The business of families

Around 70 per cent of Australia's 2.1 million businesses are family owned, making the family business sector a key part of the Australian economy — and an essential market for many advisers. But what makes family businesses different? And how can you tailor your advice offering to better service the sector's unique needs?

What do Visy, Linfox, Inghams Enterprises and Manildra have in common? All are multimillion dollar Australian companies — and all started as family businesses.

"Family businesses are sophisticated, they're successful and they're vital to our economy," says Philippa Taylor, CEO of Family Business Australia. "They also face complex financial issues, often involving intertwined business and personal assets."

"That's why it's essential for them to have access to high-quality advice from professionals who understand the sector."

Fiona Mackenzie, Macquarie's head of Practice Consulting, agrees. "Family businesses can be an important market for advisers, because they are typically affluent, with advice needs spanning multiple generations."

A family portrait

New Macquarie research underscores the importance of the sector and the need for family businesses to receive ongoing professional advice.

Based on an online survey of 2,017 Australians in February 2013, *A Family Portrait* is an in-depth study of the attitudes, aspirations and financial behaviour of Australian families — including the almost one in five Australians who are operating or have operated a family business. It also highlights the value of engaging families early in the business lifecycle, at a time when they are making the decisions that will shape the future direction of their business and personal wealth.

"FAMILY BUSINESSES ARE SOPHISTICATED, THEY'RE SUCCESSFUL AND THEY'RE VITAL TO OUR ECONOMY."

PHILIPPA TAYLOR

BY STEPHEN CRAFT, JOURNALIST

1.5 MILLION

FAMILY BUSINESSES[1]

70%

OF AUSTRALIAN BUSINESSES[2]

INTENDING

PLAN TO START A FAMILY BUSINESS WITHIN 3 YEARS **6%**

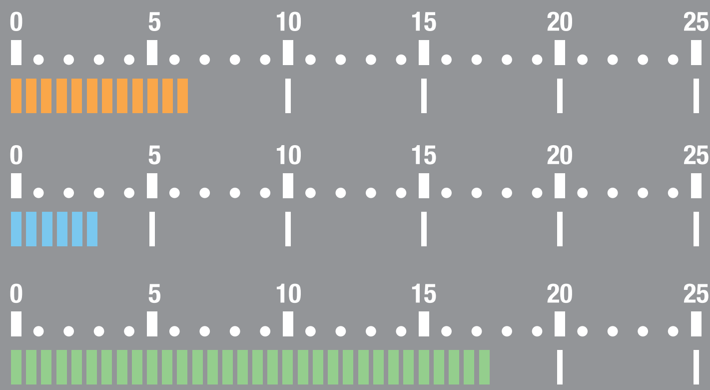
NEW

HAVE STARTED A FAMILY BUSINESS IN THE LAST 3 YEARS **3%**

OVERALL

OWN OR HAVE OWNED A FAMILY BUSINESS **17%**

LIFE STAGES



PROFILE

INTENDING

58% UNDER 40

58% MALE

30% FATHERS

NEW

52% UNDER 30

63% MALE

34% MOTHERS

30% SONS

OVERALL

38% OVER 60

46% FEMALE

30% GRANDPARENTS

AVG. ASSETS

$314k ALL AUSTRALIANS

$486k INTENDING

$436k NEW

$443k OVERALL

[1] Based on Australian Bureau of Statistics Release 8165.0, Counts of Australian Businesses, May 2013.

[2] Family Business Australia, 2012.

Meeting the needs of new business owners

Macquarie's research shows that family business owners generally tend to be more affluent and more engaged with their finances than other Australians. But it also shows that owners of new family businesses are much more likely to actively discuss investing than their more established peers. They also place a premium on seeking expert advice.

Asked which topics they regularly discuss as a family, 55 per cent of new family business owners said they talk about investing and growing wealth, compared to 28 per cent of non-family owned small businesses generally. One in three new family business owners also say they love experts, three times the average across the small business community.

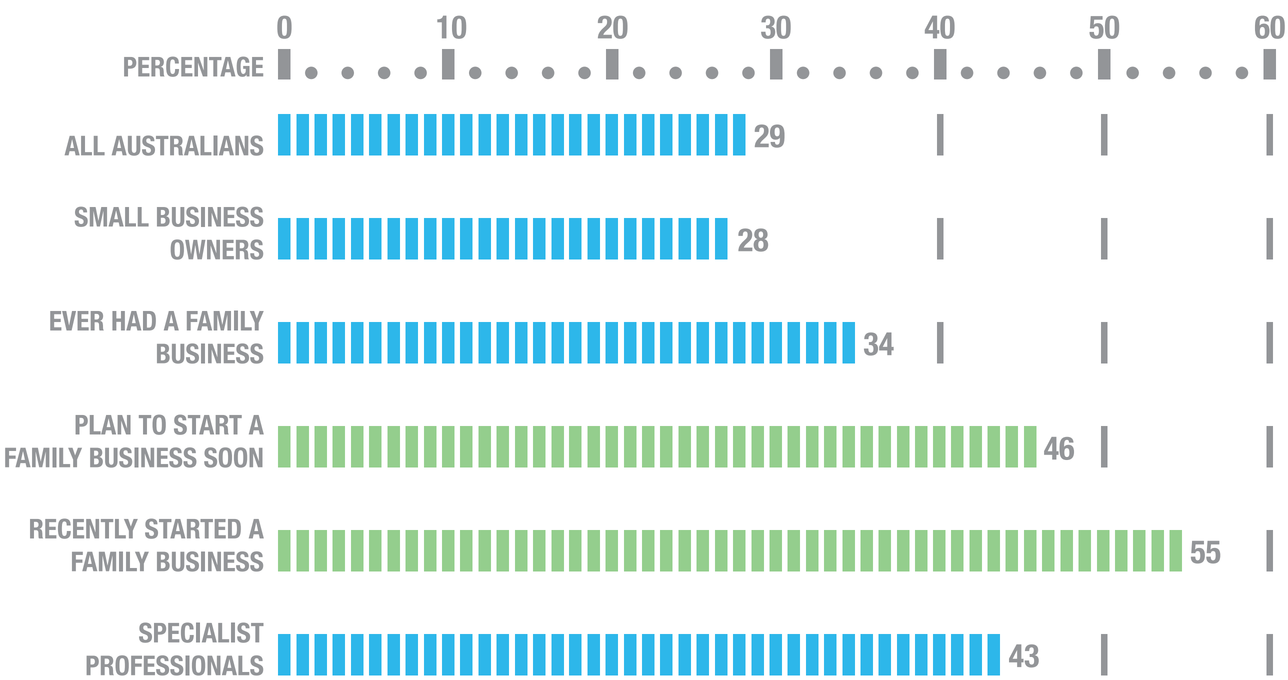
And many new family businesses would benefit from expert advice on managing their finances. One in two new family business owners say they struggle with money, while 40 per cent say they are stressed.

