in New York City, but if you don't have guidance from a local or someone who's been there or done that, you are just as likely to get a junkie restaurant as you are to get a good

Mark Wickersham (03:13):

End up at the Chilis in Times Square.

Sue McDermott (03:15):

You got it right after hours of looking and considering all of the things and ending up at not a great place. And so I think the partner network is really important and a lot of what I do is helping with discovery and matchmaking. I think one of the things that I'll say, and I think family offices that do more of this and do better at this over the 25 years that I've been working with them, and that is, what are you really trying to solve and what is the operating model or those mechanisms that are going to make these things work to achieve that problem, that solution you're trying to achieve. And so I do a lot of matchmaking with clients on they need, and we'll get into this, I'm sure. They need other technologies. Do I know tools that do X, Y, and Z? So that's a common conversation I'm having with clients or do I know a firm that offers services in this way that could help and we'll get into a little bit more specifics, but my role at Addepar is really helping clients get in touch with the other aspects of...

Mark Wickersham (04:47):

Ecosystem concierge. Is that it?

Sue McDermott (04:49):

Yeah, exactly. Mark.

Mark Wickersham (04:50):

There we go, I love that. Maybe I should be the new title. So I mean basically family offices do have kind of two approaches. So I had this conversation too about sometimes you get family offices that will, I feel like it's one of these conversations or decisions that they need to make upfront before they start evaluating vendors. The choice between am I going to go best of breed or am I going to go all in one? So talk to me about two choices. I mean both have pros and cons, both have...

Sue McDermott (05:23):

They both, right.

Mark Wickersham (05:24):

There is a one right answer on that one, but there's certainly, I think we would both feel that there are some certain advantages on the best of breed, but talk to me a little bit about that approach and when they should make that decision and how they should make that decision.

Sue McDermott (05:38):

And my current philosophy, and admittedly I probably have a little bit of bias. This is essentially what I do for a living, but as you know, I've...

Mark Wickersham (05:50):

Having come from an all in one for...

Sue McDermott (05:52):

I had come from an all in one and believed in that dream for a very long time. And I think the concepts are connected because those that really gravitate there, my advice would be, and I'm not trying to convince anybody right out of the gate necessarily, but open your mind to the possibility of are you choosing that all in one because you have limited resources in some other aspect. That's the wrong reason to choose it. Right, and that's why I'm here to help you understand that having the best tools doesn't mean it has to be hard. Technology has come a long way and the people that offer and service technology, our positioning and disposition on how do we help our clients get the best experience has come a long way. If I even just look at the evolution of Addepar and its client management muscle, how it operates, how it interacts with clients, how it is added roles to help with a consultative aid to clients on how to pick the best thing. So I firmly believe that in today's technology world that the best of breed is the way to go because you can buy select tools that are purpose built, that real really will work together. When you and I started in this business integration was you and me swiveling our chair.

Mark Wickersham (07:41):

Sneaker network.

Sue McDermott (07:42):

Today there are real integration so you can buy excellent tools and not settle because you don't want to put the effort into managing them.

Mark Wickersham (07:52):

I used to be a real science experiment for clients when they want to try to integrate systems, but obviously I think you could see even with the commitment that Atta bar has with the team and really a commitment to try to foster those relationships and those integrations, it shows that when two vendors are willing to work together, they can alleviate that burden on the client. And it's also, I think the choice gets made. The client can make the choice about what systems are best for them, or if you go with an all in one, then obviously you can't be best of everything. So that vendor is making specific choices within their roadmap about where they're going to put the resources on. So I think you have to imagine...

Sue McDermott (08:36):

And as you know with many of the all-in-ones to your point, they can't be good at everything. So most have a focus, they're better at one thing than another. I think that the families that I see going down that decision path, it's often somewhat of a one-sided decision from that group that for example, if the all-in-one is really has invested in their accounting and the accounting team is making the decision on technology, that's when I see those choices being made. Whereas I think the buying state of mind has also evolved Mark, and now because technology has evolved, your

accounting team and your investment team really can work together a little bit more seamlessly and not throwing data over the fence.

Mark Wickersham (09:39):

I think that's a good point. I think that a lot of those, all-in-ones are GL based partnership accounting being the core secret sauce. So if the accounting finance function is driving the buying decision, then they'll tend to lean that way with the investment team drive and then they'll tend to lean a different way. But I think the integrations have come, I know portfolio accounting and general ledger are kind of two different beasts. They kind of, one speaks Italian, one speaks Russian and they're not based on the same core language. And those integrations can be hard, but that's one of the things that we do with Risclarity in that part. Talk to me a little bit about that integration.

