Where to Invest Next as a Business Family

Courtney Collette
Partner and Senior Advisor, Cambridge Advisors to Family Enterprise;
COO, Cambridge Institute for Family Enterprise

CAMBRIDGE
INSTITUTE FOR FAMILY ENTERPRISE

Thinking systematically about how to diversify and redirect investment capital is essential to sustaining multigenerational wealth. Below is a three-step process to guide your family in making new business investments.

In 2014, Uber's co-founder and controversial CEO, Travis Kalanick, said the company would need to invest in new technologies, like driverless cars and air transport, if it wanted to avoid disruption. Younger startups were baying at the gates and Uber, he suggested, needed to pivot, or at the very least expand its portfolio.

2014 was just *five years* after Uber's founding, and this young startup was already being threatened by disruption.

Companies are faltering and dying at unprecedented rates, in part because markets have grown ferociously cutthroat, and in part because new technologies and the accelerating pace of change are shortening industry life cycles and making things obsolete faster.

Family enterprises, whether first- or tenth-generation, face particular risk in this volatile environment. The first important step they must take is to realize that change and disruption *will happen* to their industry and *will affect* their company. By adopting an owner's mindset, preparing for disruption, and diversifying sensibly, families can succeed in this turbulence. But then, the natural question is: in what businesses do we invest next?

This question opens uncharted terrain for many families, as they have traditionally operated in the same industry, in the same cities, serving the same customers, decade after decade—a model that will no longer work as reliably as it once did. Thinking systematically about how to diversify and redirect investment capital is essential to sustaining multigenerational wealth of a family. Below is a three-step process to guide you in making the best investments in new businesses.

FIRST: LOOK FOR GROWTH OPPORTUNITIES, AND BE WILLING TO DISRUPT YOURSELF.

Great returns are important for any investor, and we know from our research at Cambridge Institute for Family Enterprise that families who own operating companies grow their wealth more than those who only manage passive investments. But where should they find these companies? A family enterprise should, of course, look for smart investments in its current industry, but it should also be looking constantly and carefully at adjacent and completely different industries, as well.

When Hugo Stenbeck founded his family company in Sweden in the 1930s, he focused on forestry and agriculture. When his son, Jan, assumed a leadership role, he sold these interests and moved into stronger sectors of the time, steel, automobiles, and telecommunication. Jan's daughter, Cristina, followed her father's precedent when she took charge. She now oversees a company focused on entertainment and ecommerce. These were three seismic changes to the family business designed by each generation to stay contemporary. None of them would have been easy, but each must have been necessary.

Finding new growth opportunities requires proactivity, as they don't sit in plain sight within the four walls of your company. Get outside and take time to observe how the world is changing. Go to conferences and education programs. Understand where consumer trends and economic indicators are moving. Build your network within and outside of your industry and region. Visit other families and family offices. Participate on an outside board. Join an investor club. Mentor entrepreneurs. Get to know innovation hubs like Bangalore, Berlin, Boston, Shenzhen, Singapore, and Silicon Valley. Take part in accelerators. Go to startup pitches. Invest in startups to see new developments firsthand. Read the latest work of trusted thought leaders.

These are a few of the many ways to find new growth areas. And when you find good ones, invest prudently, a modest amount at a time, even in businesses that pose a threat to your current business. You must, in today's environment, be willing to disrupt yourself. Don't wait for others to do it to you. Third generation Tyson Foods, one of the world's largest processors of chicken, beef, and pork, demonstrated this when they moved into plant-based meat alternatives, a direct competitor with their traditional meat offerings. In 2016, Tyson acquired a minority stake in Beyond Meat, an alternative protein startup. Three years later, the startup went public, and Tyson exited the investment and launched a plant-based brand of its own. It rebranded itself as a leader in protein, not meat. In the end, it is better to cannibalize your own business than to let someone else do it for you.

For most investors, finding new growth opportunities to invest in is the goal. For business families it is only a first step. Don't stop here.

SECOND: ALIGN YOUR INVESTMENTS WITH YOUR FAMILY'S MISSION AND VALUES.

For many families, maximizing their financial returns is not the only thing that matters. Many families aspire to invest in businesses that reflect their values, identity, and mission. The Millennial Generation (Gen Y) has brought values-based investing and impact investing into the mainstream today. But even so, families by their nature like to align their activities with their values.

Aligning your business investments with your family's mission and values is wise to do for several reasons. First, families grow increasingly diverse over time. Having a portfolio that speaks to the family's common purpose, shared values, and joint goals will appeal to a progressively diverse group. Second, it is unifying for the family. This type of portfolio yields greater family satisfaction, motivation, alignment, and pride. Family unity helps produce stability in the ownership group, which is one of the competitive advantages of family businesses. Third, the agility required to enter new businesses requires a clear sense of purpose. When a family is clear about its mission, the activities, assets, and investments it undertakes are done in pursuit of the family mission. This degree of synergy is powerful.

