



European Family Business Barometer

A more confident outlook

December 2014

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// Welcome to our third edition of the Family Business Barometer.

European Family Businesses (EFB) and KPMG have once again joined forces to bring an insight into the confidence levels of family businesses. This time the headline message is that while the outlook is positive the pressure on profitability and the war for talent are the key challenges. //



Roger Pedder
EFB President



Christophe Bernard
KPMG Global Head of Family Business

Family Business in Europe: still highly confident but strong warnings on profitability and access to skills

In this third bi-annual *European Family Business Barometer*, European Family Businesses (EFB) and KPMG once again seek to bring an insight into the confidence levels of family businesses, the challenges affecting their everyday operations and the solutions they seek to ensure their development and sustainable growth.

It is reassuring to see that despite continuing nervousness within the European market, the family businesses surveyed are consistently confident and optimistic in their outlook for the future. There are many positive indicators and even fewer businesses are negative in their forecasts.

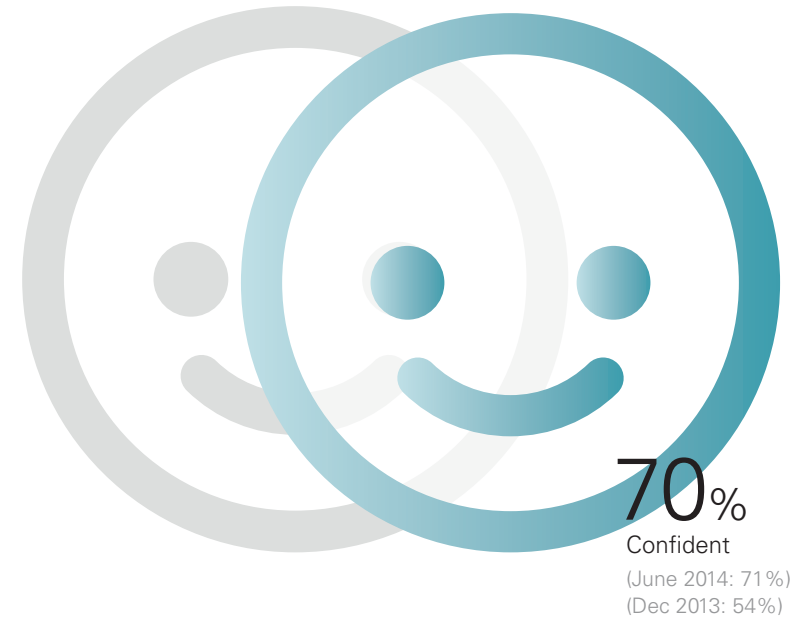
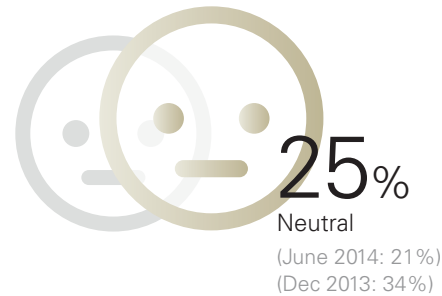
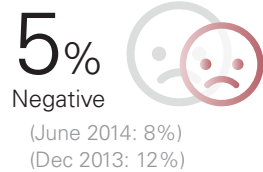
Although the Barometer suggests a positive outlook for the future, significant challenges still remain. Topping the agenda once again is the pressure on profitability mentioned by almost half of the respondents, a worrying sign as this is consistently a key concern across the last two barometers.

Other major challenges for family businesses, which are rising in importance include firstly the war for talent, followed by increasing labour costs. While understanding that human capital is key to their growth and success, respondent family businesses seem increasingly concerned about their ability to find, attract and retain skilled staff coupled with making the most of their market potential. Companies are keen to exploit market opportunities and anticipate that greater flexibility in labor regulations would be beneficial.

The research shows that an increasing number of businesses are ready for new investment, which represents an encouraging trend since a slight decline six months ago. It shows once again that family businesses feel confident about their future and they are prepared to invest in growth despite being conscious of the uncertain market conditions in which they are operating.

CONFIDENCE

How do you feel about the economic situation of your family businesses for the next six months?



The family business community seems consistent in its confidence about the future. This positive outlook is clearly evident in the survey results with only 5% indicating a negative outlook. Even pressures on profitability and concerns about finding the right staff (see page 6) do not impact upon the confidence of family businesses in their economic prospects.

Six months after our previous poll, the number of those feeling confident is stable at 70% of respondents indicating that they have a positive outlook for their business for the next six months. This represents

an encouraging increase from 54% twelve months ago with the number of the most confident rising from 10% to 12%*.

The results indicate that 25% of respondents are neutral about their economic prospects for the next six months, a 4% increase since last summer. However, it is reassuring that the number of respondents who are seriously concerned about the future has dropped to 5%, from 12% one year ago.

Despite the serious challenges which family businesses continue to face they seem to have become more skillful in

responding to these issues. Access to finance, which has a direct impact on maximising opportunities for growth and development, does not seem to be a major concern any more (see page 14), whereas only one year ago over half of respondents (51%) experienced difficulties in funding. As a result, family businesses are increasingly ready to make new investments (see page 8).

