UK Family Business Outlook

PwC has spent three months talking to dozens of family business leaders across the UK*. Many had reached a point of inflection. Even as they continued to wrestle with the disruptive impact of the pandemic — and the increased agility it has demanded of their organisations — family business leaders were also turning their gaze outwards and considering what the past year has taught them about ensuring future success.

Here, we delve into the issues that are central to family businesses, both from an ownership and a management perspective. And we hear directly from those who are navigating this evolving landscape.

*Methodology

PwC conducted 2,801 interviews with key decision-makers at family businesses around the globe between October and December 2020. The interviews spanned 87 territories and included 57 in-depth interviews with UK family business leaders. The goal of the family business survey is to get an understanding of what family businesses are thinking on the key issues of the day. Interviews averaged 18 minutes in length.

Growth and capability

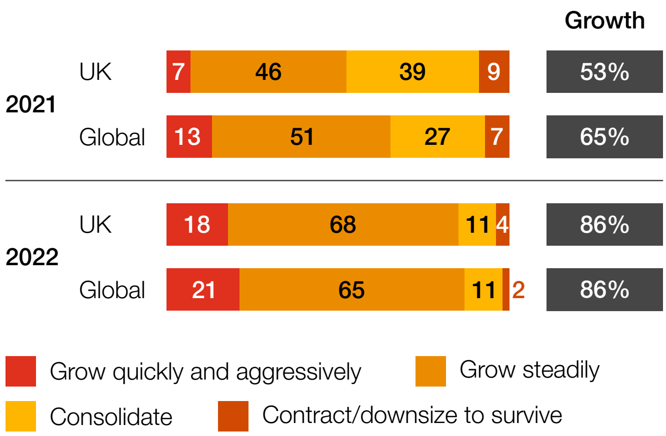
Suzi Woolfson, a private business partner at PwC, has spent years working with family businesses in all sectors. Despite the significant headwinds of 2020, she is unsurprised to learn that a majority of companies surveyed were able to grow last year.

53% of companies surveyed achieved growth in 2020

"Your first instinct may be surprise," she concedes. "But family businesses tend to be resilient and much more agile than some large corporates. They think about the longer term, but they can also make decisions quickly in the moment — and crucially, they can implement those decisions at pace. In areas with significant demand, we saw businesses accelerating production significantly in a matter of weeks."

That agility has helped to lessen the blow of Covid-19, but there's no escaping the significant impact it has had on many organisations and their people. Prospects for 2021 are fairly muted from a growth perspective, but most family businesses are bullish about a return to form in 2022.

Grow ambitions for 2021 and 2022



Having the right technological infrastructure in place is key to those ambitions, with business leaders reporting that increased digital capability has moved from an important consideration to an outright necessity in the face of the pandemic and its lasting implications for operations, distribution and customer interaction.

Less than half the family businesses surveyed feel they have strong digital capabilities

Only a very small proportion of UK family businesses (14%) have reached a “fixed” digital strategy — where a strong capability is already in place, such that digital is no longer a priority.

Asked about their key priorities for the coming years, UK family business leaders had three clear imperatives:

60% wish to improve digital capabilities

53% are aiming to introduce new products and services

47% are seeking to increase the use of new technologies

“In 2020, the winners were those who already had an online presence,” says Woolfson. “As consumers, we’re never going back to ‘store only’. So digitisation is happening from the front office to the back office. During Covid-19, we’ve seen stop gaps created but there’s a long way to go to digitise all of these processes.”

Indeed, UK family businesses have been focused on surviving the pandemic — finding a way through and where possible, establishing a strong footing for the future. Now, attention turns in earnest to building the right workforce for the future, with the people and processes that will allow the business to operate in a productive and efficient manner, which is also in line with its purpose and values.

Almost half the family businesses we surveyed are also seeking to diversify their business over the next five years, though only a quarter have a diversified business today.

