KPMG Enterprise

The little grocery store that grew

An entrepreneurial success story

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The Sages family: a case study

A family business story: the Sages family case studies, follow a fictional family through the entrepreneurial success of a little grocery shop created in the 1950s that becomes a significant retail group. Through this story, we discover various challenges family members face: transition, wealth, people, growth, risk, governance and more.

Each case study is published on **kpmg.com/familybusiness** and comes with an analysis of the situation and key learning points.

Watch the full Sages family business video on **kpmg.com/familybusiness** or for more information contact **familybusiness@kpmg.com**

The little grocery shop that grew

An entrepreneurial success

In 1954, Thomas Sages, aged 30, opened a small **grocery shop** in his native town. He was passionate about offering quality food at a good price. Because his parents and grandparents owned a farm, he had been able to build good relationships with a network of farmers who could provide fresh fruits and vegetables at competitive rates. Moreover, Thomas paid particular attention to the service offered to his clients, making people always feel welcome and cared for in the shop, and occasionally making the extra effort to deliver the goods to his clients himself. Demand was high. He soon had the opportunity to open a second and then a third shop in other parts of the town. **A business was born.**

During that time, the first supermarkets were getting off the ground in the US, Canada, and soon France, the UK, Belgium and other countries. Thomas travelled to several places to learn from others, and soon decided to launch his own supermarket: a large shop where customers could help themselves and pay a cashier. After a few months of 'trial and error', he found a successful formula based on his past success of offering good quality and service at an affordable price. **The business took a new turn — the industrialization of his concept could start.**

Supermarkets are known to be good businesses in terms of working capital requirements, with customers paying cash and suppliers being paid well after the delivery and sale of goods. However, buying land and building the supermarkets required funds: **he turned to his family and friends to seek capital**, and to his local bank for loans. His parents gave him part of his inheritance under the form of a plot of land and some cash, and one of his friends, David, contributed to a capital increase (ending up with 10 percent of equity).

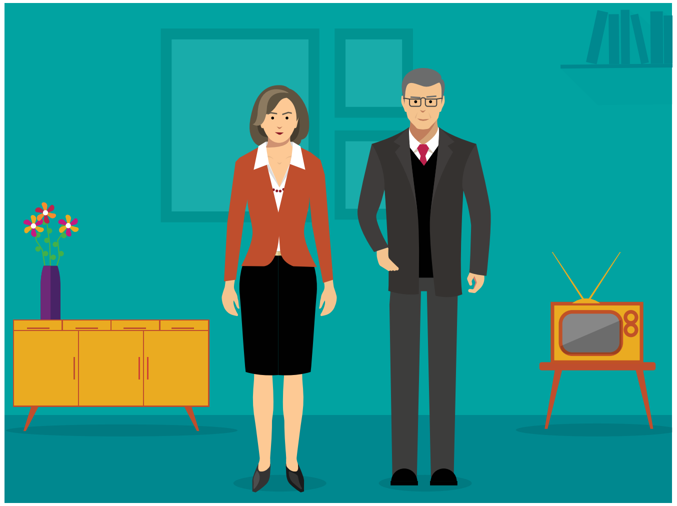
As part of the expansion, Thomas also started to develop franchisees: independent store owners who could use the brand against the payment of a fee, and who bought most of the merchandise through a newly-created central buying structure.

During the early years of his business, Thomas recruited talented managers from other companies, and set aside 10 percent of the capital to reward them.

A family business

Thomas' wife, Martina, always supported him in his ventures. At the beginning, she helped with the accounting, and when the business grew she occasionally travelled with him to visit stores, and participated in social events with key managers, franchisees and suppliers. Their friend David was often invited to their home with his wife and only son David Junior. It was through these occasions that Thomas and Martina's daughter, Caroline met David Junior. They announced their wedding in 1976.

Thomas could not think of a more interesting job for his children than working with him in the business. As soon as they finished university **he invited his children Charles, Caroline and Timothy, to join him**. He also gave each of them 5 percent of the shares in full ownership. The rest of the shares were split between the managers (10 percent), David (10 percent), Martina (10 percent), and him (55 percent). All three children started as trainees in stores and worked their way up the ladder. Thomas did not show any favoritism towards them, rather he encouraged a competitive spirit between the three. Fortunately, Caroline and Timothy got along very well, but Charles, the eldest son, was unhappy with his situation. After a few years, Charles left the family business with some bitterness and joined a consulting company specialized in consumer goods and retail. Caroline was put in charge of the consumer credit division and Timothy managed a growing number of stores, gradually taking over the operations.



Thomas celebrated his 80th birthday in 2004 — a celebration of the extraordinary accomplishments of a visionary. He was in great health; surrounded by his wife, their three children and their spouses, and grandchildren. Additionally, his eldest son, Louis from a short-lived first marriage also attended Thomas' birthday celebrations. Louis had been raised by his mother and his stepfather, but had become closer to Thomas in recent years.

