New Zealand findings from the PwC Family Business Survey 2016

Finding balance

How New Zealand family businesses are responding to a changing world

Contents

Executive summary

It's an exciting time to be a New Zealand family business. The sector is looking vibrant, owners are energised and positive about the future, and there is no shortage of new ideas family business owners can embrace.

In this year's Family Business Survey, the core theme we are seeing for family businesses is around finding balance. New ideas are coming thick and fast and there are plenty of new opportunities – from expanding overseas to making the most of the explosion in digital technology. However, all of this has to be balanced against the need to create a lasting business that can provide financial stability for the family. Likewise, owners now have to consider whether or not to invest in new product categories or focus on building their market share in current areas.

A real bright spot for local businesses has to be the financial performance that we are seeing. New Zealand family businesses are growing faster than their counterparts overseas, with 42 per cent reporting they grew a lot in the last 12 months, almost double the number internationally and up from 26 per cent two years ago.

Digital is also an area where we are seeing significant changes. We've moved on from family businesses being aware of digital, to a point where companies are actively pursuing a digital strategy that complements their business model. Digital disruption has now moved from a nice concept to a core concern for family businesses.

A more pressing issue for family businesses is having the right staff on hand. This was one area that really stood out in our findings, with local family businesses ranking recruitment as the second most pressing challenge they face. In first place was market conditions, suggesting our local respondents are still incredibly sensitive to the state of the market. These two challenges of people and the market are certainly going to keep shaping family business strategies well into the future.

Another major concern is that even fewer businesses have a strong succession plan in place. The number of respondents reporting they don't have a plan actually increased in the last two years, up from 43 per cent to 51 per cent. That's a huge problem, especially as the current generation of owners aren't getting any younger and need to consider how they will transition to the next generation.

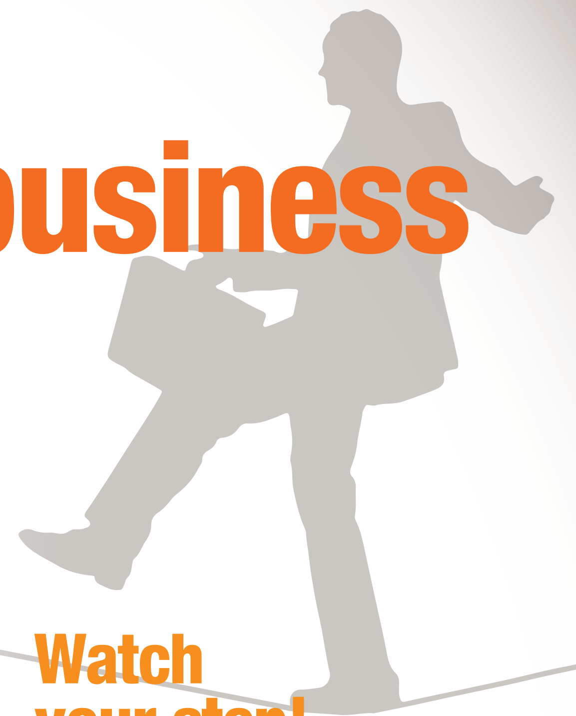
I'd like to thank everyone who took part in this year's family business survey. Your responses will help us work with you and with other family businesses to navigate the future challenges that all companies are facing. I'd also like to thank Sir Graeme Avery for providing an exceptionally candid and insightful view on New Zealand family businesses and the opportunities they have available to them.

I hope you enjoy our survey results and I look forward to the future discussions that I'm sure will follow from the report's findings.

Robbie Gimblett
Partner, Private Business Market Leader

> *"New Zealand family businesses are growing faster than their counterparts overseas, with 42 per cent reporting they grew a lot in the last 12 months."*

The NZ family business balancing act



62% ranked the need to innovate as important for their business's success.

BUT

79% will still be earning most of their revenue from the same products in 5 years' time.

Watch your step!

Only 31 per cent of family business boards are ***aware of the risk from digital disruption.***

Are family businesses out of kilter on cyber?

Only 45% feel ready for a data breach or cyber attack, identical to the percentage of our global respondents.

Family businesses have a lot of issues to juggle…

58% *Market conditions*

Currency and exchange rates **20%**

48% *Recruiting skilled staff*

…and they can't take their eyes off the future.

The need to ***continually innovate*** will be the biggest challenge in 5 years.

