

Growing the future of Australia's family businesses



Contents

Methodology

Going global

In conclusion

Introduction

Key characteristics

PwC Private Clients

Insights from the front line

Family and succession planning

Contacts

Highlights

Government and society

Acknowledgements

Performance

The Family Business Survey is available for download as a PDF at the App store. Search for PwC Private Clients.



Methodology

Globally, we conducted close to 2,000 interviews in over 30 countries during July and August 2012, including 50 Australian family businesses.



30
countries

50
Australian family
businesses

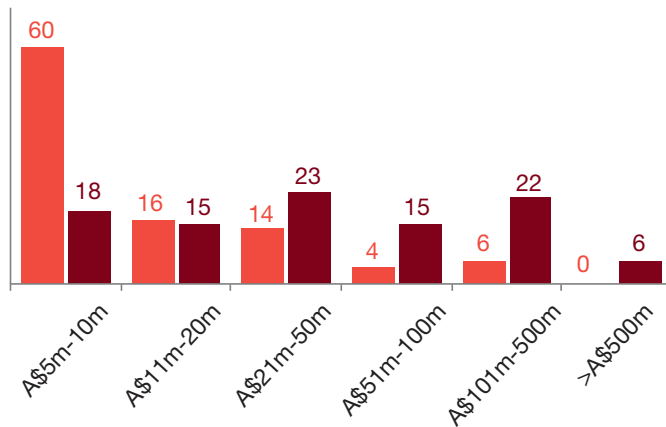
2,000
Interviews globally

Methodology



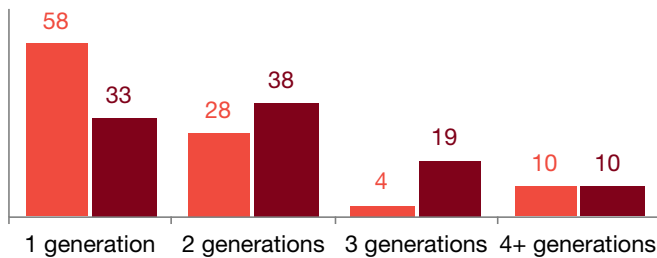
Australia sample profile: respondents

Figure 1: Distribution of businesses by turnover range
% of businesses



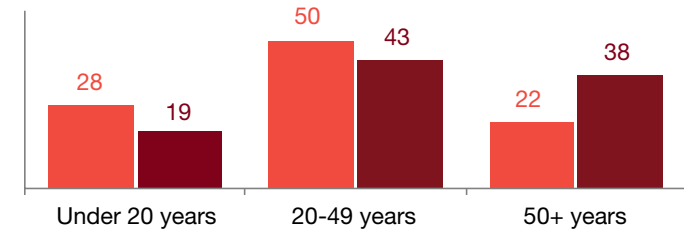
Base: Total sample (n=50)

Figure 3: Distribution of businesses by number of generations
% of businesses



Base: Total sample (n=50)

Figure 2: Distribution of businesses by years of establishment
% of businesses



Base: Total sample (n=50)

Figure 4: Distribution of businesses by industry sector
% of businesses

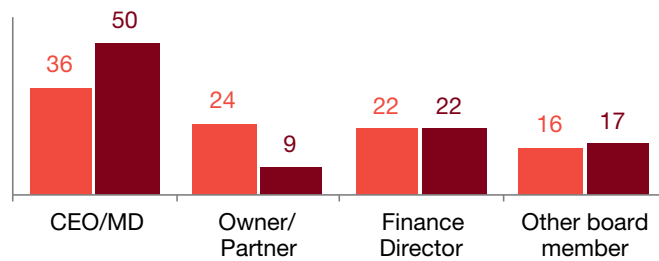
Manufacturing:	16%	(32%)
Retail:	14%	(10%)
Wholesale:	14%	(13%)
Business activities:	14%	(6%)
Real estate/renting:	12%	(2%)
Construction:	10%	(9%)
Others:	5% or less	

Methodology



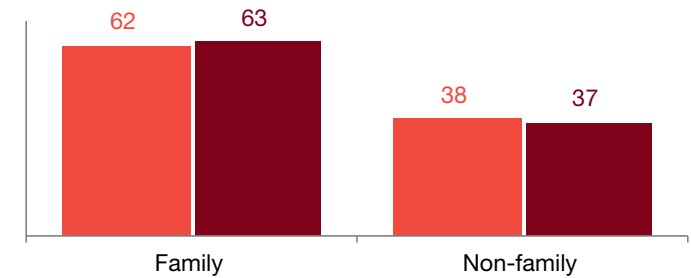
Australia sample profile: businesses

Figure 5: Position in businesses
% of interviewees



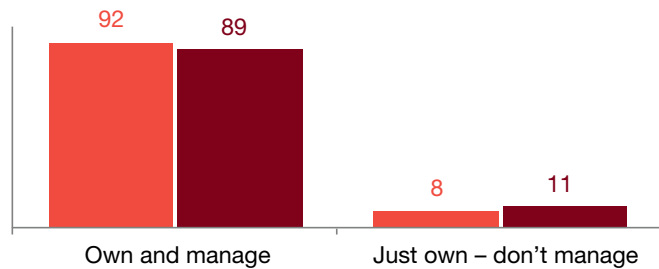
Base: Total sample (n=50)

Figure 6: Family member in businesses
% of interviewees



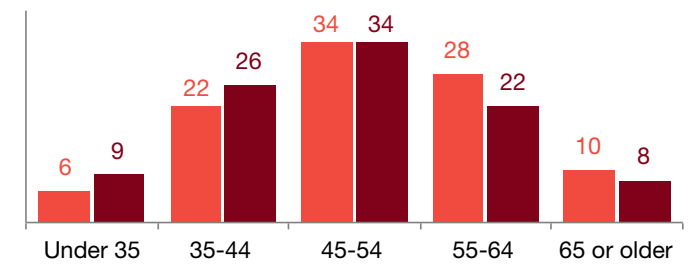
Base: Total sample (n=50)

Figure 7: Family role in business
% of interviewees



Base: Total sample (n=50)

Figure 8: Distribution of interviewees by age range
% of interviewees



Base: Total sample (n=50)

Introduction



David Wills
National Managing Partner

Welcome to our PwC Private Clients Family Business Survey, which we created to provide insights into the market both here in Australia and on a global scale. Close to 2,000 family businesses from around the world participated in the survey, which focuses on key areas including performance, internationalisation, and the unique qualities that set family businesses apart from listed or public companies.

“
Family businesses are making a substantial but sometimes undervalued contribution to stability and growth, and we believe governments could do more to offer the sort of targeted support that could make a significant difference.”

Eric Andrew
PwC Global Network Middle Market Leader

The survey found that Australian family businesses' sales have grown at a rate less than the global average over the past financial year. However, if we look to our economy's performance since the global financial crisis (GFC), we see a relatively stable market compared to countries that were severely impacted. We didn't experience the same dramatic drops in growth, nor have we seen the same spikes.

