TRANSFORMATION: THE NEW FUTURE FOR FAMILY BUSINESSES POST COVID-19

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June 2020

“When you are short of everything but the enemy, you are in combat”

Murphy’s Laws of Combat. . .

. . . is a poignant metaphor for the surreal global disaster we are currently facing. Overnight we have moved from talking about the “war on talent” and the challenges of recruiting and retaining great people to the war on “the invisible enemy, COVID-19” and the battle for our lives and livelihood. Grocery store clerks and bus drivers quickly joined the ranks of doctors, nurses, paramedics, and police officers on the front lines in the fight to save lives while all around us we have seen the devastation, desperation, and determination across every socioeconomic demographic, business sector, industry, and geography.

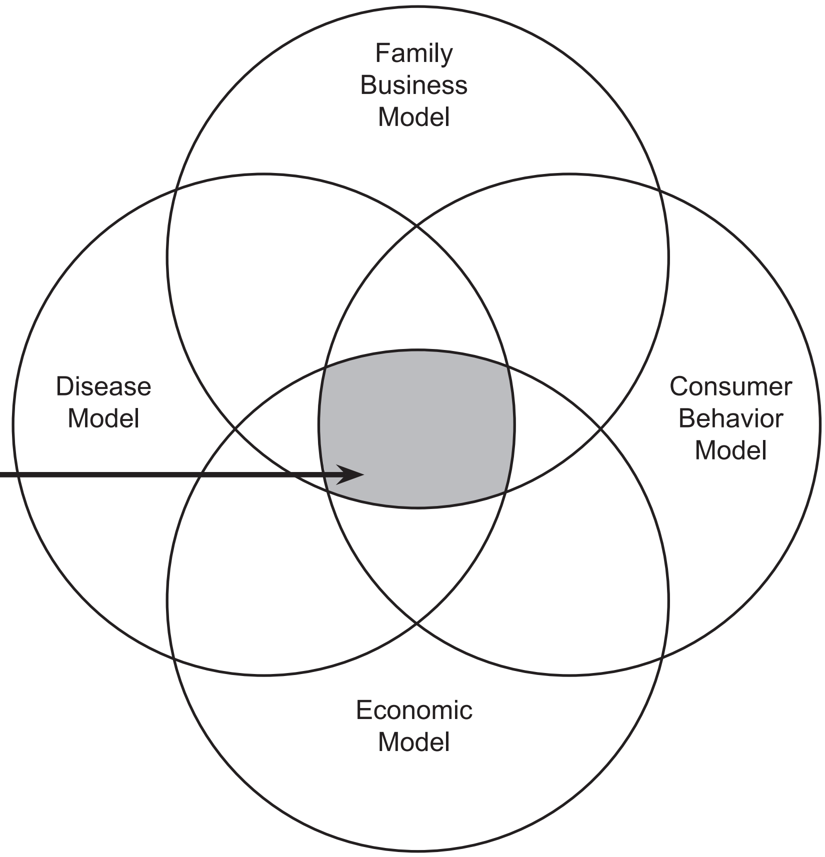
Allie Taylor, PhD

Dr. Taylor’s unique skill set is derived from her academic background in biology and chemistry, marriage and family therapy, and business psychology along with her real world experience owning family businesses, engaging in business turn around projects, holding executive roles, conducting research, and consulting.   She is adept at using business data and psychological insights to help family business owners reduce complexity while gaining clarity and control. Her ground breaking research on the psychology of low to mid market owners and points of significant transition and subsequent publications earned her Thought Leader of the Year in 2019 by the Alliance of Merger & Acquisition Advisors. She is a sought after speaker and facilitator.

Allie and the Orange Kiwi team serve low to mid-market owners at points of significant transition where complexity demands people think and work differently. This is the intersection of business and psychology. These are the disciplines needed for gaining the clarity and control necessary to drive results.

Figure 1.0

The solution set for navigating COVID-19 is complex due to the impact on four fronts:
a) Economic;
b) Disease;
c) Consumer behavior;
d) Family-business model.
Leading through the complexity and uncertainty requires a solution set that is informed by all four domains



Family businesses attempting to wage a winning campaign are fighting a battle on four fronts:

- Disease model for COVID-19
- Economic model
- Consumer behavior model - testing
- Family-business system

In our ongoing effort to support family businesses we have been actively monitoring research in each of these areas with a view to understanding their impact on low to midmarket businesses. Why is this crucial? Family businesses:

- Are the backbone of our economy, employing 54% of the workforce
- Have the added challenge of relational complexity not faced by non-family businesses
- Have unique advantages and resources available to them that non-family businesses don't
- Are the hope for the recovery of our economy.

