

BusinessPlus+ Newsletter



CBSW
TAX & BUSINESS ADVISORS

Level 2, 49 Oxford Close
West Leederville WA 6007
PO Box 1475, West Leederville WA 6901
T: +61 8 9363 7300
E: admin@cbswtax.com.au
W: cbswtax.com.au

INDEX

Business Disaster Recovery Toolkit	1
How to Become a Strong Family Business	1
Business Disruption – What are you doing about it?	4
How to Manage Fast and Accelerated Growth	4
Signs that you need to change your Family Business Model ..	5

Issue – January 2020

Business Disaster Recovery Toolkit

Given the current catastrophic bushfires all of Australia has been experiencing, the topic of disaster recovery is worth revisiting, as there are many steps that can be taken as precautions to an event (beyond your control) that may have significant impacts on your business.

Following a disaster, it is anything but business as usual for you, your employees, customers, and possibly your suppliers and the broader community. This guide has been prepared to assist you as business owners or managers, to take a considered approach to the many elements of recovery following a disaster. The information in this guide has been grouped as follows:

1. **Immediately following the disaster** – aspects to consider in the first few weeks following a major disaster
2. **Steps to recovery** – the analysis and evaluation each business should consider within the first few months following a major disaster
3. **The recovery plan** – guidance on developing a plan to restart your business
4. **Long-term disaster recovery** – additional activities to be undertaken post-disaster to ensure that the business operates more effectively and efficiently.

Each section of this toolkit contains checklists and templates to assist in the disaster recovery process for your business as well as further references that can be reviewed as required. This toolkit focuses on the business issues those affected either directly or indirectly by a disaster should consider.

Where you have difficulties with such issues, we advise you to seek the support and assistance of your accountant, trusted advisers and businesses in your supply chain who have an interest in the success of your recovery.

This toolkit does not focus on the myriad of non-business issues that you may face. For those issues, we encourage you to seek the support from appropriate professionals.

[To access the Toolkit please click on this link.](#)

How to Become a Strong Family Business

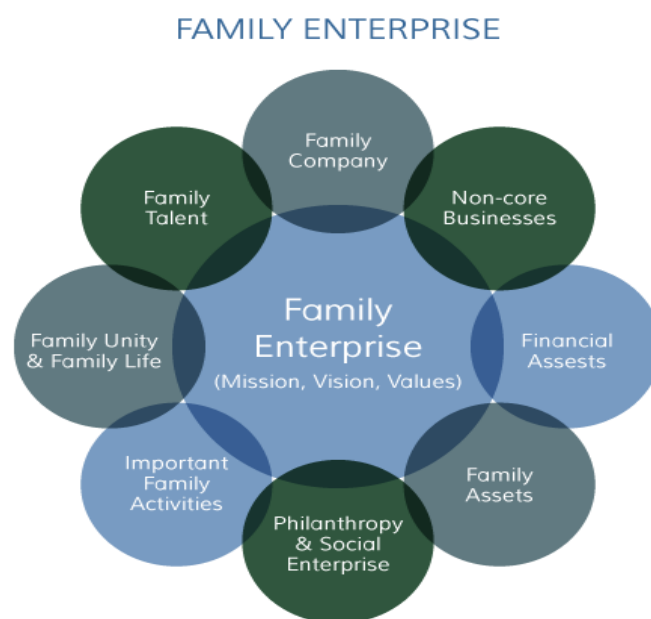
LESSON 1: Define Your Total Family Enterprise

The core business of most enterprising families receives most of the family's attention. This is to be expected since the business typically generates most of the financial returns, opportunities, and visibility enjoyed by the family. But the family has other assets and activities that extend the family's reach and build the family's unity and reputation. (See **the Family Enterprise** diagram below.)

An enterprising family often has non-core business activities (like real estate assets or start-up ventures), financial assets, family assets (like homes and art), and perhaps a family office. The family is involved in community activities and philanthropic activities (like religious or social organizations, or schools and causes they support). Family members generally spend considerable time and effort educating and developing the next generation and trying to create a satisfying family life. The point is that the family business, while a centerpiece of family life, is not the only important asset or activity of the family. **Keeping your family united, productive, and collaborating requires having a vibrant family enterprise that extends beyond the family business.**

Families should map their family enterprise and become aware of the important activities and interests – beyond their core business – that help families achieve their goals. These deserve attention, resources, and planning. A family enterprise also requires multiple talents to make it run and several family members to contribute their time and skills. Giving multiple family members the opportunity to participate in meaningful initiatives of the family helps build a sense of belonging for family members and commitment to the family and its enterprise.

