

2006  
Family Business Honours



Case Study of 2006 winner  
Written by Professor Nigel Nicholson and Åsa Björnberg

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## The Family Business Honours Award for Business Success

Musgrave Group plc

**JPMorgan**   
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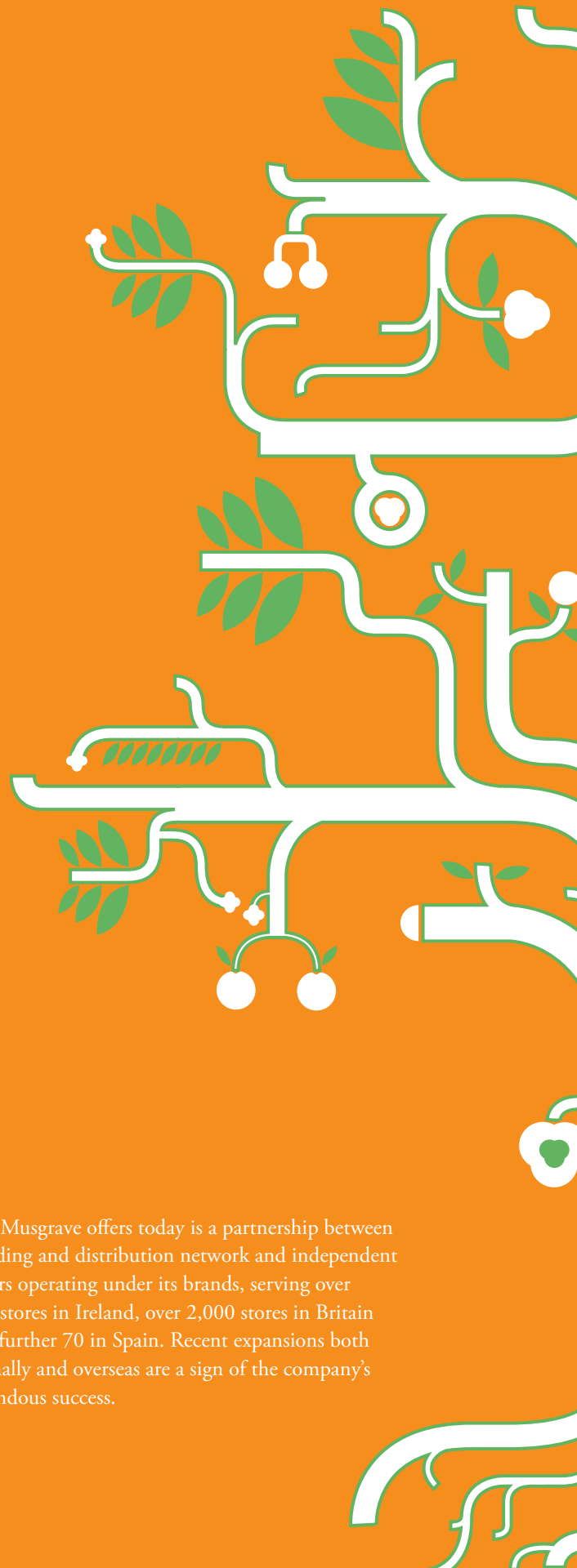
### Musgrave Group plc



Since Musgrave's beginning as a retailer in Cork in 1876, the business has gone through numerous transformations. Perhaps the most important change was when Jack Musgrave and Hugh Mackeown went to Holland in the mid-1960s and there witnessed the cash-and-carry model of trading, which inspired them to change Musgrave into its current form.

They were convinced that if they did not replicate this model in Ireland, somebody else would. The company developed its first giant trade-only cash-and-carry in Dublin in 1972 – far ahead of anyone in the British Isles at that time. Ahead of the multiples, Musgrave was the first in Ireland to provide central distribution for groceries to retail outlets.

What Musgrave offers today is a partnership between its trading and distribution network and independent retailers operating under its brands, serving over 1,000 stores in Ireland, over 2,000 stores in Britain and a further 70 in Spain. Recent expansions both nationally and overseas are a sign of the company's tremendous success.



## First impressions

On a gusty and rainy day in March, we arrive in Cork to visit the Musgrave Group. The headquarters are located in a state-of-the-art environmentally-friendly building that is geothermally heated. Inside, recent renovations have left the walls without their usual paintings, and on our way around the building we encounter workmen in the process of hanging the new corporate branding on the wall.

