

# PIFB Newsletter

## Fall Edition

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## PIFB: Why the Name Change?

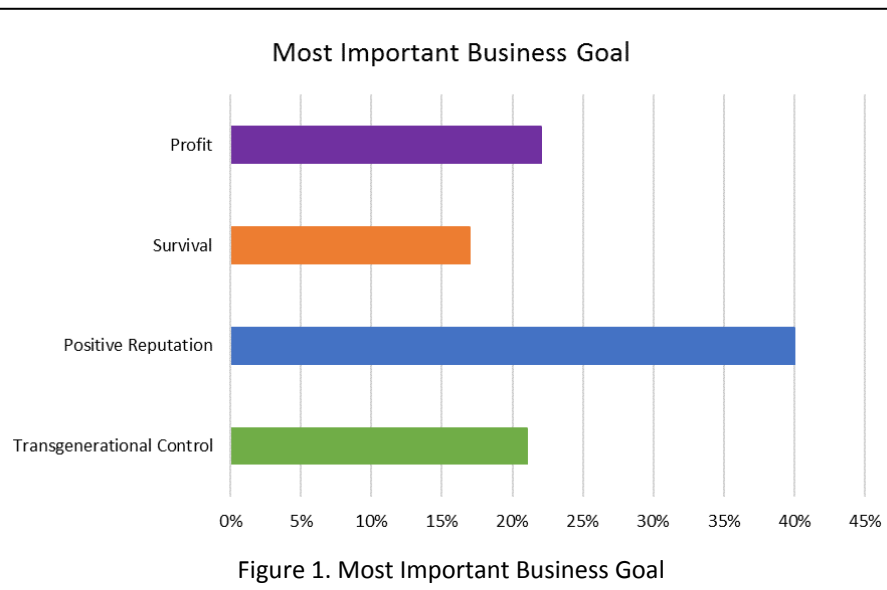
The Department of Agricultural Economics has a new institute, the Purdue Institute for Family Business (PIFB). What previously started as the Purdue Initiative for Family Firms has now grown into a permanent, holistic center for family businesses. The Purdue Institute for Family Business is aptly named to reflect its permanent and ever-important presence in the state of Indiana and at Purdue University. Director of PIFB, Dr. Maria Marshall, has an integrated research, teaching and Extension program focused on family businesses. PIFB’s aim is to enhance the knowledge of family business owners, successors, employees, advisors, and educators to improve family functioning and business success. According to Dr. Marshall, “PIFB’s purpose is to enhance the resilience of family businesses”. Dr. Maria Marshall and Renee Wiatt (family business management specialist for PIFB) will continue to conduct high-quality research focused on family businesses, along with Extension programming around the state of Indiana.



PIFB Director Dr. Maria Marshall (left) and Family Business Management Specialist Renee Wiatt (right)

In a family business, profit is necessary but it is not everything. What distinguishes family businesses from non-family businesses is that profit is usually not the primary business goal. In fact, when we asked mid-western family businesses about their primary business goal, only 22% stated that profit came first. So, you may ask, what could be more important than profit? For most family businesses, it is transgenerational control along with their reputation and identity as a business. In the literature, these non-financial goals are called socioemotional wealth. It is the preservation of this socioemotional wealth that makes family businesses different from non-family businesses.

Socioemotional wealth (SEW) has four interrelated dimensions. The first dimension is *transgenerational control* or the desire to keep the business in the family. Approximately 22% of our family businesses considered family control their primary business goal. The second dimension is *status and reputation*; in other words, the worth and esteem that business-owning family gets from being identified with the business. In fact, 40% of our family business respondents



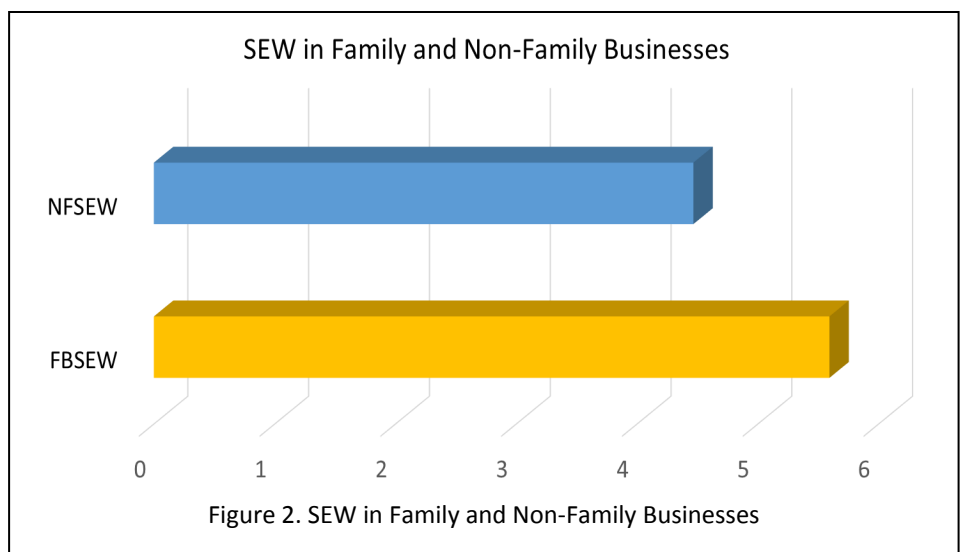
stated that a positive reputation with customers was their primary business goal. The third dimension is *benevolent social ties*, or the social networks that the family business has developed. The final dimension is *emotional commitment* to the business. Business survival was the primary business goal for 15% of our family businesses. Figure 1 illustrates the distribution of most important business goal for mid-western family businesses.

