

SECRETS TO GROWTH IN FAMILY BUSINESSES

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It is commonly true among family businesses that the founding generation knows the enterprise by habit and instinct. The business makes money, but the founders often can't articulate exactly why. This makes the second generation uneasy even in good times, because they want to ensure that things keep going, and they're not sure how to go about it.

Imagine yourself meeting with clients who run a family business. They are questioning the company's recent performance.

Studying the numbers, you see that growth has been moderate. Like your clients, you suspect the company could do better, but you're not sure what to suggest.

The solution is to recognize a hidden problem that holds back growth at many family businesses — insufficient financial data — and see yourself as a trusted advisor. Ask your clients five key questions:

- ◆ What do the numbers on the traditional financial reports (Balance Sheet, Profit & Loss Statement, Statement of Cash Flows) NOT tell them about their business?
- ◆ What additional information could their accounting staff give them on a day-to-day, week-by-week basis?
- ◆ What does this missing information provide?
- ◆ How can they use it?
- ◆ When do they need it?

The key to any successful business enterprise is rarely a dynamite, category-killer product

or service. It's usually nuts-and-bolts financial management. We PNG members can help our family-business clients thrive into the second generation and beyond by leading them through a disciplined inquiry into the numbers the business generates. By doing so, we can help them to translate habit and instinct into information and practices comprehensible to members of the founding and subsequent generations alike.

Information in a Flash

Your clients run a retail furniture operation and they've just finished a successful newspaper ad campaign. They need to know why the campaign succeeded — and they need to know right now. In all likelihood the numbers on their current financial statements will reflect the results of the campaign only indirectly and in any case, if generated on a monthly basis, will probably come too late to do your clients any good.

What these clients need is "flash" information showing sales generated by the campaign along with data on their customers, including deposits received, delivery dates promised, and the like. The information should detail who the customers are, where they are located, what they bought, the number of pieces and average sale per order, and most crucially, in what publications they saw the advertisement.

Armed with this information, your clients can put together a detailed plan for the coming months, anticipating what kind of cash flow they will generate, how much working capital they will need for their vendors and suppliers, what kinds of

merchandise they should order or delete from the showroom, and so on. The plan can also help them to maximize the effectiveness of their next ad campaign by targeting the right customers in the right publications.

The key to all of this is valuable but non-traditional accounting data — and without it, your clients will limp along, at best, or even falter.

Say instead that your client runs a seasonal wholesaling operation. Wholesalers make money on turnover, so they need data on activity. They also need data on the profitability of every item they sell so they can give their salespeople the right incentives to move the right goods as rapidly as possible. It's not enough, in other words, for your clients to know what sells and when. They need to know what makes money — that is, which products move fast at high profit margins.

Good Information is Key

Once again, good information, delivered in real time or close to it, is key.

If your clients own commercial or residential real estate, they need to know who's paying rents on time and who's not, and they need this information soon enough to take appropriate action. Similarly, they need to watch lease expiration dates and calculate cash flow to finance leasing commissions, tenant improvements, and recurring or special maintenance and refurbishing projects. If your clients are real estate developers, on the other hand, they must time land use costs, construction,

promotion, and a host of other costs, all while tracking financing against progress on the projects they have underway.

Note that the information needs of commercial and residential real estate operators differ from those of developers — and both differ from the needs of wholesalers and retailers. Information is crucial to every business, but the kind of information each needs depends on the nature of the business.

Whatever the industry, from hospitality to banking, from law firms to restaurants, too many family businesses don't operate on the basis of sufficient and complete financial information. As private companies, they don't generate interim daily, weekly, or monthly financial data in compliance with accepted accounting standards. Instead, the founders trust to instinct and run things via a kind of idiosyncratic financial shorthand — effective, maybe, but often comprehensible only to themselves.

Hence when their sons or daughters take over, they may struggle.

This is where specialized business consultants can step in. Because not everyone who operates a successful business is a good teacher, we have the opportunity to step back from the enterprise, look at the whole, and give our clients an independent read on the problems that limit their growth. In all likelihood the key will lie in the numbers — and if we learn to recognize what the numbers do and do not say about the enterprise, we can help our clients grow and prosper.