We find it positive that Australian family businesses cited the need to innovate as one of their key challenges in the next five years; it tells us that innovation is front of mind. Businesses focussing on innovation should start by assessing their existing products, markets and behaviours. What do you do well that you can do more of? What isn't working that you can improve? How can you challenge yourself around product, culture, and operations; who are the leaders in your field, and are they doing something interesting you can learn from?

The Federal Government's Research and Development (R&D) Incentive program encourages innovation, providing benefits including cash savings and an increased ability to claim overseas R&D on eligible activities. We encourage you to consider how your business can take advantage of the Incentive and other Government schemes to meet the challenge of innovation head on.

“
Decision-making is very different when it's your own money that's at stake, and as a result family firms tend to have a long-term commitment to jobs and local communities.”

Eric Andrew
PwC Global Network Middle Market Leader

Another theme coming out of the research was the perceived need of Australian family businesses to adapt their business practices in order to compete. As globalisation increases and so too does competition with big business and big budgets, family businesses need to ensure that they have systems and processes in place that will enable their business to run optimally.

We had the pleasure of speaking with two iconic Australian family businesses around the survey results, and we would like to thank Eliza Brown, CEO, *All Saints Estate*, and Anthony Halas, CEO, *Seafolly*, for sharing their personal insights into operating a family business.

The Parliamentary Joint Committee on Corporations and Financial Services is currently undertaking an inquiry into the operation of the family business sector. We intend to contribute to the inquiry and will eagerly await the findings.

We know that family businesses contribute significantly to the economy, and also to job creation, talent development, and innovation; and keeping the market buoyant is critical. We hope the *PwC Private Clients Family Business Survey* provides a useful benchmarking tool for you in achieving this aim.

Insights from the front line



Eliza
Brown

All Saints
Estate
CEO

This fourth-generation wine family believes that innovation, youthful passion, a healthy respect for traditional winemaking and a talented team is key to their success.



Anthony
Halas

Seafolly
CEO

A second generation family business headed by CEO Anthony Halas, Seafolly is one of the most recognised swimwear and beach lifestyle brands world-wide.

Located in the Rutherglen wine region of Victoria, *All Saints Estate* has been producing award winning wines for more than one hundred years. The winery - and its nearby sister winery, St Leonards Vineyard - is run by siblings Eliza, Angela and Nicholas Brown, children of the late Peter Brown, a pioneer of the Australian wine business. Renowned for producing some of the world's finest fortified wines, the Estate also crafts premium table wines, including regional favourites, Marsanne and Durif. This fourth-generation wine family believes that innovation, youthful passion, a healthy respect for traditional winemaking and a talented team is key to their success.

A second generation family business headed by CEO Anthony Halas, *Seafolly* is one of the most recognised swimwear and beach lifestyle brands world-wide. Established in Sydney in 1975, *Seafolly* now boasts 14 concept stores and more than 300 stockists in Australia - including established relationships with department stores Myer and David Jones - and owns a 21 store multibrand swimwear chain, Sunburn. *Seafolly* is also stocked by more than 800 stores across the US, Canada, UK, Europe, Africa and Asia. International alignments include Selfridges, ASOS, Gallery Lafayette, Nordstroms, Karstadt, Everything But Water, and SwimCo. The business has a projected turnover of AU\$95 million for 2012.

Highlights

Family business' sales have grown less in Australia than the global average over the past financial year, but businesses are bullish about future growth.

56%

have grown over the previous 12 months - compared to

65%

globally.

16%

are aiming to grow quickly and aggressively over the next five years.

Challenges to growth

The key challenges to growth over the next five years cited are the general economic situation, competition (pricing and the number of competitors), the need to innovate, and attracting the right skills and talent.



Highlights



A vital role in our country's economy

Australian family businesses believe they play a vital role in our country's economy; including job creation and adding stability to a balanced economy.

Advantages

Family businesses believe they hold some key advantages over non-family businesses, including motivation and values within the company, agility and speed of decision making, freedom from bureaucracy, continuity, and the ability to take a longer term view.

Disadvantages

Some disadvantages over non-family businesses are also recognised, including reduced access to capital, family politics, difficulty in attracting non-family people into the business, and challenges around succession.



They generally believe that Government does not recognise the importance of family businesses, and feel more should be done to help.

For example, improved access to finance and removal of some of the advantages enjoyed by corporations.



Competition

Some believe that family businesses will need to float, merge, or adopt more corporate behaviour in order to survive and thrive in the years ahead.

Almost **40%**

intend to pass down the business and management to the next generation. The remainder are twice as likely to sell or float than to pass down but employ non-family management.

Performance

Figure 9: Businesses growth experienced in the past 12 months

Average % sales growth

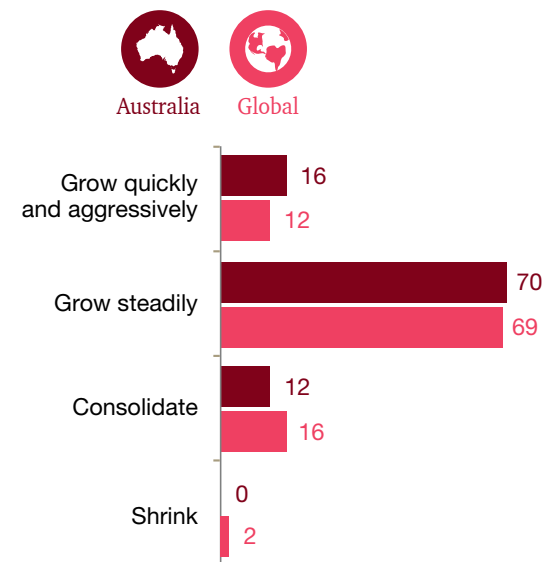


Base: Total sample (n=50)

Fifty six per cent of Australian family businesses reported sales growth in the last financial year, compared to 65 per cent of family businesses globally. This nine per cent lag behind the global average may be a result of the relative economic stability we have enjoyed post the GFC; global sales growth is coming off a base of just 48 per cent in 2010.

Figure 10: Growth aims (next five years)

% of businesses



Base: Total sample (n=50)

Seventy per cent of those surveyed are aiming for steady growth over the next five years, almost on par with the global average of 69 per cent. Sixteen per cent of Australian family businesses are looking for quick and aggressive growth, while 12 per cent are aiming to consolidate.

Almost all businesses (93 per cent) predicting growth are confident of achieving it.

“
Now that we’re in retail, the team has grown a lot... We’re projecting to do \$95 million for the year and we are on track. Seafolly was a six million dollar brand in 1998, so, it has been a fairly substantial growth.”