This paper is written for the owners, executives, and leaders of small to mid-sized family businesses and their advisors. Some family business owners are grieving the loss of loved ones while they fight to save the business while others are worrying they may be next. A few are struggling with feelings of guilt because their business is thriving. Some have realized rapid and unexpected growth that is straining systems and causing employee burnout. Others are experiencing anxiety as employees - including family members - may be at risk as they keep the business operating. Most have had to figure out virtual workforce management and what it will mean for the future of work. No matter what circumstance you find yourself in, there is a path through.

Our objective is to provide a practical resource for navigating this season. The COVID-19 pandemic has altered our trajectory forever. The future will be different and survival depends on family business resilience to succeed on all four fronts across what we now understand to be three distinct impact phases:

1. Acute Phase: began in the United States on February 26th, 2020 with the initial report of community transmission of COVID-19 and will persist until Stay At Home orders are lifted.
2. Plateau Phase: characterized by deceleration of pandemic levels, the bottoming out of economic slump, and early signs of economic recovery. As of May 20,2020 leading experts believe we have entered this phase in the U.S. According to Bob Doll, Senior

Portfolio Manage, Chief Equity Strategist at Nuveen the recession may have hit its low in April 2020. Of course, this is barring a second wave of the virus and an election cycle that favors recovery. If Doll is correct, the plateau phase will be short lived and we are likely to have a rapid recovery.

3. Recovery Phase: scaled public health response to manage the disease (ability to test, treat, contact trace, and isolate), the economy begins to grow, changes to consumer behavior stabilize, and become the new normal. Full recovery is many months away and this is likely to be the longest phase of the pandemic cycle. Recovery is also likely to be sector specific with the hardest hit sectors taking the longest to recover.

Each phase presents unique challenges requiring owners to adapt and proactively lead their businesses. Owners choosing a reactive path or stubbornly clinging to old ways of being and doing are likely to struggle considerably. The 17th century Japanese samurai and poet Mizuta Masahide described it as, "My barn having burned down, I can now see the moon". While our world has not burned down, it has dramatically changed. Conquering the change means adapting to new realities.

Resilience to conquer these challenges will be tested as family business leaders grapple with the reality that, what may have worked in the past is no longer sufficient to address changing market environments of the near-term future and beyond. To thrive in the new normal we must lean into the strengths of the family, examine our business context, act decisively, and pivot. This will be the true test of family business resilience.

Family Business Resilience

COVID-19 is pushing the resilience of family businesses to the limits forcing them to tap into their unique competitive advantages. Historically, family businesses have had an edge in challenging times because of their ownership structure, culture, values, long-held relationships with suppliers and customers, and ability to leverage the commitment and financial resources of the extended family. When crises come, as they always do, there are 5 critical areas that must be healthy to promote resilience in the family business: Financial Health, Leadership, Organizational Culture, Supply Chain, and Market Opportunities.

Here's what family business resilience looks like in light of COVID-19:

- **Financial Health:** Protect the business's lifeblood – CASH! Owners must gain control of their cash position. For essential businesses like grocery stores, food and drug manufacturers, information technology, and other essential sectors that are seeing a boom during the crisis, sales and cash are not a problem. However, some businesses are seeing high sales volume with accounts receivable (AR) days growing longer. For these businesses managing customer credit terms and AR is key to ensuring they are not selling themselves into a financial hole of uncollectable debt.

  Whether open for business or shut down tight, most family businesses are scrambling to navigate the financial and regulatory impact of disaster legislation known as the Corona virus, Aid, Relief and Economic Security (CARES) act and the Families First Coronavirus Response Act (FFCRA). In the midst of attempting to address the regulatory changes, family business owners have invested substantial time and effort navigating the complicated and rapidly evolving disaster relief programs (see: Emergency Income Disaster Loan (EIDL); Paycheck Protection Program (PPP); Main Street Loan Facility programs). In many cases these loans will help but, they may not be enough. As of May 20, 2020 Congress continues to revisit the terms of these programs issuing a series of "Interim Final Rulings" and there are currently 370 bills pending in congress related to the pandemic. These well-intentioned and necessary programs were hastily rolled out and the associated financial realities continue to evolve creating considerable uncertainty and complexity.

