Navigating the Challenges of Family-Owned Businesses

Strategies for Competition, Financial Pressures, and Family Succession

Business Impact Group

Autumn 2024 Report

Business Impact Group, the University of Washington's largest consulting student organization, is dedicated to advancing small business growth. In partnership with the University's Consulting and Business Development Center, we consult women and minority-owned businesses. Our Research Program generates insights for small businesses, while training students on essential skills.

Ash Anora and Riley Rock
Co-Presidents, Business Impact Group

Gabriel Jani
Director of the Business Research Program, Business Impact Group

Minal Siddiqui
Deputy Director of the Business Research Program, Business Impact Group

Research

Ally Dela Rosa
Project Manager, Marketing and Finance

Angela Su
Researcher, Intended Finance & Information Systems

Sophia Kawamura
Researcher, Intended Accounting

Sumedh Chinta
Researcher, Intended Finance & Information Systems

Delaney Leung
Researcher, Intended Business Administration (General)

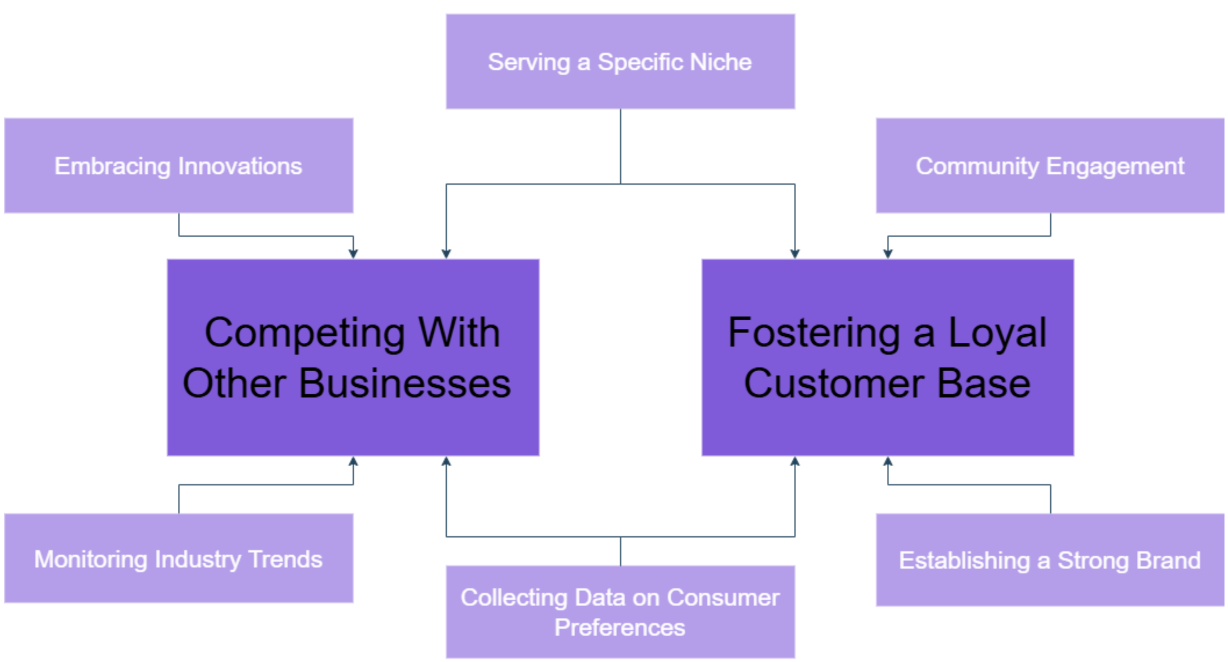
Jason Chen
Researcher, Intended Finance

Introduction

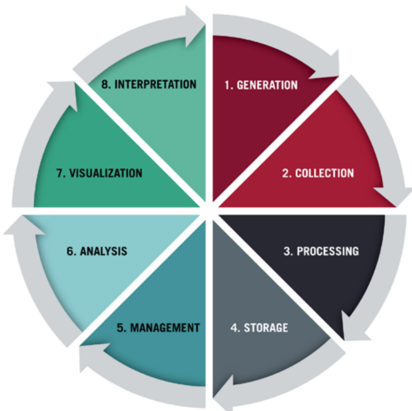
Family-owned small businesses face a variety of challenges in today's dynamic economic landscape, requiring them to balance tradition with innovation. This report delves into the unique obstacles these businesses encounter, focusing on four critical areas: market competitiveness, minimum wage impacts, payroll management, and succession planning. By exploring these topics, this report provides an in-depth understanding of how family-owned businesses adapt and thrive in the face of evolving demands.