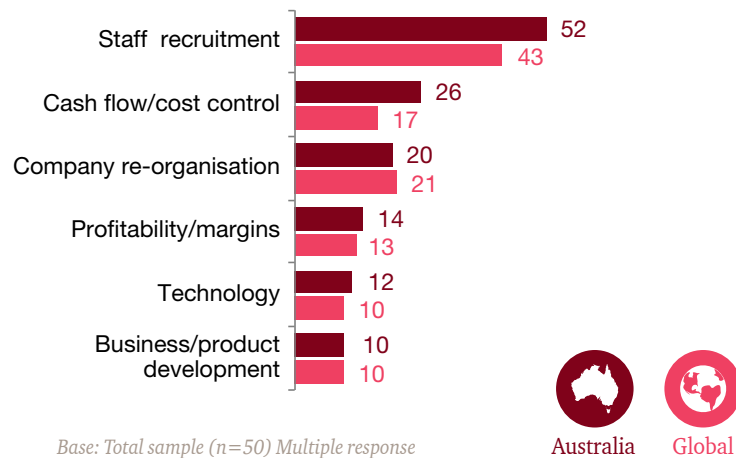
Anthony Halas, CEO
Seafolly

“
We’ve started getting some really good growth. We have added two export markets, and while the margin could be improved, it’s really helpful for volume. We’ve had growth of about ten percent from our wine over the past two years.”

Eliza Brown, CEO
All Saints Estate

Performance

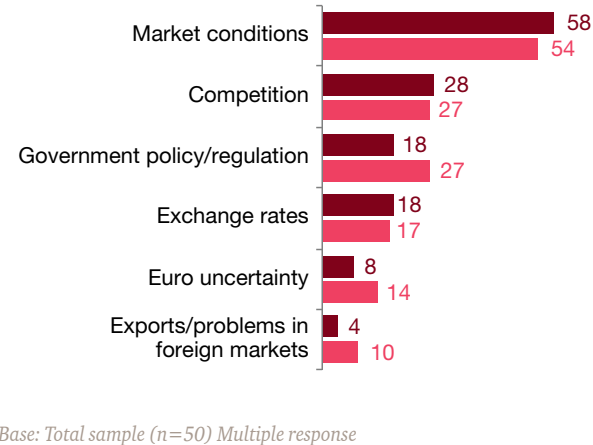
Figure 11: Perceived internal challenges faced by businesses in next 12 months
% of businesses



The key issues facing family businesses in Australia over the next 12 months are similar to those facing family businesses across the globe. The greatest internal challenge is finding the right people (52 per cent).

Externally, market conditions (58 per cent) are the key issue. Australia is tenth highest in citing market conditions, with Taiwan and Greece least satisfied with conditions (83 per cent and 76 per cent respectively). Only 38 per cent of Singapore-based family businesses cited market conditions as a challenge.

Figure 12: Perceived external challenges faced by businesses in next 12 months
% of businesses

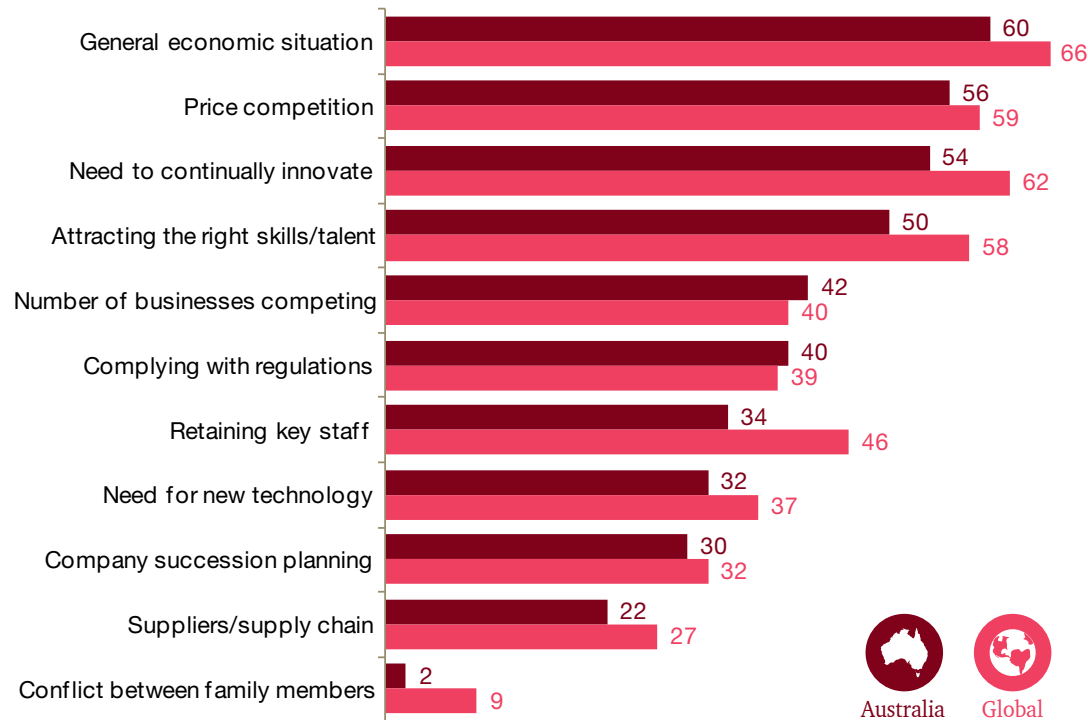


Eighteen per cent of Australian family businesses cited the exchange rate as a key challenge; this figure would be expected to be higher among those businesses in the export market due to a well performing Australian dollar.

“
I think the currency is a big risk. At the levels that it's at, our margin has taken a massive hit. If we start to increase our prices on the back of where the currency is now sitting, we'll just blow our business. So we're trying to maintain prices but we're taking a big hit in margins.”
Anthony Halas, CEO
Seafolly

Performance

Figure 13: Perceived challenges faced by businesses in next five years
% of businesses



Base: Total sample (n=50) Multiple response

The key challenges facing Australian family businesses over the next five years remain similar to those facing family businesses globally. Externally these involve price competition and macro-economics, while from within, the challenge is innovation.

“

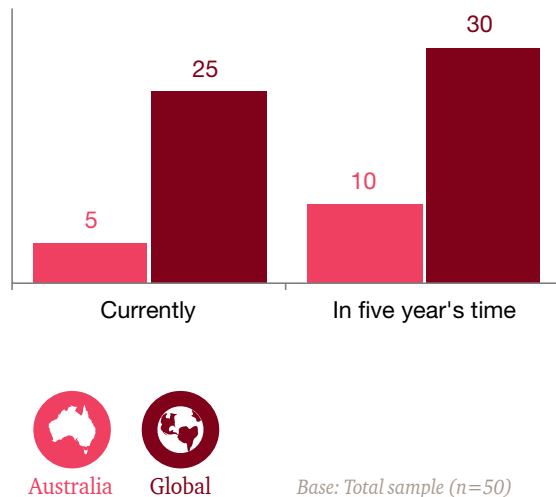
It's amazing how innovative you can be when you don't really have a lot of money. You have to come up with new ideas on a shoestring- and I can see a lot of the smaller wineries are coming out with new ideas with packaging and labelling off their own back which is kind of exciting. I love seeing that groundswell from the young winemakers.