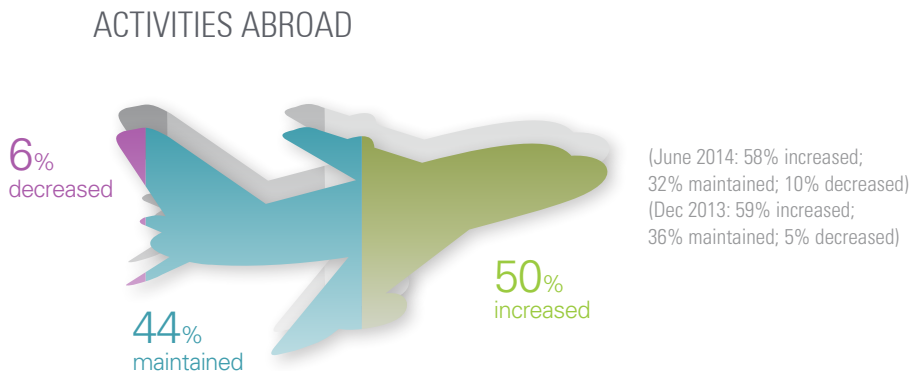
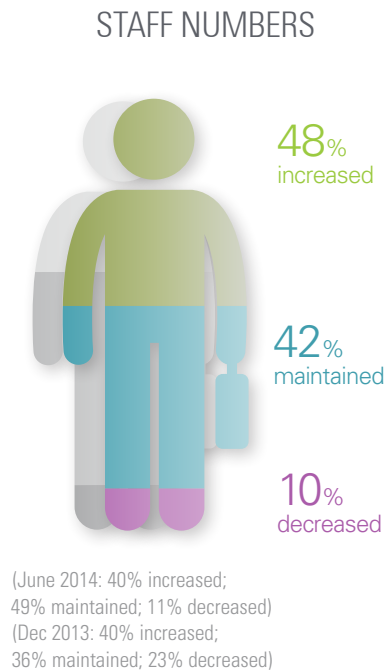
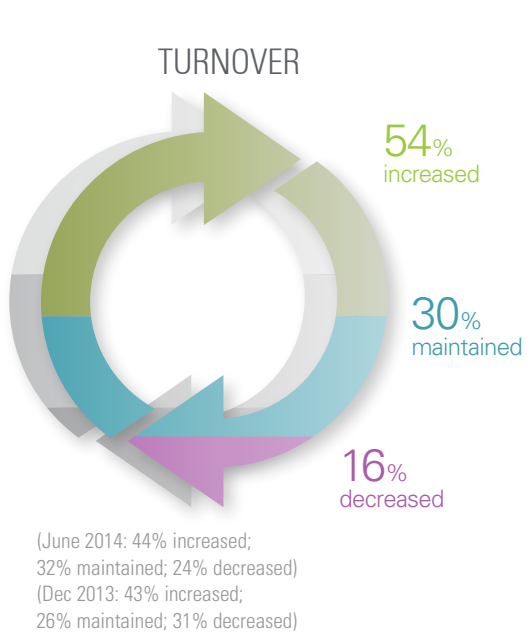
This insight reinforces what KPMG member firms and the EFB hear from family businesses: optimism and confidence.

*70% constitutes 12% very confident and 58% confident.

70% of family businesses surveyed indicate a positive outlook for their future

CONFIDENCE

In the previous six months your company has:



Backed by their confidence, family businesses continue to achieve sustainable growth, with a rising percentage of companies indicating an increase in both turnover and staff numbers. Increased activity in overseas markets is also a positive trend. The percentage of businesses reporting a decrease in each of these three areas has reduced since June: in turnover from 24% to 16%, in staff numbers from 11% to 10% and in international trade from 10% to 6%.

Following moderate sales growth in the first half of 2014, 54% of respondents are now reporting that their turnover has increased (compared to 44% in June 2014). This increase is supported by the rising number of businesses confident about their capacity to expand and commitment to further investments (see page 8).

It is clear that to achieve growth, businesses are planning to increase employment levels: 48% of respondents have increased staff numbers in the last six months, a rise of 8% since June 2014. However recruitment can prove difficult and companies are experiencing difficulties in finding and retaining skilled staff (see page 6).

Family businesses seem to have become more cautious about their international expansion and are focusing on maintaining their operations in foreign markets (a rise to 44% from 32% in June) rather than increasing activity (a drop to 50% from 58% last June). Although the total number of respondents engaged in activities abroad is steady at 72%, this might reduce in the future as an increasing number of respondents are focusing on the domestic market as part of their growth strategy (see page 10).

54% of respondents indicate an increase in turnover, compared to **44%** in June 2014

CHALLENGES AND CONCERNS

What are the major issues facing your family business right now?

While family businesses are consistently optimistic about the future there are a number of significant issues to manage. A decline in profitability continues to be the primary concern, cited by 47% of respondents, making it the most pressing challenge for the second barometer in a row. This represents an increase of 9% over the last twelve months.

Another growing trend is the steadily increasing concern about recruiting and retaining skilled staff. The war for talent seems to now be a big challenge for family business as 42% of respondents indicate it among their major issues, a big swing from 23% only one year ago. Even if this has not had a direct effect on their performance yet, not being able to attract the right people with the right skills will become a limitation for family business affecting their ability to grow or even survive.

The cost of labour has risen rapidly to third place in the list, with a swing from 15% one year ago to 29% now. While businesses grow and recruit additional staff, the increasing labour costs in the competition for talent are likely to impact on their profitability, and may inhibit the future growth of family businesses.

42% of respondents are concerned about acquiring skilled staff

Concerns about profitability and staffing issues have overtaken concerns about political uncertainties and regulatory changes, from 33% to 27%, and 36% to 26% respectively over the last six months. These are still significant concerns, confirming that family businesses want to operate in a stable, clear and predictable regulatory framework.



