

Family fortunes

Family businesses are not the parochial structures they are sometimes portrayed as. In fact, keeping it in the family can bring all sorts of benefits to your business, not least stability and commitment



What are the advantages of being a family-run business? Accountancy firm, BDO, has done a great deal of work with family businesses and they cite an impressive list of advantages:

- **Stability** – Key management personnel have usually been around for years. Relationships (within the company, with suppliers and often the local community) have had time to stabilise and develop as have working practices
- **Commitment** – The family is in it for the long-term and are dedicated to the growth and protection of the business
- **Knowledge** – The intricate workings of the business may be known to a number of family members who can maintain service levels and make quick decisions when necessary
- **Flexibility** – Blurred work/home-life division creates extra reserves for the business workload
- **Long-range thinking** – Success is measured in generations, not weeks or months
- **Reliability and pride** – Excellence is strived for as a family will feel justifiably proud of their name being linked with an excellent product »

TONY BURGESS IS CO-OWNER of 23-year-old firm Birchgrove Eggs (see www.birchgrove-eggs.co.uk), with partner and wife, Gwen. Tony says:

‘A family business is a powerful tool in the “branding” of your product. You immediately give it an identity and image, which is a competitive advantage in a world absolutely inundated with relatively anonymous global brands – they may have shelf-buying power for their product, but they do not have the image of a product that is wholesome, assured and thus satisfies consumers’ needs. The product is re-inforced by its traceability directly back to the family business.’

There are other benefits for the firm based at Trawsgoed (near Aberystwyth) as Tony explains: ‘A family business has strengths and weaknesses just like any other business. I believe that the strengths of a family business lie in areas such as problem solving – a problem shared is a problem halved. Motivation is high, along with enthusiasm – usually due to constant brainstorming sessions around the dinner table!

The age differences in the family allow a much broader overall picture of the business direction, and new innovations and working practices are

easier to implement due to commitment, flexibility and common cause.

‘There will invariably be disagreements over certain policies, but in our experience, everyone’s opinion is considered – certain pieces of each person’s opinion will eventually be transformed into the working model.’

Someone who would agree with that is Frank Calvacuiti, who runs Pioneer Aviation near Abergavenny (see www.pioneeraviation.co.uk) with his daughter Keren Watkins. ‘Oh, we don’t always agree,’ he says, ‘but there are decisions to be made. This is a business – though we are close. We have individual skills, which complement one another.’

The two share a love of flying, and now sell self-build light aircraft. Watkins’ skills include flying an RAF Jaguar, during her time as a squadron leader. When she left the air force to start a family with husband Paul – also a squadron leader – their first baby was followed by triplets. Now both family and business are based at the Watkins’ home, a former barn converted by her father. ‘This was a natural move for her; she looks after the babies, runs the business – and she can fly when she wants to,’ explains Cavaciuti.

Family planning

One area in which experts feel family businesses could be fragile is succession. BDO actually produces The Family Business Rulebook, which cautions: ‘Failure to prepare may be fatal for the company and disastrous for the family.’ Tough questions such as: ‘Would my family be better off if I sold the business?’ and ‘Do my children want to come into the business?’ have to be tackled. ‘Sentimentality has to be put aside and commercial reality faced,’ says the guide.

THIS IS THE SITUATION IN WHICH BOB GILLIARD FINDS HIMSELF, and he is well prepared. As the patriarch who took his one-man business and turned it into a £1 million firm employing 20, he now says: ‘I’m easing myself out of the business.’

Northern Industrial Battery Services (see www.nibsltd.com) has been based at Llanymynech near Welshpool since 1992. Daughter, Shenagh, and son, Chris, have brought their own mix of skills to the business, with Shenagh recently leading the company to coveted Investors in People recognition. Bob Gilliard feels strongly that the advantages of working with family far outweigh any disadvantages.

‘If you had to discipline an employee who was a family member that would be difficult. But with family you get more in terms of loyalty – they don’t just run 100 yards, they run 110»

And when it comes to treating family as employees or business partners, he says: 'They're family – they're not slaves! They have minds of their own – and it makes sense to encourage that thinking. It's very good for the business.'

Tony Burgess agrees. 'Family members are treated in exactly the same way as employees – I regard our employees as an extended family. We are advocates of empowerment in all aspects of our working practices; our employees are in the same team as all the family.'

He feels there are other benefits too. 'We are extremely positive about our business being a family business for several reasons. Importantly, it ensures sustainability – not only in the business but in the broader sense of our environment and community. How many of our younger generation and their talent have been lost in outward migration?'

Are there, in his opinion, any disadvantages? He replies: 'Family businesses do face the problem of convincing certain larger customers that they are reliable, consistent and professional. My response has always been a "full visibility policy" – let them see at first hand just how effective a small family business can be at production, innovation, flexibility, sustainability and teamwork.'

Finally, there is a concern in some quarters that many family businesses are still operating with somewhat insular structures. In a recent survey, 60 per cent of the respondents were still without a non-

executive director (NED) and ownership was closely retained by the families – overall the families surveyed owned an average of 93 per cent of the equity in the business.