Socioemotional wealth can be measured through a nine-item scale (REI scale) developed by Hauck et al. (2016). In our recent 2019 national study of small businesses, we found that, indeed, family

businesses had more SEW than non-family businesses (Figure 2) (Marshall and Wiatt, 2019). Even more interesting is that businesses with higher SEW performed better. Subjectively, business owners perceived their businesses to be more successful and objectively, their business income was higher.

So, should family business owners actively pursue trying to “get more SEW”? Not necessarily. What is important about

understanding your SEW is that you may be making strategic decisions based on preserving SEW and not profitability. If you have high SEW, you might make decisions that preserve SEW even if it means you will be less profitable. An SEW viewpoint forgoes short-term gain for long-term growth and sees financial wealth as an input not an output for the family business. It is important for every family business owner to understand the underlying reasoning for their strategic decisions and that it is okay if profitability is not your primary business goal...you are in good company.

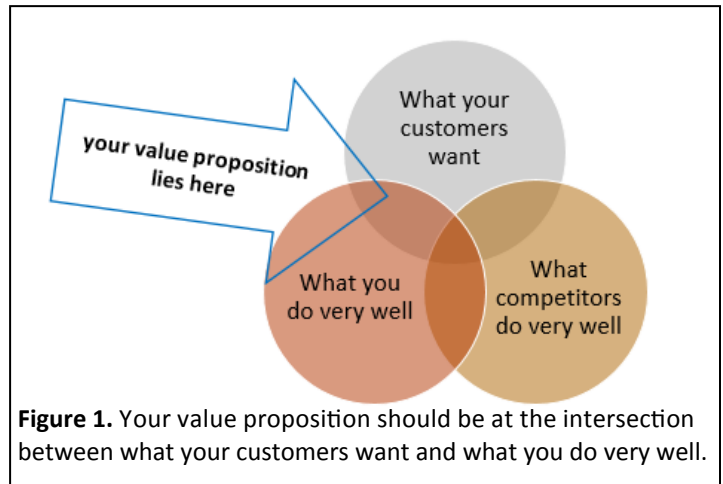


Branding strategies help you create a name, symbol, or design that remains in the minds of your customers. This type of marketing strategy will give you a major edge when facing competitors, attracting new customers, and developing new products and services. Ideally, you would have an effective branding strategy in place that tells your customers: who you are, why you are passionate about your family business, your core values and principles, and what you do better than any other business. This publication provides you with the top 3 branding strategies that will be the core of your marketing efforts.

**Strategy 1: Develop a strong Value Proposition**

A value proposition is one of the most important elements of your marketing efforts, as it conveys the value you will deliver to your customers. Your value proposition should be the main statement that builds your business’ brand and tells customers what you stand for. When developing your value proposition, try to answer why a customer should do business with you and what makes you unique in a message that outplays competitors.

Your value proposition should be sustainable and should broadly define the products and services your business provides. Most importantly, your proposition should communicate the intangible benefits that customers receive when buying from you. Figure 1 illustrates your value proposition with respect to customers and competitors. Ideally, your value proposition is at the intersection of your business’ abilities (what your business does very well) and your customers’ wants, but there should be no overlap with what your competitors do well.