- Gaining control of the financial landscape in the face of uncertainty and complexity will require creating and managing against scenarios.

  - *Scenario 1: Financially fragile or vulnerable businesses.* We recommend starting by examining what must be paid (payroll, marketing, inventory) and what can be deferred or renegotiated (some taxes, rent, principle payments on loans, salary packages for owners and exempt staff). Note things that would ordinarily be a "must" pay have shifted to deferred or renegotiated. These liabilities will not go away, but they may be delayed until cash starts flowing again.

    In the most extreme cases owners may have to consider Chapter 11 bankruptcy protection. The Coronavirus Aid, Relief, & Economic Security Act (CARES) includes provisions extending relief for small to medium businesses filing Chapter 11. The CARES Act is intended to help more businesses survive by streamlining the process and making it more affordable to reorganize their finances (National Law Review). The decision to file Chapter 11 is often as much of a psychological hurdle as it is a business or financial hurdle.

    Most family business owners we have worked with are values driven and pride themselves on integrity. The notion of not paying their bills or going through the agonizing process of having financials scrutinized by the legal system can be traumatic. Once on the other side however, the reward is a fresh start with the business having survived the worst global disaster of our lifetime. The business will still be providing jobs and contributing to our economic recovery. There is no shame in this option, should it be the right strategy for you.

- *Scenario 2: Financially healthy businesses.* Review your market environment. Talk to your customers, vendors, and suppliers. Invest effort in understanding the impact of the virus up and down the supply chain. Model your cashflow and the financial impact of delays in the system. Ensure commercial lines of credit are sufficient and terms are flexible enough for you to withstand down turns that may still be experienced. If you take disaster relief funding ensure that you understand the limited use of funds and associated timeframes (that continue to change). Tracking and documenting how the funds are used is critical for loan forgiveness and/or audit, particularly for loans over $2M.
- *Scenario 3: Financially strong and robust businesses.* You have likely already taken the steps described for your financially healthy peers (if not, this should be a priority). In addition, you may be poised to take advantage of opportunities in the market. The adage, "luck is where preparedness meets opportunity" applies here. Pivoting your strategy will require prudent analysis to take advantage of emerging market opportunities but, winning at this game will also require agility and responsiveness. Family businesses that have the financial resources and a strategy in place will be ahead of the game.

- **Leadership:** Family businesses are critically dependent on the ability of decision-makers to efficiently and effectively guide themselves, their family, and their employees through the crisis. Now is not the time for consensus. Family business leaders must take firm hold of the helm to navigate through the storm. They must create a clear direction for the company to survive the crisis, eliminate all non-productive or unprofitable activity, secure the necessary capital, champion and inspire their team, consider pivoting the business model, and embrace virtual workforce management. Family members must rally together to pull the business through the crisis.

  Crisis brings out the best and worst leadership attributes and this Black Swan event is extreme a crises get. A Black Swan event is an extremely rare occurrence that arrives seemingly out of nowhere and catastrophically disrupts the economy. In hindsight people will say we could've and should've seen it coming, but we didn't. If significant transitions (scaling, selling, or family succession) are like a 10x magnifying glass for family and business leadership dynamics, Black Swan events are like 1,000,000x magnifying glass. For those with healthy and well-developed family and business governance systems decision-making has come with substantially less stress and greater efficiency. Those that had been struggling to form governance systems and/or improve family dynamics are finding the crisis response to be much more demanding.

  Regardless of where they are, families must pull together as never before. Leaders must create a compelling vision for the path through the pandemic while assigning clear responsibility for disaster response and future preparedness that includes determining who is accountable for:

  - Understanding the rapidly evolving government employment regulations, synthesizing the information, and identifying strategic issues for the management team?
  - Designing the strategic response to today's challenges and associated opportunities? (In every crisis there is opportunity if you can pivot quick enough to find it.)
  - Ensuring the business has timely market intelligence going forward to mitigate the impact of a second wave of the virus and the threat of future pandemics going forward?
  - Ensuring all family members are kept up to date on business and family developments?
  - Aligning financial health with disaster response, recovery, and the business model pivots?