48%

will ***transition the business to the next gen*** in the next 5 years.

91%

will ***give male and female next gens an equal footing*** when making choices about succession.

***Only* 75%** internationally are treating male and female next gens equally.

The state of NZ family businesses

Overall, New Zealand's family businesses are in a strong position. When we asked how our respondents have performed over the last 12 months, 42 per cent said they have seen stronger sales over the last financial year. A further 76 per cent are aiming for steady growth over the next five years.

One of the strengths that we consistently see in family businesses is their ability to move quickly, with many saying they are able to move faster than their counterparts in non-family businesses. Two years ago, 70 per cent strongly agreed their decision making was much faster than other businesses, a figure that's increased this year to 82 per cent.

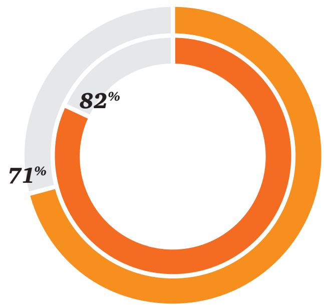
When it comes to entrepreneurship, our respondents also described themselves as well ahead of other types of business. In fact, 61 per cent of our respondents said they think family businesses are more entrepreneurial than other NZ businesses that have a different structure. While a sense of entrepreneurship is clearly alive and well among New Zealand family businesses, they also reported being less likely to take risks than other companies. This is an interesting challenge for family firms – they clearly understand the need to be more innovative and try new things, but at the same time they are looking to minimise any risks to the business's performance.

It's easy to say that the answer is to 'disrupt or be disrupted' – that innovation is the silver bullet to the threat of new competitors and technologies. However, the risk appetite of family businesses can't be simplified this easily. Our respondents clearly indicate their main priority is steady growth and creating long-term value for their families, potentially making them more risk averse than other companies. For example, family business owners who are looking to transition to the next generation smoothly may be focusing more on keeping the business stable than on disrupting the company's model. In this situation, it may fall on the next generation to champion greater innovation efforts.

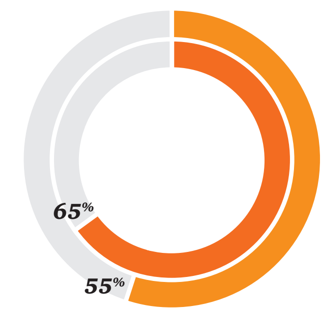
This balancing act plays out throughout our survey findings. New Zealand family businesses realise they need to be innovative, but they are matching this against their long-term outlook and aren't putting resources into the latest fad. At the same time, they recognise that providing for future generations shouldn't stop them from making decisions quickly in the short term.

Planning for the long-term

Decision making is more streamlined in family businesses:



Family businesses take a longer term approach to decision making:

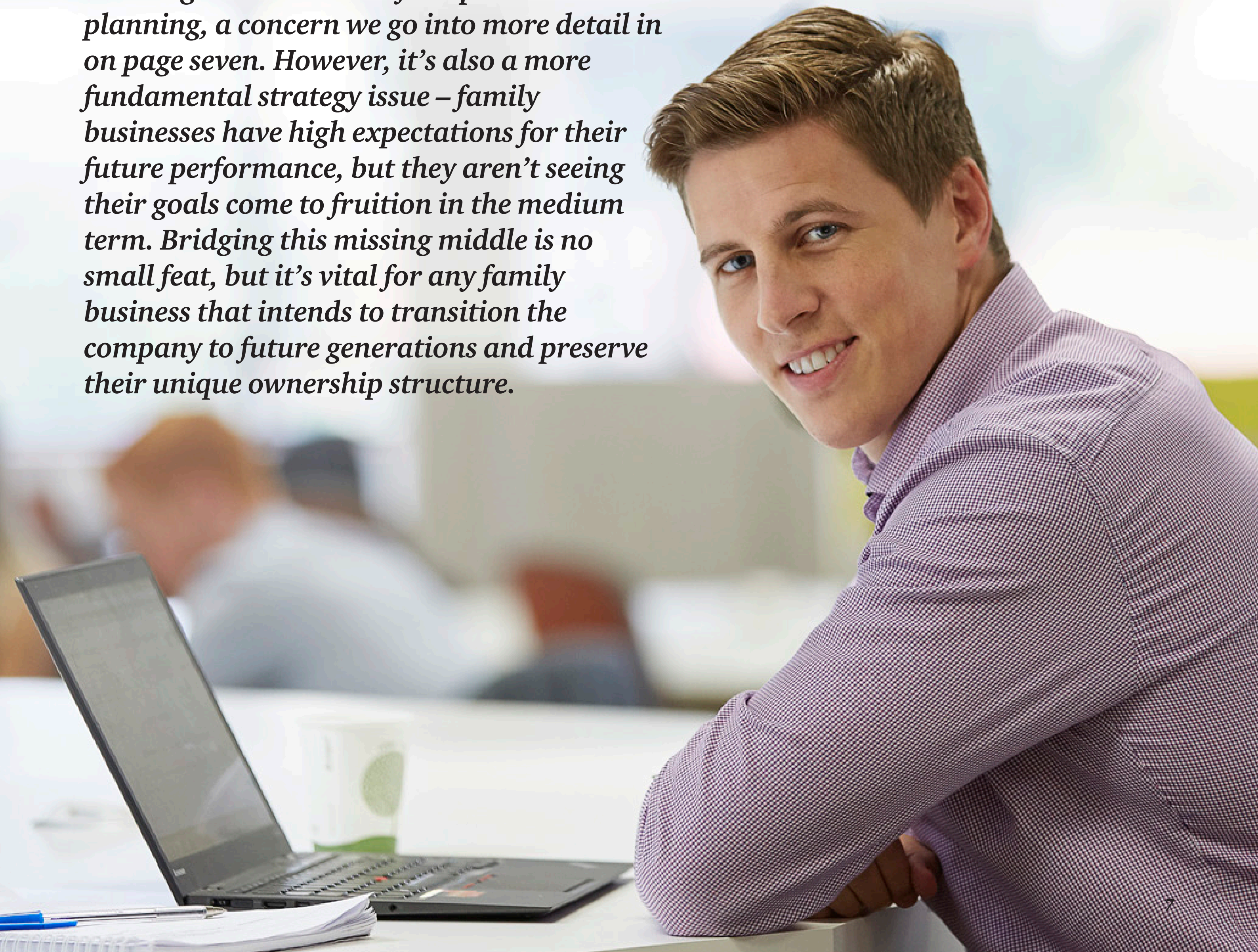


New Zealand
Global

The missing middle?

One of the big trends we see globally is the gap between a family business's short-term successes and the difficulty many face in passing the business on to subsequent generations. Our New Zealand survey profile this year was weighted towards first generation firms, representing 42 per cent of our respondents, compared to 29 per cent internationally. What's more, only eight per cent have reached the fourth generation or further, compared to 11 per cent internationally.

We've termed this gap between the short-term successes of first gen family businesses and their low ownership rates among third, fourth and fifth generations the "missing middle". Part of the problem is succession planning, a concern we go into more detail in on page seven. However, it's also a more fundamental strategy issue – family businesses have high expectations for their future performance, but they aren't seeing their goals come to fruition in the medium term. Bridging this missing middle is no small feat, but it's vital for any family business that intends to transition the company to future generations and preserve their unique ownership structure.



Insights from Sir Graeme Avery

Sir Graeme Avery has had a long and successful career as an entrepreneur. He set up the Adis International medical publishing group, having identified a gap in the medical journals market, and made it into a world-leading scientific publisher. That business was sold in 1996, and Sir Graeme moved into wine, which had always been a passion and then became a business. He is President of Sileni Estates, New Zealand, which has grown from 2,000 cases of wine in 1998 to 750,000 cases now, and is about to make the transition to its second generation. He is also a prominent and respected philanthropist. We talked to him about being an entrepreneur, going digital and understanding millennials. Here's what he had to say.

How have you grown two such successful businesses, and in two such diverse sectors?

You get growth through two mechanisms: growing the markets you have, and finding new markets. You can grow your existing markets by expanding your channels, or developing new products. In the wine business, channel is key; you have to understand how retail works in specific markets, and that varies widely. For example, in the UK it's relatively easy, as there's a small number of big nation-wide supermarkets, but in the US it's all regional. New products are vital as well, but it's not easy to innovate in wine. The other way to grow is by finding new markets. I've always enjoyed that.