In addition to engaging the family, this exercise provides an opportunity for future planning. Families use the *family enterprise* model to envision where they want their enterprise to be in another decade or generation. When they are better able to visualize their total future enterprise, they can allocate the right resources to get there, and align their vision, priorities, and resources. This exercise unites the family in powerful ways.



Where to Begin

We recommend families conduct this useful exercise guided by the family enterprise model shown above. Write down your specific activities and assets next to its representative circle. For each circle, think about the current state and desired state for that activity or asset within a given timeframe. Identify the resources (capital, talent, time) needed to reach the desired state. Think about how resources can be leveraged and integrated across these activities and assets. Bring your family together to discuss and align around your family enterprise — today and for the future.

LESSON 2 – Be Intentional About Your Family’s Purpose

In the early years of a family business, family life typically orbits around the business, nurturing the business with the devotion that a parent gives to a young child. But as generations pass, it is natural for family members to pursue diverse activities; many will move away from the original home base and not be as connected to the business, and some may question the benefits of their partnership and whether they should remain as owners.

With increasingly diverse interests and circumstances, what can hold a family together to not only support its business but also other activities the family finds important? Experience shows that even a large, diverse family can stay united if its members feel they strongly share a common purpose. **Other factors besides a strong family purpose, of course, help encourage family unity, but purpose is a fundamental ingredient in maintaining unity.**

A business family's purpose should include – but also go beyond – their business. Raising capable family members, having close relationships, building value in the world, solving significant problems, giving back to their community, country, or region, enjoying the fruits of life are also desired goals of most families we work with. The questions families need to ask when exploring their purpose is “Why are we in this together? Are we in pursuit of the same things, in the same way?” It is difficult for a family to organize and motivate itself to continue to grow the family enterprise over generations without agreement on why it matters.



Where to Begin

To develop your family mission, answer the following questions:

What is our family here to do?

What are we fundamentally trying to accomplish?

What do we want to build together?

Why do we want to build it together?

A family mission or purpose is not a theoretical tool. Families use their sense of purpose pragmatically to make important decisions about their enterprise and family. Millennial family members reference the family mission when deciding whether to join the family enterprise, to ensure compatibility with their own personal mission. Families cross-reference the family mission when recruiting non-family CEO candidates to ensure a cultural fit. Family offices use it to narrow down investment options. Family foundations reference it to guide funding decisions. Family Councils use it to invigorate themselves and keep the Council focused on achieving what the family has set out to do. The family mission is a key lever for increasing alignment among the business, family office, investments, stakeholders, and the family and owners.

LESSON 3 – Long-Term Family Success Is a Team Sport

Threats to a family enterprise come in various forms. We have seen this happen with high profile global family businesses -The Ferragamo family endured the early death of their iconic founder, Salvatore. The Vanderbilt's lavishly exhausted their fortune. The Haub family endured war and lost virtually everything. Family conflict divided the Haft family and bankrupted their business. The Daher family was disrupted in their industry and the value of their company plummeted. Lego overly diversified into businesses they knew little about and lost substantial value. In today's world, disruption will likely impact every business sector and every family business.

Adversity and crisis reveal the resilience of a family. Some families derail, divide, and destroy value in the face of adversity. Other families unite, pivot, and create value. **What sets the resilient families apart? A repository of non-financial assets developed well before a crisis, including: genuine interpersonal trust and respect, collaboration, an overriding family purpose (mission), jointly-held values, a spirit of generosity to help one another, a belief that adversity does not predict the future (that they can rebuild and flourish again), and a good leader helps. Resilience is a set of capabilities that families can learn.**

Families and ownership groups that address challenges together and invest enough time and resources into building unity and teamwork are better able to pivot and rebound as the environment calls for it. The Ferragamo founder's widow, Wanda, rose to lead the business, which grew many-fold. The Haub family rebuilt their businesses after WWII into one of Germany's leading companies. The Daher family reinvented their business and have succeeded. Lego regained their focus and became the most profitable toy company again. None of these rebounds would be possible without good leaders, unity in the family about what they are trying to do together, and the trust, respect, collaboration, and generosity that kept family relationships strong.

The families who learn these skills together, and value being part of a team, are better prepared to take advantage of opportunities and bounce back from difficult times.



