Family Business
THE GUIDE FOR FAMILY COMPANIES
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Preparing your company for post-crisis growth

The downturn taught us an important lesson: Short-term growth without profit is a recipe for disaster.

IF YOUR FAMILY BUSINESS survived the economic upheaval of the past few years, congratulations. Your company is likely still standing because of its inherent competencies, long-term strategic decisions and conservative financial management. But it's not yet time to go back to business as usual, because the economy has not fully recovered.

In a natural disaster, such as an earthquake, more casualties occur in the aftermath than during the event itself. Often, the small decisions people make and the ways they prepare for high-impact events will determine whether or not they survive unscathed. Similarly, the aftershocks of the recent financial crisis likely will continue to reverberate throughout the economy for years to come. To ensure your company's future survival, you must open yourself up to new ways of thinking about growth.

Domestically, some competitors may be struggling and some customers or suppliers may be out of business. Internationally, new competitors, suppliers and customers have emerged from the developing world. Access to those markets may be challenging and costly for many family companies. Banks are restricting credit, private equity funds are struggling and government regulation is increasing.

Despite these challenges, growth is not a choice but a necessity for family companies' long-term survival and for family wealth creation. Yet this economic crisis has taught us that short-term growth without profit is a recipe for disaster.

How to jump-start growth

As the saying goes, don't let a crisis go to waste. Here are some strategies for jump-starting sustainable, profitable growth:

• **Invest in depth, not breadth.** Focus on deepening your company's core competencies rather than making capital investments to tap new markets or capture market share. Consider acquisitions and investments that will broaden your range of products or services or bolster core technology.

> **Because some shareholders may have been personally affected by the crisis, this is an opportune time to assess their appetite for risk.**

• **Become more agile.** The companies that will survive are not the largest, but those with a lean cost structure and flexible working capital that can adapt rapidly to changing economic conditions.

Another oft-repeated saying is, "Life is a marathon, not a sprint." A sprinter has big muscles, while a marathon runner has a lean body. Similarly, you want a lean cost structure at all levels of your organization. To be sustainable, leanness must be part of your company culture, from the executive suite to the shop floor.

During the recent crisis, one of our clients set a company-wide cost-cutting goal. Every department head was asked to develop cost-cutting and efficiency improvements. The departments ended up cutting twice the amount originally targeted.

Flexible working capital requires low inventory levels, on-time collections and plenty of available lines of credit. The chain reaction in banking and credit markets caused many companies to stumble through the recession.

• **Help to keep your customers and suppliers profitable.** Take steps to integrate more closely with your supply chain, such as by helping your customers market to their customers. A client that supplies goods to Lowe's, Walmart and Home Depot sends its employees into those stores to provide weekly customer education sessions. Its managers have discarded the silo mentality and recognize that their customer's customer is also their customer.

Also remember that your existing customers are your best prospects. Keeping them is much more efficient and less costly than seeking new customers. At the other end of the supply chain, brainstorm with your suppliers about how they can work with you to increase sales to your customers.

Margin management and analysis of value-added features through your entire supply chain are essential to determine margin contribution for each participant in the chain.

• **Develop and maintain global brands.** Companies with global brands have been successful through the recession. A family company, even if it's not a giant, can develop a global brand cost-effectively via digital marketing tools such as Facebook and Internet trade networks.

Don't just emphasize the features of your products or service; focus on people. Publicize joint problem-solving efforts among your employees, suppliers and customers. Use slogans that transcend cultures and are identified with your company or your products, like BMW's "the ultimate driving machine."

• **Seek out long-term capital sources.** The banking crisis has prompted business owners to ask a surprising question: Is my money safe with this institution?

Despite the lack of available business credit, family businesses have a significant financing advantage: patient capital from the family. But this patient capital must be nurtured, particularly in a crisis. Shareholder communication is essential.

Many of our clients circulated an extensive shareholder survey in the aftermath of the downturn to determine individual shareholders' needs and objectives. Because some shareholders may have been personally affected by the crisis, this is an opportune time to assess their appetite for risk and to evaluate how they want to transmit wealth to the next generation. Shall we be a financial family or an operating family, or both? Shall we diversify our risk by liquidating part of our family business holding? Or shall we take advantage of lower valuations and invest in acquisitions? Shall we form a family office?

This exercise may lead to the decision to invite a long-term capital partner to provide diversification for the family or growth capital for the business. An outside partner must fit in with the family culture and understand family business dynamics.

In my experience, single family offices are terrific partners for other family companies. In the last two years, we have identified more than 400 single family offices around the globe that are interested in investing in family companies. A family business can benefit from the family office's experience, long-term investment orientation and family values. An investment in a family business can provide a single family office with a new legacy holding. Their objective is to achieve long-term returns in a partnership investment.

In a crisis, it's natural to focus on getting through the shock. But you cannot afford to stay in defensive mode. What you do next will determine whether you survive and grow. The time to act is now. FB

François de Visscher *is founder and partner at de Visscher & Co., a Greenwich, Conn., financial consulting and investment banking firm for closely held and family companies (francois@devisscher.com).*

For further information, please contact:

François de Visscher
de Visscher & Co.
Two Greenwich Office Park • Greenwich, CT 06831
Tel: 203-629-6500 • francois@devisscher.com • www.devisscher.com

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