Right now, the future looks uncertain, but it's also full of opportunities if you think differently. As I said, innovation is tough in wine, and you're limited as to what you can do. The obvious one is packaging: a different size, a different-shaped bottle. But we can't get different-shaped bottles in New Zealand at a competitive price. We managed to develop a 187ml PET bottle with a clip-on cup, but it was impossible to produce it in New Zealand so we did a joint venture with a business in France. In general, I believe innovation is in a company's DNA, I'm not sure you can bring it in from outside.

> *“I don't work by business theory. I don't believe in it.”*

What about digital – how is that playing out in wine?

Clearly digital communication is a no-brainer, but it's all about the 'how'. In my view, e-commerce in wine is a myth for an off-trade brand. To be effective, you've got to have something communicated in the local language that works in the culture of that country. Even in the US, where we've spent a bit of money on social media, I'm not sure it adds any value. Some of our competitors have spent a fortune and it didn't work. Everyone is struggling with social media. We know we need a digital strategy and we're working on it, but we're not there yet. In the meantime we're ensuring we have a good website and working with retail partners who are making a success of online, like Woolworths in Australia. But everyone in our business says the same: you have to balance online and offline because in the end, humans have to relate to humans.


SILENI

That's why the retail wine shop of the future will be about social engagement. Every shop has got to be a Starbucks – and wine is no different. People will go there to engage with friends, have a small tapas plate of food and learn about wine their way – and then order online. Wine is not about the features of wine anymore; it's about a value buy offer and an excitement around the brand. To do that well, we have to understand what millennials want.

And what do millennials want?

We have a French intern working on a big project on that right now. She's looking at how they make their buying decisions and what that means for our business. As consumers, they like discovering things. They want to be different than their parents and they're not brand loyal. You have to take things to them; they won't come to you. But we have to engage with them because when Generation Z comes through in four years, 50-60 per cent of all wine will be consumed by people under 40. That's never happened before and we don't understand it properly yet.

As for employing millennials, we need to employ more people from that age group – but they're a challenge – as employees. They have an immediate sense of entitlement, they don't like coming to a physical workplace, and they don't want to be accountable to anything other than themselves and their peer group. However, they think differently and that is what the future is all about.

What would you have done differently with Sileni Estates, knowing what you know now?

We should have gone into Marlborough Sauvignon Blanc right from the start – we'd be at one to one and a half million cases now, if we had. We started with Semillon from Hawke's Bay and started developing export markets in the UK, US and Australia. By 2000 it became obvious we had to have Sauvignon Blanc too, so we did. And by 2004 we were doing really well and had won several trophies in London. We also lost a few distribution opportunities because we didn't have Sauvignon. Anyone running a business makes a lot of little mistakes – that's how you learn - but that was a big one.

I don't work by business theory. I don't believe in it. All business theory does is follow successful businesses. But in this sector, there are roadmaps – as someone coming into it new, there was no one to really talk to about it. I don't mean making it. I mean the business of wine – selling it and making a profit. That's the hard part.

What's different about running a family business?

All family businesses are tightly held and tightly run and they're best that way. I think if I had my time again I would bring in a wider range of people to consult with on an informal basis. But that's not to say that you don't need the disciplines of governance – you do. As for getting in outside professionals, I've never worked with an outside CEO – I just couldn't countenance that. A professional CEO would be just there for the big money, to be brutally frank. I'm lucky that my son Nigel is going to take over as CEO, because I would find it very hard to hand over to someone from outside.

Family firms like ours will only survive if the next generation has a very different view on the future and is prepared to make the necessary changes.

But in the long term, I don't see Sileni staying in the family – not in 250 years. But we're not at the right scale to do a listing yet. The only other choices are private equity or a trade sale in the medium term. The exit strategy is the hardest thing.

So if you were going to be remembered in 250 years, what would you want it to be for?

I suppose any legacy is in your achievements. Whether it's in business, helping the country grow or in philanthropic giving, helping talented sportspeople be the best they can be. I've devoted a lot of my time to philanthropic causes, especially AUT Millennium in Auckland, which is all about encouraging healthier lifestyles for New Zealanders, and providing them with high performance world-class sports training facilities. I've helped raise a total of 85 million dollars for this facility. 800,000 people used it last year, and there are 250 elite athletes based there. People who help others don't expect anything. I've never wanted naming rights of anything. But I'm determined to make an impact – to leave something positive behind.

How NZ family businesses compare globally

Overall, New Zealand family businesses share many similarities with their counterparts overseas. When we asked participants what the biggest challenges will be, market conditions came out on top, the same as our international respondents. Likewise, the exchange rate was cited as a major risk both locally and overseas.