Where to Begin

Build your family's resilience. Develop a repository of skills and non-financial assets to help you through adversity, before you need it:

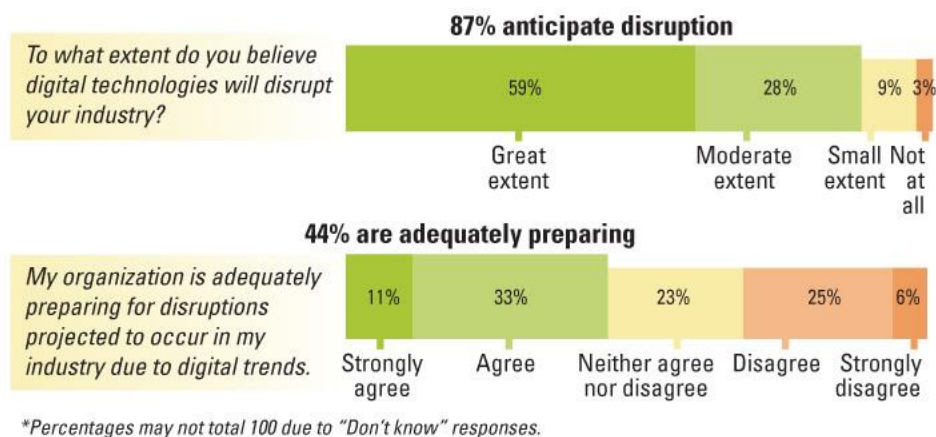
- **Establish your family's core values, mission, and vision for the future**
- **Practice trust, respect, and open communication**
- **Reward generosity and collaboration**
- **Invest in meaningful relationships and team activities**
- **Have good governance in place so decisions can be made**
- **Learn the stories of resilient families to serve as role models**

Business Disruption – What are you doing about it?

You and your leadership team may talk about what disruptor is just over the horizon. You might talk about AI, machine learning, robotics and someone will throw in a comment about “big data”. **You might discuss how there is so much hype around future disruptors but little real action.** But still, there is an inkling that there is a disruptor for your industry not far away. The problem then is, what might it be?

A big part of the problem is that you are so busy with the current challenges and opportunities, the thought of going looking for more is simply not on the agenda. Then there are more sinister reasons, as Gerald Kane considers in this MIT Sloan Management Review article on [company readiness for disruption](#). Kane writes about senior leaders not wanting to spend time or money to look at what is just over the horizon, due to a selfish focus on the short-term.

As the stats from the article show (see the diagram below), 87% of executives are expecting disruption from technology, let alone from new business models or novel approaches to the way work is done. **And yet there is a preparedness gap of at least 33% (and really 46% including those businesses with their head in the sand) by those that are anticipating business disruption impacts!**



With 2020 now upon us, NOW is the time to spend some time addressing how disruption impacts on your business, followed by time on developing a suitable action plan, early in the first quarter of the new year.

How to Manage Fast and Accelerated Growth

Most discussions around SME business disruption are generally in the negative – ‘we had a disappointing month of sales’, ‘Bob has unexpectedly resigned’, and so on. Learning to cope with the knock-backs is all part of the journey. But there’s good news, too!

What about when your business is disrupted in a positive way? We’re of course talking here about accelerated growth – where your business grows at a faster rate than predicted – or faster than similar companies in your industry. Here are some ideas that will assist the business owner cope.

How to Make Your Dollar Go Further

Cashflow planning can be tricky at the best of times. But if business is going well, then now is the time to make your advantage count. Even if you have a record-breaking month, there’s never really such thing as ‘surplus’ cash. Developing your financial literacy is one way to make this idea become second nature.

We can interrogate your historical business performance into forward budget projections very quickly and readily that makes the process of budgeting and cashflow forecasting much more satisfying and rewarding in terms of profits, cashflow and finance requirements at the macro level. For assistance and discussions about this service, please contact Lyall Bear our business advisory specialist.

You’ll still use basic ratios to make important business decisions and design cashflow forecasting templates. You’re just dealing with ever bigger numbers and, as a result, looking to develop an even stronger and stable business model which will future-proof the business.

Can Technology Embrace Accelerated Growth?

Adopting technology potentially provides fast-growth SMEs with huge advantages. For example, AI-driven customer-relationship management systems (better known as CRMs) enable you to make more informed decisions around sales and marketing.

Some applications can help reduce the time spent on repetitive tasks, can lower costs in certain departments and improve flexibility and responsiveness – particularly if you rely heavily on data to mine sales opportunities. This is an opportunity not to be missed if you're on the up and up.

Use A Market Validation Service

If you're experiencing accelerated growth, then a smart way to absorb the change is a process of accelerated learning – basically to create faster and strategic long-term business planning objectives.