  Perhaps most importantly, leaders must be critically aware of their own cognitive biases and blind spots. There is no time to recover from slow or faulty decision-making in a crisis. The greatest decision-making threat to surviving the crisis - cognitive biases that lead to thinking errors. Five of the most common:

  - Confirmation bias: the tendency to interpret new information or evidence in a way that supports existing beliefs or theories.
    - WRONG! This bias is perhaps one of the most insidious as it tends to involve objective inputs (eg., data). Thinking errors stem from improper interpretation of the data, a failure to test assumptions, and/or inappropriate rejection of competing data points.
  - Success bias: our model has worked for all these years. When things get back to normal it will work again.
    - WRONG! Change is happening. You will be impacted. The new normal will be different. What worked in the past may be insufficient for the future.
  - Ostrich effect: an attempt to avoid dangerous or negative information believing it will just go away.
    - WRONG! While your head is buried any opportunity you have to be proactive and get ahead of it will be gone.

- Sunk cost fallacy: we invest more in things we have already invested although they are under-performing rather than cutting our losses.
    - WRONG! Stop the bleeding! Acknowledge the loss, learn from it, and invest your resources in things that will make money. Many brick and mortar businesses need to cut their losses, shrink the footprint, and find a digital strategy… consumer behavior has changed!
- Dunning-Kruger Effect: the less you know, the more confident you are. The more you know, the less confident you are. “My employees have been with me for 20-years, they know my business and industry better than anyone. I will blindly trust their advice rather than test assumptions.”
    - WRONG! While your employees may be well intentioned, they (like all of us) have blind spots and they often do not know what they do not know. Check other sources or get outside advice.

Leaders must put skepticism and ego aside to conquer these biases. Time and energy are too precious to squander on ineffective communication, dysfunctional decision-making, or silo-ed thinking. No matter where your family finds itself, now is the time to rally, support, and challenge each other!

- **Organizational Culture:** Family businesses are resilient often due to the cultures they create. They tend to have more loyal, long-term employees and deep interpersonal relationships. Staff and family are used to working together, but the sudden and dramatic shift in norms and behaviors is resulting in unexpected culture shifts.

  The normally lengthy and often arduous process of shifting culture has been short-circuited by the pandemic. No matter how good or bad the culture may have been, family businesses have a moment in time where their culture has likely become rapidly unfrozen. Culture is arguably the most powerful force in a business, particularly for a family business. As many businesses face new realities it is imperative leaders pay keen attention to the implications culture will have on the success of rapidly changing strategy, structure, systems, staff, and skills.

  Without intentional effort, culture will get overlooked as owners face the onslaught of information and demands in the rapidly evolving situation. Savvy management teams are actively considering how their culture has and will be impacted as the new normal takes shape. Three simple points of reflection can shed light on how best to respond:

  1. Values: Which of our corporate values are enabling our resilience through this crisis? Have any new values emerged that we should retain? What values are hindering our efforts?
  2. Norms: What new behavioral expectations and standards have emerged? Where have we increased our efficiency? What behavioral patterns are holding us back? What new ways of making decisions together have emerged?
  3. Beliefs: What do we consider to be true about our leadership philosophy? Our hope for the future of the company? Is our vision compelling in light of what we’ve been through? What do we believe to be the proper posture toward our employees? What do our employees believe to be true about family and business leaders? How are these beliefs shaping our interactions?

  Hidden within the answers could very well be nuggets of gold to be mined or warning signs for struggles that can be avoided. Either way, the information gleaned from a ruthlessly honest exploration of these questions will be useful for adapting the family-business system over the next 18 to 24-months as the disease, economic, and consumer behavior models unfold.

- **Supply Chain:** This is perhaps one of the forces that has been top of mind. As demand for personal protective equipment (PPE) for front line workers, toilet paper, and cleaning supplies sky-rocketed and supermarket shelves emptied of staples, the concept of supply chain became mainstream conversation. The Federal Emergency Management Agency (FEMA) enacted a three part strategy for stabilizing the supply chain for medical equipment: a) preserve and extend the life of what exists today; b) identify new suppliers, rapidly scale production, and build delivery capacity; and c) enhance current and new production capability.