INVESTMENT STRATEGY

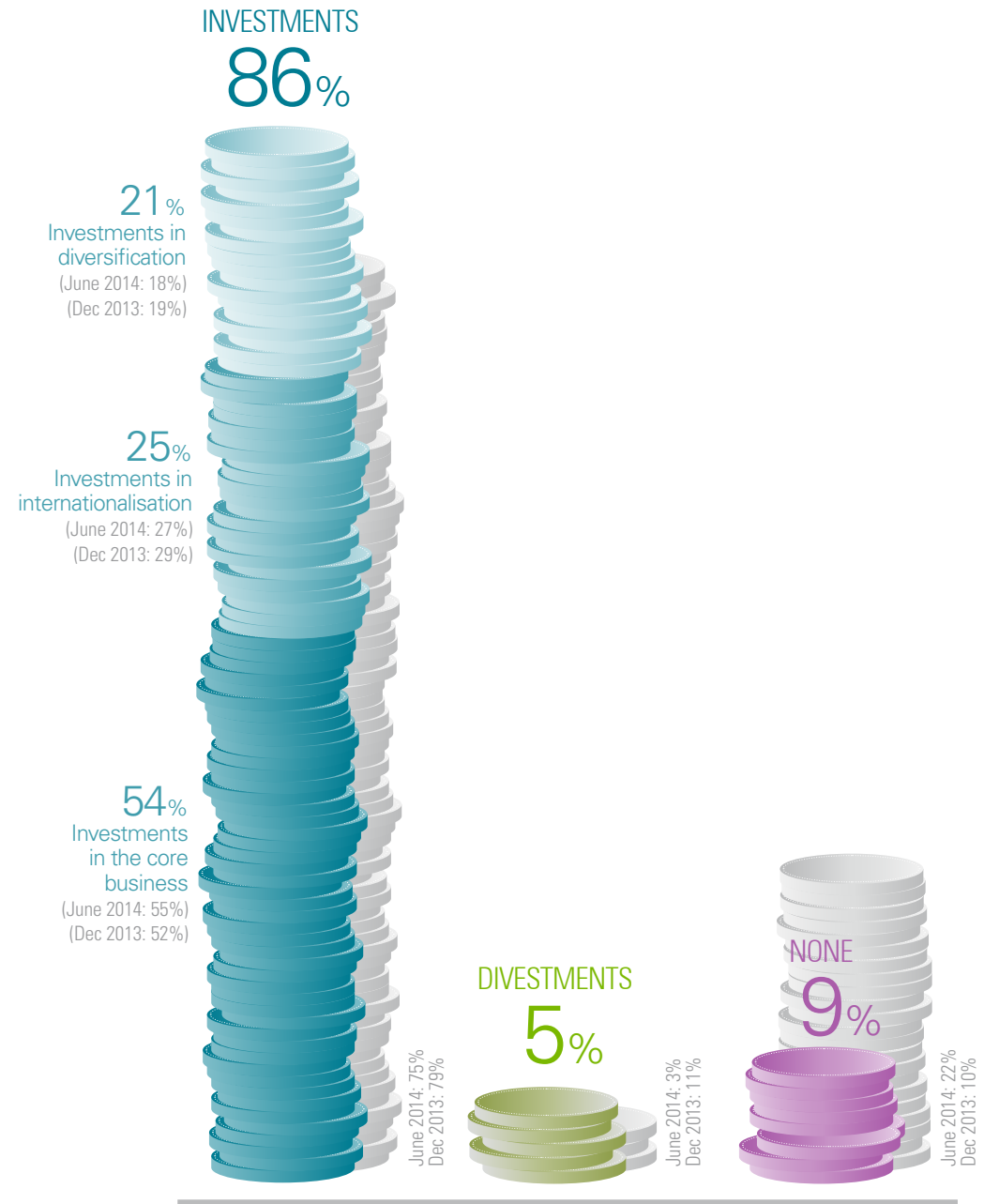
Does your strategic plan include any investments or divestments?

Making investments continues to be the cornerstone of the strategic plans for family businesses. 86% of respondents (compared to 75% six months ago and 79% one year ago) indicate that they have a strategic investment plan for their business ranging from investing in internationalization, diversification and continued development of the core business. This illustrates that family businesses are keen to leverage market opportunities to achieve growth.

The figures show that investment in the core business continues to be the top priority taking over half of all planned investments (54%).

This is followed by internationalization with 25% of respondents planning to invest abroad. This is a 2% drop compared to six months ago and 4% drop compared to one year ago, showing a slight but steadily declining trend. Despite the fact that a great number of family businesses already operate beyond the domestic market, the decrease in investment in internationalization may alter the balance between domestic markets versus foreign markets in the future resulting in an increase in the number of poor performing businesses.

86% of respondents include investments in their strategy, with over half of them focusing on core business

