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What lessons can family businesses learn from the luxury industry? Part 2

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Kering's Pomellato jewelry brand displays a high level of craftsmanship. Image credits: Pomellato

By Ashok Som

The luxury industry is abundant with examples that explain why luxury family firms failed to successfully maintain the business from generation to generation.

On a macro, globalized level, many small companies simply lack the cash to finance the growth options. They, therefore, face the choice of either being snapped up by a large group or dying out.

However, many success stories have nonetheless pointed to small firms not exactly turning a blind eye to the global market, but rather trusting in their niche product characterized by craftsmanship, uniqueness and highest quality to foster consumer interest and loyalty.

When the product is right, word-of-mouth does the rest, both locally and globally.

Tribes and tribulations: getting the strategies right
A major issue is that of succession.

As already mentioned, the statistics are daunting: at a global aggregate level, more than 70 percent of family-owned businesses do not survive the transition from founder to second generation, with a further 95 percent not making it over the third-generation mark.

Typical causes may be infighting between siblings, cashing in by family members, the appointment of incapable members of the family who may well end up destroying the brand's value, or the reluctance of offspring to join the family firm.

It is therefore essential that a clear, fair governance and succession structure be set up from the onset with the interests of the brand foremost in mind and a vision for the future.

Remember that a luxury brand becomes loved and desired not only through the rareness, quality and quality of its products, but also through the charisma and stories surrounding its founding fathers and mothers: cultivate this and the family that is, the brand will last on through time and become legend.

Because it is a family business, keep it family and consider your employees indeed customers as part of your extended family.

Family-run businesses tend not to get bogged down in quarterly sales targets but instead aim for the long-term.

Part of this long-term strategy should be to nurture loyalty and commitment from employees.

Indeed, in the luxury sector, employee turnover has been observed to be low, workers considering their firms to be more caring and humane in the workplace: the focus is people-first rather than business-first.

However, turnover at higher management positions in the family business may be higher due to the perception or reality of there being a glass ceiling on top posts prone to being reserved for family members.

This has a potential double effect of dissuading highly professional talent from joining the firm and, even if once in, being faced with the excessive control of a family member who may strangle creativity and discourage diversity of opinion.

Once again, it is for the family business to focus on the long-term future rather than personal short-termism and demonstrate patience in investing capital, a focus on core businesses, the maintenance of strong and enduring values, the acceptance of opinion from outside the inner circle and a willingness for the long-term development of talent.

Moreover, investors like to see that families can incorporate outsiders into the existing business model and believe that family firms need good middle management.

In short, the luxury family business must embrace new cultures while remaining true to their values and heritage, which in fact gives them their competitive advantage.

Get the marriage right and the family close and extended will grow prosperous in the process.

Kering's brand emotion video for Spring/Summer 2017

One big happy family
It is not a matter of saying that S is better than XXL. But both small, family-run business and international conglomerates alike are needed.

It is evident, however, that if there were no successfully built family-owned luxury businesses, luxury conglomerates such as LVMH and Kering would never have been able to shape themselves into what we see today. They rely on the heritage and tradition brought in by these familyowned companies that give them the legitimacy to play in the luxury field.

Conglomerates do make sense in the luxury goods sector, which requires large marketing budgets to drive sales and increase product visibility. But the heritage of each brand is what fundamentally allows them to exist.

From this perspective, it can be said that the family businesses are in fact stronger than the conglomerates, given that they build the base for further development.

Maybe small can be the new big.

Gems and precious stones used in Pomellato jewelry. Image credits: Pomellato

EVEN IF conglomerates seem to be a route with no return, there always has to be room for the familyowned businesses to shine as this is really the part of the luxury industry that best creates the myth and the mystery of true craftsmanship behind unique products.

Remember, luxury is a living thing. It is the child of an idea that becomes a creation, which in turn becomes a member of the family of things.

Read more: What lessons can family businesses learn from the luxury industry? Part 1

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