Sue McDermott (10:22):

So another common thread of this dialogue for me is, okay, okay, so you've convinced me now that the investment team needs its specific tools and the accounting team needs its specific tools and really focusing those groups on what they're good at, but they do need to talk to each other and how do we make that work? So the integration that Risclarity is built facilitates that dialogue greatly because it's really, we do have a mechanism to get your investment income or activity into your GL without you having to manually translate or re-key everything. It just gives a level of calm that there's validity to what we're saying about this best of breed model that we do. Now those tools in the middle have evolved so that the investment information can translate into the accounting information and it's not solely the burden of one of those groups to translate information from the other.

Mark Wickersham (11:35):

Manually translate, right?

Sue McDermott (11:36):

Exactly. Exactly. So Risclarity built that bridge.

Mark Wickersham (11:41):

Yeah, I think we look at that and say they have to have a different mindset that I think sometimes family offices, I would say general ledger is really important to them and general ledger financial accounting is really important to them, but there tends to be a tendency where they want to jam everything into the financial accounting system. And when you have a best of breed system, like when you have Addepar, Addepar becomes your investment ledger and all that investment detail can live in the investment ledger, but you do need some rein information to come over that it's income earned. It's not every dividend that comes over it's interest earned. It's not every interest payment that comes over being sensitive. The cost information is always key for that general ledger. So I mean tax prep is one

of those key drivers, so being able to pull that cost information efficiently from at par and be able to categorize that correctly is key too. But it is a different mindset in terms of how you set up your chart of accounts, which tends to be the real kind of design aspect. Good design leads to good reporting versus bad design. There's no amount that can overcome that.

Sue McDermott (12:46):

And self-reflection, right. For those who are, maybe this is a segue or we'll talk a little bit about this later, but those who have hit the wall with some of those DIY tools, if it's time to move off of QuickBooks or it's time to get out of Excel, you raise an excellent point and that is the chart of accounts and we talk about the investments or the investment team in collaboration with the accounting team. Be thoughtful about how that chart of accounts is built and is it built to receive information from the investment system.

Mark Wickersham (13:28):

So with QuickBooks, and I know Addepar has been resistant to doing a QuickBooks integration, I know we won't do one either. Talk to me a little bit about why are so many family offices so dependent upon Excel and QuickBooks and what should they be thinking about in terms of decoupling from that retail dependency?

Sue McDermott (13:50):

Well, I mean to answer the first question, why are they so dependent on it? And that is for a few reasons. A, it's inexpensive.

Mark Wickersham (13:59):

It's cheap, it's quick to set up B.

Sue McDermott (14:02):

And B, somewhat really flexible. I won't say infinitely flexible, but with the ownership structures, LPs and LLCs are the most creative instruments in the US economic system. A lawyer can write anything in there, so you do need to be nimble and so that when you've got something like Excel where I can write any formula based on anything I want, it's a really easy route to take when you've got really smart people in your family office who know how to do that. Now the problem is when that smart person doesn't want to do it anymore and whether or not there's a smooth transition, so key man, dependency, reliability, consistency, auditability, yeah, those things are lost on Excel and QuickBooks, but it is the easy answer because it's cheap and my bookkeeper knows how to make it work.

Mark Wickersham (15:08):

I think Excel in particular is never going to go away, but just due to that flexibility, that last mile, sometimes you just need some reporting. Maybe it's a one off maybe it's a consistent type of thing that you need to do that really...

Sue McDermott (15:20):

Some unique calculation that you guys come up with to measure something. So I agree, QuickBooks is a different story. You get beyond 10 or 12 entities and that the lack of consolidation really starts to become a burden and an added burden that if you want consistency in your chart of accounts that you have to force that and reconcile it or so those are the reasons why they hit a wall and need to get off. Those are the same reasons, at least for us, probably for you why we're not writing an integration.

Mark Wickersham (16:02):

Yeah, I think it is.

Sue McDermott (16:03):

Integration is more costly than the platform itself.

Mark Wickersham (16:06):

The flexibility is great until you need to consolidate across entities.

Sue McDermott (16:10):

Until you want to be consistent. Correct.