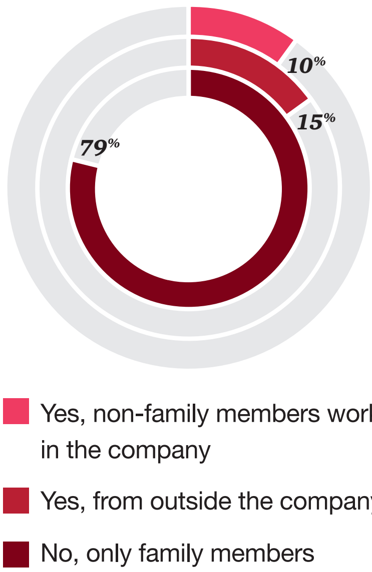
The key standout when we look at how New Zealand family businesses compare to the rest of the world is their access to the right staff. Labour shortages were a concern for nearly half of our respondents (48 per cent), compared to only 30 per cent internationally, highlighting the difficulties that local businesses are experiencing in finding and retaining the right talent.

Interestingly, New Zealand family businesses also stood out as less concerned than their global counterparts on one point: regulation. While 27 per cent internationally cited this as a challenge, only 18 per cent locally had the same concern. It's not surprising that regulation was ranked so low, considering New Zealand's consistently high rankings in global ease of doing business surveys.

Interestingly, we conducted the survey after the introduction of new Health and Safety laws in April 2016, suggesting the legislation hasn't had a major impact on the broader attitude family businesses have towards regulation.

The structure of family businesses in New Zealand is also considerably different to those overseas. Companies locally are much less likely to have shareholders who aren't family members, with 79 per cent reporting that all shareholders are part of the family (that compares to a global average of 66 per cent). When we unpack the findings further, we found that local companies are much less likely to give shares to non-family members who are working for the business. In New Zealand, only 10 per cent have an arrangement like this, compared to a global average of 28 per cent.

Do any non-family members have shares in the business?



Labour shortages were a concern for nearly half of our respondents (48 per cent), compared to only 30 per cent internationally.

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Taking the family business international

New Zealand has already seen many local family businesses moving overseas and finding success – with Sir Graeme Avery's example reflecting the broader successes that the New Zealand wine industry has seen in recent decades.

Despite the successes of some industries though, the overall mood for family businesses is less global than their overseas counterparts. When we asked our participants whether they are operating in another market, only 31 per cent are working outside of New Zealand, compared to exactly half of our global respondents.

What's more, there seems to be limited appetite to internationalise the business. Only eight per cent of our respondents stated that moving into different export markets was a key priority for them. That compares to 28 per cent who are aiming to become more innovative. In a similar trend, New Zealand respondents were less likely to recognise the challenges that will come from operating in an increasingly internationalised environment over the next five years.

This represents a huge missed opportunity for New Zealand family businesses. Since our last survey in 2014, The New Zealand Government has entered into new free trade agreements and negotiations that have reduced the barriers for organisations to enter export markets. The free trade agreement with South Korea represents just one example of the new trade opportunities that family businesses now have access to.

Ultimately, New Zealand's family businesses face the very real risk of lagging behind local listed corporates – not to mention other family businesses from around the world – if they don't make the most of these opportunities. The chance to find new export markets, expand their supply chain and develop new commercial efforts like joint ventures could all provide family businesses with greater longevity in a competitive and globalised local market.

"New Zealand's family businesses face the very real risk of lagging behind local listed corporates."


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The digital challenge

Many of the challenges that family businesses face are perennial – they are always looking for new growth areas and rising to the challenge of professionalising the business. However, the one area where we see real change is in the need to become more innovative. In fact, this was among the most common concerns for family businesses, with 62 per cent recognising it will be a major challenge in five years' time.

Despite this awareness, we didn't see those results translate into the goals our family business respondents are setting for themselves. When we asked them to rank how important they thought it was to be more innovative, most ranked it lower than other goals like improving profitability and long-term business success.

What we are seeing here is a disconnect between the concerns family business owners have for the future, and their priorities in the near-term. The need to become more innovative isn't just about developing new products and services, it's also a chance to create a long-term competitive advantage for family businesses, one that can't be replicated easily by competitors.

