

## COPING WITH UNCERTAINTY

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***Thoughts for Family Businesses in Tumultuous Times***

*"Time is a precious and irreplaceable commodity, and the clock keeps ticking  
In both good times and bad"*

**Today**

Until fairly recently, the past four years had been a time of plenty for virtually all of our family business clients. Growth was the norm. Cash flow was somewhere between good and great. Profitability was high. Optimism was pervasive. It seemed that almost every family business we encountered was on a roll. In that positive environment it was relatively easy to make the decision to actively plan for the transition of family business ownership, leadership and management into the next generation. The succession planning process remained as complex as ever, but that complexity was offset by the positive dynamics of the times. Spirits were high. Business was fun. Business owning families felt assured about tomorrow.

Times have certainly changed. In a matter of months keeping a business profitable has become more than a full-time job. In most business sections cash flow is slowing down. Growth strategies are being replaced by survival tactics. And as to the future . . . who knows what to expect?

**Yesterday**

Although the causes were different, we've all seen this same dynamic play out in the not too distant past. Think back to 9/11/2001. In the aftermath of the tragic events of that day the way in which the business community and society in general reacted can perhaps best be described in the words of one of our clients. We talked in early October of that year and what he said seven years ago is burned into my brain. "The world as I've known it has changed and I don't like it. In the last 30 days I've lost over 1/3 of my business and there's no end in sight. I'm going to hunker down, put on the brakes and wait until things get back to the way they used to be."

As part of that "hunkering down" and "putting on the brakes" he – and many other business leaders – cut operating budgets and curtailed business expansion plans. And on the family side, they let the work they were doing on family business succession go by the wayside while they worked to nurse their suddenly limping businesses through the downturn.

## **Tomorrow**

In the aftermath of 9/11 it took about two years for our society to collectively decide there would be no change back to the world as we knew it. Not surprisingly, once that decision was made there was a collective return to life as usual – but with a new definition of “usual.”

Given the events of the past few months, the professionals at Doud Hausner & Associates have been busy talking to colleagues in a wide variety of fields. Our aim has been to develop a perspective about today so that we can help our clients think as clearly as possible about tomorrow.

The past four years of business and personal prosperity we have (until recently) experienced are the result of a return to more “normal” consumer and business behavior. In fact, in some industries, the pent-up demand resulting from two years of inaction led to rates of growth and profitability higher than anything experienced in the pre-9/11 world. And now, here we are again. The precipitating events behind today’s downturn are different that they were in 2001, but the results are generally the same:

- Once healthy businesses are straining financially
- Some businesses may not survive
- Business leaders have lost clarity of vision. We know that better days are ahead, but nobody knows how long it will take for good times to return.

## **Keep On Keeping On**

We are encouraging our clients and their families to hold onto their vision for the future. Under current circumstances it may take longer to realize that vision than we thought it would, but that doesn’t mean the vision is not a good one.

Our clients’ experiences in the post-9/11 downturn were strikingly similar. Those few that keep working on their succession plans had made less progress than they had hoped – but they had progressed. Those family businesses that suspended and/or postponed their succession planning efforts in 2002 and 2003 found that when they returned to the process in 2004, they had to strained they family/business system and needed to make up for lost time. The most important lesson these families learned was that time is a precious and irreplaceable commodity, and that the clock keep ticking in both good times and bad.

## **Time Critical Actions**

Lost time means less time to make important transition decisions and less time to work on critical succession tasks. Some of the more time-critical succession tasks include:

- Defining the financial needs of the senior generation and implementing a plan to create as much financial independence from the business as possible. *Most often the senior generation is too heavily dependent on the business for their future financial security. Over-dependence can pull the financial rug out from under the goal of intergenerational continuity.*
- Maintaining a fully functioning family governance process. *Keeping the next generation informed about the business and continuing to work with them toward the vision for the future keeps everyone connected. Wherever you are in the development of your Family Council, don't stop just because times are tough. In fact, keeping the family informed, involved and connected is vital to helping both the family and the business stay confident and weather the downturn.*
- Building the management model for the next generation. *The senior generation doesn't stop aging because times are tough. While the senior generation may be tempted to slow the transition of authority and responsibility in today's difficult business environment, we have another perspective. Think about the possibility that the more responsibility you give to the next generation to make management decisions in today's adverse conditions, the better prepared they will be for the next time . . . and there will be a next time!*
- Transferring ownership. *We've all know about the wisdom of transferring as much ownership as possible during one's lifetime. If current conditions have lowered the value of business assets, consider this an opportunity to transfer more ownership at less cost. If you have not yet done anything about ownership transfer, this could be an excellent time to start. We recommend talking to your family business, tax and estate planning advisors and deciding what makes sense for you and your family business.*

We know that as business owners you are undoubtedly more worried about and more focused on the business than you have been in years. We hope that you will not allow that to cause you and your family to lose focus on the tasks that add up to a timely and successful intergeneration transition.

## **Your Business and You as Its Leader**

Not all business sectors are experiencing tough times. There are always counter-cyclical industries that fare better than most in downturns. If your business is one of those, congratulations! However, if your business is one of the many that is in a difficult position right now we recommend you take the time to look for opportunities. They may be harder to find in tough times, but they are there.

Consider that regardless of your industry, this is an opportunity to outperform and/or outlast your competitors. You want to be around and ready to take full advantage of the recovery when and as it occurs. Use this time to find ways to:

- Explore fresh markets
- Develop new products that will be attractive to financially pressed customers
- Take over market share from weaker competitors
- Take better care of your customers.

And, most importantly, show leadership! You set the tone for the organization. Everyone is looking to you to set the example for appropriate behavior. There are a lot of fearful people out there. You can make a major difference simply by being a source of calm and positive energy while others around you are losing their cool. The more positive you can personally be the better thing will be for your business, your employees, your customers and your family.