”

Eliza Brown, CEO
All Saints Estate

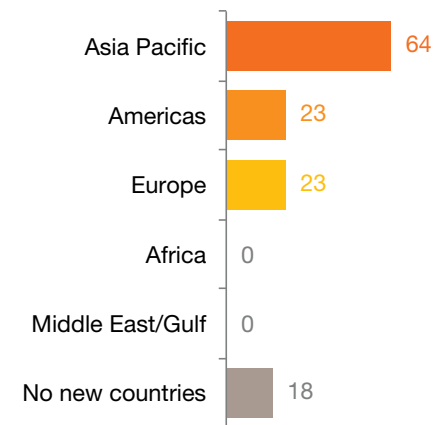
Going global

Figure 14: Percentage of sales made overseas
% of sales



Increased internationalisation is predicted over the next five years, with the current international sales figure of five per cent expected to double to ten per cent over the next five years. Australian sales in international markets are markedly lower than the global average, which is currently at 25 per cent and expected to increase to 30 per cent.

Figure 15: New regions targeted for international sales
% of businesses



Base: Businesses planning to make overseas sales in next five years (n=22)
Multiple response

Australian family businesses will be targeting the Asia Pacific region (64 per cent), with China the main destination (23 per cent) followed by New Zealand and India (nine per cent). Those businesses not considering international markets should be considering whether these might be options in the future.

“Germany is our longstanding export market. Then there is the UK and Canada, who are our second largest market after Germany. The USA is relatively new, but growing very fast, and should be our biggest market outside of Australia within the next 12 to 24 months. France is also growing very rapidly for us. These are the major markets for us.”

Anthony Halas, CEO
Seafolly

Going global

Figure 16: Potential challenges of international operations
% of businesses



A number of factors around internationalisation are seen as challenging. Economic conditions in operational markets are an issue for one in three family businesses - significantly higher than the global average (16 per cent) - while one in four are concerned about cultural differences and exchange rates.

“
Our biggest challenges over the next few years are the high dollar, quality staff, and margins - the basic cost of doing business.

Eliza Brown, CEO
All Saints Estate

”

Base: Total sample (n=50) Multiple response

Key characteristics

Australian family businesses identify a number of positive differences between them and non-family businesses

Culture and family values

“The culture within the business, there is a positive can do attitude, where there is respect for positive family values, where they also make sure that everyone is pitching in.”

Mitchel Taylor, Managing Director, *Taylors Wines Pty Ltd*

“We have an amazing culture in the business, and I think part of the reason why that culture is so good, is because of that family feel.”

Anthony Halas, CEO, *Seafolly*

Agility and speed of decision making

“The decision making process can be pretty quick as you are not dealing with millions of public share holders.”

Fifth generation family business

Flexibility and freedom from bureaucracy

“Decision making is a lot easier, with flexibility you are able to tailor what you do to what is required, as opposed to having everything set out strictly.”

Second generation family business

Genuine commitment, passion and loyalty

“You are in full control of the business, but managers have a vested interest in the performance of the company and can behave more like owners - which can only be good thing.”

Tri-Tech Chemical Company

“I probably get a bit more emotional about things as it is a family-owned business. I think that’s the big difference - and I’m not sure if it’s a good or a bad one - but I do feel more attached to the whole thing.”

Anthony Halas, CEO, *Seafolly*

Long-term; business outlook and sense of legacy

“We have a long-term timeframe to meet our clients’ needs, we don’t report to shareholders or anyone, so we don’t have those pressures that other people have. We can get rich slowly.”

Mr Anthony Hamilton Tom Starkins, Owner, *First Samuel Ltd*

“I think it is really important not to be bound by outside investors who are purely looking at the bottom line. A family business can invest in the future. The money that we invested in the Seafolly brand in the early days was ridiculous, we were forgoing profit to invest in a brand, and we really only became profitable at a benchmark that would be acceptable in a more commercially-owned or non-family business six or seven years ago. It was a long-term vision.”

Anthony Halas, CEO, *Seafolly*



“

Family businesses I suppose have a long-term view. And that’s why I think they can be a lot more successful - because they’re not looking for immediate returns.

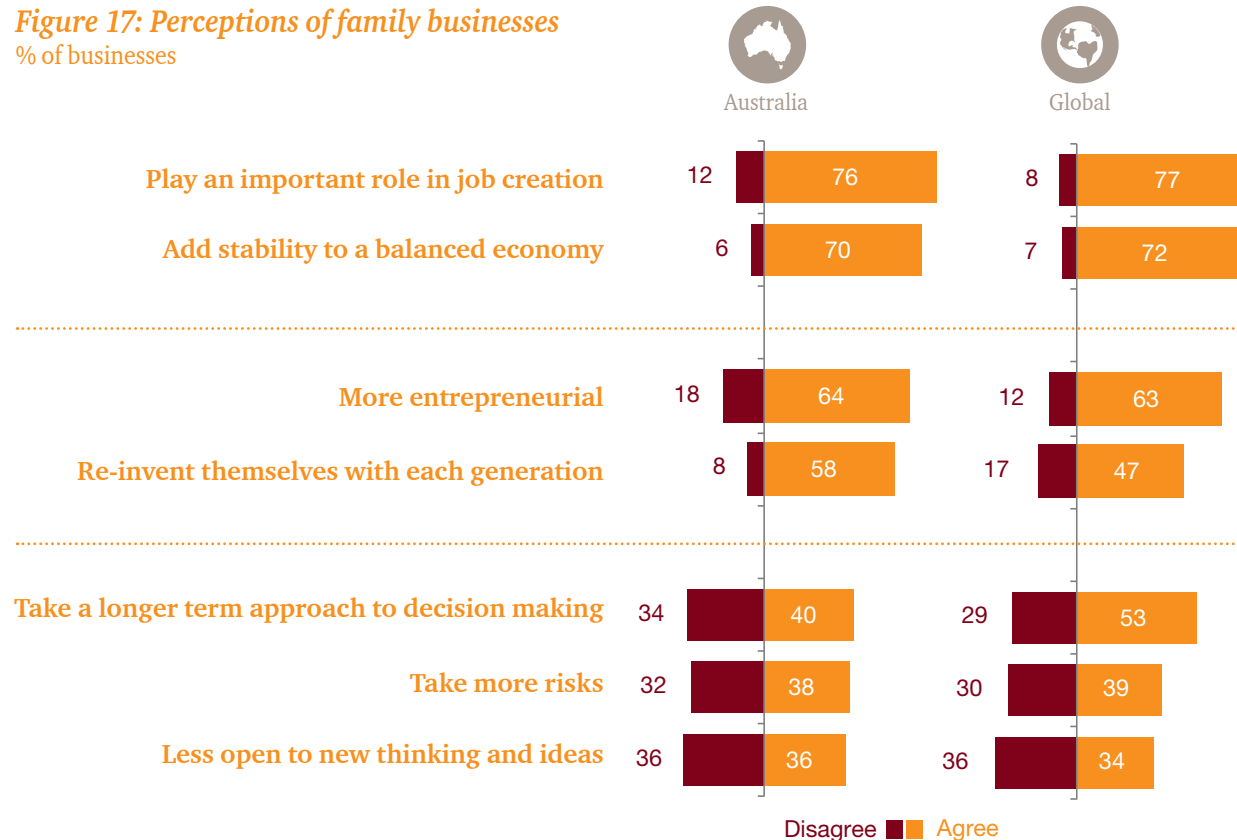
Eliza Brown, CEO
All Saints Estate

”

Key characteristics

Family businesses in Australia agreed with a number of positive differentiators

Figure 17: Perceptions of family businesses
% of businesses



Base: Total sample (n=50) Multiple response

“Presenting business strategy and financial information in a way that maximises opportunities can help close the gap between family businesses and private, public or listed companies around raising debt and equity capital.”