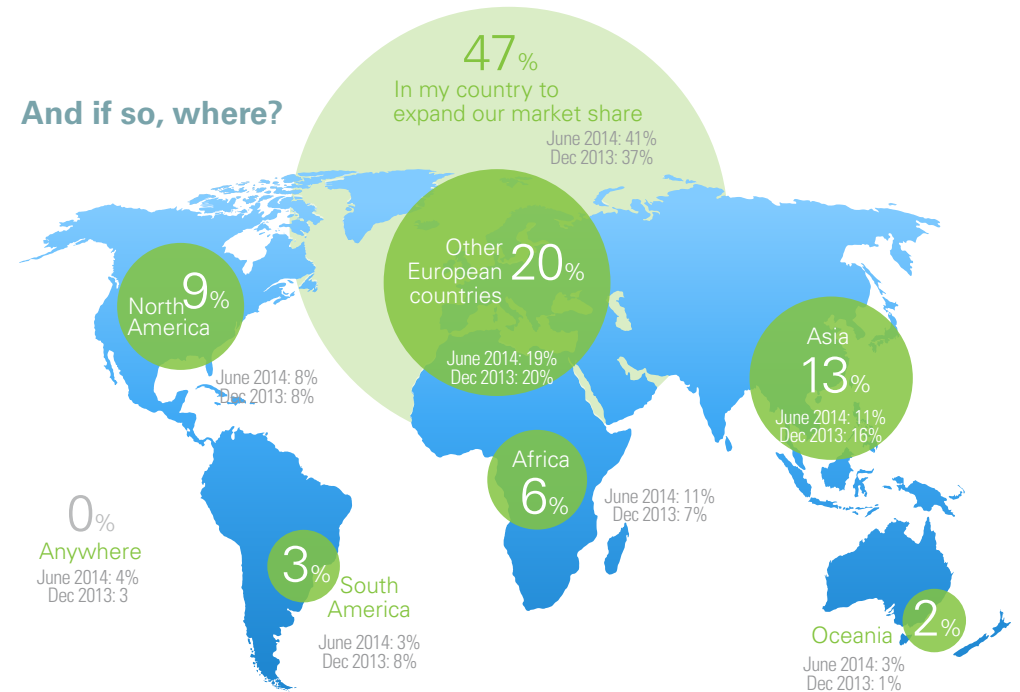


INVESTMENT STRATEGY

Are you thinking about investment opportunities?



And if so, where?



The future for family businesses appears to be even more strongly linked to domestic markets with a steadily increasing number of those choosing domestic market as their first investment priority. In order to increase their market share, almost a half of respondents (47%) prioritize investments in their own country, compared to 41% six months ago and 37% one year ago.

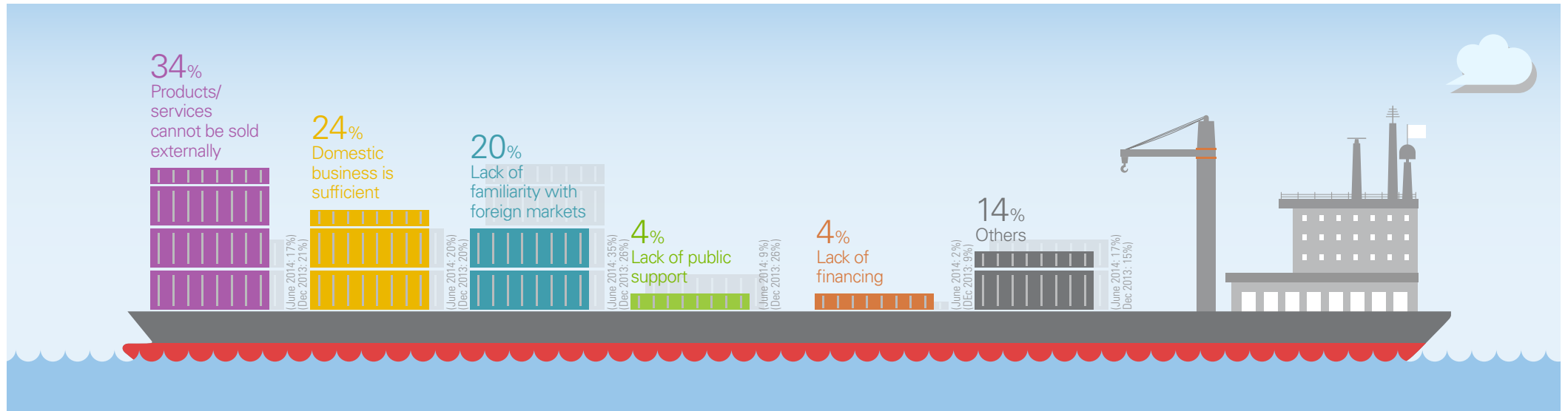
Other European countries are seen by family businesses as the second biggest market opportunity for future growth and 20% of those surveyed plan to focus investment in neighboring markets, which may seem attractive and less risky due to their proximity and familiarity.

Only one third (33%) of the businesses in our research associate their future success with expansion into other overseas markets beyond Europe, a 10% drop in a one year period. Among the international markets, Asia remains the priority destination with 13%, however Africa has decreased in attractiveness from 11% to 6% from June 2014.

47% of respondents consider their own country as the most attractive investment opportunity

INTERNATIONALIZATION

Why doesn't your family business sell to foreign markets?



Family businesses are shown to be cautious about exporting: they have reduced investment in foreign markets to focus more on their domestic market or neighboring European markets. However almost two thirds continue to trade internationally – 63% of respondents export abroad, a 3% increase since June 2014.

At the same time over one third of respondents (37%) are not investing in export markets. They attribute their

decision primarily to the fact that their products/services cannot be sold outside their country (34%) and that the domestic market provides sufficient demand (24%), both figures have increased over the last six months from 17% and 20% respectively.

International expansion can offer significant business opportunities and is known to be one of two key success factors for the profitable growth along with innovation.

Success in new markets requires first of all an open mindset and a real willingness of the company to capture opportunities these markets provide, as well as financial investment and commitment of time and management resource. This raises the question of whether the reasons given for not exporting are valid or whether companies are not willing to make the effort to expand in new markets?

On a positive note, lack of financing and lack of demand are not shown to be obstacles with only 4% of respondents indicating them among the main reasons.

