



Family enterprises take dual paths to grow revenue and build resilience

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Family enterprises are feeling confident about growth but are preparing for headwinds.

Middle-market family enterprises are feeling optimistic about their growth prospects. Yet at a time when markets may be peaking, executives are pursuing dual paths toward both growth and resilience in preparation for economic challenges on the horizon.

According to the EY *Global Capital Confidence Barometer*, 55% of family enterprise executives surveyed say that their companies expect growth of 11% or higher in 2019 — a slightly lower percentage than global middle-market executives as a whole (58%), but a bold prediction nonetheless. Further, 88% expect global and domestic growth prospects to improve in the year ahead.

There are some differences in the confidence level of family enterprise executives depending on their geographic location. US respondents are the most bullish in their projections, with 82% expecting to achieve double-digit growth. In Europe, 56% express a similar sentiment with Germany (67%) and UK (62%) leading the way.

Executives in the Asia-Pacific region, meanwhile, are taking a more conservative stance; 35% are expecting to achieve growth above 11%. India is showing the highest level of confidence for this region with 53% predicting double-digit growth. We expect that US confidence stems at least partly from favorable US tax policies and budget stimulus, the combined effect of which has been the largest stimulus package in non-recession times.

High-growth predictions

%

of family enterprise executives expect double-digit growth in 2019.

Appetite for M&A wanes

Our most recent survey suggests that M&A appetite may be waning, as 36% of family enterprise executives indicate that they plan to pursue M&A in the next 12 months, down from 41% a year ago. While a majority plan on looking at assets closer to home, 41% say they are looking cross-border for the right M&A opportunity.

In terms of where they're looking, the US appears to be their top destination, followed by the UK, China, Germany and France. One reason France and Germany are considered priority destinations may be that family enterprises are looking to reconfigure their operations, moving them from the UK to mainland Europe in preparation for Britain's exit from the European Union.

M&A activity

%

of family enterprise executives expect to actively pursue M&A in the next 12 months.

Middle-market family enterprises brace for key risks

The decline in M&A activity correlates with some of the key challenges family enterprise executives identify in our survey. One-third (32%) say slowing economic activity poses the greatest external risk to the growth of their business.

Similarly, middle-market family enterprises indicate an almost threefold increase in their concerns regarding geopolitical uncertainty, supply chain disruption, and regulation and trade tensions (47% in 2019 versus 16% in 2018).

However, where other global middle-market executives cite increasing production costs as their primary challenge to organizational growth, followed by disruption from technologically advanced competitors, middle-market family enterprises note slowing customer demand and problems identifying and hiring talent as their key impediments to growth. These concerns among middle-market family enterprises may prove to be another sign that markets may be reaching their peak.

Challenges to company growth

%

of family enterprise executives cite slowing economic activity as the greatest external risk to growth.

Significant investment in technology becomes essential

Undeterred by the challenges they face, virtually all family enterprise executives (98%) say their companies will be making significant investments in technology in the coming year.

One in four say they will use technology, artificial intelligence (AI) and automation in their talent strategies — three times higher than in 2018. Investment priorities are spread across several areas. Family enterprises want to improve internal efficiencies and financial data access and analysis, and they are also looking to improve customer experience and create new products and services.

Middle-market family enterprises are particularly keen on using AI to improve personalization of products and services as well as the customer experience. More than three in four (83%) say they will be developing their AI capabilities in-house, partly to address compatibility with legacy systems and partly as a means of gaining a competitive advantage.

The percentage of middle-market family enterprises investing in technology for risk management, including cybersecurity, is also up, more than tripling from 5% in 2018 to 18% in 2019.

Near-term strategies have middle-market family enterprises looking at several options to achieve double-digit growth

In the months ahead, we expect middle-market family enterprises to implement a multi-prong strategy for achieving their double-digit growth objectives. Companies cite a diversified focus, developing new products or services while also expanding their businesses into overseas markets, domestic markets and adjacent sectors.

At the same time, middle-market family enterprises will continue their investments in new and emerging technologies to help them gain a competitive advantage in attaining and retaining new customers.

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Summary

The EY *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agendas.

About this article

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Helena was appointed as Global Family Enterprise services leader on 1 July 2019 and is a trusted adviser in helping family-owned enterprises succeed for generations.

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