

BRANCH OUT AND GROW

If you start small, like the mighty oak, the acorn will reap rewards. **Aldonna Ambler**, whose name is synonymous with successful growth strategies, describes the best way for family firms to avoid the pitfalls and succeed when it comes to expansion

Many family businesses emphasise customer service, interpersonal relationships, and hard work, but “being nice” and “working harder” are only two of the dozens of growth strategies available to today’s entrepreneur. The bad news is that these nice, hard working people are often losing ground. While competitors are growing exponentially through acquisitions, joint ventures, strategic alliances, roll ups, equity deals, initial public offerings, and franchising, the leaders of many family-owned businesses continue to conclude that they can only grow organically and incrementally.

The reasons that family-owned businesses mistakenly conclude that they can only grow incrementally are many. Firstly, the growth strategies that involve multiple companies require the participants to make decisions quickly. The pacing of joint ventures, strategic alliances, acquisitions, and roll ups is affected by external factors such as financial markets, resource professionals involved in the process, the interpersonal relationships between representatives of the participating companies, group dynamics, market conditions and so on. It can become difficult to match the pace of one’s external partners if internal relationships and group dynamics are bogging down your company’s decision making. Some leaders of family owned businesses are so preoccupied with the evolving role(s) of siblings, the development of an heir apparent, or delegation issues within their family that the establishment of important working relationships outside the family seems unimaginable.

Secondly, some owners of family businesses jump to the conclusion that aggressive growth strategies will automatically result in loss of control over the future of their business. This is particularly important to leaders of family owned businesses who feel a strong sense of responsibility for the stewardship of the family legacy. Ironically, there are many situations in which the leaders of acquired companies have more control over their fate after they are acquired. Similarly, participants in roll ups, where several similar companies combine to go public, can also retain control over their geographic area, product and employees. If this is possible when firms are acquired or publicly traded, why couldn’t control be retained

when a family business is doing the acquiring, leading the joint venture, or serving as the franchiser? So much depends on the terms of the deal. The skill and experience of the facilitators, attorneys, and accountants involved can make all the difference in the world when it comes to retained control.

Thirdly, some family owned businesses resist more aggressive growth strategies because they “prefer to be fiscally conservative.” This is especially true for family-owned businesses that carry larger payrolls due to family members who may not be carrying their weight or are still receiving salaries even though they have retired. Ironically, some seemingly aggressive growth strategies (like acquisitions that are funded on the receivables of the acquired company) do not involve the outlay of great amounts of money and can result in the infusion of much-needed cash. Growth through acquisition does not automatically occur to even the brightest leaders of family-owned businesses if they are worried about cash and meeting payroll.

After a successful naval career, Francesco Musorrafiti ran a division of a larger company with his daughter, Antoinette, as his assistant. When they had grown the division to \$5 million, Francesco and his wife

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Angelina mortgaged their home and acquired the division from Nu Max Corporation. EPS was born. That was 23 years ago. Today, EPS has 750 employees and is a \$120 million corporation with business ventures in the USA, Europe, China, Ecuador, and Panama.

The same things that help EPS attract and retain large contracts helps the Musorrafiti family more objectively consider growth strategies like acquisitions and joint ventures. EPS, Inc. is an excellent example of a family owned business that has always put the needs of its customers first. Its products and services range from very high tech to administrative tasks. They have taught more than 400,000 soldiers how to use communication radios, maintained records for the National Guard, designed four network operating centers with a 500-person help desk in Hawaii, San Diego, Quantico, and Norfolk. They have created systems that the army uses to navigate aircraft and develop pointing systems for helicopters.

EPS is focused on achieving results and applying new

technology. The same things that help EPS attract and retain large contracts helps the Musorrafiti family consider growth strategies like acquisitions and joint ventures.

If the first non-organic growth strategy you consider is something huge like a ten company roll up, people in your company may become even more conservative and closed to considering possibilities. Remember that one of your purposes in this process is to learn how to attract, evaluate and execute opportunities. You won't want to scare everyone too early in the process. Perhaps, your first acquisition could be the purchase of another firm's inventory.

Remember that the purpose of most strategic alliances is to help the participants do something larger than they could otherwise do on their own. See if you can leverage the relationships of the strategic alliances in which you are already involved. Several of my clients have been successful when they approached their manufacturing vendors with ideas to share the costs associated with their marketing and/or product development.

One of your purposes in this process is to learn how to attract, evaluate and execute opportunities. Be creative. Not all growth opportunities will result from an idea that was brought to you. Plus, if you are the initiator of a concept, you increase the likelihood that your company will retain some control in the form of the co-ordinator's role. I have seen some of the strongest joint venture concepts result from brainstorming sessions during which creative thinking exercises were used.

An example of one creativity exercise is to fill in the blanks of a sentence like: We are looking for a project involving the (number), in (colour), in (countries), which would help our (function) serve our customers in (industry) better. One client initiated a joint venture to co develop software when their participants selected the number 4, the colour red, the countries of the USA and India, the functional area of production, and the healthcare industry.

The primary purpose of most strategic alliances is to help the participants do something larger than they could otherwise do on their own. Consider an



Take root: start small and grow slowly over time

organisational structure that reduces risk. Growing a business involves embracing change. This can be difficult for non-family owned businesses, but can be particularly tough for family-owned companies with leaders who want things to remain as they have always been. If your resistance to change is based on an assumption that you will lose too much control or won't be able to get rid of people who don't fit in, you could consider the establishment of multiple businesses or subsidiaries.

EPS had been working with another business on a multi-year contract. It occurred to Francesco Musorrafiti that an acquisition might make sense, but the other business had been struggling for years. After he and his daughter (who is now the CFO for EPS) invested some time on due diligence, Francesco decided that he should acquire the assets of the other business. EPS's new security division could now manufacture software that allows users to interconnect 16,000 sensors to physically secure a campus or building. Because they created a subsidiary, EPS was even able to hire the president, vice president of engineering,

a software engineer, and a technician from the acquired business.

Most of the elaborate shows in Las Vegas are the result of several small companies establishing joint ventures so their core businesses remain protected.

Establish a budget and schedule time for leaders to learn strategic approaches. Involving other members of your management team in strategic alliances, joint ventures, acquisitions, etc. helps your business with succession planning. EPS's senior vice president-international, Gino Coputo, is representing EPS in a nine company joint venture in Italy. Unlike many owners of family businesses, Francesco Musorrafiti didn't jump to the conclusion that being involved with a joint venture would automatically involve increased risk, lost control, or reduced service quality. He says that the co-ordinator's role is important, but he is convinced that as long as EPS does its part, they'll be successful.

Because Francesco reviews lots of deals, he doesn't feel compelled to do all of them. He has turned down a few opportunities for cash infusion, and if the joint venture deal in Italy doesn't work out, EPS will be just fine. The important point is that he sees the consideration of joint ventures, acquisitions, equity deals and so on as a major part of his role as the CEO.

Business growth requires a commitment to continuous learning on the part of the leaders involved. Many family held businesses are not growing because key people are so busy running the day-to-day operation that they haven't taken the time to learn about new opportunities and see other ways to evaluate resources. I find that leaders of family owned businesses often underestimate their own capacity to learn or assume that new growth strategies will be too risky or too complex for them. However, based on my experience, intelligence is not the problem. Some of the brightest, most dedicated, hardworking people lead family-owned businesses. But working harder is only one of several growth strategies available. ■

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