The report, *Leadership in Family Business*, reveals the make-up of UK family firms, including their structure, culture, hopes, fears and survival prospects in today's competitive market place. It shows that three-quarters of family businesses are run by boards almost entirely made up of family members.

Based on responses from 150 senior owner-managers, the study was the first in a major programme of research at London Business School into family businesses, and was conducted in association with the BDO Centre for Family Business and the Institute for Family Business (IFB). Tony Bogod, chief executive of the BDO centre, says: 'Family businesses are still operating under old structures and are in danger of being consumed by what makes them so special – their 'familiness'.'

'Today's family business is still potentially a very strong entity, with family ownership and culture giving them a competitive advantage. But they risk their growth potential if they fail to recruit from outside, re-evaluate governance structures and face up to difficult issues – such as succession – before they become areas for family unrest.'

Professor Nigel Nicholson, author of the report, added: 'Family businesses do face special challenges and problems, which according to the research fall under three key areas; succession, insularity and family conflict and governance. Those that are able to master these have uniquely powerful advantages, underpinned by their cultures, which have strengthened to bear the burden.'

There is help at hand to tackle issues particular to family-run businesses be that succession planning, recognising that family members should also be treated like employees etc. Martin Brown, manager of the WDA's mentoring scheme, says: 'Where there are difficult issues – typically related to family members, ownership and strategic direction – bringing in a trusted mentor can help to reach a consensus. "Keeping it in the family" may not be best for every situation; sometimes a dispassionate intervention helps everyone to see the best way forward.' ■

For further advice and information see
www.icaew.co.uk
www.familybiz.net
www.bdo.co.uk/cfb
www.businesslink.gov
www.ifb.org.uk
www.sfla.co.uk
www.fbn-i.org
www.london.edu/family_business_download.html



IT COMES DOWN TO NEGOTIATION BETWEEN A WILLING SELLER AND A WILLING BUYER

RAY HURCOMBE, PROGRAMMES DIRECTOR, FINANCE WALES

More and more Welsh owner-managers are looking to value their business. Some do it to gain an understanding of their market and trading position, but more often it is to generate capital through a share issue or even to realise all or part of their investment through a full or part sale.

Setting a realistic value takes time, and relies heavily upon research. Assessments are made on the many different facets of the business including its markets, the business strengths (and weaknesses), competitive advantage, the industry or sector and even predicted future revenues. Buyers will want to be convinced that the market has demonstrated continued historical growth and whether this growth can be reasonably justified in the future. A bullish market place would add to the value of the business.

Are you sitting on a fortune? Knowing the value of your business is vital if you want to raise capital

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Similarly, the business' trading position will have considerable influence on its value. A strong track record will help to give both buyer and seller confidence in valuing the company but this should not be looked at in isolation. The future sales, business plan predictions and new product developments are key components of any valuation, as is the ownership of any intellectual property rights (IPR) that the business may have developed.

Valuing your assets

A useful guide when developing market worth is to form an opinion from the industry Price/Earnings (PE) ratio. The current PE ratio will give an indication as to the strength of the industry at that particular time. Simply put, the PE ratio acts as an indicator of the expected future

performance of a company. The reason behind the sale may also affect its value. Does the buyer intend to break-up the

TIPS FOR VALUING YOUR BUSINESS

- Do your research
- Bigger businesses can make like-for-like comparisons based on, for example, stock market valuations
- A bullish market will increase the value of your company
- Industry Price/Earnings (PE) ratios are a useful indicator of a particular industry's strength
- The reason behind the proposed sale may also affect the value of your company
- The Asset Value of a company can be calculated quite simply through the individual assessment of the value of each of the company's individual assets
- A company with a lot of fixed assets and a strong value of the balance sheet will be in a better position to negotiate than a small one-man-band trading from home with no tangible assets
- When entering into a negotiation the seller should bear in mind that the sale may not be the end of his or her involvement in the company

business, either to trade as several independent smaller businesses or to dissolve the business entirely? The Asset Value can be calculated quite simply through the individual assessment of the value of each of the company's individual assets.

A company with a lot of fixed assets and a strong value of the balance sheet will be in a better position to negotiate than a small one-man-band trading from home with no tangible assets. The fixed assets and a strong brand may provide confidence for both the buyer and seller. Alternatively, if the current owner is set to retire following a successful sale then often the negotiations for the value of the business may be influenced by how much the seller wishes to retire on.

Finally, when entering into a negotiation the seller should bear in mind that the sale may not be the end of his or her involvement in the company. Many negotiations result in the seller having continued interest in the company either as a deferred payment or 'earn out' subject to conditions, with the seller playing a reduced but active role in the on-going company. Agreements of this nature can often ensure a sale goes ahead when otherwise it may have stalled.

When all is said and done though, a successful valuation will fundamentally require two things; A willing seller and a willing buyer, and the ability for both to negotiate a settlement value. ■