We've seen there's plenty of awareness and a desire for family businesses to provide employment and support to the family for future generations. The challenge is to find new opportunities to realise that goal – by developing new products and services, introducing new business and processes and making the most of advances in areas like cloud computing.

Complementing the need to become more innovative is the growing focus that family businesses have on going digital and embracing digital disruption. New Zealand family businesses are actually more concerned than their overseas counterparts when it comes to digital disruption. Although still a minority, 41 per cent of local respondents feel they are at risk of disruption in the short to mid-term, compared to only 24 per cent internationally.

Interestingly, even among those organisations that do feel the most vulnerable to digital disruption, there is only limited understanding among the board. Just 31 per cent reported their board is fully aware of the risks their business is facing.

We also saw this lack of awareness when it came to cyber security, with only 45 per cent feeling they are prepared for a cyber attack or a data breach. Given how important digital technology will be to the growth of New Zealand's family businesses, it's concerning that such a large number don't feel they have a strategy to recover from a major breach of their systems.

> “65 per cent stated that digital is integrated into their businesses culture, while 61 per cent believe their strategy is fit for the digital age.”

For family business owners, the next big challenge is to take this awareness and translate it into action. Digital disruption is a major business trend in itself, but it's also underpinned by the rise of globalisation and the increasing exposure local companies have to new, technology-enabled competitors from overseas. While it's heartening to see the increasing local awareness of this issue in New Zealand, there's still more room for family businesses to understand disruption at the board level.

Where local businesses did rank well against their global counterparts was around more general awareness of the threats posed by digital technologies. Two-thirds of our respondents feel they understand the benefits of going digital and have a plan to measure these benefits in the future. Similarly, 65 per cent stated that digital is integrated into their businesses culture, while 61 per cent believe their strategy is fit for the digital age. However this still leaves 30-40 per cent who aren't facing up to the risks that their business is now facing.

These are certainly strong results, but as with digital disruption, awareness and integration into a company's culture is only half the battle. Being a digital-enabled family business is an ongoing effort, one that not only has to be championed by the CEO, the board and the family, but also has to be embraced where the rubber hits the road. As digital continues its march into every aspect of a company, leaders will have to keep ensuring they are fully embracing the opportunities that come with a digital business model.

Are family businesses in the cloud?

As a supplement to our Family Business Survey this year, we asked our New Zealand participants whether or not they are using cloud accounting services to support their organisations. In total, 41 per cent reported they are using some form of cloud computing, with the key benefits being the ability to access real-time information from anywhere and at any time. We also tracked an interesting divide in the number of additional apps that family businesses are using – while most respondents are only using one or two apps (42 per cent), there is also a large number at the other end of the scale, with 23 per cent using five or more apps.

The succession question

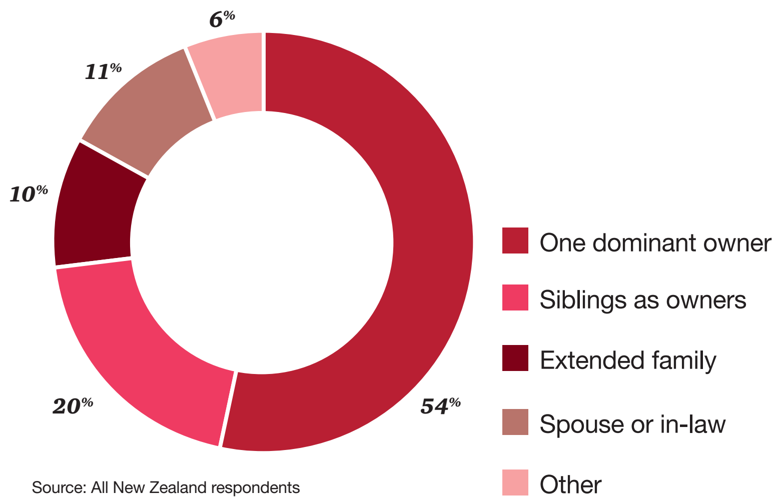
Succession is an issue that affects all companies, but is especially important for family businesses that are planning to transition between different generations. Worryingly though, the number of our respondents who reported having a plan in place has decreased since our last survey. In 2014, 43 per cent stated they had no succession plans in place for senior roles, a number that has risen this year to 51 per cent. Succession plans can take years to develop and implement, so it's certainly concerning that half of our respondents don't have a plan at all, especially when many are planning to transition to the next generation in the next five years.