James McElvogue
PwC Private Clients Partner

Family businesses also have the potential to raise funds from within by improving efficiency and management of working capital, or raise growth capital by bringing in private equity.

Key characteristics

Family Business in Australia identified a number of downsides

Australian family businesses also recognise the downside compared to their non-family peers, including limited access to finance and funding. On a personal side, they reflected upon the unique challenges facing family businesses when it comes to maintaining family balance and harmony with the competing demands of business.

Family harmony versus family feuds

“I suppose the unique challenge would be family conflict within the business, and in the case of married couples’ businesses - if a divorce occurs it could lead to the end of the business.”
Second generation family business

Challenges around succession

“It’s succession planning in time to benefit, before it’s too late.”
Second generation family business

Differentiating between home and work

“Leaving your work at work, not taking it all home with you, disciplining family members as employees.”
Mr Gary Rayner, Owner/Director, *Over Head Maintenance Services Pty Ltd*



“

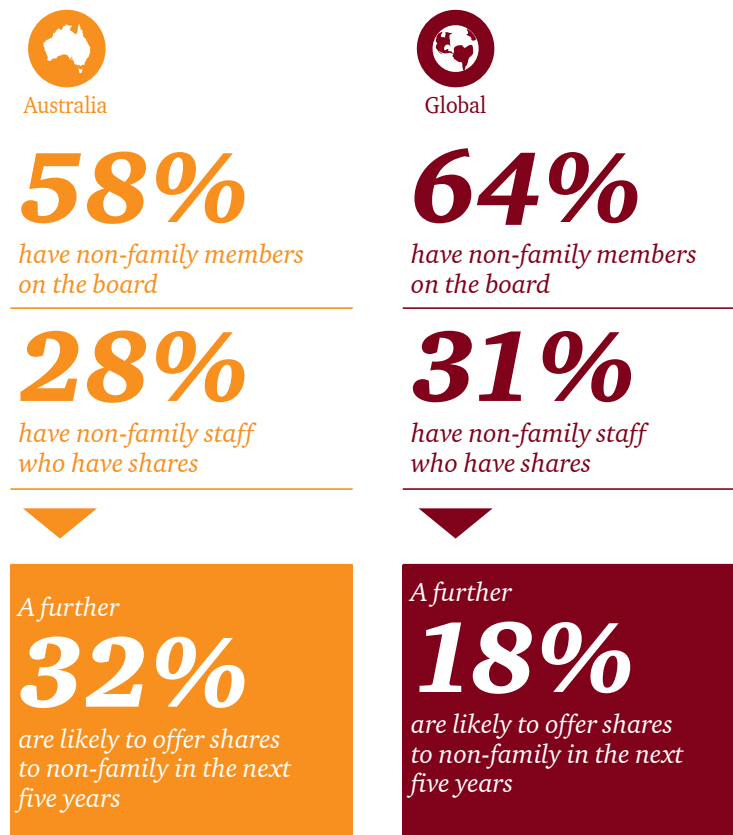
Leaving your work at work, not taking it all home with you, disciplining family members as employees.

Mr Gary Rayner, Owner/Director
Over Head Maintenance Services Pty Ltd

”

Key characteristics

Figure 18: Role of external management in the business



Base: Total sample (n=50) Multiple response

External involvement

Family businesses recognise the need for external management input at a certain point of the business lifecycle. More than half of family businesses in Australia have non-family members on the board, slightly lower than the global average of 64 per cent. 28 per cent have non-family staff holding shares - again slightly down on the global average of 31 per cent - and a further 32 per cent are likely to offer shares to non-family in the next five years, significantly higher than the global average (18 per cent).

Are you considering an employee share scheme? Here are some questions to help guide you:

1. **Why do you want to introduce an employee share scheme?** Arm yourself with a clear understanding, including the advantages and disadvantages.
2. **What type of scheme does your business need?** Options are the most common - but not necessarily right - choice.
3. **Who should participate?** This should be driven by the culture you wish to create and the purpose of the scheme.
4. **How many shares should be allocated?** This will depend on who and why you are giving the equity.
5. **What vesting conditions should be attached to the shares?** Are they a gift, or for staff retention or reward?
6. **How will the shares be valued?** This is critical for tax purposes and allows employees to understand the value of their shares.
7. **What is the exit strategy?** Initial Public Offering (IPO), trade sale, buy-back? There is no liquid market for the shares so it is critical this is given some serious thought.
8. **There can be regulatory issues - including tax and securities laws - to manage.** It's better to anticipate and solve any issues before they arise.

Key characteristics

What will family businesses look like in 2017?

The need to grow and professionalise in order to compete on an increasingly larger-scale and global stage will blur the lines between family and non-family businesses over the next five years.

Many of those surveyed think there won't be any new differences emerging over the next five years, while others discussed issues that will also affect non-family businesses, including rapid technological developments and new environmental legislation.

Some respondents predicted new differences emerging, including:

- Bigger, global competitors, and the risk of being absorbed
- Need to professionalise and compete on mainstream business terms
- Succession and encouraging the next generation

“

I think one of the problems with the wine industry at the moment is that we've been slow to change and adapt to the supermarket tier. We've seen it happening over the last 10 to 15 years in the UK and the industry has only recently done anything about it. I think family businesses need to be open to change and become more corporate in the way they handle the supermarket channel.

”

Eliza Brown, CEO
All Saints Estate

“

I want to double the business in the next three to five years. I think the international opportunities are huge for us. We're looking at our first retail site in the USA, and if that's successful we'll quickly roll out a few stores over there.

