



Family owned businesses like ours are the backbone of the U.S. economy.

Let's create strong partnerships based on stability, values, and trust—just some of the many characteristics that give family businesses an advantage.



somersefloors.com

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Overview

Successful family owned businesses are a reflection of American ingenuity and the American dream. Many are built from a spirit of entrepreneurship that's handed down over generations. They are influenced by family values that guide leadership and commitment, and they are driven to succeed for the long-term common good—not just for short-term financial reports. These are some of the key reasons for their longevity, stability, and success.

This white paper explores the positive attributes and common competitive advantages of successful family owned companies. Our goal is to give you information to help you evaluate how family owned companies can be strong business partners, especially in B2B and multi-step distribution industries such as the hardwood flooring industry.

Family Owned Firms play a Powerful Role in the Economy

When they hear the term *family owned business*, many people think of small “mom and pop” places with a local focus. While there are many of those, and they are important to our economy and quality of life, the reality is major family owned enterprises have a powerful role in the world economy.

Some examples of successful, mega family businesses include **Walmart** (the world's largest retailer and considered the most successful family business of all time), **Mars, Comcast, Nike, IKEA, Samsung, Ford Motor Co., Tata Group**, and many more. In fact, big family businesses account for more than 30% of all companies with sales in excess of \$1 billion, according to the Boston Consulting Group's analysis.¹

Family Owned Businesses are More Resilient— in Economic Highs and Lows

A study conducted by *Harvard Business Review* showed that “during good economic times, family-run companies don't earn as much money as companies with a more dispersed ownership structure. But when the economy slumps, family firms far outshine their peers.”¹ They concluded that family businesses focus more on resilience than performance. The familial obligations felt by management lead them to make strategic decisions that benefit the company's next generation(s).

The study identified seven differences in the approach of family businesses in managing resiliency:

- 1) They are frugal in good and bad times
- 2) They keep the bar high for capital expenditures
- 3) They carry little debt
- 4) They acquire fewer (and smaller) companies
- 5) Many show a surprising level of diversification
- 6) They are more international
- 7) They retain talent better than their competitors do

¹ Nicolas Kachaner, George Stalk, Jr., and Alain Bloch. “What You Can Learn from Family Business.” *Harvard Business Review* 12 Nov. 2012. Web. 6 April 2020. Retrieved from <https://hbr.org/2012/11/what-you-can-learn-from-family-business>

Family Owned Firms are Overall More Successful Than Non Family Firms

"According to Family Enterprise USA 90 percent of family businesses feel that what sets them apart from non-family firms is a long-term investment philosophy, commitment to employees and suppliers and contributions to their communities."

[Family Firm Facts. 26 April 2019. Web. 6 April 2020. Retrieved from <https://www.gvsu.edu/fobi/family-firm-facts-5.htm>]

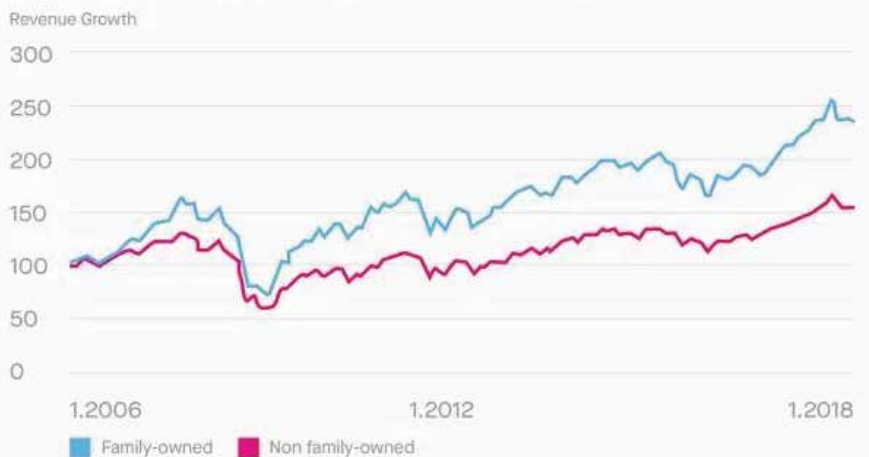
Numerous studies in the last few years indicate that family enterprises are, overall, more successful than their non-family counterparts.² This is the topic of a blog post by Kate Rodriguez for execed.economist.com, titled "Why Family Business Outperform Others."² The blog presents that enduring family firms share common traits that experts believe allow them to stand the test of time, while beating non-family companies at things like innovation.

Basically, leaders of family businesses are committed to handing over a successful business to the next generation. They focus on stewardship and manage control of assets, rather than being focused on quarterly returns. They are more prudent with debt and more cautious with spending. While their R&D budgets are typically lower, their innovation is higher. They also strike a good balance between tradition and change—they likely won't be first adopters, but will be quick to respond.

