

The COVID Contemplation

Entrepreneurs are a risk-taking bunch. Creative, innovative and ambitious, they invest, re-invest and double down in their business. They give up liquidity in exchange for higher returns.

For the past decade, business families enjoyed an unprecedented time of growth and financial success. Markets were bullish. Global and Canadian economies grew. Business valuations escalated. Capital was inexpensive and available for expansion, acquisition, and innovation. Lifestyles expanded as consumers accumulated goods and used services. The value of homes soared.

Then came COVID-19. It stunned the economy and battered the markets. Everywhere. All at once.

The COVID contemplation

Enterprising families remember 'BC'—before coronavirus—and are anxious to reach 'AC'—after coronavirus. Many are using this time to consider the intentional, strategic decisions they must make not just now but also after the outbreak and its lockdown end. These decisions, based on a 'COVID contemplation', are happening in real time. These choices will affect life, family and future. To master this COVID contemplation, ask yourself:

- How do I keep my family safe, healthy, happy, fulfilled, and independent?
- How do I keep myself happy and fulfilled?
- Should I continue investing in my business or sell it?
- Do I monetize part—or all—of my business and redeploy the capital?
- Do I sell and divide the proceeds among my heirs and successors?
- How do I create and build a better, more valuable business?
- Do I look for acquisition opportunities and accelerate my growth?

Adopt an investment mindset

Going forward, private company owners should use an investment mindset when considering how to grow their wealth. By adopting this investment mindset, the owner takes into account not just their business but rather the entire family enterprise net worth.

The investment mindset considers the unique wealth dynamic of private company owners—where every success depends directly on the success of the business. This dependency creates risk and threatens the finances, lifestyle, and the very livelihood of private company owners and their families.

Just as investment counsellors work to create diversified wealth portfolios, enterprising families can adopt this practice with the objective of avoiding the risks associated with business concentration. The ultimate scorecard is not your margin or topline or even your bottom line. The ultimate scorecard is the change in the value of your business from year to year. Does this trend in valuation and outlook for the future justify your ongoing investment?

Appreciate the importance and impact of purposefully shifting risk away from the core operating business towards non-correlated investments. For many entrepreneurs, this focus on balancing liquidity and risk will be a strategic change of mindset. For example, there may be ways to unlock and release value from the corporate balance sheet

The COVID Contemplation

and deploy that capital outside the business to develop a separate wealth stream, optimize working capital, and continually work to increase cash flow for investment in and out of the business. Regularly monitor the value of your business as you would any other investment. The objective is to create stronger, more stable balance sheets for your business and for your family. Use this goal as a filter when investing to decide where the best investment is for your family's money.

This means integrating the company into the total family wealth portfolio. This family wealth portfolio consists of all tangible assets, includes the operating business (or businesses) and such things as home, vacation property, investment portfolio, life insurance, savings, and even high-value collections such as jewelry, art, cars, and boats. This emphasis puts balanced wealth creation ahead of lifestyle—creating diversified, de-risked family enterprise wealth and multiple income streams. Ultimately, you and your family will be better protected from economic volatility and shocks to your business.

6 strategies for your business and your family wealth

1. **Seek out alternative and supplementary revenue streams.** For example, look at online sales, new customer segments, acquisitions, or alliances with a complementary business.
2. **Reduce supplier concentration.** Look for new suppliers who can provide your current or similar goods and services—or for new suppliers to provide new or complementary goods and services.
3. **Take an objective, unbiased look at your business model—how you make a margin.** Examine businesses that operate in different sectors, and adapt practices that could improve your model.
4. **Establish a level of return you want to make on your invested capital.** Be sure to include a 'risk premium' over and above the actual and opportunity cost of that capital. Then, when looking to invest in your business—capital, equipment, buildings, people—understand the return that investment will generate. If that return does not match or exceed your objective, consider a different investment outside of your business.
5. **Work through your balance sheet.** Look for ways to remove capital. These could include recapitalization with leverage or selling some equity to a third party or to management or family successors. With this capital now removed from your business, work with professional advisors to find investments that balance risk against your operating business.
6. **Enhance your business.** Critically look at your business weaknesses and opportunities with the assistance of an expert. Look for ways to enhance your businesses value through technology, more professional management, new or reduced product lines or any number of ways to ultimately make your business more attractive to a buyer down the road. I often partner with my colleagues at BDO who specialize in enhancing the value of a business.

COVID-19 devastated the economy. It will recover. Some businesses may not survive. Many others will manage through. We expect the best of these will be well positioned to thrive in the post-crisis economy. Entrepreneurs will continue to work hard, innovate, and be creative. Those who view their business through an investment lens will create true, sustainable wealth for their families and generations to come.

[Jeff Noble](#) is a senior consultant and FEA Family Enterprise Advisor in the BDO Advisory Services practice. He can be reached at jnoble@bdo.ca, or by phone at 905-272-6247.

[For more on how to respond, adapt, and move forward from COVID-19, check out the BDO collection of resources.](#)