  This 3-step approach is sensible but, will likely be insufficient for family businesses over the long-term. Many family businesses have built longstanding relationships with their suppliers. As a result, high interdependency and high concentration on a limited number of suppliers presents a significant business risk should key suppliers succumb to economic forces. Ensuring your supply chain is and will continue to remain stable must be a priority for every management team. In addition to the crisis stabilization steps FEMA is modeling, a prudent response by family business leaders includes evaluating:

  1. Supplier Resilience: How well are your suppliers tolerating the crisis? What has the impact been on production? How long do they anticipate production decreases or ability to sustain increases? Are they able to meet your demand in a timely manner?
  2. Supplier solvency: Determine the level of risk posed by changes to your buying patterns. How many customers have your suppliers lost due to COVID-19? If you are their largest customer, what is the minimum viable order you must place to prevent your most critical suppliers from going out of business over the next 90 to 180 days?

3. Map (or re-map) your supply chain: understand changes to production and shipping time frames, payment terms, concentration levels. If necessary, explore alternate supply chain technologies that can be adopted (eg., 3-D printing).

COVID-19 is creating a domino effect across many industries and surfacing unforeseen vulnerabilities and opportunities. As the crisis further unfolds and consumer behavior changes additional opportunities and vulnerabilities may emerge. Scanning the market environment must be a continuous process, not a one-off activity. Embedding these practices as part of your standard supply chain management effort gives you the advantage of early warning to changes in your environment.

- **Market Opportunity:** Consumer behavior has changed and it may never go back to what it was. After the 2008 crash led to the Great Recession, consumer research found significant shifts in buying patterns with consumers turning away from expensive brands and embracing thrift brands (McKinsey). During the Great Depression people were forced to economize and manage every penny. These behaviors reinforced belief systems reshaping values that were passed on their children who came to be known as the Boomer Generation (Harvard Business Review). Today's Millennial and iGen young adults were recognized as the most anxious generations in history - and that was prior to COVID-19. As this generation continues to experience psychosocial effects of the pandemic there will be notable changes to how they make buying decisions and life choices.

  Economists, sociologists, and psychologists are reporting dramatic shifts in consumer behavior related to COVID-19. Family businesses that exploit their access to agile decision-making are likely to find opportunities(World Economic Forum) for innovating their business model and finding new customers. As the economy shut down and stay at home orders went into effect there was confusion about what was and was not an essential business. This sent owners scrambling to innovate their sales channels while conforming with government regulation. Those with under developed or non-existent e-commerce strategies found themselves under pressure to adjust and move digital solutions up the strategic priority list (McKinsey).

  Beyond the need to ensure the e-commerce strategy is robust, some family businesses are temporarily shifting production to manufacture essential products like personal protective equipment (PPE). The objective is three fold: a) make a contribution to the battle against COVID-19; b) keep people employed; and c) protect financial health. For example, Timberlane's core product is shutters, but they pivoted to make essential medical equipment. Other non-essential businesses pivoted to meet customers in the virtual world. Friar Tux and Stitch & Tie were just entering their high volume prom and wedding season when Stay At Home orders went into effect. They pivoted to virtual style sessions in an effort to boost morale for brides and grooms facing uncertainty about their wedding plans. These style session offer personalized shopping experiences, a bit of fun, and a focus on the future while allowing the company to realize revenue and employee staff that would've otherwise been lost.

  These examples are two of many that demonstrate the innovativeness and resilience of family business owners. There are definitely opportunities to be had for those who respond with prudent urgency. But, the rapid rate of change is putting high demand on owners, family members, and staff. Inspired by passion and drive they are digging deep to find the resilience realizing they are running a marathon, not a sprint.

Resilience to Run the "Disease vs. Economy Marathon"

With these forces in mind we turn to what the future might hold. Ambiguity, uncertainty, and complexity are the waters successful owners must continually navigate, but the current situation is a perfect storm. Every news channel, pundit, and talk show host is offering speculative opinions of when this will be over or when we will return to normal. Business owners need the facts, on each of the four fronts (disease, economic, consumer behavior, and family-business), not speculation.

Resilience to run this race comes from being ruthlessly realistic about the situation as it is today while holding onto faith that they will prevail against the challenges presented. In his book *"Good To Great",* Jim Collins calls this mindset the Stockdale Paradox. Admiral Stockdale was the highest ranking prisoner of war at the Hanoi Hilton spending 8-years in the camp. When Collins asked Admiral Stockdale about the difference between those that survived and those that didn't Stockdale responded, "optimism". Those that were overly optimistic endured disappointment after disappointment and these disappointments depleted their resilience.

