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The Competitive Advantage of a Family Business

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KPMG Enterprise
Centre for Family Business

As consumers and business leaders, we still attach some kind of mystic to family businesses based on the perception that they are friendlier, better employers and more caring and therefore must produce a better product. Recognizing this marketing advantage, many family businesses continue to promote this aspect of their business. But it is more than just mystic or perception—it is a reality based on the fact that a family business has access to unique ingredients that can provide a lasting competitive advantage.

Are you taking advantage of yours?

“The authors argue that the same attributes that have long been vilified as weaknesses of family businesses—stable strategies, clan cultures, lifetime tenures—have actually created formidable competitive advantages for many of these firms ... these family owned businesses not only dominate their markets for twenty years to hundred plus years but did so by defying most aspects of modern management practice.”

Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses

As you might have suspected, the unique ingredients stem from having “family” as part of the business equation. The benefits derived from being a family in business will vary depending on the makeup and size of the family and its stage of evolution (i.e. first, second, third generation). The following are some of the benefits that differentiate family businesses and can provide a significant competitive advantage.



Loyalty

Family members in business tend to demonstrate a greater sense of loyalty to each other and to the business. They also tend to be more committed to the success of the business and are more passionate about what the business stands for.

Legacy

Families in business have an opportunity to create a lasting legacy that brings with it a sense of accomplishment and a strong sense of pride. Building on the efforts of their forefathers is a strong motivator for subsequent generations to become stewards of the family business and carry it to new heights in the name of the family.

Access to labour

Multi-generational family businesses have access to a labour pool of family members who, as previously mentioned, tend to be more loyal and committed to the business. Family members also tend to be more flexible in taking on different job functions and filling in for others.

Access to capital

Family businesses often rely on the family as a source of capital for funding business activities, which has often been cited as a significant competitive advantage, especially when times are tough and funding is tight.

Key employees

Key employees (non-family) appreciate and enjoy the unique work environment created by a family in business. The workplace

tends to be less formal, more hands on and more personable. Many key employees are treated like extended family and develop a strong bond with the family and the family business.

Patience

Family businesses tend to be less driven by short-term financial results and are prepared to sacrifice short-term gains for the achievement of longer-term goals, which allows them to align the deployment of resources with their strategic objectives. This long-term approach to investing is often referred to as “patient capital.”

Values

Family business owners have the opportunity to teach and pass along their business and personal values to the next generation of family managers/owners. Family members take pride in upholding these family values and build them into their day-to-day work and personal activities. The work culture is often a reflection of these family values.

Career opportunities

Family business owners pride themselves in being able to provide family members with career opportunities in the business. The family business can be a great training ground for family members who aspire to pursue business careers elsewhere or within the family business. Family members are also provided with the opportunity to become managers and owners of the family business.

Relationships

The opportunity to work with family members to pursue common business goals can be a very rewarding experience. Years of bonding among family members can create a strong sense of belonging and interdependency. Effectively managing these family relationships can go a long way in ensuring long-term family and business harmony.

Financial rewards

Successful family businesses are able to provide financial rewards to both active and non-active family members. It is not uncommon for family businesses to reward family members more than they could obtain elsewhere. This is often viewed as one of the privileges of being family.

Succession

As well as providing career opportunities, family businesses also favour passing the business along to the next generation of family members. The opportunity to be an owner of the family business or of any business for that matter can be both motivating and rewarding.

Community and philanthropy

Most family businesses are active in their communities. The communities benefit from both the family members as volunteers/supporters and from the family business through financial support and employment opportunities. This commitment to the community tends to permeate the generations and provide family members with the opportunity and rewards that stem from this ongoing community support.

Given that family businesses have the potential to experience this real and/or perceived competitive advantage, they owe it to themselves to be proactive in building value within their businesses and plan their succession strategies well in advance to ensure that this competitive advantage and strong business opportunity has longevity. Family businesses that are able to effectively harness these unique family attributes and leverage them into the business have the potential to grow value and create sustainable competitive advantages. Those who have successfully done this tend to dominate their markets and continue for many generations.

How we can help

In addition to providing Accounting, Audit, Tax and Advisory services, we offer a range of services geared to the needs and dynamics of business families:

- Transition planning, equity transfers and generational change
- Family business governance, including family councils, family constitutions, board structures, business decision making and assurance frameworks
- Strategic business planning
- Tax planning and compliance, including HST, capital gains tax and income tax
- Wealth creation planning and wealth preservation
- Asset protection
- Retirement planning, estate planning
- Sale and purchase of family businesses.



Feature Case Study

A good example of a family business that was able to leverage their family attributes in creating competitive advantage and long-term sustainability is the case of Beau's Brewery, a micro brewery located in Vankleek Hill, Ontario. Started by father and son, they tapped into both the family labour pool and the family's capital pool to get the business off the ground. With a number of family and extended family members actively working in the brewery, they have been able to leverage many of the family attributes we've highlighted to manage their rapid growth and sustain their competitive advantage.

