Promoting Strategic Growth

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It's about . . .

- Looking at current competitive context
- Regenerating and ensuring continued competitive fitness of the business
- Giving the next generation the opportunity to be entrepreneurs
- Improving the odds that the business will continue into future generations

Don’t Forget . . .

- Creating value for customers is primary objective of any company
- Creating customer value results in healthy profit margins and cash flows . . .
- Leading to increase in value for shareholders

Characteristics of Today's Economy

- Hypercompetition
- Increasing "commoditization"
- Rapidly changing technology
- Rapidly changing supply chains
- Shorter product life cycles
- Need for new products/services
- Need for new growth opportunities
- Declining profit margins
- Declining or plateauing sales
- Next generation that doesn't want the responsibility of running the company or innovating

Zero-Sum Games

- Zero-sum dynamic exists when there is no business growth
- When the pie is not growing, family members fight over size of their slices
- Zero-sum dynamic is precursor to business failure and family disharmony
- Strategic planning can be way out because it stresses growth

Sources of Value

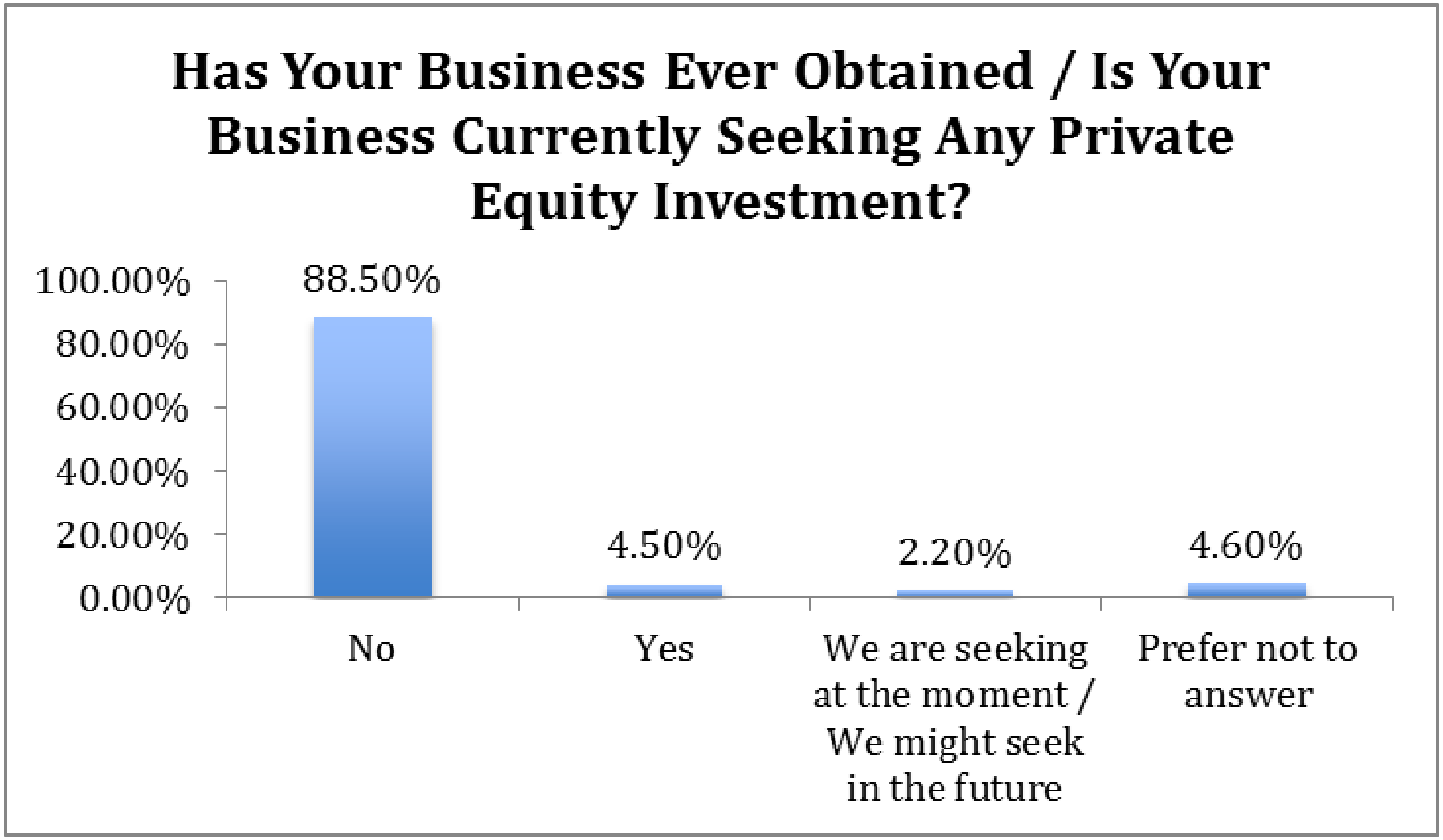
- Financial resources
- Physical assets
- Value of product, price, and performance
- Brand equity
- Organizational capabilities
- Customer–supplier integration
- Family–business relationship