Staying Competitive in Modern Markets

In today's rapidly evolving market landscape, staying competitive is a necessity for any business's survival and growth. Businesses small and large must continuously adapt and innovate to meet changing consumer demands and outpace their rivals. After conducting thorough research and interviewing local businesses, the research team found six key strategies businesses use to maintain a competitive edge. These six strategies fall into two main categories, competing against other businesses and fostering a loyal consumer base. To compete within the market, businesses should be collecting and analyzing data on consumer preferences, monitoring competitors, and leveraging innovation to drive progress. After analyzing the market, the main strategies for creating customer loyalty include understanding your customer base, establishing a unique brand identity, and actively engaging with their communities.



A) Competing with other businesses



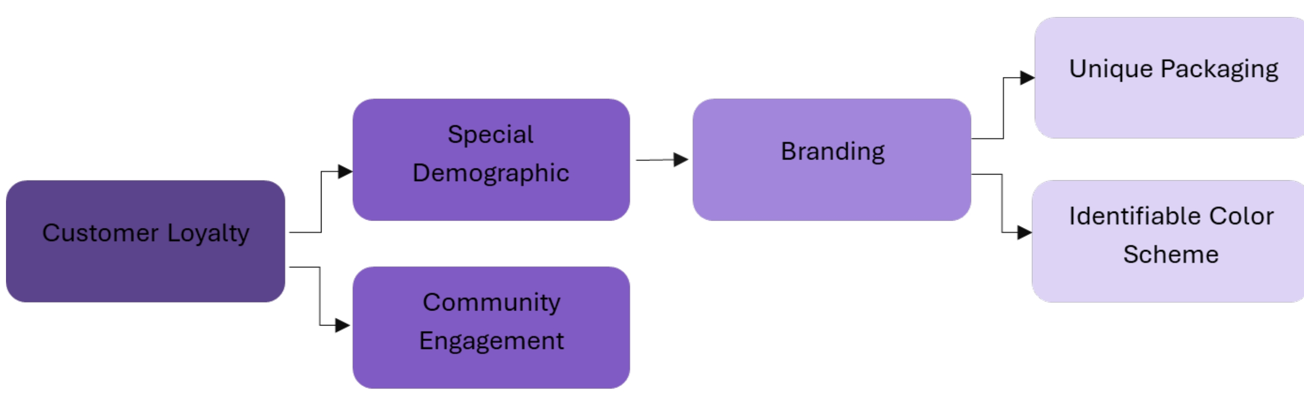
By collecting data on customer preferences, businesses can make informed business decisions to align their offerings with consumer needs and thus keep their business competitive, giving them an edge over competitors who aren't as proactive about catering to their customers' changing needs. Harvard Business School's Catherine Cote gives insight into some ways businesses find this data in her article *7 Data Collection Methods in Business Analytics*, advocating for the utilization of consumer surveys, transactional tracking, and social media monitoring to help businesses stay informed on their customers' preferences. Businesses can use this data in a variety of ways, as evidenced by interviews our team conducted with local businesses such as Parker Eco Pest Control, Lighthouse Roasters, and Snapdoodle Toys and Games.