While this is a concerning figure, those family businesses that are planning ahead are doing it much better than they have in the past. Almost half of the companies that do have a succession plan reported that it is in place for all senior executive respondents. What we see is a growing divide between those companies that have a comprehensive succession plan in place, and those that don't have any at all. Given the long-term strategic benefits to developing this plan, it's vital for businesses to invest in these efforts for all senior staff.

The majority of our family business survey respondents are still in a position where they have a single dominant owner (54 per cent), while 42 per cent are still managed by the first generation of owners. However, there are a range of different ownership and management structures that New Zealand family businesses are pursuing, from having multiple siblings as owners (20 per cent) through to having ownership spread over a large extended family group (10 per cent).

This diversity of ownership structures gives us a real insight into just how creative and varied family businesses are when they approach the questions of succession. Finding a model that works for both the family and the business is no easy feat and there's no one-size-fits-all response, so it's heartening to see local companies embrace unique solutions.

How is your business structured?



Source: All New Zealand respondents

Interestingly, we've seen a decrease in the number of first generation respondents compared to our 2014 survey. The number of first-generation respondents has dropped from 47 per cent to 42 per cent, with more of our respondents from the second generation, third and fourth generation family businesses. While there are a number of possible explanations, this shift is consistent with the broader change we are seeing from first generation firms owned by the Baby Boomer generation who are now handing the reins over to their children, or in some cases their grandchildren or a professional manager.

A real positive from our local research is that many family business owners have moved on from passing the business on to the eldest son in the family. In fact, 91 per cent of our respondents stated that female and male next gens will be equally considered for leadership positions.

Q: What do non-family members bring to a family business?

"[We bring] a different skill set, a different view and the ability to challenge in a very emotional way. We're not related and not connected [so the relationship] stays more professional. Family members can sometimes brush each other off."

This trend is certainly a positive sign, especially as businesses look to find the best candidate to pass a business on to among the next generation. Every company is now looking to ensure it has a diverse leadership team in place, and family businesses are no different. For the 20 per cent of family firms that are run by siblings, treating all children as equal allows the older generation to hand over certain responsibilities to different children, based on their expertise and skills.

Professional, non-family members are also making their mark, with a majority of our respondents stating they expect to bring in professional managers to help run their organisation effectively. Again, this gives family businesses the opportunity to tap into a wider skill set and bring in new perspectives to help the company grow. With 32 per cent identifying that professionalising the business will be a priority for them in the next five years, bringing in external managers to assist with running the business can help the company become significantly more flexible.

Q: What are the challenges of being a non-family member?

"Probably realising that you're growing the business and things need to change and the company needs to be more dynamic. The family feel they lose control and they become less interested in the day to day running of things."

There is however one area where non-family members have yet to make their mark, and that's in the boardroom. When we asked our family business respondents whether they have a non-family member on the board, only 59 per cent reported they did. That compares to 65 per cent of our global respondents. Every business owner has to make their own choices about which roles to keep within the family and which need external expertise. However, those 41 per cent who have no non-family members on the board may be putting themselves at a disadvantage by not bringing in a broader range of skills and expertise.

What does the future hold?

Since 2014, we've seen a number of key themes rise to the surface among New Zealand's family businesses. The growing awareness of digital disruption, along with the increasing popularity of digital business models, all suggests that New Zealand family businesses are ready to make the most of new opportunities in their industry.

What will be really interesting to see is how companies integrate this approach into their broader goals of becoming more profitable and achieving steady growth. Long-term profitability was by far the most pressing goal, while innovation is secondary. This is perhaps the most important balancing act for family businesses – to stay profitable and build value for the family, while at the same time investing in new products and services and rethinking their business model.

Beyond innovation, the next challenge is succession.

"I would like our company to be considered one of the best companies for New Zealand and Christchurch and [one] that benefits the community we live in."

"I'm not a legacy person. I just want the company to be in good shape so I can pass it down to the family."

The next five years will be a transformative time for New Zealand family businesses, with many handing over management responsibilities to the next generation, or to an outside manager. For the half of family businesses that don't have a succession plan in place, the next five years will see greater challenges in developing the talent and capabilities they need to keep the business operating successfully.