Thomas was still very active in the key decisions of the business and most employees at times feared and cherished his regular visits to the offices and stores. However, he was becoming less prone to encourage risks. **He had started to have disagreements with his children** who wanted to try new ideas: reorganizing the franchise system, trying new distribution channels, using the internet, managing the real estate as an independent entity — these topics were sources of difficult conversations and, as a result, were not re-addressed. The company was becoming slow to adapt to new market conditions and was started to lose some drive.

From the beginning, the business had a legal board of directors, consisting of Thomas, Martina and David. They formally met around lunch once a year, signed the legal documents of the board, the general assembly of shareholders, and enjoyed the friendship and business success. When his children joined the company, Thomas invited them to join the board. When Charles left the business, he also left the board, in spite of his father's desire to see him stay.

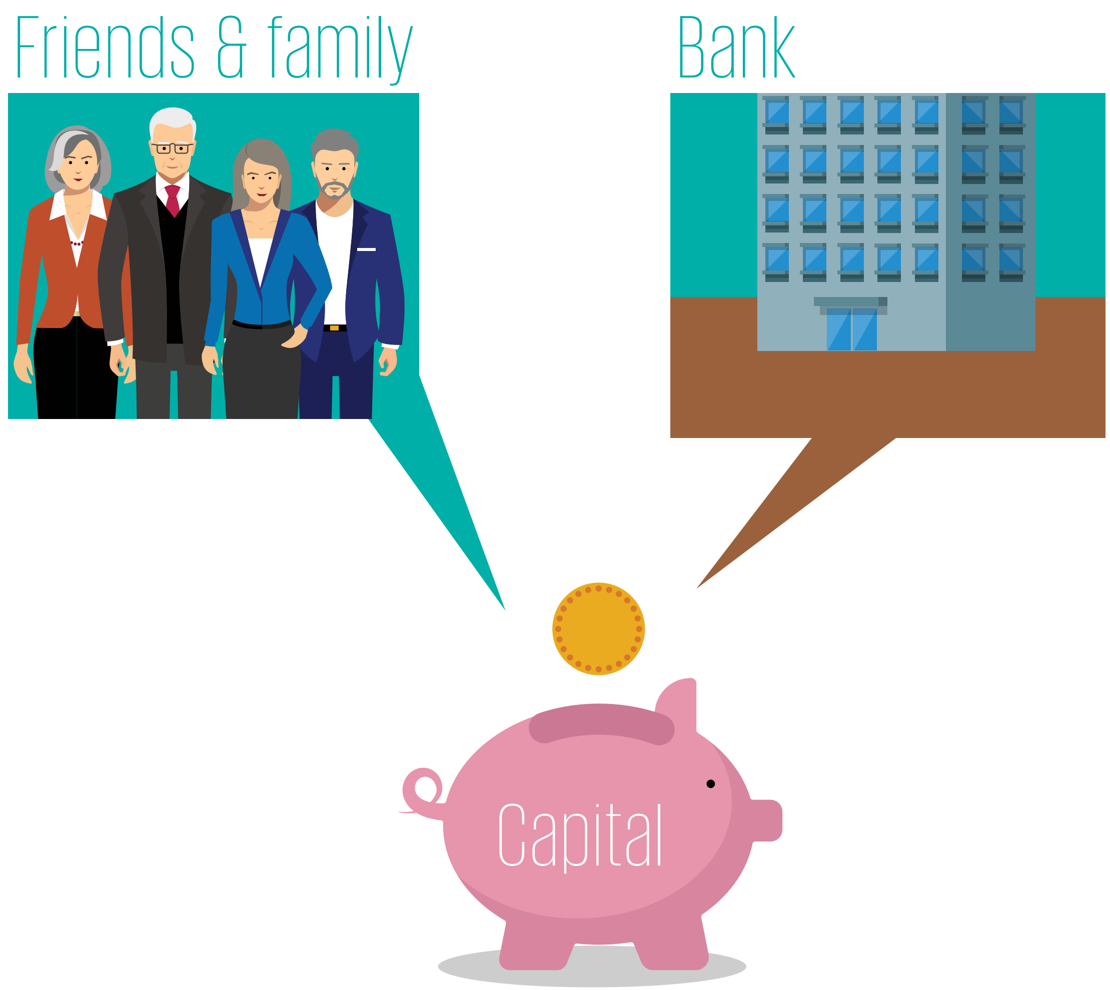
David Senior unfortunately passed away in 2004. **His shares went to David Junior, who was invited to join the board**. The board was now meeting twice a year but spent significantly more time reviewing the business results and some minor details than discussing the future strategy.

