

Family Business Honours



Case Study of 2008 Family Business Honours winner

Pentland Group plc



JPMorgan IFB Family Business Honours
Case Study

PENTLAND GROUP PLC



“A brand for all seasons”

First impressions

“We want to be a great employer, to be partners to our customers, and to make a difference.”

Stephen Rubin, Chairman, Pentland Group

The Manchester Square office of Pentland Group is highly traditional. Its varnished wood, soft carpeting and abundance of fine arts seem to offer a challenge to the Wallace Collection opposite. Only a snooker table in an upstairs room gives a hint that this organisation has an edgier, more playful side. In the downstairs corridor, there is a poster on the wall of a tree in whose branches grow the self-professed values of the business: passion, creativity, courage and ‘always learning’. Underneath, it says ‘We’re a family company, and a family of brands. We can achieve amazing things by working together’. This sense of family extends throughout the company, and is highlighted by management and staff alike as the primary reason for the firm’s success.

In contrast to the traditional elegance of Manchester Square, the spacious award-winning Finchley offices of Pentland Brands bristle with modernity. Everywhere you look, artistic exhibits demonstrate the creative prowess of Pentland employees, while a ‘history wall’ outside the

boardroom showcases photographs, certificates and items of interest from company history. The first on display is a picture of Pentland founder Berko Rubin with a photograph of his son, Stephen, on his desk; the last features Stephen himself, the Group’s current Chairman, at his own desk.

There are extensive employee facilities at the Finchley site, with a gymnasium, tennis court, soccer pitch and plans for a swimming-pool. The average age of employees appears to be under thirty, and everywhere the emphasis is on youth, with jeans and t-shirts standard dress. Each area, from the on-site store to the coffee shop, has a name derived from electricity, as the site was once a power station; and while at other businesses this might feel like a gimmick, at Pentland it makes perfect sense – since it is the energy and enthusiasm generated by the evergreen Chairman, Stephen Rubin, which lie at the heart of the business.

“We want to be the best brand management company in our industry.”

Andy Rubin, CEO, Pentland Brands

A brief history of Pentland

1936

Liverpool Shoe Company incorporated.

1964

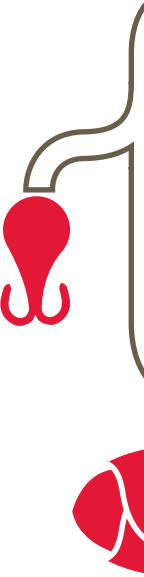
Flotation of Liverpool Shoe Company on the London Stock Exchange.

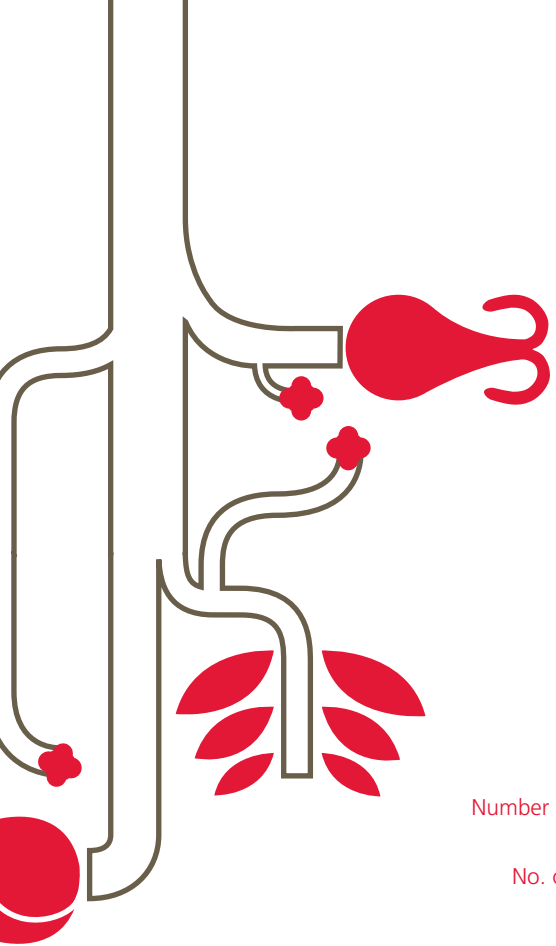
1969

Stephen Rubin becomes Chairman.

1973

Name changed to Pentland Industries.





Pentland Group at a glance

Brief description: The Group comprises three divisions: branded consumer goods, sportswear retail and investment management. Trading activities are focussed on consumer brand management, the design, sourcing, marketing, distribution and retail of footwear, clothing and related accessories.