In recognition of their efforts, Beau's Brewery earned the "Family Business of the Year" award from the Ottawa Chapter of the Canadian Association of Family Enterprises (CAFE). The business then proceeded to win the national CAFE "Family Business of the Year" award for 2010. In accepting such a prestigious recognition, the owners made it very clear that without access to those unique family attributes, there would be no Beau's Brewery.





Beau's Brewery Maximizing Family Attributes

"All of these family attributes have played a part in our success, some more so than others."

Steve Beauchesne, Co-founder and owner of Beau's Brewery

A good example of a family business that was able to leverage their family attributes in creating competitive advantage and long-term sustainability is the case of Beau's Brewery, a micro-brewery located in Vankleek Hill, Ontario. Started by father and son, they tapped into both the direct family and extended family labour pool and capital pool to get the business off the ground.

According to Steve, the loyalty demonstrated by the family members during those lean start-up years, which of course rubbed off onto the other employees, was instrumental in keeping the Brewery afloat.

With a number of family and extended family members actively working in the brewery, they have been able to leverage many of the family attributes to manage their rapid growth and sustain their competitive advantage.

When visiting the Brewery, there is something special about the workers and the work environment—you can feel it and you can visibly see it among the employees. It's as if they are all on a mission with a clear focus and a well respected leadership group. Watching father and son walk the floors, exchange ideas and greet employees and visitors tells you a lot about the culture of this family business.

Steve does not hesitate to point out that the family business is not a charity. He recalls his earlier years working for his father in

another business where his father told him "bloodlines may help you get a job but it will not guarantee that you keep a job." As an owner, Steve continues to apply this lesson today. He insists that there needs to be a good matching of skill sets with the job at hand. Employment opportunities and especially career advancements must be earned. The notion of "entitlement," which can often plague family businesses is discouraged and consistently managed. "There is no entitlement just because you are family or extended family." However, the company is prepared to invest heavily in training and education for family and non-family employees alike. It would appear that they have been successful with this strategy given the large number of direct and extended family members working throughout the Brewery.

"We apply the principle of 'fairness' to all our employees. To us, our non-family key employees are like our 2nd family. We are not hung up on titles or positions but focus on getting the job done. It's far more important for all of us to be considered part of the team. This may need to change as we continue to grow but for now we need to be flexible."

Although it is a young brewery, they are now starting to think about creating a legacy. According to Steve, this mentality is starting to permeate the company and it's nice to know that they are now in a position to achieve this lofty goal.

Steve's advice to aspiring entrepreneurs or family business successors is to set your values and stay the course, especially early on when the business will be pulled from all sides. "The ability to say 'no' has been a guiding principle at Beau's Brewery. And if you're fortunate enough to have access to family and extended family, you're one step ahead of the game."

Why select us

It makes sense to work with advisers who really understand how a family business operates. Having worked with family businesses for decades, KPMG Enterprise has the experience and know-how to help you achieve your business objectives and family goals. Some of our professionals come from family businesses themselves.

Value for money

KPMG Enterprise professionals seek to deliver value to their client beyond the fee charged. Our experienced family business professionals isolate the key issues quickly and efficiently. It means you're not paying for someone to learn on the job.

Industry knowledge

Our understanding of family business issues is reinforced by our in-depth industry experience across all business sectors, including manufacturing, automotive, transportation, retailing, food services, franchising, property and construction, communications and technology, and hospitality to name but a few.

Culture and values

You want business advice that is relevant, timely and, most importantly, objective and independent. KPMG Enterprise values our integrity and independence

above all else. We set out to build long-term relationships with our clients built upon mutual respect and trust.

People

Our experienced professional advisers combine strong technical capabilities with deep business insight and experience. They're proactive in raising ideas and know the importance of getting results in a timely, no-fuss manner.

Multi-disciplinary approach

Our family business clients can draw on our firm's extensive capabilities across a range of professional disciplines. We've also forged alliances with academics, family business facilitators, lawyers, financial planners and business mentors. These resources can be "mixed and matched" to meet the specific needs of your business. It's an approach that can help avoid the expense and overlap of working with multiple advisers.

Clear, actionable advice

We know our clients don't have the time to wade through advice that is vague and impenetrable. Our advice is practical, jargon-free, relevant and timely.

We work with family business clients to simplify complexity and isolate the key business issues.



About KPMG Enterprise

With decades of experience working with family businesses across the country and with many KPMG Enterprise advisers coming from family businesses themselves, we understand that the nature of a family business is inherently different from a non-family business. That's why we pulled together a unique team of professionals within our firm and developed an equally unique portfolio of services that address the specific needs of Canadian family businesses and their owners.

About the Centre for Family Business brought to you by KPMG Enterprise

KPMG Enterprise's Centre for Family Business is dedicated to assisting family owned and operated businesses to effectively deal with their unique management challenges. Our goal is to help guide family businesses in their day-to-day operations with a focus on the continuity of the family business. It includes an open virtual forum where members of any family business can share experiences, gain insight into leading practices and obtain the essential support to grow and thrive in today's competitive economy. Visit kpmg.ca/centre-for-family-business.

Contact us

For more information regarding the Audit, Tax and Advisory services offered by KPMG Enterprise, visit our website at kpmg.ca/enterprise or contact:

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