Musgrave's headquarters share building space with one of its wholesale operations. The staff cafeteria (where the company's own products are served) overlooks a vast expanse of wholesale goods stacked on shelves on the ground floor below. We are told that Far Eastern and Polish groceries are occupying an increasing space,

which is a reflection of Ireland's changing demographics. On current projections, we learn, in three years' time one tenth of Ireland's population will be of Polish origin.

In one of Musgrave's 155,000 sq ft distribution depots, we are taken through the sequencing of large-scale grocery logistics: each week, 400,000 pallets circulate the warehouse, which operates 24 hours a day on three eight-hour shifts. Adjacent to the ambient warehouse is the chilled area. A cold gust of air greets us as we enter this space, where vast quantities of fresh foods are shifted from 6am to 6pm. Here, Musgrave's company values – Honesty, Long Term Stable Relationships, Not Being Greedy, Achievement, Working Hard – are displayed on placards hanging from the ceiling.

## Musgrave Group plc at a glance

<b>Brief description:</b>	Musgrave Group is Ireland's largest grocery distribution business by volume. The company has operations throughout Ireland, Britain and Spain. The company's mission is to be the number one partner to entrepreneurial retailers in the markets where it operates.
<b>Industry sector:</b>	Wholesale grocery distribution
<b>Founding year:</b>	1876, incorporated 1894
<b>Founders:</b>	Thomas and Stuart Musgrave
<b>Number of employees in 2006:</b>	7,819
<b>Number of family owners:</b>	66, including family trusts
<b>Number of non-family owners:</b>	Individuals: 50, primarily current and former company employees. Institutions: 4
<b>Generation:</b>	5th
<b>Sales in 2005:</b>	€4,393.6 million
<b>Profit before tax (PBT) in 2005:</b>	€72.5 million

Clarifying note regarding the company structure: Musgrave Group plc consists of a cash-and-carry business (Musgrave Wholesale Services) and a wholesale business of partnerships they have with entrepreneurial retailers in Northern Ireland and the Republic of Ireland (Musgrave Super Valu and Centra), Britain (Musgrave Budgens and Londis) and Musgrave Spain (Super Valu and Dialprix).

## Business Success

The consistency in growth, profitability and increase in share value achieved by Musgrave is underpinned by a sound business ethos and a dedication to innovation. Having been a pioneer in the past, Musgrave has carried this attitude forward – particularly in terms of sustained innovation, people development and in the overseas expansion of the enterprise.

**Business growth and expansion:** entry into overseas markets is proceeding as Musgrave develops its franchise model in markets where it has hitherto been underdeveloped or non-existent. Musgrave has a presence in Northern Ireland, Britain and Spain. In addition to entering those markets, the company also seeks to change the industries where it operates. One of the firm’s strategic aims is to “have operations outside of the island of Ireland exceeding 50% of turnover”.

**Increasing market share:** Musgrave’s stated aim is to be one of the top two major players in each market in which it operates. In order to compete with multinational multiples it has recognised that its food businesses have to be different and better. The table below outlines its current market position in its operating markets.

Country	Division/brands	Market position
Republic of Ireland	Retail – Super Valu and Centra	Super Valu – 19% national market share Centra – 5% national market share
	Wholesale services – cash-and-carry	Cash-and-carry – 45% market share; 2% retail market share Food services – 6% national market share
Northern Ireland	Retail – Super Valu and Centra	National market share – 8%
	Wholesale services – cash-and-carry	National market share – 20%
UK	Retail – Budgens and Londis	National market share – 5%
Spain	Retail – Super Valu and Dialprix	Regional market share – 4%
	Wholesale – cash-and-carry	Regional market share – 15%; second behind Makro



**Brand development:** renewal of retail brand formats across the Group, which has involved extensive innovation in range, layout, decor, retailer training, equipment and design. In 25 years Centra has become one of the best known and most successful brands in Ireland.

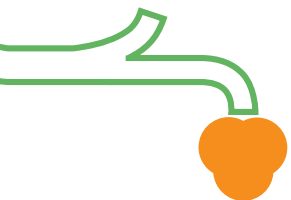
**Driving innovation:** there is a dedicated Innovation Team in the company's main division, Musgrave Super Valu and Centra.