Those, however, that ran the marathon set before them had faith that they would prevail in the end and held this belief in tension with the need to be brutally honest about the facts as they are today. They did not allow cognitive biases or optimism to cloud their judgment. They did not rely on hope as they plan for survival. Those that survived grounded themselves in facts, embraced the reality of their immediate situation, held onto faith that they would prevail and lived each day with a core set of behaviors that would allow them to endure the hardships and uncertainty they knew they would face.

You might say with so many variables in play, how in the world do we confront the facts on a daily basis. Thankfully, we have far more access to real time data than Admiral Stockdale did. That means, we have the ability to lean into our brain's preference for reducing complexity by taking a model-based approach and leverage the availability heuristic. Admittedly, all models are inherently wrong, but some are useful. Our job is to identify reliable, data driven models that are most relevant to our family business context.

Your resilience is dependent on conquering confirmation bias (looking for data that confirms your perspective). Being ruthlessly honest means approaching data as objectively as possible. Devastating mistakes will be made during this crisis by owners who fall victim to their cognitive biases. On the other hand, those who challenge their assumptions and are willing to look outside their comfort zone are finding moments of inspiration and opportunity. Invite your family and management team into this evaluation process with you and ask one or two of them to be responsible for challenging assumptions. If you allow it, they will keep you ruthlessly honest and prevent another cognitive bias, group think (a desire for harmony and conformity that results in irrational or dysfunctional decision-making) from happening. Pulling together as a team, fighting the information battle, and solving problems together will aide in building resilience.

Family business owners resiliently running this pandemic marathon are discovering how much more their family and employees have to offer. They are finding bright spots in the day and celebrating wins as the continue to conquer challenge after challenge together. But, where do you get the data? How do you cut through all the noise to find useful models?

Another bright spot in this pandemic is that researchers are transparently sharing information at lighting speed on global databases allowing experts to collaborate and access data more efficiently and expediently than ever before. Because of this unparalleled sharing it is easier than ever to find reliable information. Here are a few sources that we are finding very helpful in our work with family businesses:

- McKinsey & Company provide an excellent assessment of the path of COVID-19, its impact on the economy, and changes to consumer behavior by industry. The take-away from their research is that the public health and financial policy responses to the virus are the determinant variables. Even if the virus recurs, as long as the public health response is effective we will experience an economic rebound. However, a failure of the public health response will result in a deeper downturn and slower recovery. In addition, they are providing data driven global overviews with updates on an ongoing basis (McKinsey COVID-19 Briefing Materials).
- Bain & Company are using Google search data to predict consumer trends and identify vulnerable industries. Researchers at the University of Chicago analyzed household spending between February 26th and March 31, 2020 finding that consumer spending shifted significantly and almost immediately with the news of COVID-19 spreading through community transmission in the United States.
- Looking back to the crash of 2008 provides keen insights into the persistence of post-crisis consumer behavior change. Harvard Business Review found that post-recession trend demonstrated persistent changes in consumer behavior. An example that is often cited from the 2008 recession is a permanent move away from brand loyalty to expensive brands in favor of purchasing more economic brands. During the COVID-19 lockdown the only access to consumer goods other than gas and groceries was through e-commerce and the extended period of time has increased consumer adoption of these behaviors. We are watching the data to evaluate the impact of the extended lockdown on the persistence of these behaviors.

What are the implications for family business owners? While we have entered uncharted waters of uncertainty and complexity that are not yet fully understood, there is no turning back. The only option is to pivot and push through. As described earlier, we believe there will be 3 distinct phases that family business owners must prepare for:

I. **Acute Phase:** beginning on February 26th, 2020 when the first case of community transmission was announced and continuing until through the first phases of re-opening the economy beginning in mid-May for much of the country:

   The profound reality is that many admirable family businesses will not survive this phase. In fact, many have already closed permanently or filed for bankruptcy. For some, surviving on emergency aide could be putting bandages on symptoms and delaying the important work of pivoting to drive cash now. Those able to survive by taking on debt in the hopes of rebounding may lack the necessary financial resilience to withstand the economic environment and changes to consumer behavior. Some of these family businesses are going to have a difficult time unless they rapidly evolve their business model and drive profitable sales quickly. However, businesses able to withstand the immediate financial impact, conserve cash, and pivot strategy will be better poised to take advantage of market opportunities during the later phases.

