Surviving The Covid: Addressing The Business Challenges In Family Businesses

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How can family businesses withstand the challenges posed by a Black Swan event like Covid?We segregate the challenges facing family businesses into the business, family and ownership parts, and address them individually.

BUSINESS CHALLENGES DURING COVID

While all businesses have been badly hit by the pandemic, family businesses are particularly vulnerable, due to inherent structural weaknesses arising from poor cash flow management, poor accounting and financial practices as also lack of professional management to manage the risks. These weaknesses get exacerbated during a crisis.

MANAGING CASH-FLOWS:

In a scenario where both the demand and the supply side are hit, family businesses, especially Micro, Small and Medium Enterprises (MSMEs), with low cash reserves and/or unstable cash flows are the worst affected. An Indian study found that the movement of the economy from a normal to a low growth rate led to an increase in the current asset days (how quickly a company is able to convert its current assets into cash) from 139 days to 143 daysfor large companies,but from 189 days to 220 daysfor micro and small companies.In a survey we conducted in March 2020 for about 112 small and medium family firms in India, we found that cash flows and managing receivables were the key issues.

Cash flow problems would require careful understanding and planning at multiple levels, including managing receivables, managing payables, and managing inventories.

Receivable management would involve understanding the financial risks of key customers and suppliers and establishing an efficient and rigorous collection process through adoption of technology.Planning one's own financial options at this time also becomes important. The 'zero debt' policy of most family businesses narrows their financing options. Even so, during the crisis and the resulting hit to the credit worthiness, loans from the organized financial sector become even more difficult. Receivable management in this scenario would need to hinge on 'paying' customers to provide short-term finance, through allowing them dynamic discounts for quicker repayments.

Managing one's payables is equally important in such a scenario. While delaying the payables may be tempting, there may be unforeseen consequences, other than just the interest costs these may impose. Vulnerable suppliers, unable to maintain themselves due to loss of cash flows, may exit leading to disruption of existing businesses. Family businesses may try and use this opportunity to reduce the payable burden through negotiating terms and availing of discounts.

Family businesses may look at implementing fundamental changes in inventory management, involving an assessment of their 'power' products and rationalizing the Stock keeping Units (SKUs). It may also be the time to enter into and acquire a more diversified portfolio, in keeping with the requirements of a post-Covid era, through understanding the change in consumer trends closely.

PAYING ATTENTION TO COSTS, ACCOUNTING AND FINANCIAL PRACTICES

Poor accounting records and financial practices prevent family businesses from realistically projectingtheir sales and revenues, assessing their break-even point and carrying out a range of financial analyses, which in turn can help plan their taxes and future finances better. Such financial practices have legal ramifications, especially when it comes to enforcing contracts in crisis times, as many small businesses have found to their chagrin. The reasons for these poor financial practices may be traced to the obsession that these businesses havewith operations and marketing as their main challenges almost throughout their life time, to the neglect of the treasury and finance functions. It also has to do with the need for secrecy of their financial operations for tax and similar purposes.

This may be the time for an owner-manager to change this. He/she should don the hat of a chief financial officer, clean up the accounts and understand both income statement and balance sheet better, and not just the former. It may also be advisable to take a hard look at the cost-structure and try and convert some of the fixed costs into variable costs. Ⓔ