An interview with Parker Eco Pest Control revealed that they were the first pest control service in the area to offer customers the option to book services online rather than exclusively through phone bookings. This innovation provided a more convenient experience for customers and gave the business a significant competitive advantage. According to owner Wesley Parker, this change was driven by the increasing demand for instant gratification, which an online platform could address. When the company launched in 2016, it was one of the few pest control services in Seattle utilizing the internet, further solidifying its position as a leader in the market. In addition to leveraging technology, Parker Eco Pest Control employs direct communication as a key strategy to gather information on competitors. Wesley Parker explained that the company contacts competing pest control services every 3 to 6 months to gain insights into industry practices. This approach has proven valuable, particularly in identifying pesticides used by competitors that were missing from their own inventory. These insights guided strategic decisions on which traditional pesticides to invest in, enabling the company to refine its service offerings. By integrating innovative technology and staying attuned to market trends, Parker Eco Pest Control has strengthened its competitive position and better addressed evolving customer needs. American Classic Painters, a local painting service provider, gained valuable insights by studying the methodologies and pricing strategies of other businesses. Owner Nicolae Schirliu emphasized the importance of building strong connections with established businesses and institutions, noting that competitors often succeed due to their robust networks and "backlinks" that drive traffic to their services. Furthermore, American Classic Painters strategically set their prices above competitors who do not offer consumer-oriented policies, such as warranties, ensuring their services provide added value and appeal to customers. Both examples are times where monitoring their competition helped American Classic Painters understand the strategies and approaches, they need to be successful. Thus, the more businesses take the time to understand their competition and industry trends, the better they can find opportunities to improve their own business in their ever-changing markets.

B) Fostering a loyal customer base

After researching the market, other businesses, and new technologies to stay ahead, small companies must focus inward with customer loyalty. One advantage smaller business possess is their ability to target niche demographics with specialized products, whereas large corporations typically cater to a broader consumer base with more generalized offerings. For those smaller markets, small businesses can make a more meaningful connection and build stronger brand loyalty.

Strategies for Customer Loyalty



Craig Nobley, owner of Seattle coffee shop Lighthouse Roasters, noted an increase in demand for online services, prompting the development of a retail website for their coffee roasts, which has since become a major driver of the shop's growth. Lighthouse Roasters is also a local business that emphasizes community engagement. Their contributions include disabling Wi-Fi to encourage in-person conversations, regularly giving away high-quality coffee roasts, and donating to local nonprofits. As Nobley explained, their geographical isolation from other businesses, combined with their strong focus on fostering a positive neighborhood connection, has made Lighthouse Roasters a community hub where people gather to meet and enjoy their time. This approach not only cultivated a loyal customer base but also strengthened their confidence in remaining competitive, as their deep value to both customers and the community ensures their continued success.

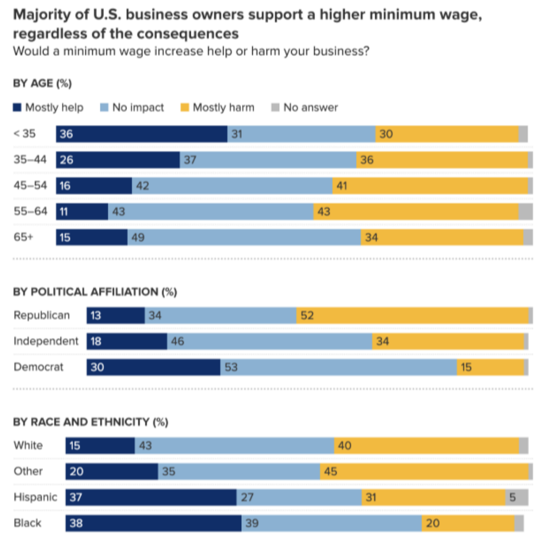
Snapdoodle Toys and Games has positioned itself as a toy store dedicated to quality products and meaningful customer relationships, setting itself apart from larger retailers like Amazon or Costco. They achieve this by offering a curated selection of popular toys, providing kids with opportunities to play with toys for free in-store, offering gift-wrapping services, and implementing loyalty programs that reward customers with 10% off after spending $200. Business owner Rob Pickering explained that these customer-focused policies, rooted in their commitment to quality and building positive relationships, have established Snapdoodle Toys and Games as a trusted source for excellent products and genuine service, fostering a loyal customer base. Parker Eco Pest Control has also successfully positioned itself in the saturated pest control market by branding it as an eco-friendly alternative. Unlike traditional pest control services that often rely on pesticides with harmful chemicals that can contaminate the environment, Parker Eco Pest Control uses safer, sustainable solutions. This approach not only differentiates them from competitors but also helps build a loyal customer base that shares their values of safety and environmental sustainability. Their commitment to eco-friendly practices has made them a popular choice, especially in a market where few pesticide companies prioritize environmental responsibility.