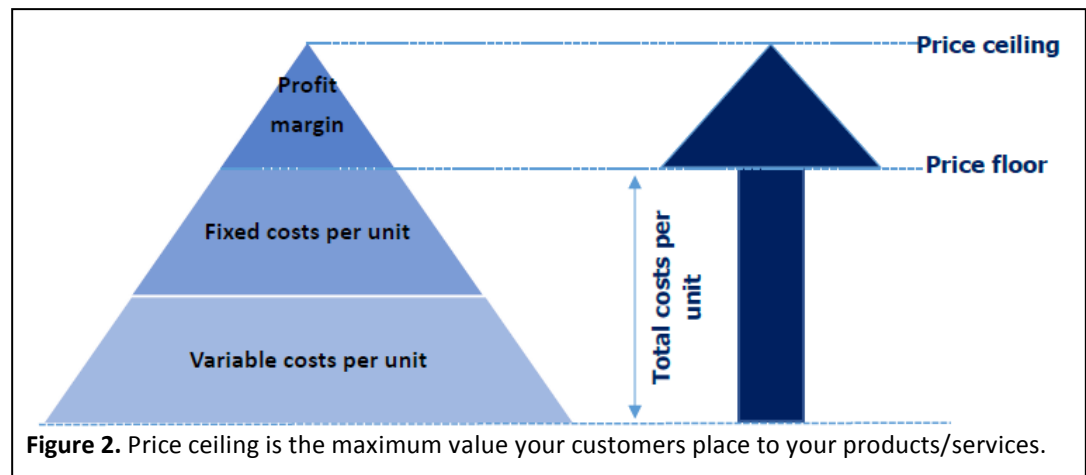


**Figure 1.** Your value proposition should be at the intersection between what your customers want and what you do very well.

One way to design your value proposition is to look at the 4 P’s of marketing: product, place, promotion, and price. You should be able to describe your product or service by using its key attributes. For example, key attributes appealing for consumers of healthy foods are “natural”, “local”, and “pesticide-free”. You should promote and sell your products at marketplaces that are frequented by your customer segments. For example, the use of mobile technologies by Americans is helping the increase of online sales, which has tripled in the past 5 years (Packaged Facts, 2018). Lastly, the price of your products or services should be set between the price floor (the amount of dollars that covers total costs per unit) and your price ceiling (the maximum price your customers are willing to pay for your product or service). Figure 2 (below) illustrates the gap between the price ceiling and the price floor will directly contribute to your profit margin.

**Strategy 2: Aim at your correct target**

Your target market is the group of customers at which you aim to sell your products and services. The most strategic way to aim at them is to understand who they are (demographic characteristics), where they are located and purchase (location characteristics), and what their buying habits and preferences are (psychographic characteristics). It is common for small businesses to blast their marketing efforts at every potential customer.



**Figure 2.** Price ceiling is the maximum value your customers place to your products/services.

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Yet, this “shotgun approach” is likely to fail to target your most profitable audience. Market research can help you gather information regarding your customers (e.g. their education, gender, income, age, and location). While demographic and location characteristics are a good start, you will need to understand your customers’ unique needs, wants, and preferences.

Key common market segments are high income households (more than \$150,000) and Millennials and Gen Z (those born between 1981 and 2008). Some psychographic characteristics of high-income households are: they value best quality and are willing to pay for it, they tend to spend more time at premium stores, and are looking for products/ services that convey status. Millennials and Gen Z favor the purchase of healthy and fresh foods, want to interact with their brands and rating products in online channels (e.g. social media, Google reviews), and spend money in brands with a strong social or environmental conscience. The more you are able to engage in the causes they care about, the more likely they are to become loyal customers.

**Strategy 3: Create a good impression in multiple channels**

If you are like most business owners, you have limited time and money to spend on marketing efforts. The best way to maximize the impact of your marketing expenditures is using your sustainable value proposition and targeting it to your most profitable customers in ways that make an impactful and lasting impression. Customers want to deal with successful businesses and you need to stand out from the crowd of competitors. You can do this by using colorful and less-used fonts in videos, graphics, and images that show growth in your business. One way of showing growth is by creating new products or services or featuring seasonal products. Using a combination of online and print advertising to educate and entertain your customers and promote your core values is likely to grab your audience’s attention quickly. Lastly, getting recognition for what you do well and sharing that in your blog, website, and social media pages will pay large dividends.

## The Emotional Side of Succession Planning in Family Farm Businesses

Diane Masuo and James Tamayose

Family farm businesses are unique because family farms serve the dual purpose as a place of residence and business. This dual purpose creates challenges regarding succession planning for family farm businesses. Succession planning contains emotional and non-emotional elements associated with the duality of work and family. In our paper, we explore the emotional side of family farm business succession planning, particularly with respect to needs orientations, work philosophies, and goals. Following our exploration, we offer a four-step process for integrating the emotional side of succession planning into a succession plan. Ultimately, the emotional side of succession planning can be useful for helping family farm business owners to depart with dignity.

**Succession Planning in Family Farm Businesses**

For family farms, succession generally involves intergenerational land and business transfer (Uchiyama et al., 2008). By extension, *succession planning* describes the planning of land and business transfer of the family farm by the current owner(s) to the next owner(s). Succession planning is important for family farms, especially in the context of *intergenerational succession* (succession by another family member). Intergenerational succession is noteworthy because it implies (a) continued use of the family farm as a place of residence and business, and (b) the existence of the family’s emotional and non-emotional ties to the family farm. Thus, for family farms, a *succession plan* and the outcome of succession planning can contain emotional and non-emotional elements (for examples, see table 1 below).