Unique Business Model

- Sources of value combine to create unique business model
- Unique business model rooted in core competencies of business
- Unique business model creates value for both owners and customers

Financial Resources

- Financial resources of public companies generally much greater than those of family businesses
- Financial constraints are barrier to growth of family businesses
- Financial resources not likely to be a source of value for unique business model



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Physical Assets

- Seldom major contributors to value creation
- Consider sales to physical assets ratios; examples:
  - Microsoft
  - U.S. Steel
- Physical assets have unfortunate ability to become liabilities

Product Price and Performance

- Product is superior to competitors in terms of price and/or performance
- These sources of value often associated with technology firms, but may also be created in low-tech environments
- Example:
  - Honey-Baked Hams

Brand Equity

- Well-known source of value for family-controlled companies
- Products or services have edge over offerings of other firms even where product is not inherently superior
- Examples:
  - Levi-Strauss, Ralph Lauren
  - *The Washington Post*
  - Marriott, Anheuser-Busch

Organizational Capabilities

- Organization has skills that set it off from competitors in terms of
  - Internal integration
  - Flexibility and responsiveness
  - Quality of service
  - Speed to market
  - Integration with customers, suppliers, allies

Customer–Supplier Integration

- Traditional distribution systems modified to distribute products to customers in ways that benefit the customer
- Digitally enabled distribution enhances
  - Speed
  - Trackability
  - Customization
  - Convenience