One significant challenge in many communities is the limited employment opportunities for individuals with criminal records, as many employers are reluctant to hire them. Spir Candle Company in Seattle tackles this issue by offering jobs, mentorship, and support to young men with incarceration histories, helping them rebuild their lives after difficult experiences. This commitment is deeply rooted in the company's mission and values, creating authentic community engagement. By purchasing candles from Spir, consumers feel a sense of fulfillment, knowing they are contributing to a positive impact within their community. Collecting and utilizing consumer data, staying current with industry trends, embracing technology and innovation, and establishing a strong niche identity are essential for small businesses to succeed and maintain a sustainable competitive edge. Additionally, demographics, branding, and community engagement play a vital role in building customer loyalty. Initiatives like fair trade practices and supporting social causes help small businesses differentiate themselves from competitors. Individuals who recognize shared values in these businesses are more likely to trust them and form stronger connections.

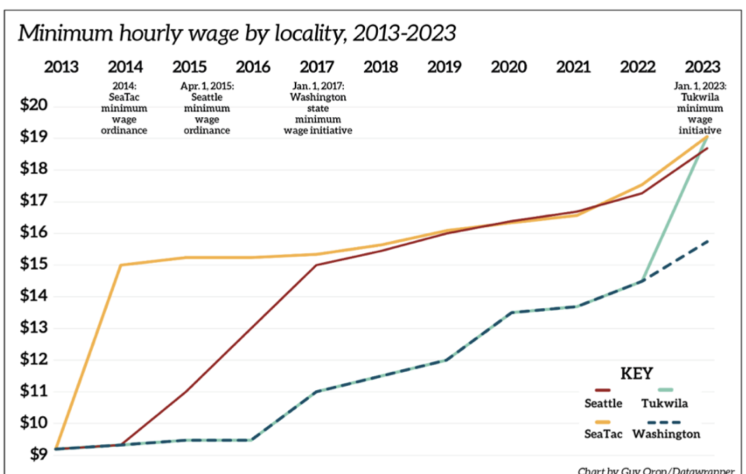
Impact of Minimum Wage

The Seattle area is a trendsetter for the country in setting minimum wage. Currently, the top three cities with the highest minimum wage in the nation are all in the greater Seattle area. This has resulted in varying outcomes for small businesses, with both positive and negative effects. There are many factors leading to wage increases; one of them being rising inflation (Levine, 2024). As inflation increases, the cost of goods and services also rises, leading to a need for higher wages to maintain the standard of living. One of the hardest hitting sectors is the service industry, where wages have increased due to inflation but also due to a shortage of workers.

As minimum wage has risen across America, a diverse range of opinions have been expressed on minimum wage, leading to it becoming an increasingly controversial topic. These opinions widely vary by demographic. The groups most likely to support minimum wage increases are business owners who are women, Black, under 45 years of age, Democrats, and work in the entertainment or non-profit industry (Johnson, 2024). On the other hand, the groups that are least likely to support minimum wage increases are men, over the age of 45, white, Republicans, and work in manufacturing or agriculture (Johnson, 2024).



In Seattle, the wealth inequality gap has continuously grown despite the increases in minimum wage. The top 20% of people in the city have seen a 23% increase in income since 2019 while the bottom 20% have only seen a 10% increase (Balk, 2024). Some may argue that increasing the minimum wage is not the solution to mitigate wealth inequality, but instead focusing on other issues like affordable housing and healthcare is a better solution to the growing wealth inequality (Balk, 2024). On both ends of the spectrum, supporters argue that a higher minimum wage will boost economic growth and living standards, while critics contend that it will increase business costs and lead to job losses. In Seattle, two prominent lobbying groups are involved in this debate: Tipping Point Seattle and the Seattle Restaurant Alliance.



Minimum hourly wages in Washington have increased at different rates depending on locality. The state's hourly wage will be $15.74 as of Jan. 1, 2023, while the cities of Seattle, Tukwila and SeaTac have all raised the minimum hourly wage over the legal minimum set at the state level.