Tom Reynolds, Head of Food to Go and Fourth Generation Family Member at Reynolds, on a remarkable year in the foodservice industry

The calm before the storm

It was always made clear to me that I had to earn my place in the family business, so I spent some time after university working at a well-known restaurant business. I joined Reynolds in 2014 in a broad role and then moved around departments to get to know the business. It was inspiring to see the passion and loyalty of the team. Even those in physically tiring jobs, like our drivers and pickers, brought so much energy to their roles.

I wanted a project that would give me visibility as both a family member and an employee. I also wanted to counteract the idea that I'd get special treatment and instead, highlight the contribution I could make to the business. I worked in logistics and was able to double the backhaul revenue which highlighted the potential of this previously overlooked department.

I then moved into the world of commercial and have been working closely with our customers since early 2018.

A year unlike any other

The last 12 months have been the most difficult of my career — and the same goes for many of my colleagues, some of whom have more than 25 years of service with our business. It has been hugely emotional on so many levels and challenging from a mental health perspective.

In March 2020, when restaurants closed, we thought initially that they would reopen again by September 2020. We decided to stay open for healthcare customers and small parts of the business serving the retail sector. Sales dropped by 90% in one week.

During August 2020, with the Eat Out to Help Out scheme, demand then boomed to almost unsustainable levels. We hoped that September and October would allow us to find some equilibrium, but sales unfortunately stepped back significantly. From there, we rolled into November lockdown, Tier 4 restrictions, and then 2021's national lockdown.

The impact on our people was exceptionally tough. We had to furlough much of the team before unfortunately saying goodbye to 450 people when we realised business wasn't likely to return to 2019's levels for many years.

A time for reflection

We did have some positive developments last year. Our Business Improvements Team developed new processes and protocols as we were sick of having to adapt our ways of working to fit the processes we had in place. We've developed a brand new online customer portal and early feedback is really positive and allows a slicker customer journey.

We've also used this slower period to remove inefficiencies in our business, so we're optimistic about the foundation we've built and we're ready to take on whatever the world throws at us next.

The last twelve months have brought us closer to our key strategic partners and we are now focused on growth. There is a huge demand for supply chain consolidation, and we have some exciting joint ventures in the pipeline that will allow us to supply more products to customers, so they can consolidate more of their basket with Reynolds.

Sustainability remains really important to us at Reynolds. COVID-19 has driven lots of single use packaging back into the supply chain and it's a real shame that we've probably gone back a few years in that regard. However, we've been zero to landfill since 2014, and we continue to make incremental improvements, adding LED lighting to our warehouses, introducing reusable and trackable crates for deliveries and innovating with our vehicles.

We're working with another family business to build vehicles with solar panels on the roof that can power the refrigerators inside. I'm really proud to be working alongside another family company; together we can continue to innovate and build a bright future for our industry.

Hannah Harris, family business leader at PwC, notes that longevity is a core driver for leaders wishing to leave their family business in a stronger place for generations to come.

"Typically, growth isn't the only ambition," she says. "Increasingly, we're seeing family businesses prioritise diversification as a means of managing risk — whether that's risk derived from the pandemic or from potential future events that may affect a particular industry. Families don't want to have all their eggs in one basket if they are to be successful in the long term."

But deciding where to place their bets poses another challenge — particularly for those who lack crucial data that can inform decision-making.

One third of companies are taking decisions that are not underpinned by reliable and timely data

Harris points out that data issues are not unique to family businesses.

"And it's not always a lack of data," she cautions. "The problem can sometimes be too much data, so you can't see the wood for the trees. Business leaders can also become so invested in the detail, that they don't rise up and see the big picture. In that scenario, it's about helping individuals to understand what data they truly need to make the right decisions. Gut instinct and consumer sentiment can only get you so far."

Rix Managing Director Rory Clarke on the art of the agile business...

"I'm not a family member; I'm the hired help!" laughs Rory Clarke, non-family managing director at Rix.