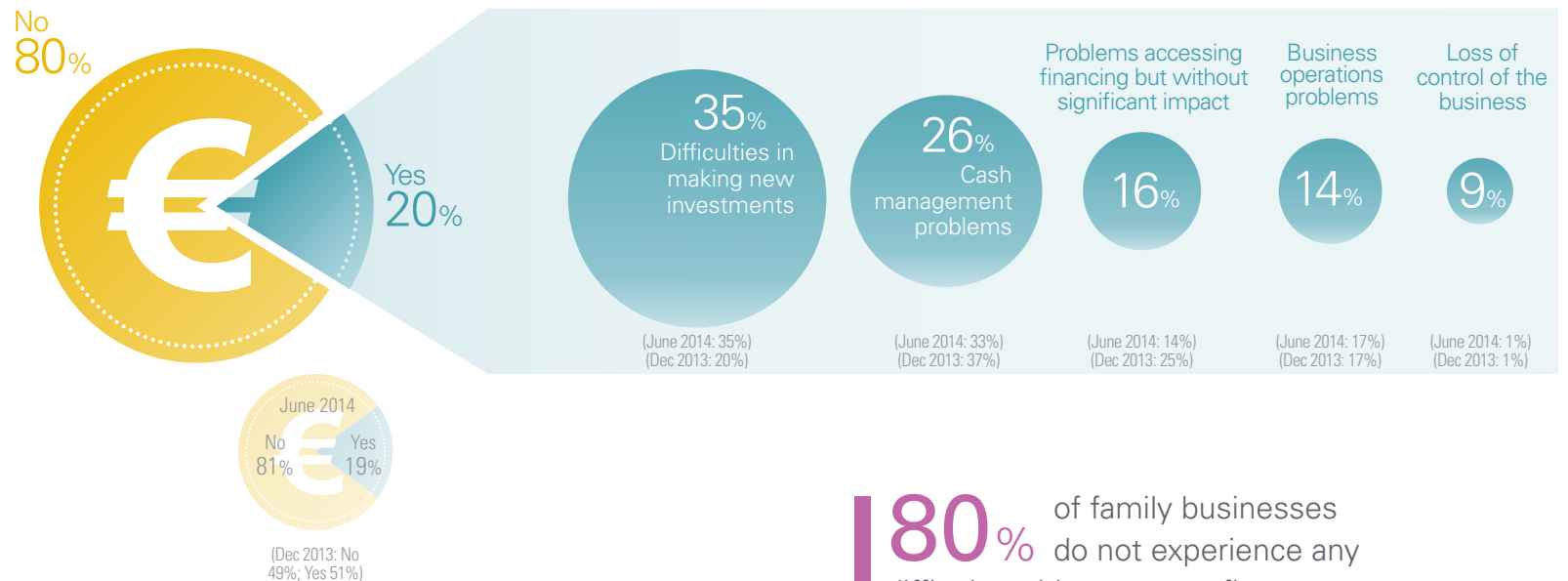
63% of family businesses sell to foreign markets

ACCESS TO FINANCE

In the last six months, has your family business experienced difficulties in accessing finance?

The outlook for securing finance shows that it is not an issue for the majority of family businesses, with 80% of respondents confirming that they have not experienced difficulties with funding in the last six months. These figures are consistent with June 2014 and it is a significant improvement from one year ago when over half of the businesses surveyed (51%) felt that they had limited access to finance.

The small proportion of those who still experience difficulties in accessing finance (20%) are concerned about the possible consequences for their business growth and success. According to 35% of those surveyed, underfunding can make it difficult to commit to new investments in the future and this can limit the potential of these businesses for future growth.



80% of family businesses do not experience any difficulty with access to finance

FINANCING

Regarding financing, which of the following options do you consider the most attractive in the next six months?

While access to funding seems not to be a concern for most of those surveyed, the most attractive forms of financing among family businesses continue to be traditional sources like bank debt and use of equity, indicated by 75% of respondents, the percentage virtually unchanged since the first poll one year ago.

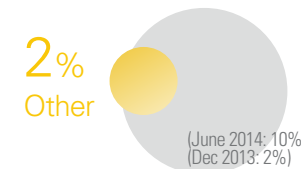
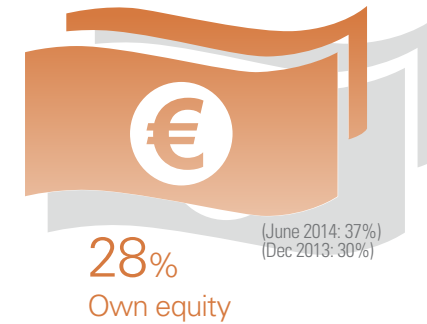
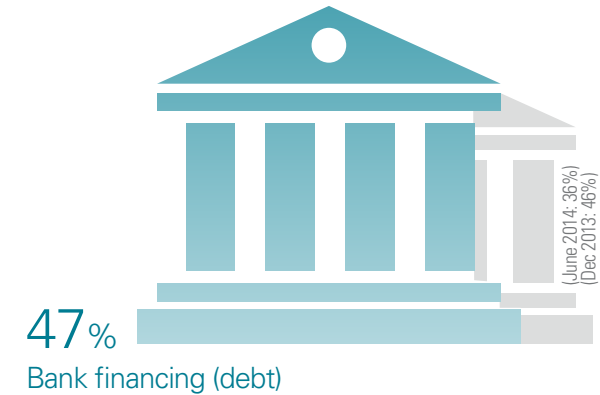
Although the current economic climate has had an impact on the ability of family businesses to finance their growth through bank loans, it remains the most popular method of finance for most of them, as reported by 47% of respondents.

In their pursuit of sustainable growth, family businesses try to balance their financing needs with a reluctance to relinquish control and a desire for privacy. As a result, many prefer to finance through their own profits where possible. Twenty eight percent of respondents, indicated that their own equity is the most attractive form of finance.

In the current financial climate, when a business' profits for re-investment are not sufficient and when the banks are more and more demanding, the possible solution for family business could be to shift their attention to other less traditional but not less attractive sources of external financing (a topic expanded upon in the recent KPMG Global Family Business Survey*).