**People development:** The Group Human Resources oversees a team of Group and Divisional human resources professionals who are fully integrated into all the divisional teams of the business. This team is working on key priorities for the Group, including:

- **Developing the best team** – an incentive scheme of share ownership for non-family employees was introduced in the early 1980s.
- **Performance reviews** – review of the profile, performance and potential of the top 200 managers in the company, by Human Resources, Operations and the Group Chief Executive.
- **Talent planning** – development of a talent plan for the organisation with emphasis on the identification and sourcing of leaders for forthcoming critical business projects.
- **Talent development** – a leadership development programme for key managers and teams. Training (e.g. technical, job skills) is provided throughout the organisation. If related to the job, the company provides financial backing for courses related to the job, and offers time off for larger undertakings such as an MBA. Additionally, Musgrave is the only organisation in Ireland that offers a degree programme for retailers, which was launched in September 2006.

As one employee says:

**“If you want to do things,  
they invest in you.”**



## Business model

“We are not retailers – we are the partners of entrepreneurial food retailers and food service professionals, to provide consumers with an offer that is different and better than they can get from the competition.”

Chris Martin, Group CEO

The fundamental proposition of the Group’s partnership model is to provide product, distribution, services and branding support for retailers who own and operate stores that carry one of the Musgrave brands. Musgrave provides distribution for the retailers and shares marketing, finance and human resources with them. In Ireland, there are approximately 500 retailers tied to Musgrave via Super Valu (supermarkets) and Centra (convenience stores). Additionally, there are roughly 700 non-affiliated retailers with whom Musgrave only has a transactional cash and carry relationship.



Since the Musgrave model does not involve store ownership by the Group, this means that retail owners have to be recruited. In some cases when a purchase opportunity is identified, the company will buy a store with a view to recruiting an independent owner for it as soon as possible. In this process, focus is placed on the potential owner’s retail pedigree rather than on any financial backing. Musgrave will assist the retailer in organising finance, climbing the retail property ladder and encouraging entrepreneurship. In the company’s own words, Musgrave generally looks for somebody who is “young, borrowed and hungry”. It is often the case that managers from multiple stores are recruited:

“Multiple managers leave [retailers] to come to us... sometimes they do not have enough money – we provide guarantees, and get them on the retail ladder. One such fellow [started with one store] and today has 10 stores. He’s a fantastic retailer.”

Donal Horgan, Managing Director,  
Musgrave Super Valu and Centra

# A brief history of Musgrave

## 1876 to 1908

A single shop is set up in 1876. In the following 25 years, the company grows to include other businesses such as hotels and manufacturing firms. John L Musgrave takes over in 1908. He begins a process of rationalisation, which includes removing all his brothers from the company by 1930.

## 1908 to 1954

Growth of the wholesale business in an era of political and economic instability. First purpose-built food warehouse opens in Cork in 1928 serving Munster (the south and south-west of Ireland).

## 1954 to 1972

John L Musgrave dies in 1954; the business is led by his son Jack. Continued development of the wholesale business with launch of the VG (voluntary group) wholesaling brand in 1960 and cash-and-carries in Cork and Limerick. New purpose-built warehouse opens in 1965.

## 1972 to 1979

Hugh Mackeown (Jack's nephew) takes over as Managing Director. Development of large-scale cash-and-carry format across Ireland. This era sees the divestment of non-core businesses.

## 1979 to 1997

The Super Valu and Centra brands are launched to replace VG in 1979. John Smith takes over as second non-family Managing Director in 1986. Franchise customer base continues to grow, and the cash-and-carry format is launched in Northern Ireland in 1984. The company expands overseas, acquiring a wholesale company in Spain (1994) and a grocery multiple in Northern Ireland (1996).

## 1997 to present

The second non-family Managing Director, Seamus Scally, takes over in 1997, followed by Chris Martin in 2005. In this era, a grocery multiple is acquired in Britain – Budgens (44% in 2000, balance in 2004) – and a franchise operator in Britain, Londis (2004).





## Musgrave's philosophy and culture

### Relationship-building

How does Musgrave manage its relationship with the retailers? In addition to operational support, the Group provides training and human resources support. Group representation and operations support are provided by regional sales managers. There is also a retailers' council for each brand, a consultative body with representatives elected by the retailers. It is used as a vehicle for feedback between the company and the retailers and brand management.

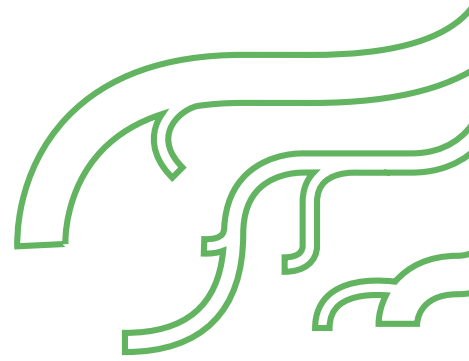
On a regular basis, Musgrave organises large retailers' conferences, where people from different regions get together to discuss issues and swap best practice. These events are highly appreciated, and are seen as an important way of building relationships across the whole organisation.

