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Is Your Company at Risk?

Take-Away Lessons from the Market Basket Saga

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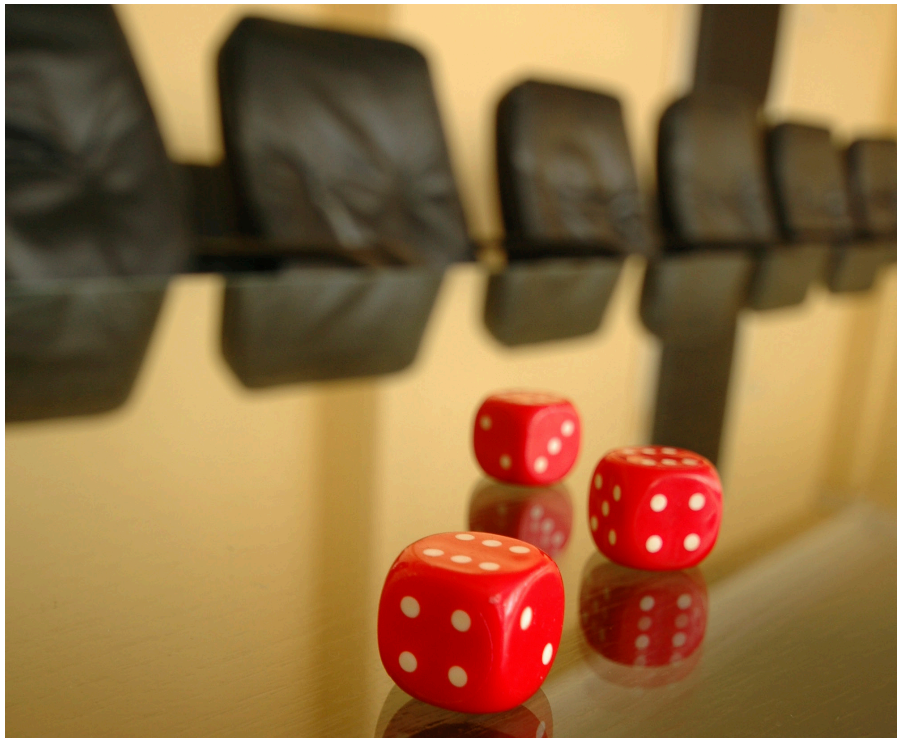

Family-owned businesses have the opportunity to learn business lessons from the battle over the Market Basket chain, which threatened to bring a $4.6 billion grocery store business to its knees. The conflict, though now resolved, should serve as a cautionary tale, prompting family business owners to grasp that business risk extends into qualitative factors and extend well beyond quantitative numbers.

Family business owners need to develop a comprehensive business analysis that looks beyond the financial statements to identify possible non-financial business risks that could impact ongoing operations. Even a company that has great financials can stumble if it fails to recognize areas of vulnerability that aren't easily quantified.

In the Demoulas family battle, for example, these non-financial factors started at the top, with the company's CEO, Arthur T. Demoulas. His removal resulted in labor unrest, interruption in the vendor supply chain, and customers who began to shop elsewhere, all with the potential to put a successful company into bankruptcy.

From an internal perspective, a family-owned business should recognize the need to evaluate and understand the impact of qualitative business risk factors. Factors including dependency on key management, dependency on key vendors and reliance on a particular customer or customers can dramatically, and almost overnight, affect the company's value.

From a business valuation perspective, historical and prospective financial statements are relatively black and white – but the ability to understand the impact and risk associated with key business drivers poses the real challenge. If a business owner thinks that there is no company without him or her, this should be a big warning flag as to the sustainability of company value.

This can also lead to the risk that personnel issues can overwhelm business considerations. Failure to keep family antagonisms out of day-to-day or long-term decision-making can undermine even the best financials. Company image, personal good will, management style and site location also play a qualitative role in determining a company's value.

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Protecting Longevity

What can a family-owned business do to help protect a company's longevity? Develop a plan that can identify and address qualitative business risk by addressing three items. First, establish an organization chart, look at roles and responsibilities of each position, and develop a contingency plan if an individual were to depart the company. Second, when evaluating suppliers, look at the marketplace, understand where and how to obtain product and a backup plan if something happens to a current vendor. Third, evaluate your customer base. Determine if there is a dependency on a key customer, the demand for your product and service and develop a strategy to branch out to expand your customer base.

Sometimes a company that faces adversity and rises to the challenge may end up in a better place. Only time will tell how the resolution of the Market Basket crisis will affect the company's long-term viability. But what has been proven is the company's loyal following, which may attract new customers.

In conclusion, it is important to consider all risk factors, which include not only capital management, but also reliance on key vendors and diversification in the customer base. From very small to very large, family-run businesses with a strong business plan can incorporate these non-qualitative factors to positively impact financial results and company value. ■

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