II. **Plateau Phase:** beginning as the economy re-opens, markets begin to stabilize, and disease metrics (number of deaths, infections, recoveries) begin to improve. During this period the rate of recovered (antibody positive) individuals increases, but herd immunity (a sufficiently high number of the population is immune to the virus that the spread is dramatically slowed) and a vaccine has yet to be produced.

   Bob Doll, Chief Equity Strategist for Nuveen provides a skilled and reasoned view of the economic outlook expecting volatility to remain high through 2021. As of the May 11th, 2020 commentary Doll is projecting April will be the lowest point of the recession and recovery will start later this year. As we move through these economic realities people will continue to adjust behavior and accept new realities. For example, wearing a mask to the bank is no longer interpreted as a sign of intending to rob the bank, but of responsible social behavior. Volatile economic environments often result in consumers tightening their belts and the rate of unemployment will add to the austere behaviors. During the plateau phase we will have greater clarity on consumer behavior shifts that will persist and those that will return to pre-COVID-19 patterns. As a result, family business owners may be forced to continue to pivot their models to adjust.

Family businesses that enter the plateau phase lacking financial health, facing leadership challenges, a misaligned organizational culture, supply chain constraints, under exploited or unavailable market opportunities, or burdensome government regulations may fail to emerge from this phase. Family businesses that are doing well in this phase are likely to be positioned for even greater success as the economy begins to rebound, people return to work, and new opportunities emerge. Renewed expression of resiliency will be required to drive the business through yet another round of adjustment.

III. **Recovery Phase:** A new normal will slowly begin to emerge as the virus is increasingly contained, a vaccine is ultimately found, and/or a significant level of herd immunity is developed. Lost economic activity will begin to be restored and the economy will begin to grow.

Entering the Recovery phase will be a significant milestone for many family businesses who have pivoted to new ways of working, found strength in more agile business models, and perhaps even embarked on new opportunities. For many however, having put everything on the line to get this far will not be out of the woods yet. Unless they can return to financial health in the early days of recovery they may face yet another round of difficulty from knock-on effects rippling through their supply chain, markets or sources of funding.

Perhaps the most intriguing, but not surprising statistic from historic periods of economic trial is the remarkable propensity family businesses have for beating the odds and finding a way through the seemingly impossible. Admiral Stockdale had no idea how long his marathon would be. He had to face each day as it came. Thankfully, while we cannot completely remove the uncertainty of time, we can use the data and government guidelines to gain a sense of how much longer we must run this marathon.

Time: The Variable We Most Want to Understand

The challenge with time is that we do not have crystal ball for predicting the future. In May 2020 as the global economy slowly opens we are moving through the acute phase toward plateau. Historical and present data provides clues for evaluating the type of recovery we will experience. In contrasting the McKinsey models with data from the Federal Reserve Bank of St. Louis Economic Research Data (FRED) and the Centers for Disease Control (CDC) we get glimpses of what might be but, the very nature of a Black Swan event is fundamental uncertainty. Therefore, we believe the variable of time is best approached cautiously through scenario planning.

Best case: the virus is contained without a second wave and the economy recovers by the end of the year 2020. (V-shaped recovery).

Mid case A: we experience a second wave of the virus that happens later in 2020, public health response is quick, our government takes prudent financial measures blunting the economic effects and fostering a rebound by Q2 2021. (U-shaped recovery)

Mid case B: the second virus wave happens early Q1 2021 and sends us into a second economic dip (W-shaped or double dip recovery). We could be well into 2022 before the recession ends.

Worst Case: We are unable to adequately contain the virus and/or a vaccine takes more time than expected to develop, and as the result the economy is unable to rebound until well into 2023 (L shaped recovery).

There are many models and experts weighing in on these matters and the truth is nobody knows what things will look like for certain. Our encouragement is to plan for a lengthy recovery lasting well into 2022. Continue to monitor the landscape and adjust accordingly. If the recession ends sooner, we can all celebrate. If not, we will be better positioned to weather the storm.