### Family business to family business

Very often, the retailers Musgrave works with are also family businesses. These relationships tend to be long-term. For example, the following numbers testify to the long-standing relationships that Musgrave has created with other family-owned businesses: 43 retailers originally joined Super Valu and Centra; three stores left the Group after three weeks. Nearly 30 years on 36 of the 43 have remained within the same families.

The Herlihy Group of five Centra stores in Cork is an example of the independence of ownership put into practice by a retailer in the Musgrave Group. A family-owned company, run by the two Herlihy brothers, they offer much of the food range that you might expect in a Centra convenience store. However, they have an added bonus: namely, the Herlihy's own brand of fresh foods cooked and baked on the premises daily. Ranging from salads to fresh dinners and apple tarts (as well as offering a catering service), the Herlihy's brand can only be found in the Centra stores owned by the Herlihys.





### Community links

The way in which these retailers operate in their community is seen as a uniquely Irish formula. It combines elements of entrepreneurship against the backdrop of a strong rural demographic, where the relationship between the local community and the retailers is strong. Major grocery chains that open up in the vicinity of these local stores often face stiff competition underpinned by these long-standing customer relationships. The same is true for the cash-and-carry outlets:

“You can tell the day by the customer in the cash-and-carry... you get to know them by their first name.

[They are loyal] because of the service they get – they always come back to us.”

Musgrave employee

Musgrave is in the process of introducing a similar approach on a wide scale in Britain. It will be a test to see how the model translates into a culture with different traditions from those that support it in Ireland.

### Focus on nurturing and development

Musgrave is described as a caring company, whose management “definitely looks after people”. Since the business model builds on a nurturing partnership, it has become second nature for the business to promote and support its employees and retailers, making sure they develop:

“I was picked for a sales talk on sales and company values... it was great to stand in front of your own workforce and talk. They listen, they work with you... you get the odd heckle – but it is good.”

Musgrave employee



Long-termism is also a fundamental concept in the Musgrave philosophy. Among the benefits that this brings is an inclination for staff to stay for a long time, describing it as a job for life. Additionally, it allows for independence of judgment and a forgiving attitude:

“It is a family business with a lot of opportunity to do what you think is right – it is forgiving if the results aren’t immediate... it is not like a quoted business. In this environment people feel ownership... we drive it forward [based on our] own judgment.”

Frank Coghlan, Managing Director,  
Musgrave Wholesale Services

#### Leadership style

The style and philosophy of the company and its leadership model is ‘participative, challenging, open, risk-tolerant and accepting of honourable failure’. Leadership is guided by a focus on its people and the following company mission:

Through people, Musgrave strives to create and share exceptional added value through:

- branded food businesses that are different and superior;
- long-term relationships;
- a devolved organisation in which employees can realise their potential.

A strong culture of empowerment underpins the leadership style of this business. Employees testify to the management’s willingness to delegate responsibility with trust and to back decisions taken at lower levels in the organisation:

“The one great thing about the company is that they never question decisions. You are not dictated to say or do... if you made a decision, you get full backing.”

Musgrave employee

For example, one employee recalls how, on his first day of the job, he received an order for six top-of-the-range plasma television screens by the same customer. He was told by his manager to go ahead and negotiate the terms on his own. His reaction was “on the first day – that shows a lot of trust”.

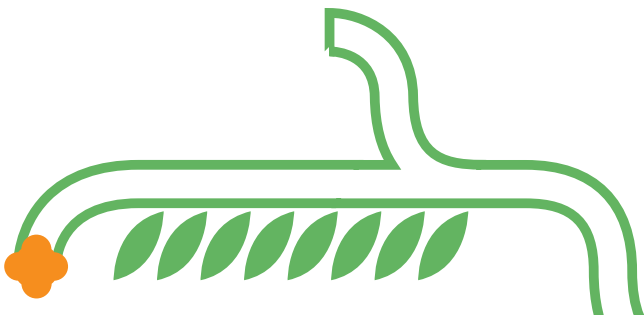
### Consultative and inclusive

As part of their open and consultative approach, Musgrave recently launched a companywide programme in order to create a better understanding of their brands and how they should be taken forward. Everybody in the business, down to the checkout personnel and also including 400 store owners and store managers, was part of this exercise. Roundtable workshops were held, and participants were asked to “think like a shopper”. The outcome of this ongoing programme for the Super Valu brand was the concept of “Real Food, Real People”, and for Centra, “Bright Ideas for Everyday Living”.