Industry sector: Branded consumer products; Retail; Investment

Founding year: 1932 business founded; Liverpool Shoe Company Ltd incorporated in 1936

Founder: Mr and Mrs Berko Rubin

Number of employees in 2007: 12,768

No. of family shareholders: 6

Generation: 2nd & 3rd: Stephen's son Andy is CEO of Pentland Brands

Sales in 2007: £972 million

Profit before tax (PBT) in 2007: £66 million

1980s-90s

The business embarks upon a programme of acquisitions, most notably of Reebok, which is sold after ten years in 1991 for a substantial profit and is the main driver behind the 10,700% leap in Pentland's share value between 1980 and 1989. Other notable brands acquired include Adidas (subsequently sold), Speedo, Berghaus, Mitre and Ellesse.

1998

Andy Rubin appointed Chief Executive.

1999

Pentland taken back into private ownership and minority shareholders bought out. The firm pays a 60% premium for the shares.

2000s

Pentland continues its programme of acquisitions with a 57% stake in John David Group plc, the UK's leading sports fashion retailer with 450 shops. The investment division enjoys considerable success with the sale of Fuze Beverages to Coca-Cola. Additional brands Boxfresh and One True Saxon acquired outright.

Business model

“We have to compete with sports giants like Nike, which is why we focus on niche areas like Speedo and Berghaus.”

Stephen Rubin, Chairman, Pentland Group

Fair value creation

Now in its eighth decade, with sales approaching £1 billion and profits of over £20 million, Pentland Group is a resounding business success. In 2007, the company was ranked in the Top Ten of the Sunday Times Profit Track 100 league table for profit growth, and in the Top 50 for reported sales.

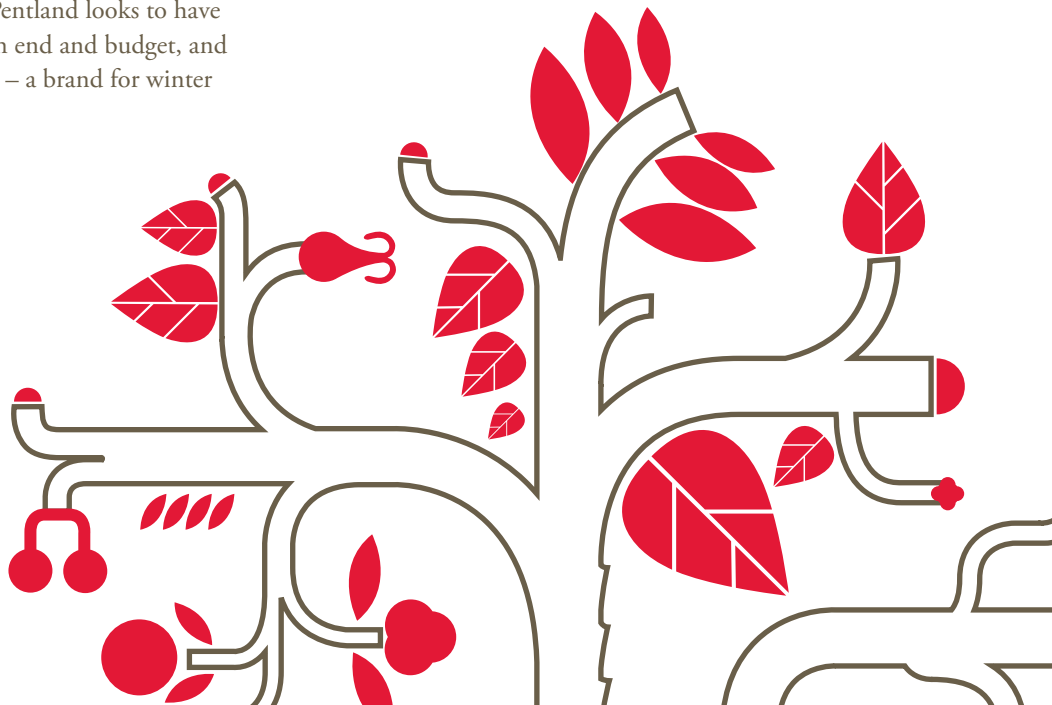
For a business with so varied a portfolio of activities, Pentland has a remarkably singular vision. In its Code of Business Conduct, the company states that the reason it is in business is ‘to create shareholder value by developing and marketing products of quality, reputation, performance, style and value and by selling them on fair terms to [its] customers’. This attitude toward fair value creation permeates all areas of the company, from the Pentland Brands business run by Andy Rubin to the investment division co-headed by his brother-in-law Barry Mosheim.

Diversification and risk management are a part of the strategy. In a fast-changing industry, some brands are always doing better than others. Pentland looks to have a spread of sports and leisure, high end and budget, and even – with Berghaus and Speedo – a brand for winter and a brand for summer.