"Over time, family-owned companies very structurally outperform in every region, every sector, and for small and larger companies," Eugene Klerk, head analyst of thematic investments at Credit Suisse, told CNBC.

[<https://www.washingtonpost.com/news/on-small-business/wp/2017/09/29/report-family-owned-businesses-are-doing-better-than-the-rest/>][<https://www.cnbc.com/2017/09/28/credit-suisse-how-family-owned-companies-outperform-in-every-sector.html>]

Family-owned companies have outperformed non family-owned companies since 2006



Source: Thomson Reuters, Credit Suisse Research.

Graph Retrieved from <https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/the-family-business-premium-201809.html>

² Kate Rodriguez. "Why Family Businesses Outperform Others."

The Economist. Web. 6 April 2020. Retrieved from <https://execed.economist.com/blog/industry-trends/why-family-businesses-outperform-others>

A Key Competitive Advantage of Family Owned Businesses: Trust

"Trust is the source of long-term perspectives, the "family effect," loyalty, commitment, stewardship and much more."

[<https://www.thefbcg.com/trust-the-basis-of-family-business-advantage>]

"Americans prefer products from family-owned companies to those from publicly-held companies by a wide margin."

[<https://www.thefbcg.com/Consumers-Trust-Family-Business-Products/>]

Trust is central to the internal dynamics of successful family businesses. Family members have a dynamic of trust that influences their corporate culture, which in turn fosters trust among employees. That may explain, for instance, why family owned businesses tend to have greater loyalty and less employee turnover. When a business is focused on multi-generational success, there is emphasis on long-term relationships, and central to most long-term relationships is trust—and loyalty.

The Family Business Consulting Group published key components of trust, as identified by behavioral scientists.³

- **Integrity** - having a reputation for honesty and truthfulness
- **Competence** - possessing technical knowledge and interpersonal skills required to get the job done
- **Consistency** - acting with reliability, predictability, good judgment
- **Loyalty** - willingness to protect, support, encourage
- **Openness** - freely sharing ideas and information, freely allowing others access to one's thoughts

Does the Trust Factor Matter to Your Customer?

As a business leader, you may see the value in having trusted relationships—a manufacturing partner or supplier you know you can count on to act with honesty and integrity, but is the "trust" factor important to buyers in today's changing, technology-driven marketplace? According to *Family Business Magazine* 60% of consumers say they prefer to buy from family businesses.

Research for SC Johnson & Son Co. indicated, "Americans prefer products from family-owned companies to those from publicly-held corporations by a wide margin. More than 80 percent believe that family companies make products they can trust versus 43 percent for publicly-traded companies. Others perceived family-company products to be of higher quality."⁴

³ "Trust: The Basis of Family Business Advantage." The Family Business Consulting Group, Inc. Web. 6 April 2020. Retrieved from <https://www.thefbcg.com/trust-the-basis-of-family-business-advantage>

⁴ "Consumers Trust Family Business Products." The Family Business Consulting Group, Inc. Web. 6 April 2020. Retrieved from <https://www.thefbcg.com/Consumers-Trust-Family-Business-Products/>



“A long-term focus allows family businesses to be more strategic, to invest for the long-term in both people and technology and to respond fast to the accelerated pace of change.”

[Why family businesses are growing faster than their peers.” EY Global. 5 July 2018. Web. 6 April 2020. Retrieved from https://www.ey.com/en_gl/growth/growth-barometer-family-business

Chapter 5: Innovation: drivers and strategies]

Key Examples of How Partnering with a Family Owned Company Can Benefit Flooring Retailers

You Can Count on Stability

Somerset Hardwood Flooring has seen steady growth in the industry for more than 20 years. We have many of the same employees as we started with (plus about 800 more). We have many of the same customers as we had in the beginning. *We know your success is ultimately our success.*

You Will Build a Relationship on Trust and Loyalty

Somerset Hardwood Flooring is one of the only family owned major US flooring manufacturers with a commitment to the professional flooring distribution channel. We don't sell to big box retailers. We don't sell direct to major builders. We sell through a carefully selected group of flooring distributors to service you with product, information, and sales support that's important to your success.

We also have a commitment to manufacture all of the Somerset brand products in the USA.

You Will Benefit from Stewardship

Stewardship is key to long-term availability of our quality products. It can take many forms, which it does at Somerset. A strong example is our focus on sustainability—for our business and our natural resources (which are, of course, intertwined). Somerset employs a full-time forestry staff. We use every part of the tree in the manufacture of our lumber and flooring products, and to manufacture Somerset Pellet Fuel (dust and wood fiber from manufacturing) to provide clean burning biofuel and reduce our country's dependence on foreign oil.

We also make decisions for sustainable growth—carefully choosing distribution partners, offering proven flooring collections (rather than niche styles), and in our hiring practices (we do everything we can to provide jobs and growth for our valuable employees).

You get consistent quality products made by people who care about each other, the environment, and the success of our partners—and you help grow jobs and the economy in the USA.