Two employees describe the effect of this consultation:

“The internal understanding has had a big impact on how we work – I understand my impact much better by seeing the end result.”

“Everything that happens we hear about quite quickly... it is part of the culture – you are part of it.”



## Family and non-family

In the process of developing from an owner-manager family to a governing family, non-family management has been consistently empowered to lead the business. This attitude is incorporated in the family's mission statement:

To own a business which is family-governed and professionally managed, provides shareholders with a better return over time and is ethical and considerate towards all its stakeholders.

Underlying this message is the assumption that business comes before family, rather than letting the family depend on the business. The family values tie in directly with those of the business:

- Integrity
- Long-term commitment
- Shared success
- Respectful

The family's presence is seen as inextricably linked with the success of the business. One employee describes this link in terms of the culture and values that permeate the business, originating from family members and their close colleagues:

“Hugh (Mackeown) and Seamus (Sally) were very personal. They knew everybody, they even knew our kids' names. The family values were there before us, and I think that has stayed right through the business... it has worked its way right through...”





## Family governance

“It’s up to the family to provide governance methods which allow them to evaluate... and ultimately control the business and the non-family management. They’ll only operate well if they understand how to operate and what’s expected of them. It’s about communication between owners and operators essentially.”

Hugh Mackeown, Chairman

The family behind Musgrave has over 100 members. To manage the relationship between the family and the business, a number of governance mechanisms have been put in place, including a family council and family constitution. In 2001, an interim family council was set up, and was ratified after the family had been consulted. The council consists of 14 members drawn from the three branches of the family, who are direct bloodline descendents of the original founders. Members are put forward by the branches and rotate on a staggered two-year basis. The council, which convenes four times per annum, has the remit to manage the family (as opposed to the company) and its relationship with the company.

The council’s mandate covers four areas:

- 1 Governance – the family constitution
- 2 Communication – to the wider family
- 3 Education – of the council, of the wider family and of the next (fifth) generation
- 4 Charity – charitable giving

Key areas covered in the constitution include issues such as share ownership and dividends, shareholder relations, family jobs, education and charity.

### Shareholder relationship manager

Communication between the board and shareholders exists via a number of conventional routes. However, Musgrave has gone one step further by employing a designated shareholder relationship manager. The person in this role is in fact a non-family member. The role is set up to manage not only the relationship between the business and the family, but also that with non-family shareholders.

### Family involvement and the next generation

There are currently no family members working in the full-time operations of the company. On the Group board level, there are four family members among a total membership of 14. The original policy regarding family employment in the company dates back to the early 1900s, when the firm was in financial trouble. An unwritten rule developed in the 1930s, restricting the number of family members in the business. It stipulated that in each generation only one person from each of then two (now three) branches of the family (descended from the founding brothers) could get employment in the company.

Although this rule is no longer applied, it has resulted in a lasting tradition of non-family managers being involved at director level. Through this approach, the family has learned to allow non-family professionals to manage without interference. Simultaneously, it has eliminated the number of family managers. However, family members take an active part in the governance of the company.

The family is now faced with the challenge of engaging with the next generation, which has over 50 members throughout the world. With the aim of encouraging and fostering long-term ownership, the family has started this engagement with a motivational and educational process to prepare the fifth generation for the challenges, opportunities and responsibilities ahead of them.

