



# Competitive Advantage of the Family-Led Business

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# The Family Business has Inherent Competitive Advantages

- Speed to market
- Strategic Focus
- Concentrated Ownership Structure
- Lower Total Costs
- Quality of Product/Service
- Agility and Flexibility in Rapidly Changing Markets
- The Owner-Manager and a Long-Term View



# Speed to Market

- United States:
  - More than \$100 Million in Sales - 22.6 Months
  - Less than \$100 Million in Sales - 16.0 Months
- Japan:
  - More than \$100 Million in Sales - 19.1 Months
  - Less than \$100 Million in Sales - 14.0 Months
- Europe:
  - More than \$100 Million in Sales - 23.4 Months
  - Less than \$100 Million in Sales - 15.9 Months

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Source: Boston Consulting Group



# Strategic Focus: Niches

- Size of Market and Business Performance
  - Under \$50 Million: 28.1% ROI
  - \$50 to \$100 Million: 26.8% ROI
  - \$100 to \$250 Million: 24.2% ROI
  - Over \$1 Billion: 10.9% ROI
  - Note: 4 Year Average ROI Source: PIMS Program



# Concentrated Ownership

- Ownership Structure Impacts Corporate Productivity
- Stock Concentration Discourages Unrelated Diversification
- Stock Concentration is Positively Correlated to: Related Diversification, R&D and Training Expenses/ Employee,
- *Overall Corporate Productivity*
  - Source: Hill and Snell, Academy of Management Journal, 32#1.



# Lower Total Costs

- Because of the overlap between ownership and management, administrative costs are often lower
- When the business owner controls 100% of the stock and when the stock is distributed and in the hands of family shareholders enjoying family harmony, the cost of capital is nearly 0%. Cash flow from the business can be reinvested for growth without paying out high dividends or incurring high interests on debt.
- Financing costs for other businesses can range from 25-30% for venture capital, to 17-20% for mezzanine financing, to prime for bank financing.



# Quality

- Relative Product Quality and Business Performance
  - High Relative Product Quality: 27.1% ROI
  - Medium Relative Product Quality: 19.8% ROI
  - Low Relative Product Quality: 16.8% ROI
  - Note: 4 Year Average ROI. Source: PIMS Program



# From Economies of Scale to Economies of Agility

- Inventory, carrying and quality costs of large scale manufacturing have increased in the last decade. The greater flexibility of new manufacturing and distribution-retail-service technology (including low-cost PCs) makes smaller runs economically attractive.
- There are increasing demands for customization and rapid changes in consumer preferences, along with shorter product life cycles (from 24 to 18 years in last decade), which reward agility.
- EDI, Internet-sourcing and value-added partnerships make agility possible across the value chain. Examples: Milliken-Levi-Strauss-Dillard's.



# The Owner-Manager and a Long Term Perspective

- Focused on customers, family, employees (extended family), profitability and lifestyle vs. growth in size for its own sake.
- Experiences dilemmas between family, management and ownership and continually optimizes the mix.
- Average tenure of 18 years vs. 8 years for public company CEOs produces commitment to the long term and to leaving a legacy- “I leave things in better shape than I found them in...”



# But can this competitive advantage be squandered?

- You bet, since assumptions, greed and a thousand hidden agendas rush into the vacuum created by the departing hero. And in the absence of plenty of accommodation and a recognition of the absolute need for win-win approaches, or everybody loses, months can destroy what took a lifetime to build.