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Family Spirit

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FAMILY SPIRIT

STAIRS AND LINDSAY TOWNSEND
FAMILY & ALLIANCE ENTREPRENEURS

FAMILY SPIRIT

STORIES AND INSIGHTS FROM LEADING
FAMILY-OWNED ENTERPRISES

TEXT BY
SALLY COLLINGS

FOREWORD BY
PETER GORDON

INTRODUCTION BY
JOHN DAVIS



CHRONICLE BOOKS
SAN FRANCISCO



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Company	Headquarters	# Generations	Ownership Stage	Longevity (yrs.)
Glenfiddich (Grant-Gordon Family)	Scotland	5	cousin consortium	128
Riedel	Austria	11	controlling owner	259
McIlhenny Company	U.S.: Louisiana	5	cousin consortium	147
Lundberg Family Farms	U.S.: Ctrl California	3	cousin consortium	78
Mouawad	U.A.E.: Dubai	4	sibling partnership	125
Wirtz Corporation	U.S.: Chicago	4	cousin consortium	89
Denihan	U.S.: New York	4	sibling partnership	100
Moresque/Arabesque (Naji Family)	Morocco/U.S.: Virginia	4	sibling partnership	87
Young's Market Company (Young and Underwood Families)	U.S.: So California	5	cousin consortium	127
Mitchells Family of Stores	U.S.: Connecticut	3	cousin consortium	57
Luigi Lavazza S.p.A.	Italy	4	cousin consortium	120
Johnstons of Elgin (Johnston and Harrison Families)	Scotland	8	cousin consortium	218

- 1 to 99 yrs.
- 100 to 199
- 200 plus

- cousin consortium
- sibling partnership
- ⬡ controlling owner

Numerals indicate number of generations.

INTRODUCTION

FAMILY SPIRIT PRESENTS THE STORIES OF HOW 12 FAMILY BUSINESSES HAVE REMAINED spirited, adaptive, persistent, resourceful, and talented generation after generation. In today's world of accelerating change, which is increasingly harsh on long-term survival rates for all companies, it's hard not to ask, "How did they do it?" These 12 stories reveal some common answers to this important question, and each family's story emphasizes a part of the formula that has made their company great and has kept it that way.

The companies described in this inspiring book were selected because they are high achievers, earning considerable acclaim from quality-conscious Americans. Their products and services distinguish them from competitors in the world's largest consumer marketplace. Each company has won prestigious awards for excellence, and the products of two family companies, Riedel and Arabesque, are on permanent display at the Metropolitan Museum of Art and MoMA. These companies aren't latecomers to success; they have been known for their superior work for generations, for their median age is 123 years. To stay robust for that long, they have had to overcome their share of adversity, including family disagreements. Perhaps what is most interesting about this group is that each succeeding generation of employees has been impressively innovative, adding new approaches, products, and services to the ones that established their company's success. They continue to be pioneers.

The Grant-Gordon family, owners of William Grant & Sons in Scotland, unveils the workings of this dynamic business sector in these pages. The privately owned, family-controlled companies featured here are led (but not necessarily managed) by family members. They believe, as I believe, that family ownership and leadership of a business is much more likely to produce the long-term commitment, risk taking and investment, passion for the work of the company, innovation, nurturing of talent, and caring for stakeholders (employees, customers, suppliers, and community) that produces excellence in business over a long period of time. Research in the field of family business solidly supports this proposition, and the family companies in this book vividly illustrate it.

A few things are clear from all these tales of enduring success: These 12 innovative families are committed to their values, which they prize more than anything else. A study of 68 Finnish family firms, all over 100 years old and all recognized as innovators in their industries, reveals the same approach.¹ The Finnish families said that upholding their values was more important than achieving success. The values they rated highest involved ethics, including honesty, credibility, industriousness, and abiding by the law. Maurice Brenninkmeijer, fifth-generation leader of his family's international retailing conglomerate, shared the same view in a keynote address he gave to dozens of business

FACING PAGE:

Mapping ownership by age and stage shows how complex it is to make key decisions at a given point in time. As families grow and their businesses develop, ownership of the company generally broadens with the family tree. The founder holds *controlling ownership*, sometimes with a legal spouse. There is one nuclear family to keep aligned around the business. In *sibling partnerships*, siblings control the ownership, and there are two or more nuclear families to align. When it takes a coalition of cousin owners to make key decisions, there are two or more family branches to keep aligned around the business in a *cousin consortium*. Old family companies, like eleventh-generation Riedel (in the controlling owner stage today), have usually consolidated ownership.

families attending the 2013 conference on families and wealth held by the Cambridge Institute. If the members of the Glenfiddich Family Spirit group had been in the audience that day, they would have all been nodding in agreement.