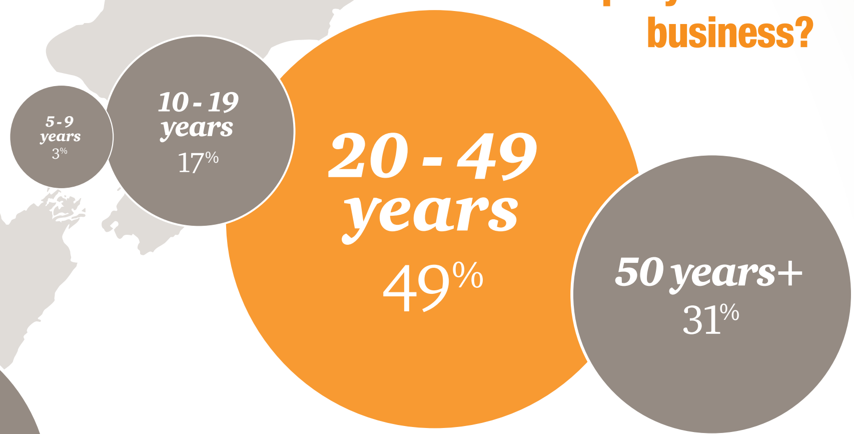
The final balancing act that family businesses will have to address in the future is what the business will look like. Going international is certainly an area where New Zealand businesses are lagging behind their global counterparts, not to mention the challenge of branching into new product categories. However, the need to diversify the business is only going to grow as family businesses are increasingly exposed to global markets.

The future is certainly not short of challenges that family businesses will have to juggle. However, New Zealand's family businesses are clearly ready and willing to face them head on.

"[We want to be known as] a fair, equal opportunity employer that contributed to the community and to business. It allows us to contribute to groups and organisations that help people who need help. We support organisations such as lifesaving groups, health and sporting groups to help become better people."

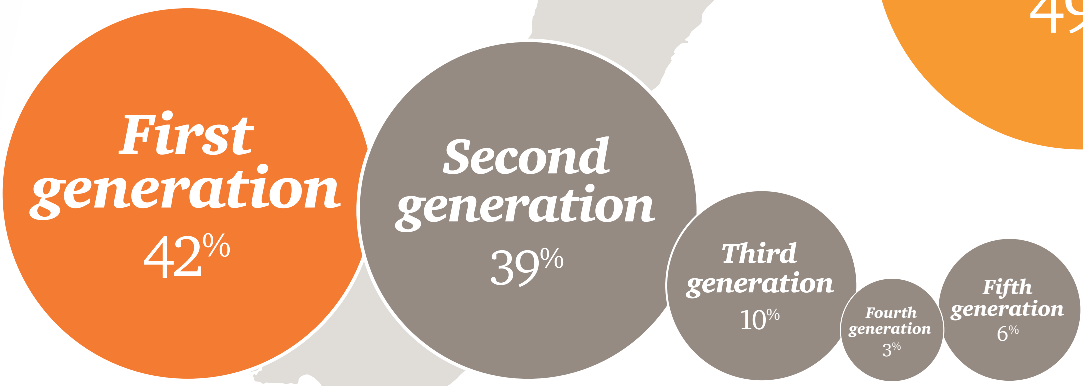
Want more data?

How long has your company been in business?



What do NZ family businesses look like?

How many generations have managed the business?



32%

see professionalising the business as a challenge in the next 5 years.

59%

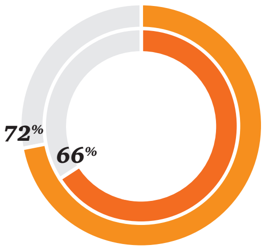
have a personal or business goal to ***run the business on a more professional basis***

62%

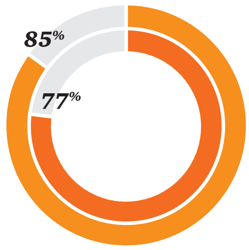
will ***bring in professional managers*** to help run the business.

How family businesses are giving back

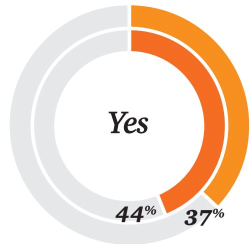
We support community initiatives and not-for-profit causes:

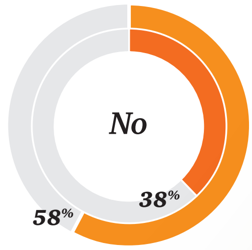


Family businesses add stability to a balanced economy:



Will your business be selling goods and services in new countries in the next 5 years?





New Zealand   Global

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