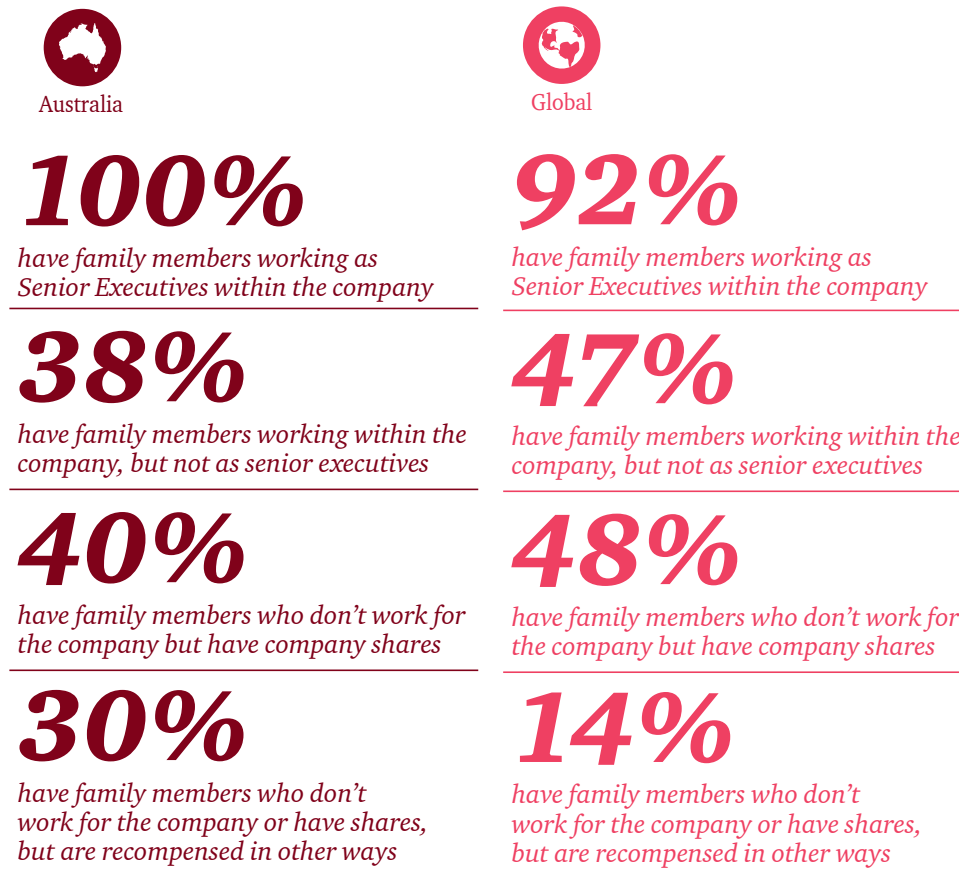
Anthony Halas, CEO
Seafolly

”



Family and succession planning

Figure 19: Role of family members in the business



All Australian family businesses surveyed reported having family members employed as Senior Executives within the business - eight per cent higher than the global average of 92 per cent - and almost two in five have family members working within the business in other roles.

Forty per cent of family businesses in Australia have non-working family member shareholders, eight per cent lower than the global average (48 per cent), and 30 per cent reported having family members who don't work for the business or own shares, but are recompensed in other ways - more than double the global average.

“

My father was an incredible trader - the traditional 'buy for a buck, sell for ten' - and he knew how to pick good product and buy it at a good price. Now that the business is this size, you can't get as involved in the day-to-day. It's about managing teams, employing the best people to do the job, and being more strategic. It's a very different management style to when my father was running the company.

Anthony Halas, CEO
Seafolly

”

“

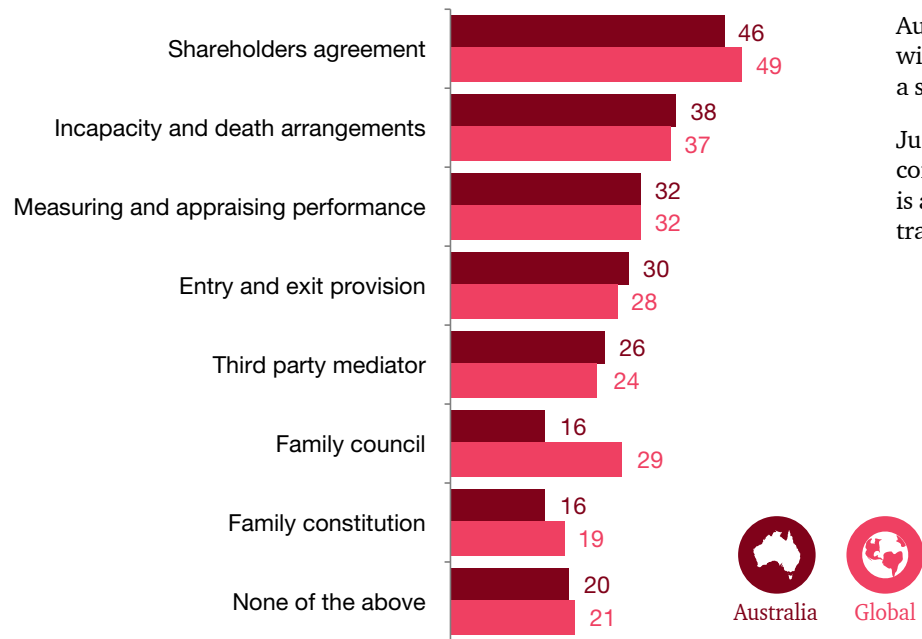
In 2006 my father passed away suddenly and there was no succession plan in place. He was gone on Sunday and I took over on Monday, and there was obviously a lot - particularly the financials - to get my head around.

Eliza Brown, CEO
All Saints Estate

”

Family and succession planning

Figure 20: Family member conflict management procedures
% of businesses



Australian family businesses adopt a number of procedures to deal with family issues and conflicts, with 46 per cent reporting having a shareholder agreement in place.

Just 16 per cent of those surveyed reported having a family constitution (council). In our experience, a family constitution is a great tool for laying out guidelines and helping any eventual transition run more efficiently.

“

Nick, Angela and I made a pact after dad died; that if we can't run the business and still enjoy each other's company with a glass of wine at the end of the day it just isn't worth it.

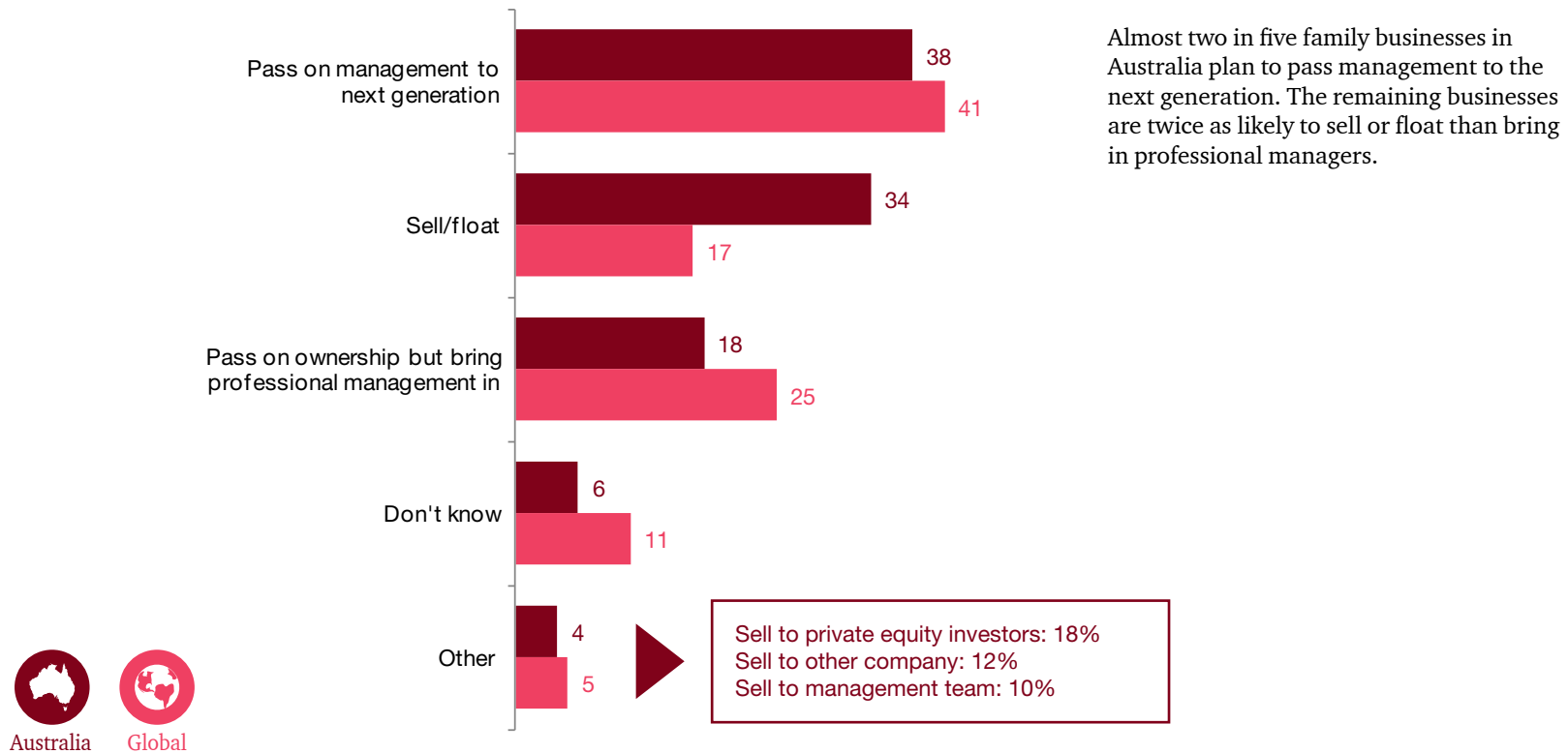
”