Unconventional wisdom

From its flotation in 1964 to the 1999 share buyback, Pentland was a listed company. Since then, management has found that the main advantage of being a 100% private business (as opposed to being quoted on the Stock Exchange) is that they can take longer-term decisions. For example, the new Finchley building may not have been sanctioned by stock market investors; this substantial investment in the business and its future demonstrated to its employees and customers that Pentland was not merely a ‘cash cow’ for the family but a long-term business offering a future to all its stakeholders.

The brands business has a clear view for the future; in a market that is polarising, the model is to move brands out of the ‘no man’s land’ between budget and premium. In some cases, this may actually mean taking a brand ‘downmarket’. The company recognises the importance of broadening its global reach, with a three-way split between Europe, the US and Asia its ultimate target. Since 1991, the UK share of sales has dropped from 75% to 25% as international markets have grown.



Retaining talent

“There is a terrific breadth of opportunities for young people who want to join Pentland.”

Andy Rubin, CEO, Pentland Brands

As a business, Pentland prides itself on continually developing and empowering its employees, an approach that begins with the Talent Bank. Every year, CEO Andy Rubin has a meeting with every brand president and department head to discuss the strengths, weaknesses and potential opportunities for everyone in the business. This process ensures that outstanding individuals have all the encouragement they need to advance and develop their careers.

Pentland also provides a range of structured programmes and learning opportunities designed to support the development of employees at all levels of the business; prospective delegates for the programme are identified and validated through the Talent Bank process and are nominated through personal recommendation from the Executive Team. In addition, the Pentland Pathways initiative, which uses a combination of external and internal expertise, provides specialised training in all areas of the business.

A focus on innovation

Many Pentland products incorporate the latest advances in materials science and technology. There is a continual programme of development and innovation, of which the Speedo Aqualab is a good example. Aqualab is Speedo's global research and development facility, boasting a team which concentrates exclusively on pushing the boundaries of sport science and technological innovation to create leading-edge swimwear and equipment. Indeed, at the time of our visit, swimmers wearing the new Speedo LZR Racer swimsuit had just broken four world records. It has subsequently been worn by swimmers who have broken a further 35 world records.

Internally, the company operates a scheme similar to the television programme Dragon's Den, where employees are invited to pitch innovative new projects to management. Although officially up to £1 million is available for such projects, last time so many good ideas were mooted that management ended up handing out £1.5 million; as an example of the scheme's success following last year's initiative, Speedo created a mobile 'pop-up shop' and Berghaus developed a marketing campaign for a new design partner in Japan.

“As long as we continue to focus on innovation, we will not get caught up in recessions.”

Andy Rubin, CEO, Pentland Brands



Social responsibility

“What we do is really positive; we make a difference in the community.”

Carrie Rubin, Board member, Pentland Group

A broad front

Corporate social responsibility is a field in which Pentland excels. Since establishing a department in 1996 specifically for this purpose, the company has made social responsibility a core component of its activities. Pentland is a founder member of the Ethical Trading Initiative (ETI), an alliance of companies, non-governmental organisations and international trade union organisations working to improve conditions of employment throughout global supply chains. Moreover, as a signatory to the United Nations Global Compact, the company publishes and circulates to all employees a detailed series of Business Standards which demonstrate a commitment to upholding workers' rights.

The company works with charities and community organisations around the world and takes on more than fifty new projects a year, partnering with organisations from the spheres of health, education, sport, the arts and the environment. Well-known charities for which Pentland has raised money include the Teenage Cancer Trust, the British Olympic Association, the Royal National Theatre and the Earth Charter. All family members are active in some sort of community activity, and employees are encouraged to participate in walks and social fund-raising activities organised by the Pentland Social Committee.

Moreover, Pentland employees are actively encouraged to participate in social responsibility initiatives; those we met from the Ted Baker division hold regular 'brainstorming sessions' in the office to work out ways to raise money. The Group often matches sponsorship raised by individuals as well as providing those individuals with the means to complete their initiatives, whether with time off work or kit sponsorship as appropriate.

In 2007, the company supported various initiatives across Europe, America and Asia. These included: sponsored walks at all Pentland sites in the UK for charity In Kind Direct; the Oxfam Trailwalker in Hong Kong; and adventurer Lewis Gordon Pugh's swim in freezing temperatures at the North Pole in an attempt to raise awareness about climate change.