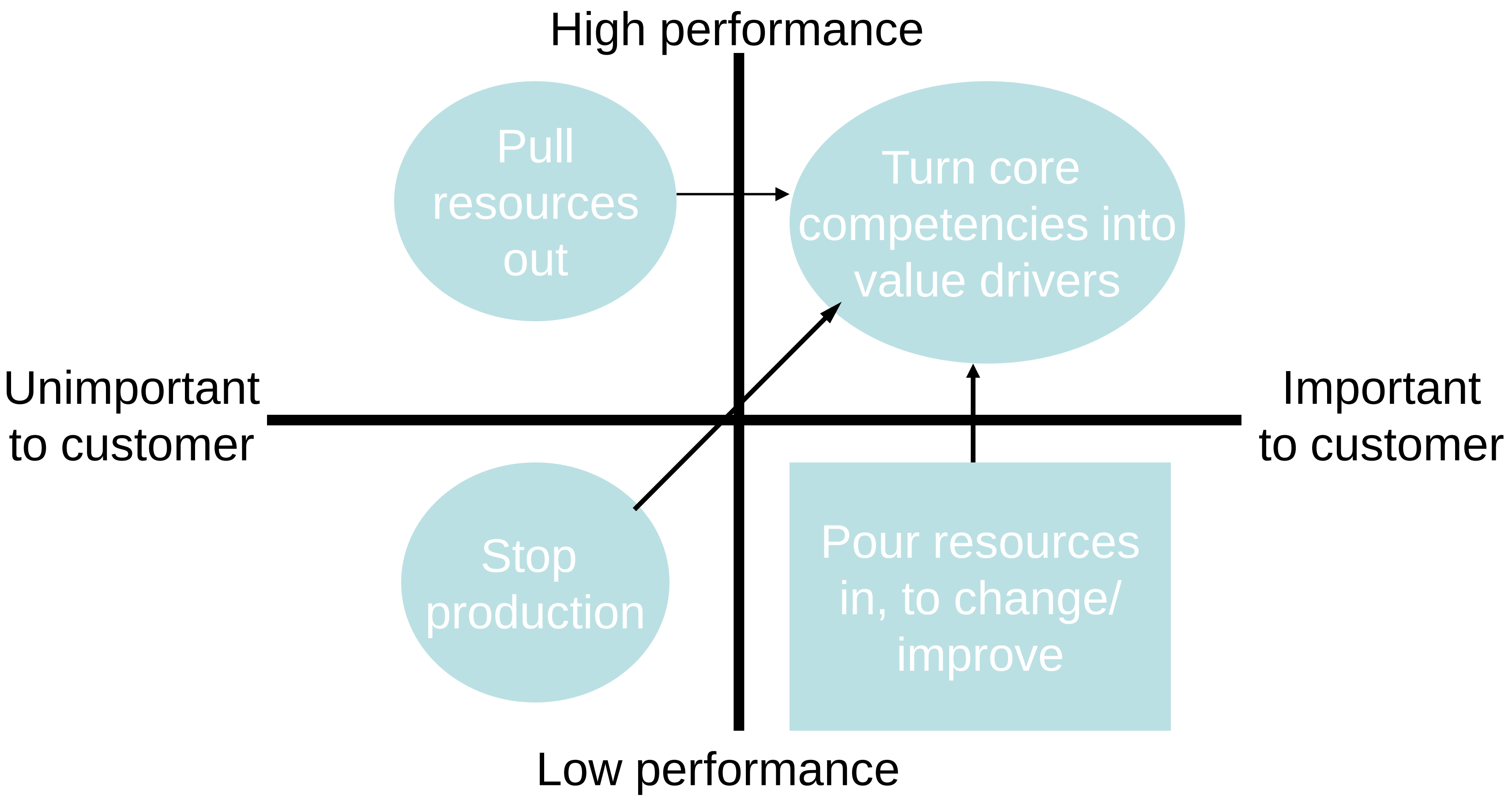
Family–Business Relationship

- Interaction between business and family can be source of value
- The more unified the family, the more effective are management and governance
- Meetings, retreats, and councils foster family unity and pay off for the family business
- Steps taken to promote family unity make strategic planning more likely

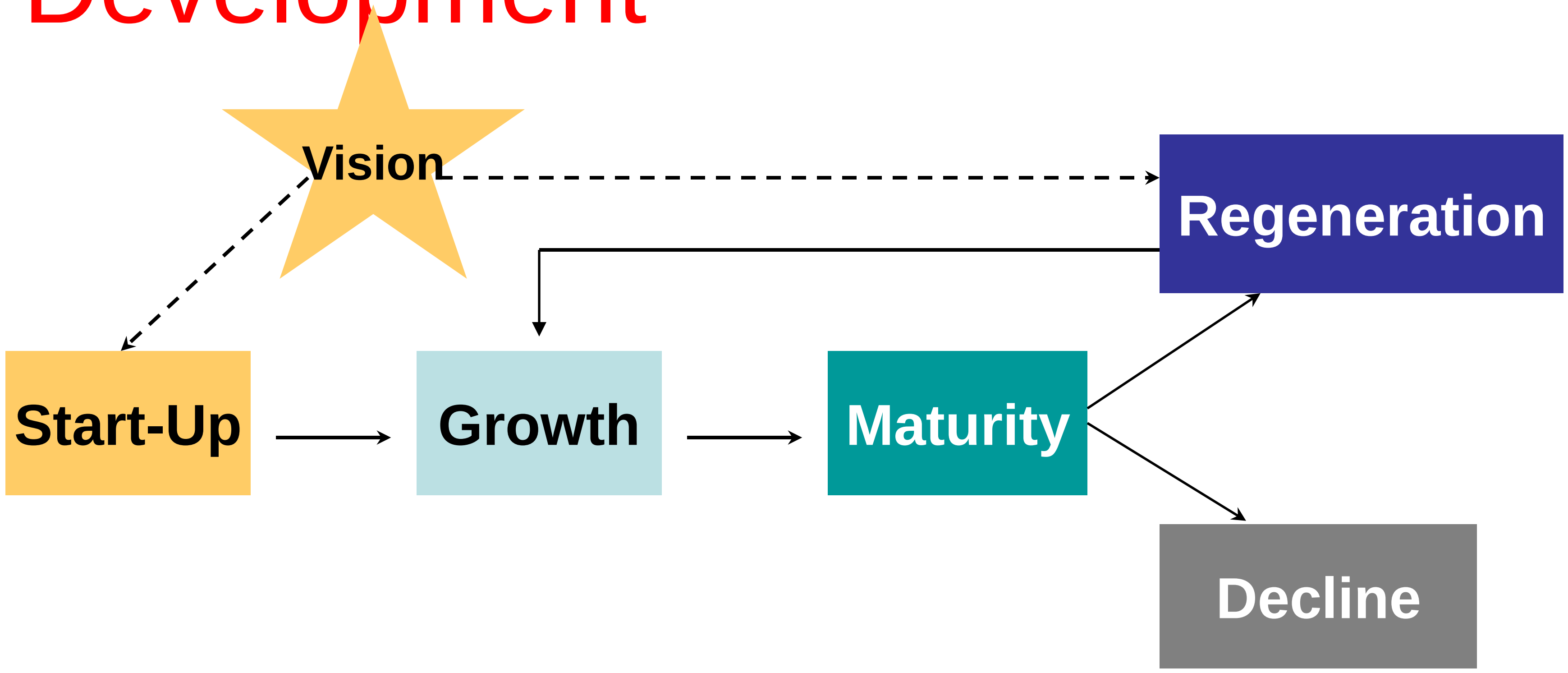
Customer-Oriented Company

- Any time, any place, any way
- Relies on core competencies translated into competitive advantage
- Importance of customer perspective on products/services
- Strategic planning required from generation to generation because customer needs constantly changing