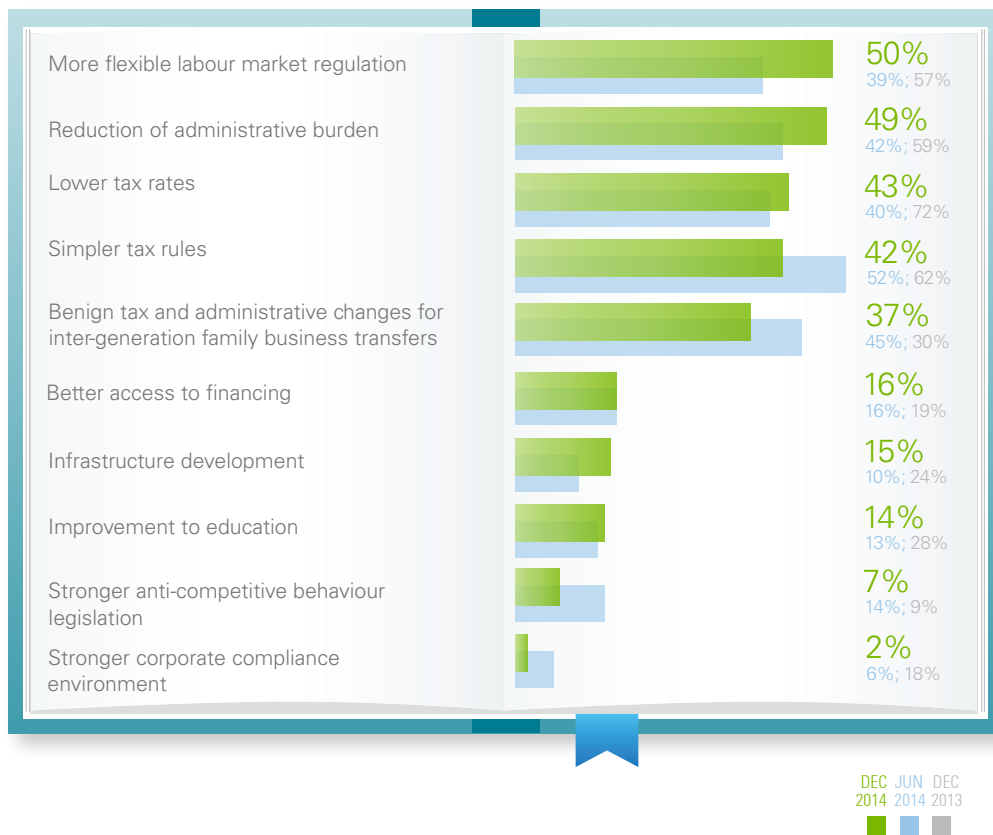
*'Family matters: Financing Family Business growth through individual investors', KPMG, September 2014

75% of respondents indicate bank financing and their own equity as their primary choice of funding



REGULATORY ENVIRONMENT

What changes/improvements would you welcome most?



50% of respondents would welcome more flexible labour market regulation

The future success of family businesses is directly linked to human capital. By highlighting the war for talent and concerns about increased labor costs they are currently facing, family businesses have indicated that they would welcome regulatory reforms to support the recruitment of the skilled staff that many need.

It is not surprising then that when asked to rank the regulatory changes that would have the greatest impact on the future success of their business and therefore would be most welcomed, 50% indicated more flexible labour market regulation. The figure represents a considerable increase from the 39% response six months ago, and reinforces the consistent message across the research that people can not only be an organisation's biggest asset but also their biggest challenge.

Reducing the administrative burden is of increasing importance, highlighted by 49% of respondents this time, compared to 42% in June 2014.

While more favourable labour regulation has increased in importance for family businesses, the demands for simpler tax rules and for benign tax and administrative arrangements for inter-generational family business transfers have decreased (a drop from 52% to 42%, and 45% to 37% respectively over six months). These needs, though less urgent than before, are still among the top five changes and improvements that family businesses would welcome the most in the regulatory framework.

These demands are not surprising and show once again that family businesses strive to operate in a favourable regulatory environment.

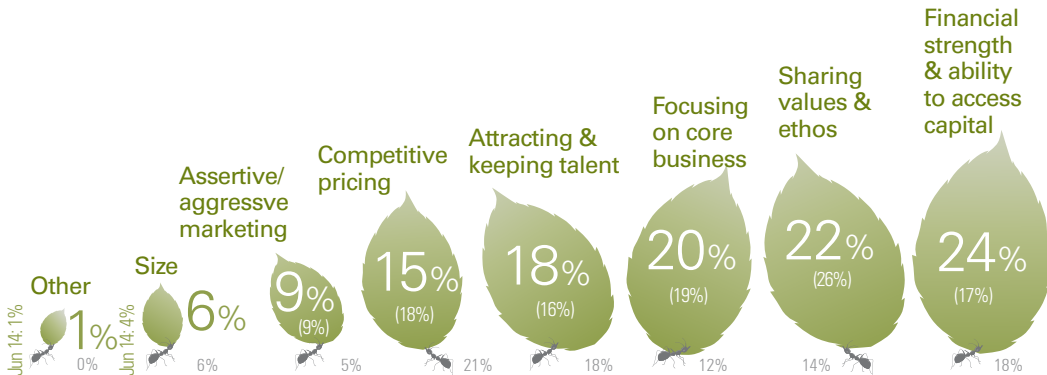
THE FUTURE FOR FAMILY BUSINESS

What would you consider to be the top five key strengths of your business?

Family businesses have always occupied a particular niche in the market and it is interesting to see that the respondents attribute much of the success of their companies to their unique characteristics. The rising importance of the family element and self-awareness of the traditional strengths of family businesses is indicated by the increased importance placed on the ability to take quick decisions, private ownership and long-term perspective, a swing from 34% to 46%, 10% to 41%, and 32% to 38% respectively over the year.