Table 1. Example Elements from the Two Sides of Succession Planning	
Emotional Elements	Non-Emotional Elements
<b>Need orientation</b> (e.g. business needs, family needs)	<b>Accounting</b> (e.g. taxation, financial planning)
<b>Work philosophy</b> (e.g. working for money, working for fun)	<b>Legal</b> (e.g. estate planning, business re-structuring)
<b>Family Business Goals</b> (e.g. non-financial, financial goals)	<b>Business operations</b> (e.g. adjusting distributor/vendor arrangements, changing products or services)

(continued on page 5)

Collectively, emotional elements comprise the emotional side of a succession plan, which encompasses an understanding of the business owners' feelings towards their current needs, meaning of their work, and their goals (see table 2). The emotional side is dynamic because business owners' feelings about the elements can vary as succession nears. Consideration of the emotional side and its dynamic nature are important because many family farms do not have succession plans in place. Sadly, without succession plans, the decline in family farms and farmers leaving farming, can exacerbate the loss of a farm to the family.

Table 2. Elements in the Emotional Side of Succession Planning		
<u>Element</u>	<u>Example</u>	<u>Elaboration</u>
<b>Needs Orientation:</b> A personal philosophy for classifying existing needs (Ward, 1997)	Naming a Successor	<b>Business need</b> when naming a successor is a means for continuing the business
		<b>Family need</b> when naming a successor is a means for sustaining owning family's legacy
<b>Work Philosophy:</b> Individual's perception of an individual's work (Wrzensiewski, 2003)	Farming	<b>Way to Earn Income</b> when farming is perceived as a job, career, or paycheck
		<b>Way of Life</b> when farming is seen as a calling or expression of personality
<b>Family Business Goals:</b> Outcomes or objectives pursued by owners (Tagiuri & Davis, 1992)	Long-term sustainability	<b>Non-Financial</b> when long-term sustainability includes cultivating healthy social relationships with stakeholders
		<b>Financial</b> when long-term sustainability emphasizes income stability and growth

#### The Four-Step Process: The Emotional Side of Succession Planning

For family farm businesses, farm's dual use as a place of residence and business can make planning for succession difficult. Although succession is unavoidable, planning for it can be emotionally and non-emotionally challenging. More importantly, succession planning for family farms is challenging because succession plans (and succession) are likely to fail if such plans remain static. Thus, for succession plans to be successful, family farm business owners need to:

- Face the inevitability of succession;
- Regularly examine their needs orientation, work philosophy, and family business goals;
- Apply such examinations to build emotional capacity to develop the emotional side of succession plans; and
- Implement the succession plan.

When the implemented succession plan includes the emotional and non-emotional aspects, the owner can leave the family farm business with dignity.



A common concern for many family-owned businesses is how to increase their market. Typically, this leads them thinking of how to find new customers. Often overlooked though is a focus on getting more sales from those who are already a customer. On average, it will cost from \$20 to \$50 to get a new customer, yet it only costs from \$1 to \$5 to expand sales to an existing customer. (Remember the song 'Dance with the One that Brought You' by Shania Twain: <https://g.co/kgs/bT1TTJ?>) Not only does increasing sales to current customers save money, existing customers actually tend to spend more money than will new customers.

Therefore, whether you are encouraging your staff or doing it yourself, focusing on your existing customers can provide good returns for a low-cost investment. This means a shift in how you think about the existing customer. Instead of simply being "cash in the till today," they represent income not only today but for many years.

You can make this happen in several ways. First, offer complementary products and services. For instance, if you sell luggage, add a rack of luggage tags. And don't forget the checkout counter displays. Such displays are there for two reasons – to remind customers of things they may have forgotten as well as to encourage some last minute sales. Both additional items offer a good rate of return. They move easily. The only requirement is that you and your staff need to make the customer aware that you carry them.

Another simple tool for increasing sales to existing customers is to remain in touch. The contact with customers starts with a "thanks for shopping" as the sale concludes. Gather their email or home address so you can also send them a "thanks" later on. This also allows you to follow up on any problems they are having with the product as well as new products or services they might like.

Of course, nothing can beat a good customer referral system where existing customers help you attract other customers. Make sure that you acknowledge or even offer an incentive for the referral.

Businesses selling to other businesses should also consider how they can work together so that both might see increased sales. Offer customers a combination of products and services from both businesses.

No matter the economic climate, getting more sales from existing customers makes good business sense. Take time to implement or expand this strategy; see how it can work in your business!



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