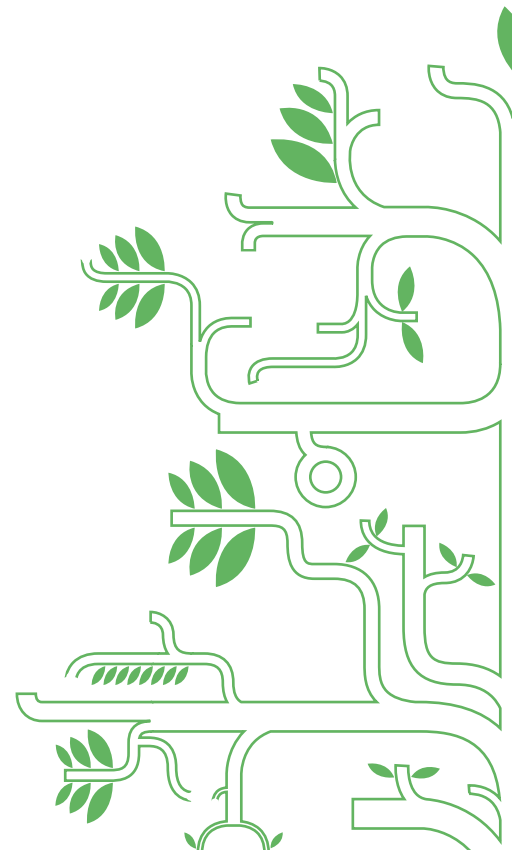
## Challenges going forward

Musgrave faces succession issues not only in its own business, but also among the other family business retailers with whom it works. It is a matter of assisting owners with their own succession, or in some cases finding new owners for these stores. Promoting the company's corporate brand going forward is also seen as an area requiring more focus.

In trying to implement its business model overseas, Musgrave is aware of the potential challenges in translating the Irish model into Britain and Spain. Although up and running, the operation is not yet as developed as it is in Ireland, due to different traditions in the market and the time required for developing relationships.

Another challenge faced by Musgrave is to continue innovation across the Musgrave businesses and brands. One of the latest initiatives by the Group found its inspiration once more in Holland. Three years ago, during a visit to a supplier, a team from Musgrave visited a 110,000 sq ft cash-and-carry warehouse aimed solely at food service customers with chilled and frozen food for chefs and food service professionals. The ideas taken from this visit have been implemented in one of the Musgrave cash-and-carries in Ireland, with plans to roll this out to other centres. This new format has now been running for 20 weeks with initial strong results.

To conclude, Musgrave's objective is to remain a private company which is family- and employee-owned and non-quoted, with all the advantages that this confers.







Nigel Nicholson is Professor of Organisational Behaviour at London Business School, where he is directing a major initiative on leadership in family firms. He has published twelve monographs and over 200 articles on many aspects of business psychology, leadership and organisation. He is a much sought-after executive speaker and directs two major leadership programmes at London Business School: High Performance People Skills and Proteus, one of the world's most innovative executive programmes.



Chris Hancock is a Director of JPMorgan Cazenove, JPMorgan's investment banking business in the UK. He is responsible for the delivery of investment banking services to private individuals and families resident in the UK and has led JPMorgan's Family Business Honours Programme in the UK since 2004. Chris studied classics at Oxford University and qualified as a Chartered Accountant before entering investment banking. He joined JPMorgan in 1999, moving to work exclusively with privately held businesses in 2002.



Åsa Björnberg is the IFB Research Fellow at London Business School. Her research focuses on psychology, leadership, culture and the next generation of family businesses. Åsa helps family firms develop effective top management teams, and creates education programmes for their next generation members. Her consultancy experience includes international blue-chip corporations, primary schools, NGOs and hospital clinics. For example, she consulted to the organisations that provided psychosocial support to children in Sarajevo in the aftermath of the Balkan war. At London Business School, Åsa coaches teams in MBA and executive education programmes. She also runs a private bilingual coaching practice in London.

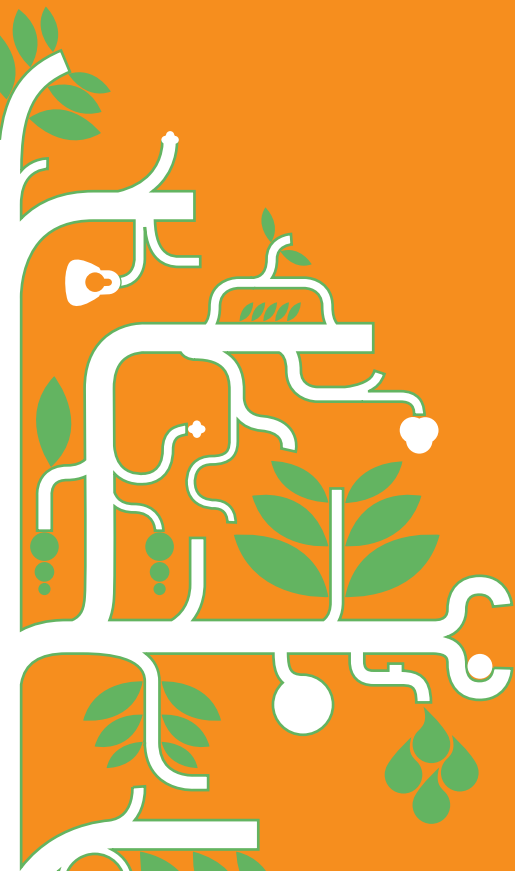
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