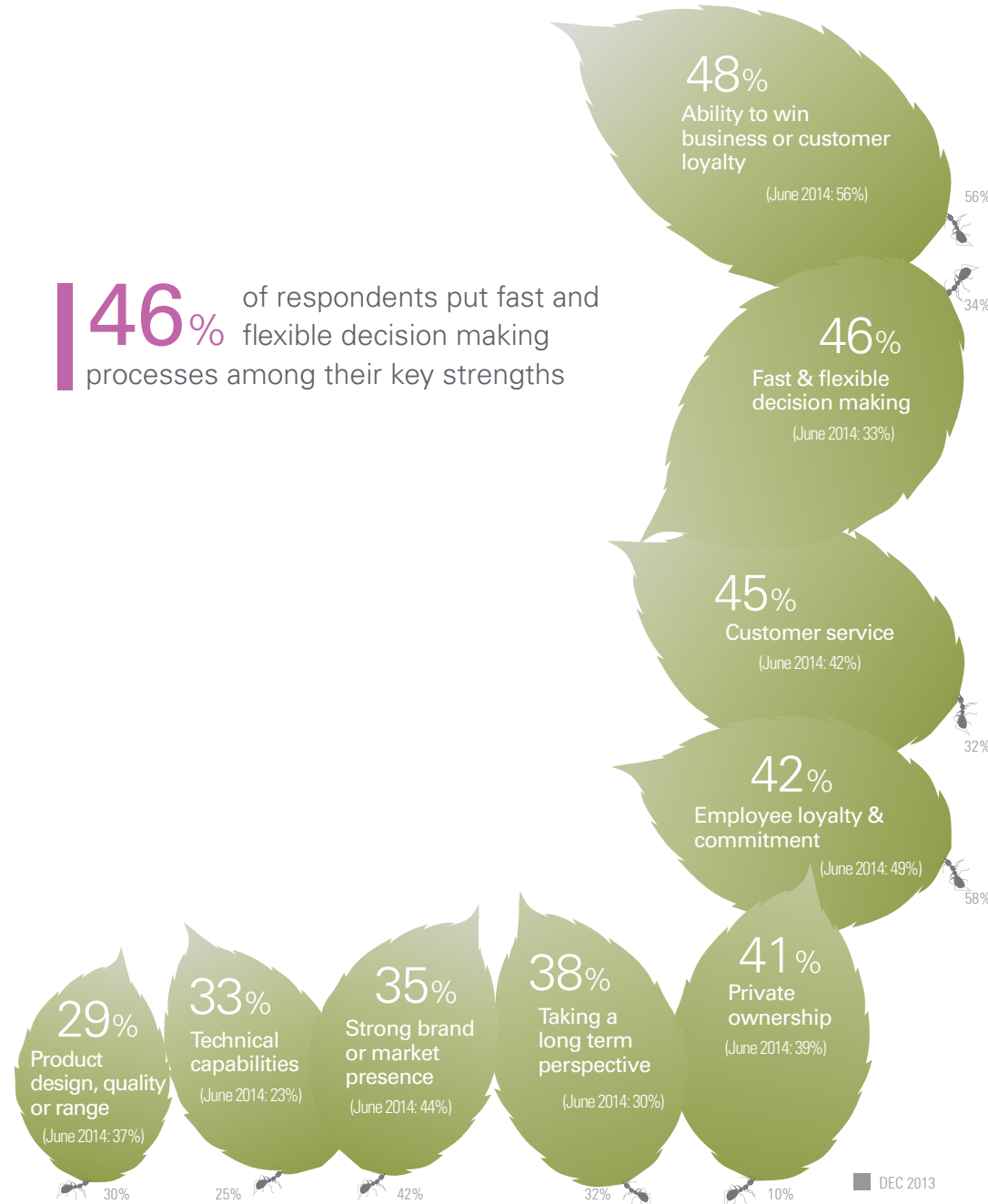
The figures show that being customer-focused continues to be relevant to family businesses, with 48% indicating the ability to win business or customer loyalty and 45% highlighting customer service among the top three of their key strengths.

It is interesting to see the increased importance of financial strengths and the ability to access capital which, along with improved market conditions, can explain why access to finance is no longer an issue for most of family businesses.



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46% of respondents put fast and flexible decision making processes among their key strengths



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THE FUTURE FOR FAMILY BUSINESS

Importance of family issues for the business

Family business success correlates strongly with the ability of family members and non-family management to use its unique characteristics to be flexible and take quick decisions in order to tackle the challenges businesses face every day. The survey shows that a good governance structure, a robust succession plan and preservation of family control remain high on the agenda for family businesses and are indicated by the survey respondents as their key priorities.

With 87% of respondents highlighting that having a good governance structure and processes in place is very important or important*, it is thus the most significant influence on success for family businesses. As the percentage of respondents selecting this factor has been steadily increasing over the year, it appears that more businesses have realized that by establishing a good governance framework to determine the clear communication and decision making process they considerably reduce the risk of future conflicts within the family.

The next most important critical success factor, chosen by 82% of respondents, is the ability of family business leaders to prepare and train their successor well in

advance of the leadership transfer actually taking place. The importance of succession planning is a key element of short-term strategy development, prioritizing management and ownership transfer to the next generation (see page 24).

87% of businesses indicated that good governance structure is a key success factor

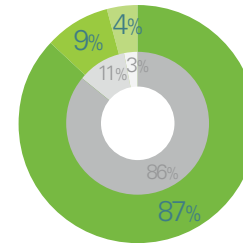
Firmly maintaining family control continues to be seen as one of the top three success factors being rated as important by 81% of respondents. Although family businesses increasingly recognize the need for an outside influence and expertise for their future success**, they are still reluctant to lose control over the business.