A few cautions:

1. Government help comes with a price tag and this pandemic is driving up a hefty bill. In reviewing the emergency funding programs we believe these programs could be the type of help that hurts some family businesses unless significant changes to the terms are enacted. After modeling the financial impact of the PPP, EIDL, and Main Street Facility loans one of our clients concluded, “it may be borrowing just enough to make us go broke.” If this is the case, the circumstances are most likely to emerge during the early days of recovery as loans become due, taxes potentially rise, and commercial lending gets tighter.
2. Predatory lenders and investors are on the hunt. Access to capital is a critical part of surviving this disaster. Before taking money from a lender or investor it is absolutely essential that you understand the terms

along with the lender's investment motives, portfolio objectives, and culture. If the deal sounds too good to be true, it probably is. As with the disaster funding programs, ensuring your borrowing is strategic and not just enough to go broke is critical. If you are engaging in an equity transaction, we strongly encourage consulting with a skilled investment banker who understands the playing field and the players.

3. The war on talent was real before the pandemic and it will be real after. Having the right people will be a key differentiator between businesses able to recover and scale and those that will continue to struggle. Family businesses should avoid compromising on talent especially when it comes to placing family members into roles they are ill-prepared due to valuing trust above skill. In this market environment the right skill sets are crucial. Consider hiring the talent you need for key roles and vesting them with the power, authority, and control necessary to do the job. Then, maximize your investment by putting one or more family members alongside this non-family executive in order for them to learn and grow. If you do not have the resources for taking on additional fixed overhead consider acquiring the skills by engaging a proven expert on a time specific project basis.

Hope for the Future

Our research and experience tell us underestimating the grit, innovation, and determination family businesses demonstrate when times are tough would be a mistake. One of our favorite examples is the story of Play-doh. Founded in 1930, during the Great Depression, Kutol was originally intended to be a non-toxic wallpaper cleaner. Brothers Cleo and Nick McVicker grew the business quickly when Kroger grocery came looking for a cleaner that would remove soot from the walls of coal and wood burning household heating systems. It was the miracle cleaner of the day… until market forces and consumer behavior changed.

In the 1950s consumers were turning from coal and wood to adopt new inventions and cleaner burning fuels like oil and gas. Cleo and Nick began to see slumping sales and had to face harsh realities. They had to pivot or perish. That is when they began to look at Kutol differently. Realizing that kids liked to play with the doughy material they took a gamble that paid off. They traded cleaning agents for color going from Kutol a household cleaner to Play-doh a beloved children's toy. More than seven decades later this childhood favorite is still going strong.

Summary Lessons We Can Draw

1. Never count a family business out. Fueled by purpose, committed staff and family members who will give their all to see the business survive family businesses have competitive advantages others do not.

2. Financial health is critical. Do not underestimate the depth or length of this recession. Secure the resources you need but, be wary of predatory lenders and/or investors. Model your cashflow creating best, likely, and worst case scenarios that give you greater visibility and decision-making control.

3. A new normal is emerging. This will require fundamental shifts in leadership, business models and organizational capacity (strategy, structure, culture, people and financial resources). Getting caught behind the curve in this pandemic will crush opportunity and family businesses will fail. We must do all we can to see family businesses thrive if the economy is going to recover. When a family business fails, jobs are lost and our economy suffers. Our hope for recovery rests in family businesses with courageous leaders embracing agility, responsiveness, and innovation.

4. The solution set is complex. It involves a multiple variables including financial health, leadership, organizational culture, supply chain management and market opportunity in order to address the impact of changing consumer behavior, economic effects, and a public health response to the disease. Family business owners must ask effective questions, keep dialogue clear, self-monitor to avoid letting cognitive biases lead to thinking errors, and act decisively. Crises demand that leaders focus resources on a limited set of high impact priorities by developing and communicating specific, measurable, actionable, realistic, and timebound (SMART) goals and temporarily setting aside non-essential activity.

5. Help is Available! Orange Kiwi has assembled an international team of skilled experts ready, willing, and able to assist. We specialize in the hard stuff of helping family businesses move through significant transitions. Navigating the impact of COVID-19 is perhaps the most significant personal and business transition family business leaders will face in their lifetime.

Orange Kiwi is committed to our core value of responsible generosity. We stand ready to provide skilled support, helping where we can, and connecting you with others who might be able to help if we can't. You can reach us at: Info@orangekiwillc.com. In addition to this, university based family business center across the country have skilled experts and members ready to lend a hand. If you are not a member of a university family business center check out the Family Business Director's Alliance for a list of centers in North America. If you can't find one near you drop us an email we're happy to help you find a connection.