The families highlighted in *Family Spirit* are also committed to excellence. They demand nothing less in product quality, design, and the high levels of service they provide every day. They strive for, and get, excellence in the workplace (how you govern, organize, and run the organization) and in business process (manufacturing, sales, and service delivery). The products and services many of them have invented have woven themselves into our lives so elegantly and seamlessly that it's hard to believe there never was an egg-shaped wineglass before the Riedels invented one, or cashmere scarves for sale in shops before the Johnstons of Elgin began experimenting commercially with cashmere fibers. Who remembers the days before single malt Scotch whisky? William Grant's successors created the category that defines excellence in malt distilling. And around the world, *Tabasco* is virtually synonymous with "hot sauce," thanks to five generations of patient, persistent McIlhenny family owners.

While each of these families is committed to maintaining excellence, ethics, and family control, in day-to-day operations they tend to remind themselves of different specific principles. The Underwoods of Los Angeles remind themselves, "Change is something you do every day." The Wirtzes of Chicago say, "Put the company first." The Mouawads of Beirut believe "You've got to put relationships first." The customer always comes first for the Mitchells from Connecticut, but "hugging" their associates comes a close second. It's governance first for the Lavazzas of Turin. The Lundbergs put first sustaining the land they farm in Central California. New York's Denihans and the McIlhennys of Avery Island, Louisiana, put their employees first. It's quality first for the Grant-Gordon and Johnston/Harrison families of Scotland. Notice that no one ever says, "It's me first."

Strong balance sheets and very manageable debt levels (most of the families in this book aim for zero debt) encourage high ethics and spirited innovation. Each of these 12 families has built a solid economic base that allows them to stretch beyond their comfort zone to maintain the highest quality standards and sustain great service, and to keep bringing new products and services to market. Without the economic security of a strong balance sheet, companies of any stripe tend to become cautious and lose the market orientation that is critical for survival over generations. All of the families featured in *Family Spirit* are still entering new markets, bucking the trend in most family firms—particularly smaller ones—where research shows that innovation tends to decline over generations.² It takes iron discipline to gradually build your balance sheet. And it takes optimism and trust in new ideas (and people with new ideas) to risk that balance sheet for future gains. The families in this book have found a way to do both: build security and take risks.

These families aim for multigenerational success and understand the need to maintain momentum in their companies across generations. They don't merely "groom" the next generation for leadership roles in the business, they develop great owners,



ABOVE:

The unique size and shape of a distillery's stills influence a spirit's flavor. Glenfiddich keeps the shape of their copper stills strictly identical to those first used when the distillery was founded. Since 1957, on-site coppersmiths have tended to all 28 of their stills.





ABOVE:
Every label of the rare
Glenfiddich Ultimate 38 Year
Old whisky is etched and hand
painted into the glass bottle
by a specialist craftsperson.

map that family members have trusted for generations. And they all know what it is to feel proud to be part of something greater than any one person's contribution in extending the work of their family.

To celebrate the journeys they are on and the spirit of adventure they share, the families profiled here will soon gather to map out their parallel courses over the next 50 years. They will challenge themselves and one another to continue to grow and innovate companies that will still be privately owned and family controlled when they meet again in 2065. Many family members gathering in 2015 won't be alive at the time of the 2065 reunion, but that doesn't seem to matter. It's not about them individually, it's about what they do collectively, including future family members they haven't even met yet. "There are so many things that we can do," says Adil Naji. "I don't think the next 50 or 60 years will be enough."

The world is hungry for responsible companies and business leaders who are dedicated to more than making money and self-enrichment ("shareholder returns," as it is known in business-speak). People want to support companies that care about the quality of their products and services, are loyal to employees and responsible to others, and build great organizations that last. It's exciting to see the exceptional family companies in this book succeeding against great odds in a world that seems to be tilted in favor of passionless corporations. Let these 12 be a beacon for other companies and other families who are passionate about what they do.