The survey also shows that financial literacy amongst family members and undertaking philanthropic activities have grown in importance over the last twelve months.

*87% constitutes 45% very important and 42% important

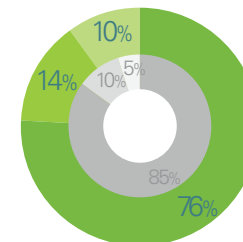
** KPMG Global Family Business Survey ('Family matters: Financing Family Business growth through individual investors') provides further insight

Having good governance structures and processes in place



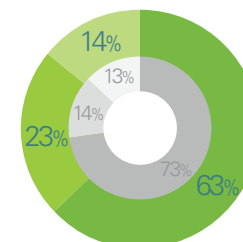
Dec 2013 %: IMP 67; NEU 21; NI 12

Communication between generations



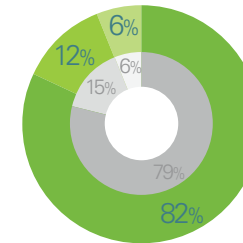
Dec 2013 %: IMP 63; NEU 23; NI 14

Informing family of business issues



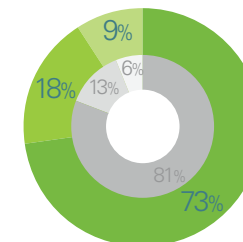
Dec 2013 %: IMP 53; NEU 31; NI 16

Preparing and training a successor before leadership succession takes place



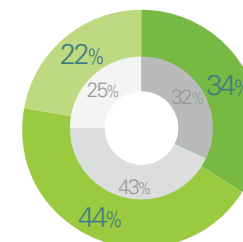
Dec 2013 %: IMP 77; NEU 10; NI 13

Balancing family concerns and business interests



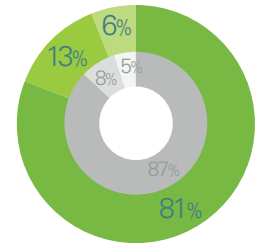
Dec 2013 %: IMP 59; NEU 23; NI 18

Undertaking philanthropic activities



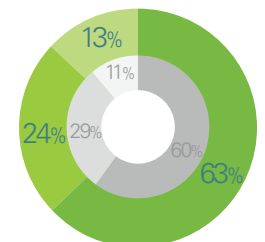
Dec 2013 %: IMP 18; NEU 29; NI 53

Maintaining family control of the business



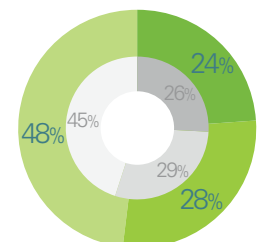
Dec 2013 %: IMP 72; NEU 12; NI 16

Financial literacy amongst family members



Dec 2013 %: IMP 41; NEU 35; NI 24

Buying out family members not involved in the business



Dec 2013 %: IMP 15; NEU 17; NI 68

DEC 2014 JUN 2014

■ IMPORTANT (includes those who responded 'very important')
 ■ NEUTRAL
 ■ NOT IMPORTANT

FAMILY BUSINESS STRATEGY

Are you considering any options for your family business over the next 12 months?

Family businesses feel confident and optimistic about their future and are developing their business plans for the coming year. The number of respondents who are planning a strategic change next year has risen to 50% proving once again that businesses are striving to be successful.

After naming succession among the key priorities for their business, within the next twelve months 24% plan to pass the management of the business to the next generation and 22% plan to pass on the ownership.

Another important decision 23% of companies are planning to undertake is appointing a non-family CEO while still retaining the control of the business within the family. On one hand, it confirms the strong desire of families to ultimately keep control over their companies. On the other hand, it shows an alternative route that many companies are considering in relation to succession.

50% of respondents are considering strategic change

50%
Not considering any option

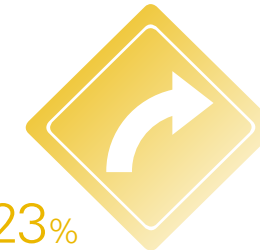
50%
Yes, at least one option



(June 2014: No: 51%, Yes: 49%)
(Dec 2013: No: 71%, Yes: 29%)



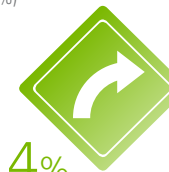
24%
Passing the management of the business to the next generation
(June 2014: 21%)
(Dec 2013: 23%)



23%
Appointment of a non-family CEO but retaining family ownership/control
(June 2014: 21%)
(Dec 2013: 25%)



22%
Passing the ownership of the business to the next generation
(June 2014: 23%)
(Dec 2013: 23%)



14%
Sale of the business
(June 2014: 7%)
(Dec 2013: 10%)



10%
Passing the governance (ultimate control) of the business to the next generation
(June 2014: 27%)
(Dec 2013: 19%)



7%
Initial Public Offering
(June 2014: 1%)
(Dec 2013: 0%)

METHODOLOGY

The European Family Business Barometer is based on the results of an online survey. In total 878 completed questionnaires were received during the period 15 September to 20 October 2014.

This is the third survey of its kind to be conducted measuring trends among family businesses.

The responses from the following countries have been analysed:

- Austria
- Belgium
- Bulgaria
- Cyprus
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Malta
- Poland
- Portugal
- Romania
- Spain
- The Netherlands
- UK

We trust that you have found these results an insightful look into the family business community. We look forward to continuing this project and shedding more light on this crucial sector for Europe. We hope that you will continue to contribute to our survey.



Roger Pedder
EFB President



Christophe Bernard
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