"The company's history dates back to the 1870s — or even earlier — as a dry cargo shipping company and ship builders. But we really changed our approach to the business over the last 20 years. We've focused on managing the family wealth — rather than prioritising heritage brands — which has allowed us to be agile and identify opportunities for long-term growth.

When I joined the business, it was an organisation that never disposed of anything, ever. It had acquired all sorts of properties that had no further purpose in our operations and retained interests when they were no longer a good investment. Since then, we've shifted our focus to areas with the greatest ROI, from fuel to property and manufacturing.

Having an agile strategy is vital. In 2008-09, for example, we'd planned to build a supermarket, for one of the major brands, on the site of an old factory that we had acquired. But as the recession hit, it wasn't the right time for that particular investment, and we shifted to building static caravans on the site.

We really invest in opportunities where we find them, bringing in people with the right expertise to support what we do. We have sold off fuel filling stations, and focused on fuel distribution, home heating, and farming, which have performed well during the Covid pandemic. Similarly, we moved away from dry cargo shipping — which had been our traditional family business for 150 years — and sold most of our car franchises, to focus on specialist bunker tankers for our marine fuelling business, workboats servicing off-shore windfarms and a business servicing those assets.

There are three clear key components that allow us to run the business this way. First, we have a small number of decision-makers, who can make decisions quickly. Often with multi-generational families, the stakeholder group can balloon and slow things right down. We have three or four people taking decisions on behalf of everyone, so we can pivot quickly. Second, we are no longer wedded to one particular activity; we're diversified across different areas. And third, we have a strong foundation and low level of debt so we have the financial muscle to power what we do.

As we look to the future, the next generation has recently joined the business and bring in a different set of skills. One of our next gen has a particular FinTech focus, for example, and has incubated a start-up business, Expensemate, an expenses management platform. Elsewhere, we're making sure the next gen are becoming familiar with the workings of the firm and attending board meetings — so they're ready to step into the CEO chair one day.

Covid-19 also gave us an opportunity to move to a new office in the Humber Quays. We're really committed to Hull and this is a vibrant part of the city with a real sense of community — so the future looks bright."

Family dynamics

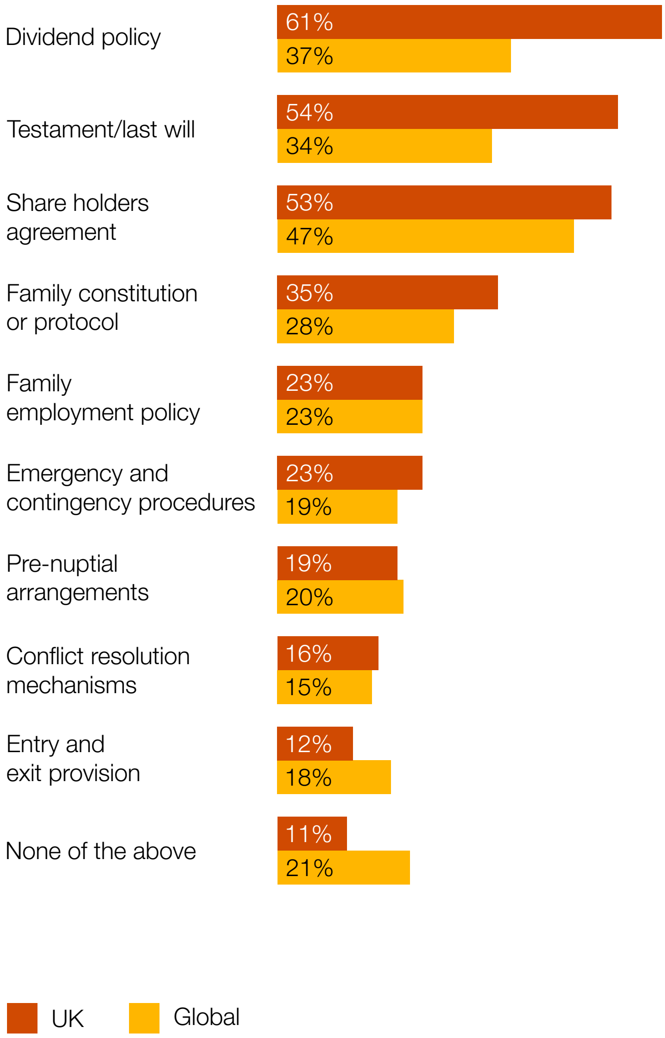
Within the family business community, personal agendas can be as important as commercial strategy when it comes to decision-making.