Eliza Brown, CEO
All Saints Estate

Base: Total sample (n=50) Multiple response

Family and succession planning

Figure 21: Succession plans
% of businesses



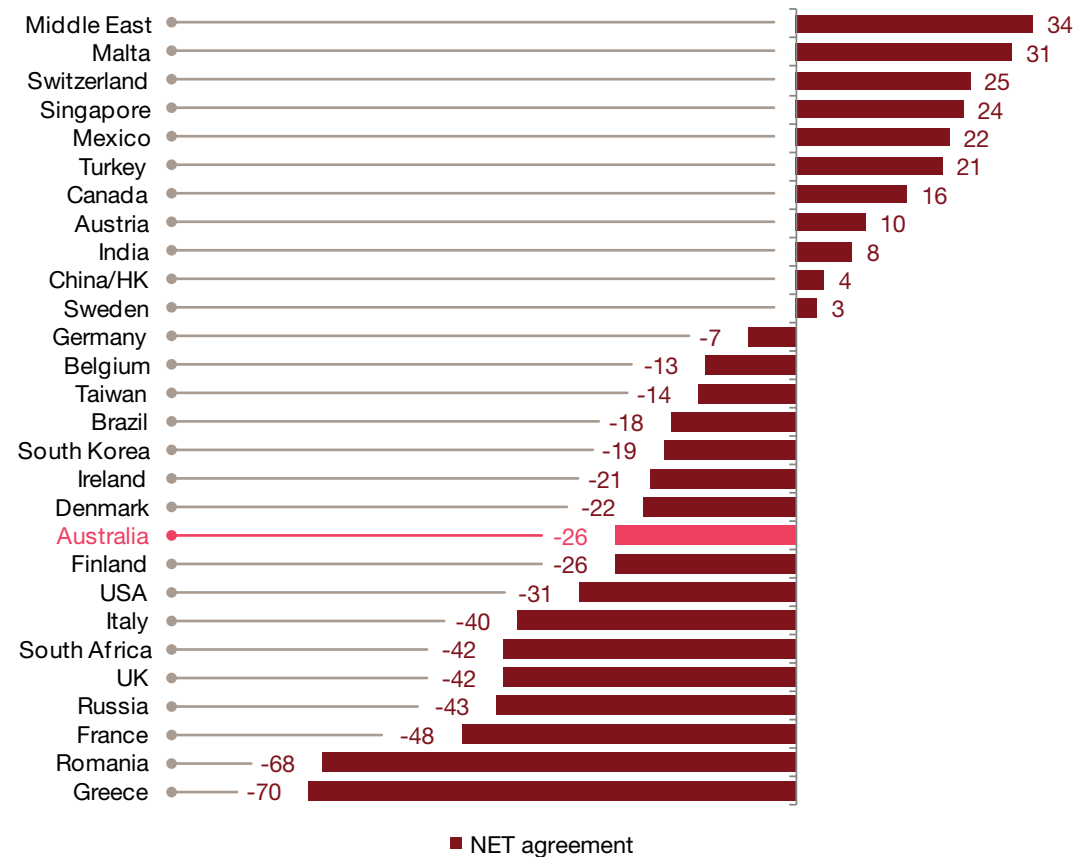
Almost two in five family businesses in Australia plan to pass management to the next generation. The remaining businesses are twice as likely to sell or float than bring in professional managers.

Base: Total sample (n=50)

Government and society

Australia is less likely than most countries to feel their Government recognises the importance of family businesses.

Figure 22: Perception of Government in recognising importance of family businesses