—John Davis
Harvard Business School
and Cambridge Institute for Family Enterprise

¹ Matti Koiranen, "Over 100 Years of Age But Still Entrepreneurially Active in Business: Exploring the Values and Family Characteristics of Old Finnish Family Firms," *Family Business Review*, 2002.

² Lien Beck et al., "A Study of the Relationships between Generation, Market Orientation and Innovation in Family Firms," *Family Business Review*, 2011.

LAVAZZA

Caffè Lavazza

Caffè Lavazza... paradiso in terra!

LAVAZZA

LAVAZZA

Vendita Caffè Macinato
L. 270 all'Etto
Confezioni originali

324 MOBILITÀ RIFORMAZIONE

CON
Lavazza
AVATE



LAVAZZA

THE
SKY'S
THE LIMIT

P

PLANET EARTH IS STILL THE ONLY ONE WE KNOW OF WITH coffee, and in the course of a single year, Lavazza coffee kick-starts the day for someone on this planet about 17 billion times. The distinctive blue and white Lavazza logo adorns cups, umbrellas, and barista aprons from the tennis courts of Wimbledon to the aristocratic boulevards of Turin and the Eataly emporium on New York's Fifth Avenue. It used to be that the sky was the limit to Lavazza's growth, but even that obstacle has been overcome. Now, thanks to Lavazza, astronauts aboard the International Space Station can enjoy an espresso with their sunrise, which for them occurs 15 or 16 times a day.

Lavazza and Argotec, an Italian aerospace engineering company, worked in partnership with ASI (the Italian Space Agency) to develop the first capsule-based espresso system adapted to the extreme conditions of space. The idea came from Italian astronaut Luca Parmitano, who, during a space mission, said that everything on the space station was perfect except for one thing: he missed his espresso. Argotec and Lavazza's new ISSpresso machine will work in microgravity

PREVIOUS PAGES:

The Lavazza Autobar, one of the first of its kind, enticed many customers and retailers away from competitors.

FACING PAGE:

The Lavazza corner at the Milan Trade Fair in the 1950s.



LEFT:
Lavazza's packaging features the company's distinctive red logo.

FACING PAGE:
1. Company founder Luigi Lavazza; 2. (from left) Alberto, Pericle, and Emilio beneath portraits of Luigi and Giuseppe (Beppe) Lavazza; 3. the Lavazza family today: Alberto, Giuseppe, and Marco (back row from left), with Francesca and Antonella (front row).

FOLLOWING PAGES:
The first Lavazza van in 1915.

conditions, whether it is standing upright, sideways, or upside down. The innovative capsule system will also be able to prepare not only a regular espresso, but also a caffè lungo (a “long coffee”) or hot beverages such as tea, infusions, and broth—so that food can be rehydrated—catering to all tastes and nationalities aboard.

Pushing boundaries is part of the Lavazza style, and the family clearly has no intention of ceasing. The one boundary they do not intend to cross is moving away from family ownership. Their vision, says Giuseppe, is to be a dominant coffee group that always remains under the ownership of its Italian family leaders: “This for us is the foundation of all our efforts and all our investment—not only financial but personal—in the Lavazza company.”

It all began in 1895, when Luigi Lavazza purchased a grocery store in the heart of Turin. In those days, grocers did more than sell finished goods; they often produced or processed a range of products such as oil, spices, spirits, and coffee. Gradually, Luigi built a reputation for his coffee, choosing the best beans and roasting them with great skill. The first indication of the potential for a larger-scale operation came when Luigi began blending different varieties of coffee from different geographical regions, something no one had done before. Soon, the firm expanded to include wholesale operations, and Luigi's three sons, Mario, Pericle, and Giuseppe (known as Beppe), joined the business. The decision was made to narrow the store's product range to coffee—a key step in a commercial strategy and growth

that earned the Lavazza name recognition on a regional level. Prepackaged coffee labeled with their own logo was the next move, an early example of the modern marketing techniques that are now widespread.

The Lavazza family owners have not always been unified in daring to grow the company. Soon after World War II, Mario disputed the strategy for national expansion proposed by his brothers Beppe and Pericle. Mario took a much more conservative approach than his brothers and disagreed with their plan to “put more gasoline in the engine,” as Giuseppe Lavazza, Beppe's grandson and current vice president of Lavazza, puts it. The difference of opinion was resolved amicably, swiftly, and decisively, aided by the brothers' capacity to settle the dispute within the family using available resources instead of seeking outside capital to finance a shareholder buyout.