Almost half the respondents say there is disagreement within the family on the company's direction

"I see this a lot," says Harris. "Family businesses have multiple stakeholders and it can be difficult to align so many views. What is the ambition of the business? Is it to provide employment for the family, to provide wealth, to be best-in-class in a particular industry? Are they seeking security for future generations, or some combination of all these things?"

"It's important to call for all views and properly facilitate an honest conversation that allows everybody involved to identify their common goals and put in place governance mechanisms that ensure those goals sit at the heart of the organisation," she continues. "So often, we are called in because people need help through that process."

Governance policies in place?



Woolfson agrees. "It's vital to be open and honest about what the family business means to each individual. That can be very different from one generation to the next, so the aim must be to find areas of alignment on the purpose and values of the business, and then enshrine that in a proper constitution."

A conversation with Hatul and Bhavin Shah, second-generation family business leaders at Sigma Pharmaceuticals

Sigma Pharmaceuticals was founded in 1982. It has grown to become one of the largest independent short-line pharmacy wholesalers in the UK, but it remains a family owned and managed business. We talk to Hatul and Bhavin Shah, who have joined the company's management board as part of the second-generation leadership team.

On joining the family business…

Hatul:

"When I joined Sigma's core business, as a next gen, I was highly aware and respectful of how the elder generation had paved the way. I followed their guidance on everything. Whether managing transactions or staff, I slotted in like a piece of their jigsaw puzzle. But over time, our experience and confidence has grown — as the second generation leading the family business. We've engaged with regulators and advisors; we've educated ourselves on the corporate world. And in turn, we in the second generation are now leading the board."

On finding their own footing…

Bhavin:

"We had a family policy to gain experience elsewhere before joining the family business. I worked in corporate tax but after the 2008-09 financial crisis, I began looking for other opportunities and joined the family business. It was really important to me, that we as the second generation didn't simply hang off our dads' coattails. As such, I set up our export division, which was unrelated to my father's role in finance."

Hatul:

"There came a time where we had to challenge decisions and processes at Sigma and build a roadmap for where we wanted to go. Across the generations, there were two different visions and work ethics and governance processes. When a founder and entrepreneur starts a business, they proceed in a manner they know best — but the world changes and that can bring governance and compliance challenges. Our recent projects are all about bridging that gap and ensuring we're best placed to thrive."

On managing expectations – and difficult conversations…

Hatul:
"Our fathers had a vision that the next gen would be involved in the company. But we didn't have the right governance to manage it. From salaries to working conditions and hours, expectations really differed, which caused problems initially. We had a constitution but it wasn't fit for purpose. We had to show the founders the way forward using evidence and data. We had to prove ourselves, and earn their trust and respect, which was a stepping stone to them giving us more control."

Bhavin:
"Some of the most difficult conversations happened late last year, when we asked our dads to step off the board. They viewed their position on the board as a status symbol, but being a director required an appreciation of all our obligations from corporate governance, reporting obligations and compliance with the Companies Act, to working with the banks and ensuring a strong risk rating. Suzi [Woolfson, PwC partner] had a big influence in reinforcing the board's responsibilities towards governance. And once one of our father's stepped down, it had a domino effect with the other founders.