Turning Core Competencies into Competitive Advantages



Stages of Business Development



Inherent Competitive Advantages

- Speed to market
- Flexibility in response to customers and competition
- Strategic focus
- Concentrated ownership structure
- Lower overall costs
- Quality of product/service
- Capacity for customization

Governance

- Can be provided for through classes of voting and nonvoting stock
- Can be enhanced by contributions from
  – Boards of directors/advisory boards
  – Family councils/assemblies
  – Annual shareholders' meetings
  – Top management teams
- Can provide essential help in governing family–owner–management relationship

The Critical Role of Nonfamily Managers

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Nonfamily Managers . . .

- Provide critical skills to the business
- Establish benchmarks for managerial performance
- Help govern relationship between family and management
- Are essential to health and continuity of family-owned businesses

Nonfamily CEO When. . .

- There are no qualified successors
- Potential successors need training from interim manager
  - Nonfamily manager can be both bridging president and mentor of next generation
  - May sometimes serve as bridge across entire generation of owners
- Family can’t agree on succession
- Business needs a dramatic change

Value of Other Nonfamily Managers

- Entrepreneurs often poor trainers of successors
- They bring unique and complementary skills to firm management
- Children may lack dedication and commitment to business
- Sibling rivalries lead to power struggles
- Founder/CEO can't choose between children

Other Nonfamily Managers, continued

- Create a benchmark for merit-based compensation
- Co-CEOs, management by committee of family members may lead to paralysis
- Family successors may not be trusted by nonfamily employees or other family members

Perspective of Nonfamily Managers

- Nonfamily managers tend to regard their firms positively
- Perceptions of business differ from those of family members in areas of
  - Management and governance
  - Capacity of firm for innovation and change
  - Qualifications of potential successors
  - Their own positions in company

Compensation Issues

- Nonfamily managers less satisfied than family managers with compensation and benefits
- Nonfamily managers generally paid less than counterparts in public corporations
- Other issues include benefits, inflexibility, and lack of career opportunities
- Drawbacks may be offset by rewards and advantages of working in family business

The Future

Can the Family Business Compete and Thrive?

Importance of Agility

- Family businesses use agility to respond rapidly to changing business needs
- Next-generation leaders often sensitive to need for quick action toward change
- Other competitive advantages allow family businesses to rejuvenate themselves

Business Rejuvenation Matrix

Degree of Innovation	0% – Degree of Customer Focus	– 100%
100%	Dot-Coms	Enterprising Businesses
0%	Mature Declining Or Cash-Cow Businesses	Business Reinventors

0% Degree of Customer Focus 100%

Value Creation and Next Generation

- Next generation more likely to accept new technologies that create value
- Complementary skills and perspectives often help older businesses update or create new sources of value
- Difference in vision across generations can cause tension
- Good leader recognizes need for change to maintain competitiveness

Competition and the Value Chain

- Competition encourages firms to create new links in value chain
- Digital strategies create customer value by
  - Reducing costs
  - Providing differentiation and customization
  - Improving delivery times
- Digital strategies also increase inventory turnover and enhance return on capital

Organic Competencies of Family Companies

- Organizational capabilities: people, skills, systems
- Customer–supplier integration: relationships and systems
- Product/service price and performance
- Brand equity: reputation
- Concentrated ownership structure
- Family unity and business opportunity

Interpreneurship

- Interpreneurship: intergenerational entrepreneurial activity
  - Keeps family company young
  - Provides entrepreneurial opportunities for next generation
- Intergenerational growth improves odds of continuity
- Growth without unique strategy should be avoided

Global Opportunities

- Family companies often reluctant to go global because of
  - Conservative approach to fiscal management
  - Propensity for risk avoidance
  - Large size of domestic markets
- Companies minimize risk by making alliances with foreign family companies

Positive-Sum Dynamics

- Next-generation members can help adapt business to new competitive conditions
- Family unity leads to use of proper managerial and governance practices and perception of growth opportunities
- Continued growth avoids zero-sum dynamics