The conflict and resulting buyout played an important part in creating a model for the family's future governance, particularly in terms of keeping the company in family hands. “After Mario's decision to leave, Beppe and Pericle were really aware of the critical need to keep their commitment strong and long-lasting,” explains Giuseppe. “They decided to draft a new family agreement between them. They pledged to keep the company in the hands of the family, and not to sell their share to third parties, but to their own brothers.”

In keeping with the customs of the time, it was expected that the firstborn son would become leader of the family business.





LEFT AND BELOW:

1. Lavazza's vehicle fleet in 1956; 2. a Lavazza rickshaw at the Wimbledon tournament in 2012; 3. Lavazza Kafa Forest Coffee; 4. a Lavazza Autobar; 5. a Lavazza coffee corner at the Vogue Fashion's Night Out event in Milan in 2013; 6. Lavazza's specialty coffee blends.

FACING PAGE:

Lavazza's Keurig Rivo System, aptly named after the Italian word for "revolutionary."



“THE ROLE OF THE FAMILY ISN'T TO MANAGE THE BUSINESS BUT TO PROTECT THE COMPANY AND SELECT THE BEST MANAGERS.”



Beppe compelled his own son, Emilio, to abandon his studies in law and join the business in the 1950s, at a point when Lavazza was poised to become Italy's biggest coffee roaster. Emilio was at first reluctant to adopt his father's career, but if coffee was not already in his blood when he joined the family business, over the years Emilio grew to love it and became renowned for warm relationships with his employees. Widely known as "Signor Emilio," each year he handed out a special award to workers celebrating 25 years with the company. Such was the loyalty at Lavazza that there were many of these employees, and for each Signor Emilio had a special word or memory or joke. His commendations were unscripted and unprompted: "It was just himself, his memories, and his close relationship with all the people, from the doorkeeper to the general manager," says his son Giuseppe.

Emilio also developed tight bonds with his suppliers in the world's major coffee-producing countries. He visited Brazil, Kenya, Tanzania, Uganda, Colombia, Costa Rica, Angola, and Congo on a regular basis, speaking fluent Portuguese and a little Swahili with the local coffee growers. Those strong business relationships pulled Lavazza through the 1975 economic crisis in Italy, when the Italian lira was devalued, frost in Brazil destroyed millions of coffee trees, and the price of green coffee beans soared to record levels. The company's prospects were grave, as Giuseppe explains: "Our company was very close to failing, not having enough credit to buy coffee at those high prices. My father had a strong and respectful relationship with the major Brazilian exporters, and so he managed to get robust

financial support directly from them. They were his close friends, a unique network of relationships founded over years of loyal and faithful collaboration."

Emilio's cousin, Alberto Lavazza, joined the company in the 1960s, a time of vigorous growth for Lavazza. Early in the decade production exceeded eight million kilograms (17.6 million pounds) for the first time, and in 1965 the Turin plant—still the largest roasting factory in Europe—was inaugurated. As vice president and managing director and (from 2008) as president, Alberto has played a significant role in developing the internal market and ushering in the beginning of internationalization in the 1980s, right through to the present push into new and emerging markets such as China and India.

The Lavazza aptitude for building strong partnerships continues today. The year 2014 marked the fourth consecutive year of Lavazza as the official coffee of Wimbledon, the oldest and most prestigious tennis tournament in the world, and Lavazza has become as much a part of that great British institution as strawberries and cream or summer rain. "In just two weeks, we are able to serve around one million great cups of coffee, including espresso, cappuccino, and drip," says Giuseppe. "In seven days, we train around 600 baristas to brew and provide coffee to the Wimbledon attendees." It might seem extraordinary that Wimbledon, known for its quintessential Britishness, has embraced Lavazza, an Italian institution. But shared values transcend nationality, and both Lavazza and Wimbledon revere tradition and excellence.

Reggio Emilia
4° Mostra dei prodotti tipici
30 APRILE - II MAGGIO 1958





LEFT:
The popular Lavazza corner in
Reggio Emilia, Italy, in 1958.