On their own legacy at Sigma…

Hatul:
"Future family generations are diverse, and still very young, but we've put the right foundations in place now. Should they wish to join the company, we'll show them that it's not a blood right, but rather something to earn. We want skilled employees — whether family or non-family."

Bhavin:
"It's all about education. Future generations know they'll be shareholders in a family enterprise. But being a shareholder is not a right to a job! The business and the family have their own set of governance rules. With those in place, the company will persevere for years to come. And ultimately, that's what the founders would have wanted."

While three quarters (77%) of respondents to our survey have a clear sense of family values driving the business, fewer have documented them in writing.

47% have a documented mission statement

44% have a defined code of conduct

42% have articulated family values in written form

Progress in this area has been slow and PwC data suggests that UK family businesses are also falling behind their global counterparts in this area, suggesting a cultural reticence to address issues head-on.

“It’s a difficult conversation to have — or to start,” says Woolfson. “And as families grow and change — and you add more people to the chain of command — it only becomes more difficult. But it’s so important to have the conversation.”

And time remains an ever-present factor, with continuity planning often slipping down the to-do list of business leaders with busy daily lives.

Only 1/4 of respondents have a robust succession plan in place

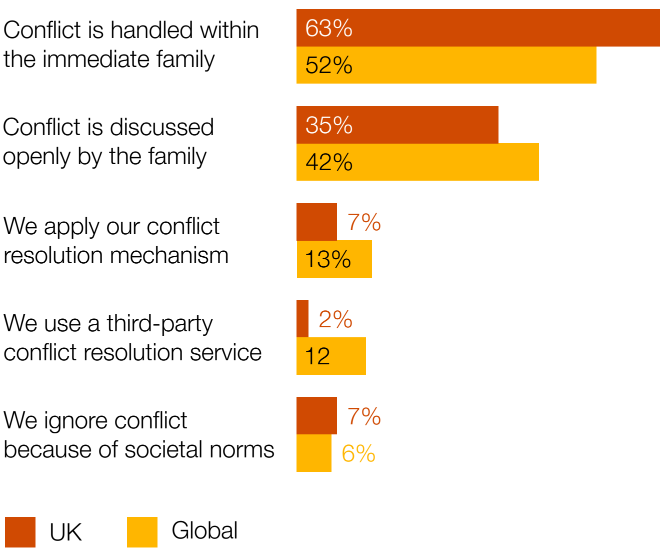
Harris notes that even the term ‘succession’ can make some uncomfortable, but addressing the issue with honesty and openness builds trusting relationships and avoids any future resentments.

“This isn’t just a question of what happens in the event of a family death — though that’s a common misconception. This is about continuity; it’s about preparation. It’s giving the next generation some certainty about what their role will be,” she says.

“We’re often asked to advise when a patriarch won’t step down and those issues almost always come down to trust: the head of the family doesn’t feel confident that their successors will take the right decisions.”

A majority of first generation family businesses expect the next generation to become majority shareholders within five years’ time, so today’s leaders can only avoid these issues for so long. And the longer tensions are left to simmer, the harder the transition will be for future leaders. At present, three quarters of family businesses say they encounter conflict at least some of the time, but more than a third are reluctant to discuss that conflict openly, and only a tiny proportion apply pre-agreed conflict resolution mechanisms to find a solution.

How conflict is handled



Values and sustainability

More than half the UK family businesses we surveyed feel they have a responsibility to fight climate change and its related consequences. Over a third have now made sustainability the central tenet of company strategy.

39% of respondents ensure sustainability is at the heart of everything they do

Family businesses don't face the same investor pressure as listed companies to conform with and set environmental, social and governance standards. But consumer sentiment suggests that adopting sustainability goals can benefit the bottom line — in addition to the greater good — as customers increasingly seek to buy from ethical businesses. Setting a clear sustainability strategy is key. To date, a third of businesses have done so.