Tipping Point Seattle advocates for increased minimum wage, claiming that it can stimulate the local economy and allow people to make a living wage (Varriano, 2024). As demonstrated in the interview with Jafaar, the owner of Toasted, a local bagel and coffee shop, he sees the increases in minimum wage as a positive, stating that the mandate allows minimum wage workers to live in an expensive city like Seattle. During the interview, he also shared that by paying employees well above minimum wage—around $25-26 per hour—and offering raises with seniority, his business has fostered a stable and motivated workforce, resulting in lower turnover rates, consistent service quality, and enhanced customer satisfaction and loyalty. The business views competitive pay as an investment in both its employees and its long-term success, creating mutual trust where staff are motivated to perform well and confident in the value placed on their efforts. However, he believes that the increase should come with improvements in other aspects, such as protecting small businesses from break-ins and improving safety in Seattle.

On the other hand, the increased financial strain on many small business owners has led to the establishment of lobbying groups like the Seattle Restaurant Alliance, which advocate for lower minimum wages. Many owners claim that all their costs have gone up drastically since the pandemic and forcing them to increase their wages will only cut their margins. However, many restaurants have faced unfavorable PR from being associated with the anti-minimum wage lobbying group. For example, Ali Ghambari, owner of Cherry Street Coffee, a well-known café with four locations in Seattle, faced significant online backlash through popular Reddit threads and negative Google reviews, urging customers to boycott his restaurant due to his outspoken stance against raising the minimum wage. Recently, in August of 2024, he was confronted with an employee strike, forcibly closing all his locations for a day and permanently closing his Capitol Hill location (Cheadle, 2024). Similarly, in 2023, Homegrown, a local sandwich chain, faced a 119-day strike over tensions about wages and union conflicts, forcibly closing operations in several of its locations for the duration of the strike (Geraldo, 2023). These examples illustrate the potential negative impact of not raising the minimum wage, as seen in how vocal opposition or unresolved tensions regarding wage policies can lead to public backlash, employee strikes, and even the forced closure of business locations. Providing employees with a fair wage is crucial, especially as mounting tensions over inadequate pay have escalated to strikes before, forcing businesses to fully close.

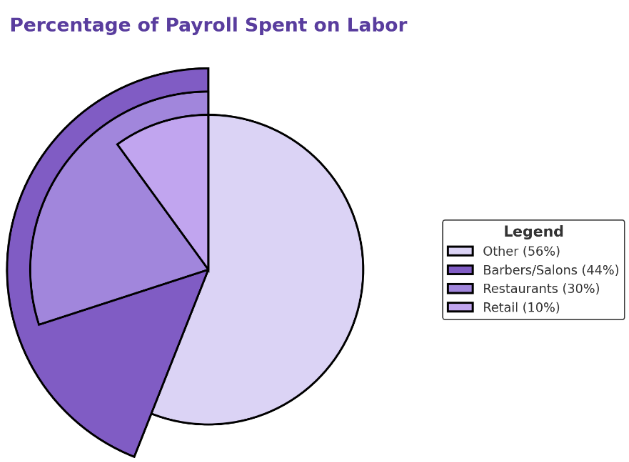
Ultimately, research supports the idea that higher wages can have economic benefits and improve small businesses' working environment. In the short term, wage increases may narrow profit margins. However, many small business owners who view their employees as investments have found that it reduces turnover and boosts productivity. Conversely, ignoring employees' struggles and failing to address their demands can lead to heightened tensions, reduced morale, diminished productivity, and even potential strikes.

Balancing Payroll Costs and Profitability

Payroll percentages, the share of revenue that businesses allocate to labor, vary significantly across industries—the averages are (People Managing People, 2024).