One family business in the U.S., which pursues "values-adjusted returns," admits that there are fewer investment opportunities available because there are certain businesses they will not get into. But this is a price willingly paid. Beyond financial gain, the CEO asks of new investment opportunities: *is this something that will make the family proud, and is it making the world a better place?* These are the questions upon which family unity and support depend.

To ensure an investment aligns with family interests means making those interests explicit: write out your family mission (what your family is fundamentally trying to accomplish, or your purpose). Write down your family values (what you stand for and what guides you). Make sure everyone is on the same page so that investment choices can be measured by these principles

Now, you might be tempted to stop here. “If I’ve found an investment that is a growth opportunity that is aligned with my family’s mission and values, I’m all set.”

Not yet.

THIRD: KNOW WHAT YOU ARE GOOD AT AS A FAMILY.

This is the most overlooked aspect of a solid investment strategy for a business family. Just because something appears to be a promising investment in terms of growth, and just because it aligns with your values and mission, doesn’t mean it is right *for your family’s skillset.*

Families have capabilities and expertise, developed over generations, that lead them to be successful at owning, operating, and leading their businesses. This expertise comes in a range of forms. For instance:

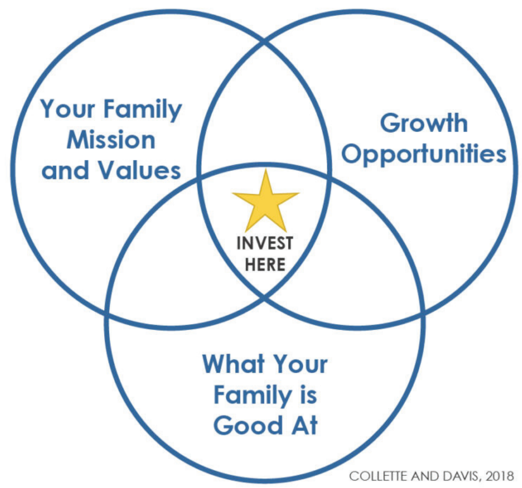
- Practical business-building skills (e.g. scaling, implementation, choosing talent);
- Specific knowledge (e.g. certain technologies or manufacturing methods, recognition of trends);
- Expertise in a particular industry, market, or customer (e.g. understanding SMEs, regional expertise);
- Relationship-based skills (e.g. maintaining employee or customer loyalty, building communities);
- Passion for the work (e.g. this gets the family up in the morning and is key to their raison d’etre);
- Ability to take risks;
- Internal organization (e.g. ability to unite, decide, and move quickly).

Despite having a particular set of skills, families often do not talk about or clearly identify what they are good at—collectively, as an owning family. This blind spot can lead families to invest in businesses they do not know enough about or that they are not the right owners of.

Do this: spend time documenting how, specifically, your family excels in the work that it does—in your businesses, your family office, your communities, and all of the meaningful activities in which you engage. Hire an external facilitator to lead the discussion if that will help. A family's skillset should be analyzed, characterized, and then used to its advantage as a third lens under which potential new investments are scrutinized.

WHERE TO INVEST NEXT AS A BUSINESS FAMILY.

Finding investments that meet all three of these criteria is not easy, but it is essential to remaining competitive and building sustainable wealth as a family in a world defined by rapid change. Consider again the case of Uber, which five years after it had launched was already on the hunt for new, smarter investments for its portfolio. And consider, then, your own family enterprise.



How will you get ahead of the inevitable disruption you'll face and sensibly invest in new areas?

Courtney Collette

Partner and Senior Advisor, Cambridge Advisors to Family Enterprise
COO, Cambridge Institute for Family Enterprise

Courtney Collette is Chief Operating Officer of the Cambridge Institute for Family Enterprise, a research and education institute devoted to multigenerational family enterprises. Since 2011, she has led its education programming, conferences, research studies, and publications. As head of education programming, Ms. Collette designs curricula for seminars, workshops, and online courses for family enterprise audiences worldwide including bespoke private programs for individual families and organizations. She has authored several publications pertaining to the success of family enterprises, including articles, Harvard case studies, and the book, *Next Generation Success*, a 10-year study of next generation talent development in global family enterprises. Ms. Collette spent a decade as a trusted advisor to business families on the issues of governance, family relationships, succession, and next generation readiness.

ABOUT CAMBRIDGE INSTITUTE FOR FAMILY ENTERPRISE

The Cambridge Institute for Family Enterprise is a global research and education institute dedicated to the real issues facing family enterprises. It is a place where progressive members of family enterprises come to learn, exchange ideas, develop themselves and position their enterprises to be not only successful, but sustainable over generations. Its sister organization, Cambridge Advisors to Family Enterprise, is a highly specialized, international, advisory firm that assists family enterprises with navigating the new economy, solving sensitive issues, and making the entire family enterprise strong and united over generations.