33% have a developed and communicated sustainability strategy that informs all decisions

Harris notes that family businesses have traditionally been purpose-driven, while adopting a longer-term outlook in which sustainability was one of several measures by which to "give back" to society.

"What we're now seeing is a step-change, in which sustainability has become a strategic driver for family business leaders," Harris says. "People don't always rate themselves highly on these sorts of measures but I have seen a marked shift, with people feeling a responsibility towards sustainability. They're aware that they can drive change as business owners — and this isn't just something that the millennials within the organisation are discussing, it now spans the generations."

The vast majority of UK family businesses also continue to engage in some form of social responsibility activities, with 74% contributing to the local community and 47% participating in traditional philanthropy or grant-based giving.

Tara Glen, Chairman of the board at EP Barrus, on the company's sustainable future

EP Barrus operates in four diverse market sectors: marine; garden, industrial and vehicle. The family business has a 100-year history, but its sights are set firmly on a sustainable future — in line with the Department for Transport's Clean Maritime Plan, which sets out a clear pathway to zero emission shipping.

Glen explains:

"We are witnessing the start of electrification of the marine sector at both the consumer and the commercial level. The first challenge is to find the right products. There are countless alternatives available, but not many are well-tested. Our existing suppliers have products in the pipeline, but the UK has the most ambitious target to reduce marine emissions in the world, and Barrus customers are asking for solutions today.

Price is also key; we have to make it economic for our customers to switch to electric products. When sustainability makes good business sense, that will drive business decisions.

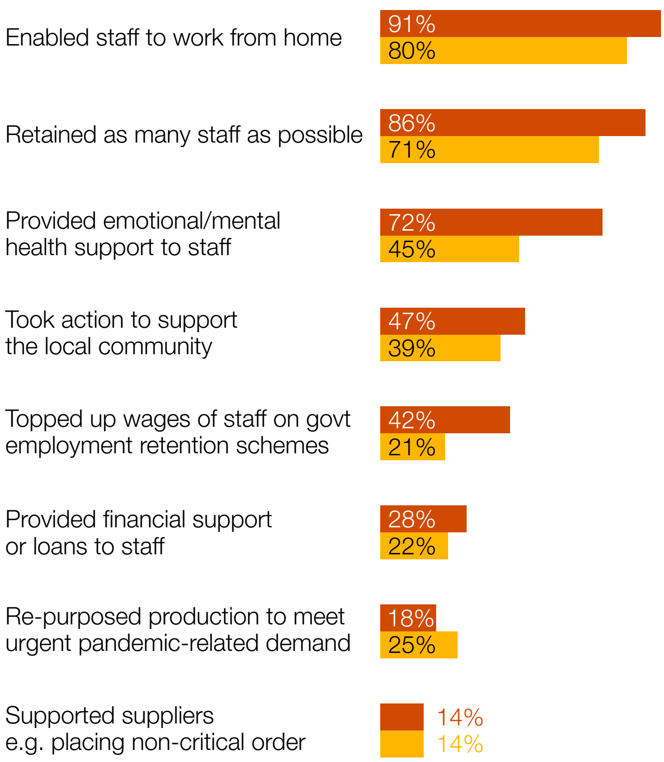
Then infrastructure investment is the other piece of the puzzle. It's all very well to come along with the products at the right price, but the country also needs the infrastructure in place to support these advancements.

At Barrus, we're working with some really innovative start-ups in the electrification space. We have the route to market and they offer new technologies. It's really exciting to watch the momentum building, with the UK at the forefront of the global electrification effort, which will be helped by our role hosting COP26 later this year. The government has been very proactive in promoting this agenda.