10%	30%	44%
Retail	**Restaurants**	**Beauty salons**

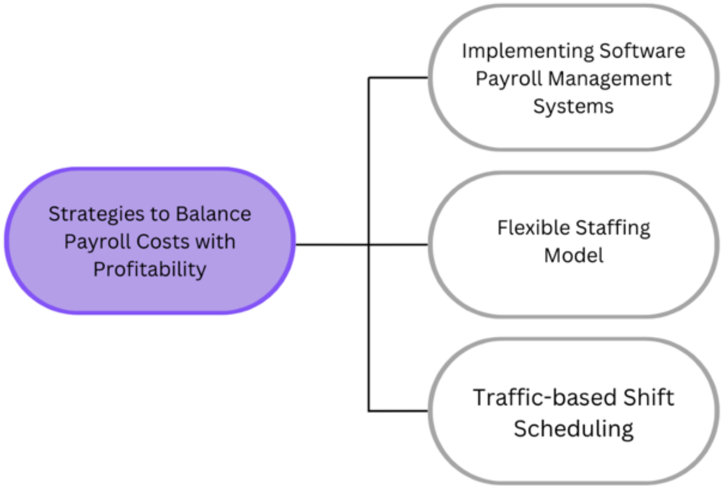
Effectively balancing payroll costs and profitability is a delicate act, requiring small businesses to allocate resources efficiently while ensuring their workforce remains motivated and productive. For small businesses, managing these payroll costs is especially critical, as they often operate with tighter profit margins and limited resources. A common misconception is that improving service quality directly enhances profitability, whereas according to studies conducted by Harvard Business School, profitability is more closely tied to conformance quality (Ton, 2008). Conformance quality emphasizes consistency, reducing errors, and achieving operational goals in production and service delivery. Balancing payroll costs with profitability requires businesses to optimize labor investments by focusing on conformance quality while also maintaining employee satisfaction.



One effective strategy for small businesses to optimize payroll costs and boost profitability is implementing traffic-based shift scheduling, which aligns staffing levels with customer demand. This approach involves increasing the number of employees on shift during peak hours, such as busy weekend mornings or lunch rushes, and reducing staff during slower periods. For example, Chai Guys, a small tea brewing business in London, transitioned from manual scheduling via spreadsheets to a digital scheduling tool to better manage their staffing needs. This allowed them to streamline shift planning, ensure adequate coverage during busy times, and reduce administrative burdens. By dynamically adjusting labor to match demand, Chai Guys not only improved payroll accuracy but also boosted operational efficiency (Daniel, 2024). This strategy highlights how small businesses can leverage smart scheduling to reduce payroll costs while maintaining excellent customer service.

Another effective strategy for small businesses is to implement a flexible staffing model, allowing them to adapt quickly to changes in demand while managing payroll costs more effectively. Buddy's Plant Plus, a niche manufacturer of plant care products based in Texas, faced a significant surge in orders requiring the addition of a second production shift for an eight-week period. Due to staffing shortages and a volatile job market, the company struggled to meet this demand. To address the challenge, Buddy's Plant Plus partnered with a staffing solutions provider to implement a flexible staffing model. Within 48 hours, they onboarded over 40 qualified associates to support the additional shift. This rapid deployment enabled the company to fulfill the increased orders promptly, safeguarding their contract and maintaining customer satisfaction. By adopting a flexible staffing approach, Buddy's Plant Plus effectively managed seasonal demand without incurring the long-term costs associated with permanent hires (Simos Solutions, n.d.).

Lastly, a smart strategy for small businesses to balance payroll costs with profitability is the integration of software into payroll management systems. This approach enables precise tracking, streamlines processes, and ensures efficient allocation of labor resources, making it a valuable tool for sustainable growth. For instance, Dubbledam Architecture, a Canadian architecture firm, utilized the payroll software Wagepoint to streamline their payroll processes. By automating time-consuming tasks such as tax calculations, time tracking, and direct deposits, the company significantly reduced the administrative burden on their HR team. As a result, they saved over $5,000 annually in payroll administration costs while eliminating errors that previously led to compliance penalties. Additionally, Wagepoint’s user-friendly platform ensured employees were paid accurately and on time, boosting employee satisfaction and reducing turnover costs. The automation allowed Dubbledam Architecture to focus more on strategic business priorities rather than administrative headaches (Wagepoint, 2022). This case exemplifies how leveraging payroll software not only reduces costs but also enhances operational efficiency and profitability.



Direct costs are expenses directly tied to a product or service, such as raw materials or labor, while indirect costs, like rent and utilities, support overall operations. Tracking both is essential for accurate forecasting, understanding profit margins, and identifying cost-saving opportunities. For instance, All Good Things Organic Seeds, a small seed company based in California, implemented a detailed cost-tracking system to monitor production and overhead expenses. By analyzing these data points, they identified inefficiencies in packaging and shipping processes, leading to cost reductions and improved profitability. This example highlights how tracking both cost types can drive better financial management and profitability in smaller businesses (Seed Alliance, 2020). Additionally, businesses can further reduce payroll costs and minimize the need for overtime through performance-linked pay systems, which incentivize employees to increase productivity and take on additional responsibilities (uAttend, 2024).