Mark Wickersham (16:12):

Yeah. Yeah. And then human capital cost, your total cost of ownership is actually a lot higher than what it is for an inexpensive software product. And next thing you know, like you said, keyman risk turnover just because of the quality of the work that you're subjecting your staff to with this kind of maturation around just trying to get everything to line up, it just becomes kind of this spiraling and the threshold's really low. Like you said, it's like 10 or 12 entities and family offices. There's a lot of entities. Even the smallest ones have a lot more than that.

Sue McDermott (16:53):

I think the other thing is that when you get to tools, more sophisticated tools are going to offer more in the way of scalable, repeatable, reliable workflow. Chances are, if you're living on Excel and QuickBooks, you got a binder I hope, or maybe you don't, but a binder of manual processes of what do I do when and then I click this button. And when software could really alleviate a lot of that and eliminate risk

Mark Wickersham (17:35):

Maybe you lose some of that flexibility, but you gain that consistency, you gain, it's going to be the same way every single time. So regardless of who does it, I think is key. So what are some of the other common mistakes that you see family offices making when it comes to technology

Sue McDermott (17:55):

Along that same line? And one of my first recommendations is don't do it alone. And I'm not saying you have to have consultants for every leg of the way, but you really need to do a self-assessment. We all have these internal comfort and bias on how we work and operate, and when you're making this leap, you're deciding to implement technology for a reason. You have these goals you're building for the future. You want scalability, you want growth. You really need to make sure that your people are looking internally at the processes. What are you really trying to achieve at the end? And then kind of build backwards and not try to buy a new tool and plug it into how you operate today. That is the biggest mistake.

Mark Wickersham (18:57):

This is the way we've always done it, right, that mindset and then buying new technology and just keep on doing the same thing, right.

Sue McDermott (19:05):

Even Mark on the investments and the GL piece, right? Talking about coming back to our theme of best in breed and integration. These tools are good at what they do. Don't try to rewrite an investment book of record into QuickBooks. I mean, firms have spent tens and millions of dollars and not achieved that. It's a little bit of an exercise in futility. I understand that the information and the data that is required, but learn how to leverage those platforms for what they're meant for and what they're good at, and you're going to end up at a better endpoint and product.

Mark Wickersham (19:47):

I would agree that I do think sometimes there is a little over-reliance on what I'd call retail software, that it's just not meant to be multi-entity doesn't have to controls in place. I think you look at obviously multi-entity, general ledger for consolidations, but also Bill pays another one of those areas where it doesn't have, the retail solutions aren't meant for somebody paying bills on behalf of somebody else, segregation of duties. The person entering the bill isn't the person that's approving it. Those concepts aren't built into those products. And you see that one is they're cheap, but two, they're quick to get up. I think that's part of it, right? It isn't necessarily a cost mindset because in the long run I think it ends up costing 'em more money with the total cost ownership, but they stand it up real quick and then.

Sue McDermott (20:40):

Well, and they're fairly easy to use because they have limited feature set. And that goes back to don't be afraid to invest in learning, having your people learn how to use the tools that are appropriate. Again, don't settle for something because you're worried.

Mark Wickersham (21:02):

So what are some of the technology trends that you've seen out in the, especially since post pandemic, obviously it seems like the world's kind of accelerated, but what are the trends that you're seeing that are really kind of impacting family offices now? What is some of the trends that you're seeing that are going to impact family offices a year, 18, 24 months from now?

Sue McDermott (21:30):

Probably stating the obvious on some of this, but I do think in the last five years, and certainly the pandemic was a forcing function for a lot of firms to invest in technology or to go to the cloud to facilitate remote work, all those things. So there's been a focus and a conversation about technology, which then opens the door to being a little bit more creative than I need my team to be able to work from home. Now what? It kind of ripped the bandaid off

For many to say, I do want to invest in this best of breed. There are some great tools out there I think I could make my clients experience better and the life of my professionals better. So there's been an openness, I think to technology, definitely an investment. I think on the side of the technology firms, I mean investment in tech innovation just blows my mind. The trends are for me, clients taking that next step and not being as afraid, okay, I've got an investment platform, I've got add a par and I've got a gl. I need some of these other things and I know they're feasible to make my environment whole. Some of those are document management or CRM or trust and estate planning. The more investment heavy shops are looking at risk tools that go beyond what Addepar currently can do. I think the other stating of the obvious is that we've all seen the growth in firms doing alternative data management and automating that. I mean 20 years ago I was managing a team of anywhere from five to eight people who were collecting statements, reading them, typing in numbers.