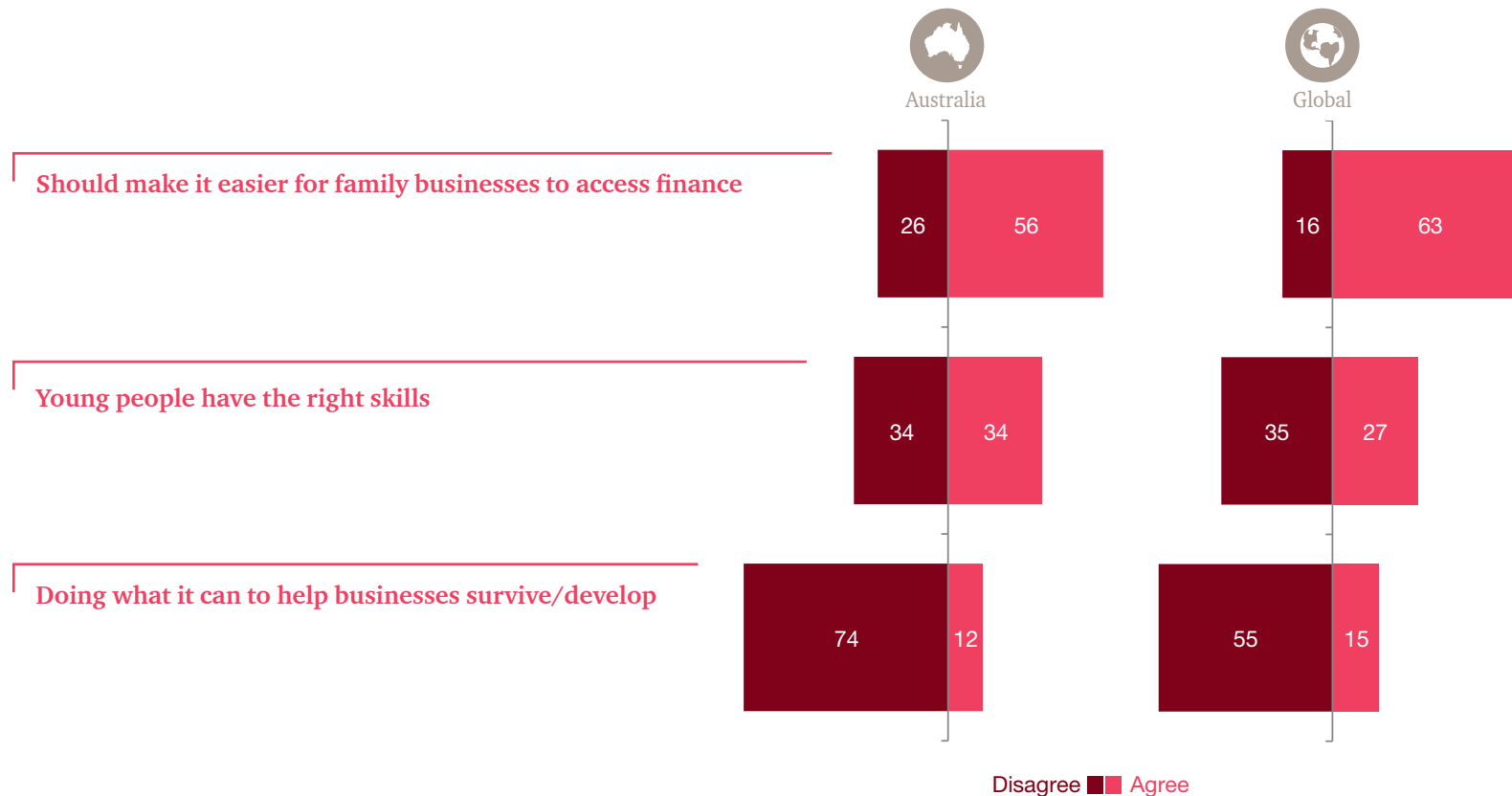


* Sample sizes low in some markets
Base: Total sample (n=50) Multiple response

Government and society

Family businesses in Australia generally disagree that their Government is doing what it can to help businesses survive, and their opinions are significantly more negative compared with family businesses around the globe.

Figure 23: Perception of Government in supporting success of family businesses
% of businesses



Base: Total sample (n=50)

Government and society

Most family businesses in Australia seek a level playing field - rather than special treatment - through tax measures and access to finance. Some, however, would value specific initiatives; notably access to Government contracts.

How can Government support family businesses?

The survey identified a number of areas where family businesses feel the Government could better support them:

General business issues

- Flexible taxation; tax reduction or incentives for business.
- Reduction in bureaucracy and red tape.
- Limit regulation and legislation - especially around human resources, making it easier for businesses to hire and dismiss employees.
- Education; invest in future employees and industry training.
- Support for export, for example, financial incentives, and help breaking into new markets.

Specific to family businesses

- Measures which seek to level the playing field, specifically around access to finance and funding.
- Tax reduction around succession planning, for example, Capital Gains Tax (CGT).
- Industry training and skills support.
- More Government contracts given to small family and local businesses; or at least the opportunity to compete on level playing field.

Government and society

Family businesses in Australia generally agree they do what they can to retain staff and support employment. Compared to the global average, beliefs about stronger culture and values, or support for community initiatives are not as widely held.

Figure 24: Agreement with statements about family business and society
% of businesses



Base: Total sample (n=50)

In conclusion

Australian family businesses know they play an important role in the economy, but don't believe this is recognised by their Government. They think there are unfair obstacles that threaten the long term competitiveness of family businesses.

Family businesses want Government to level the playing field in regards to accessing finance, and removing the tax advantages enjoyed by (public) corporations.

The need to innovate was identified as a key challenge in the years ahead, and another area where Government or other bodies could potentially help to support family businesses.

Family businesses in Australia appear well placed in terms of the procedures they have in place to tackle family conflict although only two per cent think family conflict will be a challenge over the next five years.



PwC Private Clients

What if someone believed in you and your business, the same way you do?

PwC Private Clients. It's what we do.

PwC Private Clients helps private business owners and individuals grow their personal and business ambitions.

It will come as no surprise to you that we do audits. Provide tax advice. Can help with a raft of business advisory services.

So what's different about PwC?

You.

Why choose us?

We believe that together we can create conversations and ideas that will grow the future of our nation and help you realise your ambitions.

You might be an energetic start up with a great idea. You might have been in business for a number of years and are looking at your next steps. Or maybe you've made your wealth and want to know how you can grow and preserve it - leaving a legacy for the next generation.

What do we do?

Our mission is to help you grow your business and family wealth by bringing you all the talent and skills that come with being part of PwC - coupled with a passion for the unique challenges and opportunities that you face.

We can provide all the practical and commercial assistance you need, delivered in a way that is relevant and appropriate for your business. We have built our success on developing trusted advisor relationships and delivering solutions and ideas tailored to the needs of our clients.

Private Clients has more than 600 people who work with private business owners and individuals just like you. Why don't you meet one of them today?

Contacts

*For further information about our services
in your state or territory, please contact:*



Adelaide

Michael Browne
Partner

+61 8 8218 7459
michael.browne@au.pwc.com



Melbourne

Paul Lewis
Partner

+61 3 8603 3678
paul.r.lewis@au.pwc.com



Sydney

Craig Lawn
Partner

+61 2 8266 0147
craig.s.lawn@au.pwc.com



Brisbane

Samantha Vidler
Partner

+61 7 3257 8813
samantha.vidler@au.pwc.com



Newcastle

John Campion
Partner

+61 2 4925 1154
john.campion@au.pwc.com



Townsville

Philip Clarke
Partner

+61 7 4721 8501
philip.j.clarke@au.pwc.com



Canberra

Glenn O'Sullivan
Partner

+61 2 6271 9546
glenn.osullivan@au.pwc.com



Norwest

David Hegarty
Partner

+61 2 8266 5465
david.l.hegarty@au.pwc.com



National

David Wills
National Managing Partner

+61 3 8603 3183
david.a.wills@au.pwc.com



Gold Coast

Trevor Mahony
Partner

+61 7 3257 8807
trevor.mahony@au.pwc.com



Perth

Cesare Scalise
Partner

+61 8 9238 3417
cesare.scalise@au.pwc.com

Acknowledgements

Eliza Brown, CEO, All Saints Estate and Anthony Halas, CEO, Seafolly

PwC Private Clients would like to thank Eliza and Anthony for freely giving their time and providing their valuable insights for the *PwC Private Clients Family Business Survey*. It has been a pleasure being able to share the experiences of these successful businesses and we wish them the very best.

Respondents

PwC Private Clients would like to thank the respondents who gave their time to take part in this important piece of research.

Williams Lea

Williams Lea is a leading global BPO organisation specialising in Corporate Information Solutions. Williams Lea combine consultancy, unique expertise and the latest integrated technology to develop solutions that transform the way organisations communicate and exchange their printed and electronic information.

www.williamslea.com