Achieving a balance between payroll expenses and profitability requires a thoughtful, multi-dimensional strategy. Companies must adopt more than just conventional cost-saving techniques, embracing modern approaches like dynamic shift scheduling, adaptable staffing methods, and automated payroll systems. Additionally, tracking both direct costs (like labor) and indirect expenses (such as utilities) is crucial for identifying inefficiencies and maximizing margins (ZoomShift, 2024). Small businesses like Toasted, which focuses on streamlining operations and training employees for efficiency, and Seattle Bank, a local financial institution balancing growth with operational excellence, have successfully implemented strategies to align payroll costs with profitability. Toasted reduces labor costs through extensive staff training, ensuring a highly efficient workforce, while Seattle Bank, as revealed in an interview, combines sales and client services teams to eliminate redundancies and enhance customer support. Additionally, both businesses leverage strategic outsourcing and technological solutions, such as Toasted's supplier negotiations and Seattle Bank's fintech platform CD Valet; to optimize costs while maintaining quality. These approaches highlight how aligning workforce efficiency with operational goals can drive sustainable growth, operational excellence, and long-term profitability.

Succession Planning within Small Businesses

Planning for generational transitions is a daunting task for family-owned businesses. In fact, “70% of family-owned businesses fail to make it through the second-generation”, with this percentage only lessening as time goes on (Rivers, 2015). Passing down a small business is more than a financial or operational decision—it’s a pivotal moment that shapes the identity and continuity of the enterprise.

As emphasized by numerous perspectives (Renkert-Thomas, 2015) starting the conversation around generation transitions must begin early, while the current owner is still alive or in a fit state to govern. Current owners can safeguard against strife within the family and ensure stable management for the business by clearly outlining inheriting family members’ roles within the business and how those roles play to their specific goals. In the Harvard Business Review, Barnes and Hershon reference the Quinn family’s industrial supply business, in which the owner’s children felt jealous and resentful over each other’s roles in the company. This led to unstable leadership, with the company’s “performance levels never [rising] over the next 30 years” (Barnes & Herson, 1976). As the current owner continues to age, tension can easily form in the younger generation who are anticipating a position within the family business. With no guiding vision of what the future will look like, there is nothing to inhibit family members from becoming competitive and resentful. This can lead to a lack of cohesion within the business and even its complete breakdown.

> *“Handing over small business is an endeavor”*
> **Tim and Teresa Gamble**
> Tinte Cellars Business Owners

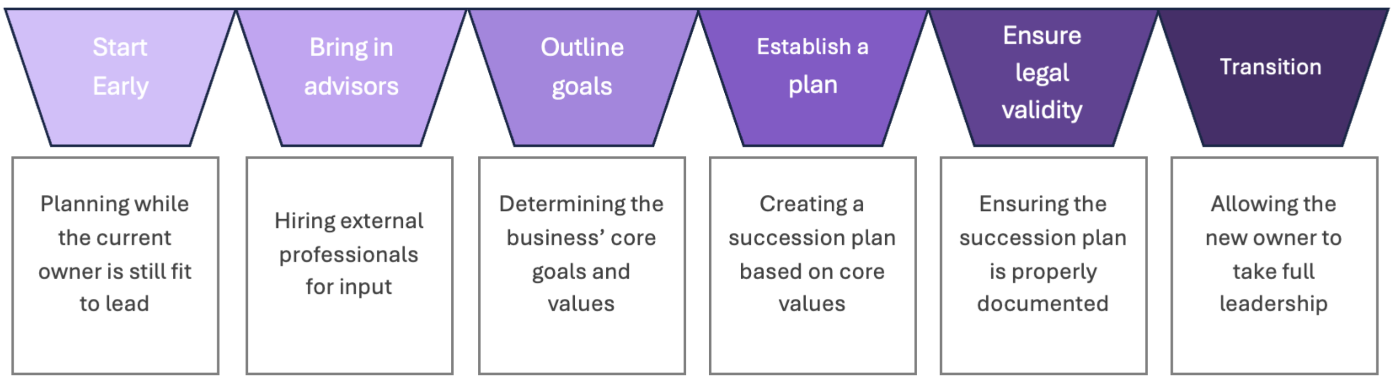
Moreover, family inheritance plans should be not just established in spoken word among the family, but also in legally valid documents. Otherwise, in the event the owner passes away or becomes incapacitated, their will may not be carried out. For instance, Wayne Rivers of the Family Business Institute, referenced a case in which the two owners of a food-processing business planned to pass ownership to their daughter, who had worked with the company for a long time. However, these plans were not in writing, and after an unexpected death, their daughter had no legal claim to the business. Instead, their son insisted on taking over, and “prevailed on the father to put him in charge” (Munk, 2020). Due to his inexperience, the business closed. Making this plan legally valid in writing would have ensured the correct transition.