Now in its fourth generation (and vigorously planning development of the fifth), the Lavazza family enterprise is the sixth largest roaster in the world, and a leader in Italy with a 48 percent share of the retail coffee market in value of sales.

Enough decades have passed since the founder's three sons formed their family pact that Lavazza's owners no longer expect an eldest son to become the de facto business leader. In addition to the president, Alberto Lavazza (the last member of the third generation), four members of the fourth generation are now governing and leading the firm. In the ownership circle, Francesca and Antonella Lavazza are board members and CEO and president, respectively, of the Lavazza Group holding company (Finlav). In the business circle, Giuseppe and his cousin Marco are vice presidents, focusing on professionalizing day-to-day operations. At the heart of the new vision is the belief that the company should be run by a strong nonfamily business leader. Giuseppe explains: "The role of the family isn't to manage the business but to protect the company and select the best managers. Our role is to keep alive and strong the entrepreneurial spirit, the respect for the quality of our products, the customer, and all the stakeholders, to ensure the long-term sustainability and profitability of the business and our leadership in excellence and expertise."

Making clear distinctions between ownership, governance, and business-management roles is how the Lavazza clan intends to preserve the high-performance culture and healthy working relationships that both family and nonfamily employees enjoy. As Giuseppe puts it, "The support of an external executive is crucial for us to give the company a good strategic plan. It's very difficult to fire somebody in your family. It is practically impossible." Impossible or not, the Lavazzas have learned that developing, choosing, evaluating, and rewarding high-performing family business leaders is one of the most difficult challenges any business family can face, although it's far from insurmountable, especially when nonfamily board members accept the job of mediating conflicts between family owners and family CEOs. Even with effective business governance in place, the Lavazzas have decided to install nonfamily CEOs.



LEFT:
1970 advertising for the
Lavazza Qualità Rossa blend.

FACING PAGE:
Among Lavazza's memorable
international advertising
campaigns is *A Modo Mio*,
including this stylish
photograph by renowned
American photographer Mark
Seliger.

Once again, the Lavazza family is set on “putting more gasoline in the engine,” just as their predecessors did in the 1950s. Their mission is to grow the company by pursuing international sales growth. In 2013, revenue was about \$1.65 billion, 55 percent of which came from sales in Italy and the balance from international sales. “We must double the revenues and consolidate our position in what we consider our five big international markets: the United States, France, Germany, the United Kingdom, and Australia,” says Giuseppe. “Our aim is to reach at least 70 percent from international revenues. It is not that we want to lose market share in Italy, but we want to become more and more international.” It seems an achievable goal, given the speed with which the global retail coffee market is growing: it is expected to top \$94 billion in 2018, up from \$84 billion in 2014.

Growth will hinge in part on strategic partnerships, capitalizing on the company’s aptitude for building trust in its business relationships and for selecting partners who represent a good match in corporate values. In 2010, Lavazza bought an 8 percent stake in U.S.-based Keurig Green Mountain—formerly Green Mountain Coffee Roasters—a leader in the U.S.-portioned coffee market. This highly strategic commercial partnership strengthens Lavazza’s presence in North America by marrying Keurig’s single-cup brewing system with Lavazza’s espresso

blends to create a premium offering. Finding new ways to deliver coffee has long been part of the Lavazza approach. In the early 1960s, Lavazza led innovation with vacuum-packed coffee, a new way of keeping the product fresh. In 1989, Lavazza introduced the Espresso Point Lavazza system using prepackaged single-dose capsules, the precursor of a movement that has changed the face of coffee culture in homes and offices around the world.

Organic growth will also come through retail coffee sales, driven by building the profile of Lavazza, already the world’s largest producer of espresso coffee. In markets such as the United States, Canada, and United Kingdom, Lavazza considers that competitors such as Starbucks and Peet’s have primed the public’s taste and desire for espresso, creating an opportunity for Lavazza to entice new coffee connoisseurs with its own range of sophisticated blends. The company will target corporate offices as well as boosting its presence in restaurant and retail sales and the single-portion-capsule market. “Our great-grandfather Luigi used to say we need to be very specific. So we will continue to present the company as a specialty-coffee company, able to provide consumers with a unique coffee experience related to our Italian background,” explains Giuseppe. “Considering our long history, we can say that we know coffee very, very well.”

Staying true to tradition while extending their reach into new territories is a blend that has served the Lavazza family well and seems bound to continue for years to come.

