The Survival Test

Family Businesses in the eye of the storm (1) –

An international survey

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Over the past weeks we constantly asked ourselves: How is the pandemic affecting Family Businesses ('FBs')? The picture is quite varied and nuanced, with wide disparities according to geography, industry sector, sales channel, and whether a company is designated by governments as ´system critical´ or not. It is important to recognise also that the effects of the crisis are evolving over time – as the CEO of an international FMCG company summarised: "In the beginning, the challenge was with the supply side. In the future, the challenge will be what happens with consumer demand and confidence." Below, we list some of the main issues currently affecting FBs.

Uncertainty

Overhanging most of these businesses is the pervading air of volatility and "complete unpredictability". While governments in many countries are now revealing their plans for a phased end to the national lockdowns, there is an alphabet soup of theories as to if, when and how normality will return (V-curve? U-curve? L-curve?). Forward planning in these times can feel like "guesswork" and many CEOs are plotting their actions versus multiple potential scenarios ("best case, base case, worst case").

Physical Health & Safety

In terms of the direct impact on the health of employees, while some companies, e.g. in Switzerland and parts of Germany, have experienced only low infection rates and few hospitalisations, others headquartered in virus hotspots such as Northern Italy have seen large swathes of their workforce side-lined. One Italian business has had to cope with a situation in which 40% of employees at its main site contracted the virus; worse still, the local society, with a high age demographic, has witnessed a shocking death toll – "almost everyone" has lost family members or friends. In the plants, new safety measures and shift patterns have had to be rapidly conceived and introduced.

Mental Welfare

Closely linked to ensuring physical security, bolstering the mental health of employees has also become of critical importance. "There is a big need for handholding" said one CEO. A (female) business owner related how one of her biggest challenges is "keeping everyone happy while domestic problems are bubbling up and people talk to me more now". "I am encouraging men to open up and talk! Psychological needs and fears have to be addressed." There is an apparent need for FB owners to connect on a personal level to their workers; "there hasn't been a time that I can recall where I have asked as much about the well-being of parents, grand-parents and, of course, children of our employees – after all, we are all one big family!"

Loss of Key Workers

Following on from the above two challenges, a notable trend among some FBs has been a debilitating unavailability of 'key workers' for weeks at a time. A number of company leaders told us how the virus had highlighted an (over-) dependency on individuals who are – at least in the short-term – irreplaceable because they are the only ones who, for instance, possess a specific technical knowledge or personally handle an important customer relationship. While big corporates typically have detailed talent development policies and their top leaders have numerous of deputies who can step in, mid-sized FBs often have no "back-ups" in place. In many cases, this is because of both a lack of strength-in-depth talent, and also because the key workers are long-time and loyal employees expected to stay at the company until retirement.

Declining Sales

Estimates of the impact of the crisis on sales vary hugely according to sector and distribution channel. A number of family businesses operating, for instance, in the packaged food and medical technology segments, have actually benefitted from a significant uplift in sales over the past two months driven by consumer panic buying or government healthcare purchasing. Even private banks have seen trading volumes increase thanks to increased stock-picking activities and more active portfolio management. However, the vast majority of companies in e.g. the industrial, consumer durables, automotive, transportation, leisure and hospitality sectors have seen drastic sales declines – sometimes on an unprecedented level in terms of the rapidity of the collapse in demand. A CEO of an automotive supplier predicted his business would suffer a drop in sales of -80% in April and May, and a fall of -40% for 2020. Another CEO, this time in the consumer durables sector, highlighted how variable the impact was according to the distribution channel – a decline in sales of 40% via electrical retail chains in March and April being partially offset by an impressive +270% sales boost via the internet.

Liquidity

For most FBs in this period, as for corporates generally, cash management is a top priority. However, what is striking is how many FBs do not have cash flow issues, are unburdened by heavy debt and describe their overall financial standing as "solid". In this dimension – and while several owners did complain about "very cautious" or "unhelpful" banks unwilling to extend loans, or late payments by customers ("some customers in Italy told us they want to delay payments by six months!") – most FBs we surveyed seem relatively well positioned to survive this crisis. [We will return to the reasons for this crucial differentiator of FBs in the 4th article based on our survey to be published shortly.]

Disruption of Supply

Many supply chains – often global, complex, operated on a just-in-time basis – have been seriously disrupted by numerous factors including plant shut-downs, cross-border workers not being able to commute, and see-sawing availability and price of commodities. Logistics companies dealing with the supply of critically important medical products to hospitals, or of consumer goods purchased online by suddenly house-bound consumers, have been overwhelmed by rocketing orders.

Dependency on China

Linked to the above, but specifically an issue for many companies due to its outsized importance, is China. A large majority of interviewees mentioned the country in one context or another, and almost all have faced problems during the first quarter either because they depend on supplies coming from China or because they depend on demand coming from China.

However, overall, and while respondents are deeply conscious of their burdens and responsibilities, we have noted a greater sense of optimism than we expected. We were pleasantly surprised by the feelings of determination and confidence voiced by interviewees. In the next two articles based on our survey, we will dig further into this mindset and examine the concrete measures FB leaders have already put in place, and where they see opportunities for future development.

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