To mitigate these issues, there are steps that owners can take to make the transition planning process itself easier. Many businesses can bring in advisers or facilitators to help assist the current owners. Advisers are important because they possess a breadth of knowledge regarding and specific experience with transition planning. Additionally, as an outsider, their presence can help to distinguish a family setting into a work partnership setting. Amelia Renkert-Thomas, joint managing director of Withers Consulting Group, states that many advisers recommend owners to clearly outline their goals and values when thinking of successors (Renkert-Thomas, 2015). For example, Tinte Cellars, a family-owned winery, has the mission statement of “great wine for the greater good”, which reflects their dedication to producing distinct wine as well as engaging in philanthropic actions. When hiring a manager for the business, Tim Gamble and Teresa Spellman Gamble conducted extensive interviews, stating that the current general manager “Cameron James was interviewed six times”. For them, it was important to hire someone who not only had industry experience but shared their values. Only someone who understood the mission statement and its fundamental values could be trusted to operate the business in their absence (T. Gamble & T. Spellman Gamble, personal communication, October 20, 2024).

> *“You can teach a lot, but when it comes to those fundamental values, if that’s not a fit, it won’t work”*
>
> **Teresa Gamble**
> Tinte Cellars Business Owner

Additionally, current owners may face difficulties planning or committing to transitions because they feel so deeply connected to the business. Bonnie Plottner, the founder of specialty ice cream store Swanky Scoop mentioned regarding her store that “there’s more riding on it than just a job” (B. Plottner, personal communication, October 25, 2024). This business is deeply ingrained into her life, a product of her values and hard work. Criticism of her product affects her more strongly than in her past work at large firms like Microsoft. It can be difficult, then, to leave this business in the hands of another. However, it is important to resolve these feelings, as unease from and the presence of the past owner can lead to conflict and a struggle for power with the newly transitioned one. Such conflicts can distract from managing the business and may confuse employees, who are unsure of which figure to answer to. Werner from Kona Advisors recommends that owners travel away from the business, have a list of projects prepared to work on, and actively resist old habits like checking in with the office to move out of the business leadership mindset (Munk, 2020). Planning generational transitions for family businesses can be made difficult, especially when navigating personal family conflict. But by investing the time and hard work required to make and commit to a plan, owners can ensure that the business may continue to flourish in the hands of the next generation.

Succession Planning Framework



Conclusion

Generational transition planning for family businesses is a complicated process, especially when navigating personal family conflict. However, through time and hard work, owners can successfully pass the business to the next generation, where it can continue to thrive. As for increasing minimum wages, the benefits of supporting workers with higher wages often outweigh the negative impacts. Small businesses encouraging higher wages have seen increased morale and productivity while small businesses who are opposed have faced tensions leading to worker strikes. As smaller businesses may have difficulty establishing themselves in the market due to competition from operations, customer loyalty is crucial. Niche target audiences, branding, and community engagement ensures consumers feel connected and strengthens the relationship between small businesses and their community. It is also important for these businesses to compete with other businesses in their market. Analyzing consumer data to identify trends in consumer preferences allow for effective data-driven decision making, monitoring developments within one's market help inform business strategy and area for differentiation, and embracing innovations like AI can give businesses an edge over competitors that do not take advantage of useful developments in technology. Lastly, balancing payroll expenses with profitability requires modern strategies such as dynamic shift scheduling, flexible staffing, and automated payroll systems. By tracking both direct and indirect costs and aligning workforce investments with operational needs, businesses can identify inefficiencies, optimize margins, and achieve sustainable growth.