Market Validation guides customers through an accelerated, objective and comprehensive process that will help eliminate assumptions and de-risk growth opportunities. It enables business owners to validate, screen, prioritise and qualify new products, services or markets before investing significant time and money.

Share Ideas with Other Leaders

You might not be the only owner experiencing accelerated growth. Even when the business is doing exceptionally well, there's still an element of uncertainty. Did you know that 36% of business owners feel isolated?

Sharing your experiences with others is a helpful learning tool in itself – as leaders need to continue to evolve and adapt. Learning to embrace the practicalities of accelerated growth, for example, is all part of the leadership journey.

CBSW has an "Agile Business" program that brings like-minded business owners together to assist them taking their businesses to the next level. For details please contact Lyall Bear at CBSW.

Signs that you need to change your Family Business Model

Successful family enterprises are different. Not only do they live the family business model on a foundational level, but they live this model without compromise. That said, adaptability always plays a factor in family business success; the best solutions are continuously and strategically reviewed to allow for their improvement. Here are five signs indicating that the current family business model needs to be reviewed:

Imminent Succession

Navigating the transition from one generation to the next, demands intention, planning and execution. Succession is change for employees, customers and suppliers – the entire entrepreneurial family. With the next generation of leaders taking control over ownership, management or operational systems, the places where family and business needs and objectives intersect can prove challenging. ***Looking solely at the emotional side of succession planning is not enough; the company's business model also requires adaptation.***

Absence of Plans for Long-Term Development (5-10 years)

Self-evident megatrends, for example, global migration, connectivity, big data, automation, ongoing urbanisation and climate change are not merely theoretical brain exercises. They are immediately impactful. ***Profound strategy development and implementation, representing the intelligent adaption of a company's organisational structure and business model, are a necessity.***

Revenue is Stagnant

A loss in profitability usually indicates a problem that needs addressing. This doesn't necessarily mean losses; it just means that profitability is decreasing. Earning a net 8 per cent instead of 10 per cent, for example, might not flag imminent danger. However, negativity, no matter how small, should be analysed with a strong focus on the future success potential of the existing business model.

Corporate Culture is Declining

Corporate culture is essential and often proves far more important than strategy. The difficulty lies in defining culture and measuring its shortfalls. Research and surveys are crucial. Culture is sensed; people within the organisation can feel behavioural changes, recognise development and in a general sense ascertain whether the climate is positive, energetic and motivating or otherwise. Negativity expressed through corporate culture, is like the tell-tale release of a pressure valve and represents a useful starting point when attempting to verify the business model. ***There are some useful online tools now available to assist in gauging your current business culture.***

Competitive Advantages are Waning

Companies aim to create a continuous, repeating cycle of competitive advantages, which are honoured by their customers. These competitive advantages are proven by excellent growth-rates, outstanding profitability and steadily increasing company value. If these advantages- displayed through product features, added services or emotional factors diminishing, pricing pressures, order intake struggles -this is an opportunity to review and understand your business model shortcomings.

A recent survey of more than 200 multi-generational family businesses from Germany, Austria, Switzerland and Italy attempted to define the family organisation's respective essences. This DNA is the extraordinary business model or models which have led to decades or centuries of sustained success. **They identified ten characteristics that distinguish outstanding family business models from the average.**

The best family businesses live by the following core principles:

- ***Effective decision-making through the convergence of ownership and leadership;***
- ***Intentional longevity: sound succession processes and superb governance;***
- ***Strong values that transcend generations, time and place;***
- ***Dedicated, competent and loyal employees;***
- ***Focus: many of the best companies are specialists in a niche;***
- ***A culture of innovation;***
- ***Internationalisation: a market share with no boundaries;***
- ***An emphasis on customer satisfaction and quality: a positive fanaticism;***
- ***Financial Independence: robust equity ratios and insignificant debt;***
- ***Foresight: the ability to adapt leadership and management structures;***

These characteristics represent a starting point for entrepreneurial families cognizant of the need for continuous improvement. Undertaking a conscientious and thorough analysis is the logical next step.

Should your family business need some assistance, please contact one of our accredited family business advisors at CBSW – Lyall Bear or Mark Nailer.

Disclaimer:

Business Plus is distributed monthly by CBSW Tax & Business Advisors to provide information of general interest to our clients. The content of this newsletter does not constitute specific advice. Readers are encouraged to consult their CBSW advisor for advice on any specific business matters.

Providing you
professional
direction