Planning the future

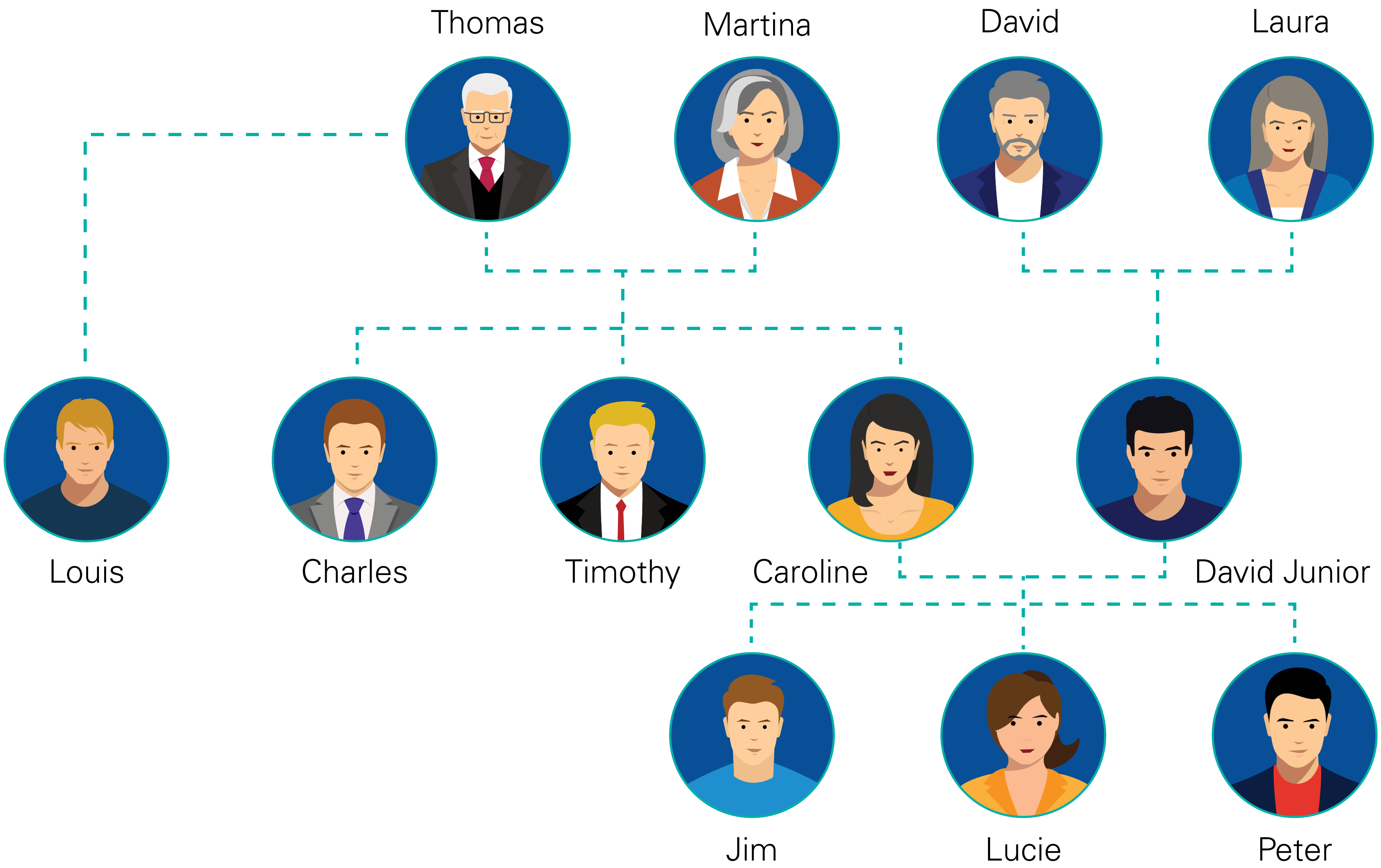
Thomas and Martina's grandchildren were growing up, and some of them had completed their university education. Caroline and David Junior, in consultation with Timothy, invited their older children, **Jim and Lucie, to join the business**. Lucie started working in supermarkets as a shelf manager, while Jim was asked to investigate how to start international expansion in neighboring countries. During that time, Caroline's younger son, Peter, had started selling high-quality wines on internet, putting into action his business school project. He had approached Timothy to talk about possible synergies with the Sages group.

At this point, **Timothy felt that action was needed to prevent the business and the family from facing major issues**. Urgent reflection was needed on strategy, and the board of directors was not fulfilling its role. Decisions would have to be taken regarding the best route to international expansion, and the financing required. Another set of questions were raised by the development of the internet.