Mark Wickersham (23:49):

Assistant problem, no solution in the marketplace. Now you're seeing multiple options, which is fantastic.

Sue McDermott (23:55):

Correct. Correct. So that has been such a problem for the ultra wealthy for so long that it really is a leapfrog, right? It is going to unlock so much to alleviate the burden of resources spent on those activities. Couple that with natural language enhancements, I mean to be able to have family members even who know nothing about the process of investing or the language that they're supposed to use to enable them to ask questions and get information about their portfolio without having to take human resource from the office to answer that question, we don't believe in AI in every aspect, but some of these elevated experiences through natural language I

think are going to make a big difference. It's going to do even more to democratizing the information and making it available to everybody.

Mark Wickersham (25:09):

I do think AI is going to have a big impact, but not in the hype up way that gets talked about that. I think you look at alternative investments in particular, I think AI is really good at being able to unlock unstructured data information that's in documents. So I dunno what it is. I think I seen the number 90% of the information in the world or 95% of the information in the world is like unstructured and certainly alternatives never really progressed beyond 1995. It went from a fax to A PDF and it still stayed locked up. So I think that the ability like OCR never worked, but AI actually kind of does work in that area. So now you see some real options, the ability to summarize and quickly to get up to speed on really complex documents, subscription agreements, trust agreements, estate agreements.

Sue McDermott (26:02):

Right, and now you have so many, it's such a time suck to deal with those.

Mark Wickersham (26:09):

Have a lawyer read through that for hours where you could kind get a summary within literally minutes.

Sue McDermott (26:14):

I mean, as an example, we use a tool here that records all of our calls.

Mark Wickersham (26:24):

It does a pretty good job. The summaries aren't bad.

Sue McDermott (26:26):

The notes are amazing, and in the last even six to 12 months, the improvement of the quality of those notes I have found it really does save time. I still have my old fashioned notebook for the things that I really want to solidify, but I don't have to take notes in the same way that I used to.

Mark Wickersham (26:47):

Right.

Sue McDermott (26:47):

I actually trust the mechanism that's recording and translating.

Mark Wickersham (26:53):

I do get a little worried though. I feel like there was such a push. I mean finally the family offices pushed off to the cloud because of the pandemic and got up there. Their major systems are in the cloud. I do get worried that they're going to take their foot off the gas a little bit, be like, okay, that's done. Settle back in their own ways. Where I think this opportunity to articulate around rounding out that ecosystem, you have those major systems up in the cloud, can you get 'em to talk to each other better? Can

you get those auxiliary systems? Can you get the canoe, the arch? Can you get the risk planning? Those type of things plugged into these platforms and really getting everything working together is really kind of, I hope they continue to evolve on that.

Sue McDermott (27:37):

And I agree, and it's not magic. It's not as easy as plug and play. And I'll go back to my don't do it alone, right? There are people that do this for a living. Being a little thoughtful around knowing what you don't know and getting the right configuration in place can be a game changer.

Mark Wickersham (28:04):

Helping help can help. I know that sometimes that cost can look expensive, but a few things are more expensive than a failed implementation, right?

Sue McDermott (28:13):

Correct, Mark. Exactly

Mark Wickersham (28:14):

Right. I think they can save a lot of time on that, and a lot of times these failed implementations aren't sometimes the defender's fault, but a lot of times they're not. Right. That it's...

Sue McDermott (28:23):

Often a combination of misunderstanding or...

Mark Wickersham (28:29):

Yea, resource alignment.

Sue McDermott (28:30):

Yes. Data not in the shape that any thought it was. No one goes into an implementation. Everyone goes in it with the highest hopes.

Mark Wickersham (28:45):

Let's talk a little bit about change management, obviously. I think one of the things we're talking about is get help. Get a guide, have somebody walk you through that process. You don't know what you don't know. You don't go through that process, that many cycles. A family office will go through that. What are some other things that family offices can do to help with change management?

Sue McDermott (29:05):

Lean on your vendors. Add APAR has people on the client management team and others to help you with that. I think surprisingly as small of a community as family offices, not enough of them talk to each other about how are you doing that? And so your vendor can help you make those connections. Hey, do you have other clients that look like me? Have they solved this problem? So I think ask questions, talk to the community. Most

of your software and or services providers would be happy to make connections or give you ideas or be involved in the discussion with you.

Mark Wickersham (29:52):

Most are willing to have that initial conversation and to share some thoughts, some inputs.