"It's a huge challenge getting a family business up and running," says Taylor. "Often it can be hard for the owners to look far beyond the immediate needs of the business, especially if they're financially stretched. But it's also the time they're making decisions about business structures and financial frameworks that will last for years to come."

That means there's an opportunity for advisers to engage with family businesses from the outset, creating a valuable relationship over the long term.

"Planners need to realise that if they invest earlier in younger clients who may not yet have big nest eggs, they'll win very valuable trust and loyalty over time," says Mackenzie. "Even though you might need to work quite hard with them early on, if you help them succeed it can be a win–win situation benefiting both parties over time."

Regularly discuss investing and growing wealth with their family



Advising family businesses

According to Mackenzie, family business owners are likely to have much broader advice needs than traditional asset allocation and investment services, especially when it comes to establishing and managing businesses across generations. This means that advisers may need to extend their advice offering to appeal to the sector's distinctive needs.

"It requires a different technical skill set that goes beyond deciding which asset allocations are appropriate to the client's profile," Mackenzie says.

"First you need to look at strategies around things like business structures, insurances and agreements. If you articulate how you can help the business sooner rather than later, it can go a long way towards having the family see you as their trusted adviser."

"Although this might mean a lot of work early on, if you help the business succeed, it can lead to significant mutual rewards in the future."

Succession planning is also a key issue for the sector — and one that's often highly emotionally charged.

"If a son or daughter is planning to take over the business from their parent, it's important that they understand what's expected in terms of growing the business, ensuring compliance and maintaining client satisfaction," says Mackenzie.

"The succession plan doesn't necessarily need to be especially formal at first, but it should be explicit."

But according to Mackenzie, even the best succession planning can't replace a sense of mutual trust.

"If they share values and an understanding of who they are as a family, then the planning process is important, but straightforward. If you don't have that, it's very difficult, even if you bring in the best experts in succession planning."

5 TIPS FOR MANAGING A FAMILY FINANCIAL PLANNING BUSINESS

Many financial planning businesses are themselves family run. Here are Fiona Mackenzie's tips for making your family financial planning business a success.

1. Approach business issues and resolve conflicts objectively, not emotionally.

2. If you employ other staff, show a united front on how the business is managed to avoid staff playing off one partner against the other.

3. If your child is planning to take over the business, help them build relationships and earn the respect of your clients, particularly older clients who may be sceptical about working with a younger adviser.

4. Lay the ground rules for generational change early on, so you can prepare for a seamless transition when it's time to retire.

5. Model the practices you encourage your family business clients to follow by demonstrating how well to conduct a family working relationship. They'll be more confident in your ability to handle their business affairs.

"When it works, it often comes down to family values — they want to achieve something together, with a graceful exit by one generation handing over to another," says Mackenzie. "And the clients are generally well looked after as well, because their planners have shown that they get it — they can manage the relationship within their own family, so they can assist other families as well."

[CORPORATE DIRECTORY]

How to contact Macquarie Adviser Services

Adviser Services
1800 808 508

Fax
1800 550 140

Email
adviser@macquarie.com

Website
macquarie.com.au/advisers

For further information on products and services

Macquarie Cash Solutions
macquarie.com.au/cashflow
1800 808 508
Cash management and term deposits

Macquarie Wrap
macquarie.com.au/wrap
1800 025 063
Investment, superannuation and pension solutions

Macquarie Life
macquarielife.com.au
1800 005 057
For all insurance queries

Macquarie Practice Consulting
macquarie.com.au/practiceconsulting
macquariepc@macquarie.com

Directory of offices

New South Wales
1 Shelley Street,
Sydney NSW 2000

Queensland
Level 6-7, 825 Ann Street,
Brisbane QLD 4000

Victoria
Level 24, 101 Collins Street,
Melbourne VIC 3000

South Australia
Level 2, 151 Pirie Street,
Adelaide SA 5000

Western Australia
235 St Georges Terrace,
Perth WA 6000

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