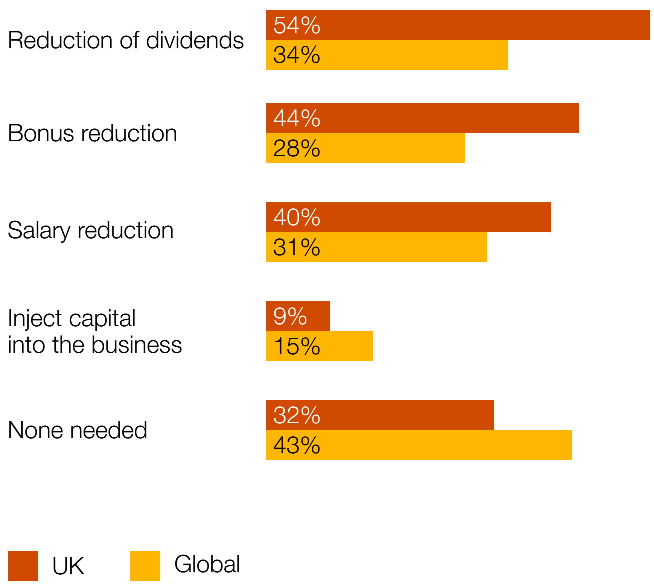
Sustainability now guides many of our business decisions, across all departments — it's better value to reuse packaging materials, to invoice digitally, to go paperless wherever possible. And we intend to be at the heart of electrification in the maritime sector. We're receiving more and more inquiries for electric products every day, and I'm optimistic about the future and the great new products coming into our portfolio."

Meanwhile, throughout the Covid-19 pandemic, family businesses in the UK have placed particular emphasis on doing “the right thing”, particularly as it pertains to their staff. In almost all measures, UK business leaders went above and beyond their global counterparts with the help provided to their people and the sacrifices made by family shareholders.

Help and support provided during COVID



Sacrifices made by family shareholders



Business at its best:

Thatchers – the family cider makers

As a family business we know that our staff, our community and our customers are very important, so our first job at the start of the pandemic was to make sure that Myrtle Farm was a safe place to work.

Our team here at Myrtle Farm have worked tirelessly to make sure the business has continued to run smoothly and efficiently through challenging times. Our focus on keeping our cider-making and packaging processes under one roof at Myrtle Farm means we are able to guarantee the quality of our ciders at all times. Furthermore, it puts us in a position to respond quickly and positively to outside influences, such as increased demand from retailers during the pandemic. Thanks to the huge contribution of our staff, we were able to maintain and increase the supply of our ciders through a strong retail distribution during 2020.

From day one we've been working hard in our local community to support our neighbours. Working with our local village shop in Sandford, we introduced a community phone number for surrounding villages to help local people with everything from delivering essentials, school dinners and vital prescriptions.

We've been saying a big thank you to those on the front line in the NHS and Ambulance Services by donating over 27,000 bottles of Thatchers Zero, our alcohol-free cider, to hospitals, ambulance stations and front line workers throughout the West Country throughout 2020.

We also wanted to support our customers in the hospitality industry. In a £1million pledge during 2020, we gave away 6,000 kegs of cider to pubs and bars up and down the country, as they reopened in July. With the backing of over 60 wholesalers, brewers and pub partners supporting the initiative, we were able to deliver free of charge kegs to free trade, leased and tenanted outlets across the UK, supporting their businesses with much needed cash at the till as they reopened in the summer.

Family first

Whilst the challenges faced by family businesses may be familiar, the landscape in which they are operating could not be more different than it was just 18 months ago. The pandemic has thrown into sharp relief the need for action in certain key areas:

Digitisation has become a necessity rather than an ambition. Even as the economy slowly reopens, customer and employee behaviours have shifted so significantly that 2021 will look very different than early 2020.

Diversification is now a priority. Family businesses have witnessed its power in insulating them against a crisis in one sector.

Sustainability is increasingly driving decision-making — as well as opening up new opportunities in evolving sectors.

The agility and ingenuity of family businesses mean they are well positioned to pivot quickly. Ensuring cohesion across the management and ownership of the business will solidify their role in driving the post-Covid recovery.

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