What could be done to have solid discussions and to restore the business dynamism that had been so impressive in the past? On the family side, two family members had recently joined the business — should Timothy accept all the cousins who showed an interest? How would their careers be managed? Together, Caroline and David Junior owned 15 percent of the shares and they both sat on the board of directors. Would that give their children a priority over the others? What about Charles and his family? And Louis? How would Thomas' shares be distributed?



The Sages family tree



The Sages story on the web

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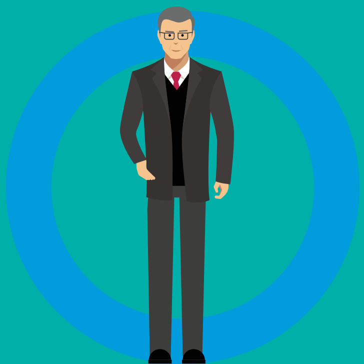

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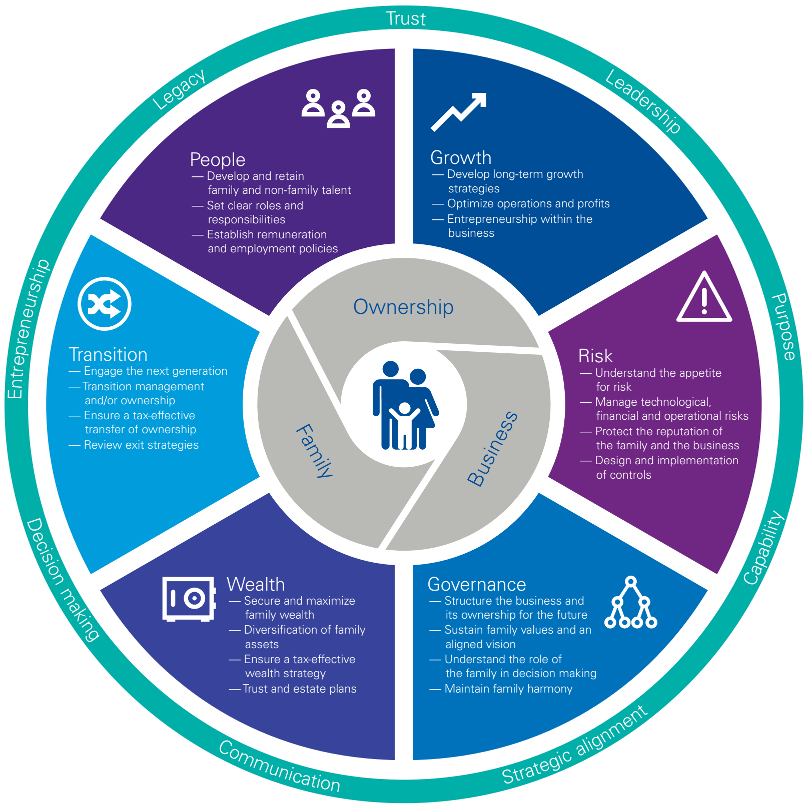
Besides her activities as adjunct professor of family business and co-director of the Family Enterprise Challenge at INSEAD, Christine advises many business families, serves on boards and regularly speaks in conferences.

She coordinated INSEAD activities in the field of family firms from their creation in January 1997 to December 2007 and was the first executive director of the Wendel International Centre for Family Enterprise at INSEAD.

Christine Blondel contributed to several books, articles, case studies on family business.

Family business dynamics

As with your family, your business doesn't stand still — it evolves. Family businesses are unique, at the core lies an important dynamic connecting the family and the business through the family's ownership, which offers both opportunities and challenges. Surrounding each decision you may take, are strong family values and a purpose that helps you navigate the journey ahead. KPMG Enterprise advisers understand the dynamics of a successful business and work with you to provide tailored advice — throughout the lifecycle of your business.



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Passion, it's what drives entrepreneurs, family businesses and fast-growing companies alike. It's also what inspires KPMG Enterprise advisers to help you drive success. You know KPMG, you might not know KPMG Enterprise. KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours. Whether you're an entrepreneur looking to get started, an innovative, fast-growing company or an established company looking to an exit, KPMG Enterprise advisers understand what is important to you and can help you navigate your challenges — no matter the size or stage of your business. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It's a local touch with a global reach.

About the KPMG Enterprise Global Centre of Excellence for Family Business

As with your family, your business doesn't stand still — it evolves. Family businesses are unique and KPMG Enterprise family business advisers understand the dynamics of a successful family business and work with you to provide tailored advice and experienced guidance to help you succeed. To support the unique needs of family businesses, KPMG Enterprise member firms manage a global network dedicated to offering relevant information and advice to family-owned companies. KPMG Enterprise advisers understand that the nature of a family business is inherently different than a non-family business and requires an approach that considers the family component.

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