Sue McDermott (29:57):

Right. Hey, I know somebody worth talking to right before you spend money on consultants, tap your own network.

Mark Wickersham (30:06):

I will caution the one thing that sometimes you'll see though is that you'll run across somebody and they'll be like, yeah, look at Tamarack and Eaton and three things that are like an apple a rhinoceros and a piece of cheese. And you're like, I don't know how you got that list. But because they're talking to family offices or friends of theirs that have totally different operational requirements. So I think talking to your peers is great, but sometimes talking to your friends and family and you can end up with a...

Sue McDermott (30:37):

Well, right? Then that ends up being a bit of an unstructured conversation. So that's why as a preliminary, absolutely know the landscape, but it's worth at some point hiring a professional even just to make the plan, even if you don't engage them to execute a plan with you so that because conversations in your private network aren't governed by, okay, that's good. Let's get to the next agenda item. Or what about this or...

Mark Wickersham (31:14):

I think having a plan, I do caution firms getting vendors involved a little too early because they can show great and then you can be like, it can start, oh, the shiny object syndrome versus backing up, figuring out more strategically what are the problems that I'm trying to solve? What are my major pain points that I need now, in the future, develop that roadmap and prioritize those kind of projects. And that again, that's where consultants can really, really help you out as well as guiding you through that selection process, I think is another great area where a consultant can kind of come in and...

Sue McDermott (31:56):

It's daunting if you don't look at this stuff every day and they can all sort of say some of the same things.

Mark Wickersham (32:03):

I mean the good news is that there's a lot of, there's more family office specific options available. I mean, but the bad news is there's more family office options available. So it creates that buyer confusion a little bit.

Sue McDermott (32:17):

And that leads right back to why some go with it all in one, because it's overwhelming Mark.

Mark Wickersham (32:24):

There is a choice for that. It's one throat to choke, one vendor to manage. But it should be one of those things that's strategically decided upfront versus agreed. Oh, I'm looking at Addepar and I'm looking at Archway. You should be looking at those two together. You should look at Archway versus Eaton. You should be looking. It's a different evaluation process you should go through. So it is an exciting time though for family offices and family office technology. I mean, you and I have seen it from the beginning where there was few to no options available and now there's really a whole host of 'em. So it's great. So this conversation's been great. I want to just kind of ended up on a personal note. We both talk about constant experience this summertime, right? You seen any good shows this summer? What's been one of your best concert experience?

Sue McDermott (33:14):

I have not seen any this summer, but one of the concerts that I enjoyed the most was last summer I took my two teenage sons to see Steely Dan and the Eagles.

Mark Wickersham (33:31):

Nice. They played... Great.

Sue McDermott (33:34):

And it was so great and the boys appreciated it and enjoyed it and knew the music. So it was a great bonding moment as well as a concert.

Mark Wickersham (33:47):

That's awesome. I love that.

Sue McDermott (33:50):

How about you, what's your concert experience?

Mark Wickersham (33:52):

My best one was like last summer we went out and I had highly recommend it. If you haven't been to Red Rocks, you got to go to Red Rocks. It's a near religious experience. It's like if you're a football fan going to Lambo kind of thing. It's one of those things. So we saw Noah Khan and at Red Rocks, it's one of those things, right venue, right artist, right time. So a lot of artists will go through, he just played at Fenway Fenway's 39,000 and Red Rocks is like 9,000. So he won't be playing at Red Rocks anytime soon. So it was a nice thing, but it is the...

Sue McDermott (34:28):

That's awesome.

Mark Wickersham (34:29):

The venue's amazing. The acoustics are amazing. The artist is so excited to be there. He brought his mom. We're excited. He's excited. Everybody's excited. So I highly recommend taking a look at, they have really eclectic lineup every year, but if you find an artist you really like, go see him at Red Rocks make a trip.

Sue McDermott (34:49):

That's a great recommendation. I got to put that on my bucket list.

Mark Wickersham (34:52):

Yeah. What do you think? Eagles at the sphere. You going to go check that one out.

Sue McDermott (34:56):

Actually. I want to see the dead end company at the sphere.

Mark Wickersham (35:00):

I know. I heard great things about that. That would be super fun.

Sue McDermott (35:04):

That would be fun.

Mark Wickersham (35:05):

Anyways, all right, as always a great conversation.

Sue McDermott (35:09):

Thanks Mark, always a pleasure with you.