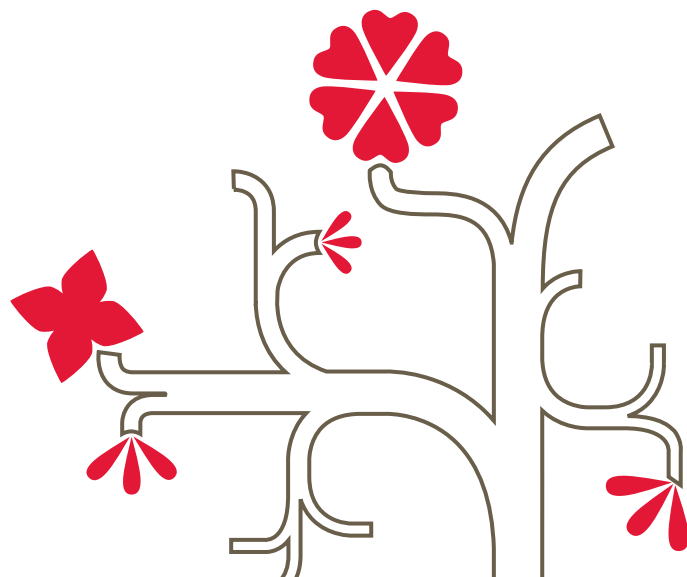
Tackling social issues at source

Established in the 1980s during the firm's ownership of Reebok, the Reebok Human Rights Foundation was the first charity to focus on the welfare of young people in Asian factories – and Chairman Stephen Rubin describes it as his proudest achievement. Building on this, the company's Foundation has gone from strength to strength, protecting employees' best interests in all areas from health and safety to child labour and taking an enlightened approach to dealing with problems in its further-flung territories.

“Trying to influence conditions in a Chinese factory can be difficult; the trick is to align our interests with theirs.”

Lesley Roberts, Head of Corporate Responsibility, Pentland Group

Stephen Rubin was awarded an OBE in 2002 for his work in human rights.



Pentland philosophy and culture

“It is our purpose to touch the lives of those who work for us, buy from us, and sell to us, and to show that capitalism is not necessarily bad.”

Tim Hockings, Director & CFO, Pentland Group

Family values

The company has published a Group Code of Business Conduct which formalises its ethos and reinforces the notion of Pentland as a family-owned group of companies with family values. The Code demonstrates the company’s commitment to fair dealing with ‘customers, suppliers, business partners and the wider community’, and outlines the high standards of behaviour required of all under the Pentland banner. These standards are published on the Group’s intranet and form an integral part of the new joiners’ handbook and induction process.

Moreover, the directors explained that the culture of the business is to consider the Pentland Group as a holistic whole, not to see the individual areas as separate. Directors tackle problems in teams and revel in the ‘healthy tension’ that exists between short-, medium- and long-term focus.

According to Andy Rubin, the difference between running Pentland as a family firm rather than a plc is that management makes decisions “for the family, the business and individuals – as opposed to analysts and stockbrokers”. Indeed, it was this contrast with the corporate world that attracted Pentland Brands Finance Director Jonathan Sinclair to the business from a major plc, citing the Pentland emphasis on “value creation”.

Adherence to high standards is an integral part of the Pentland ethos; the Chairman described one instance where Pentland turned down £10 million of business rather than compromise its standards by partnering with a substandard factory. Management also remarked that there are certain investments, like gambling, in which the Group prefers not to become involved.

“We turn down opportunities to make money the wrong way.”

Patrick Campbell, Company Secretary, Pentland Group

The following story epitomises the Pentland approach. In the 1960s, the business fell upon hard times and several factories on both sides of the Atlantic had to be closed. Despite no legal requirement to do so, the company paid its American redundancies by the more generous British method. Stephen Rubin was a Liberal candidate in those days when the party slogan was ‘People Count’; it is this insistence on maintaining good relationships with all its associates which underpins Pentland company culture.

There is regular communication with employees via newsletter and email, as well as regular departmental review meetings. The company has set up the Pentland Blog, enabling any employee to post remarks about the business and engage in debates with colleagues throughout the world.

“We try to be loyal partners of our suppliers so that they become friends and understand our needs. We like there to be mutual trust.”

Andy Rubin, CEO, Pentland Brands

Governance

Family governance

Now in its third generation, Pentland is consulting a leading accounting firm to help it establish a family constitution for the next generation. Historically, until the take-private of Pentland Industries, the company had a family holding company which doubled as a family council; this has now been dissolved but alternative family groupings are being considered.

Board structure and practices

Consisting of six family members plus one non-family director and a non-family company secretary, the company board meets on a quarterly basis (or as often as required). The members of the board represent substantially all of the company's shareholders. There are always three non-family members present at meetings.

The Group holding company is effectively the 'banker' for the Group. Andy Rubin must ask the Group for investment for the Brands business, and since there is tight cost and working capital control, he is sometimes challenged – though rarely rebuffed. Promotion is strictly on merit. Indeed, by all accounts Stephen Rubin was the last director to be convinced that his son Andy should be promoted to Chief Executive.

The business has three operating divisions, each with its own governance: the venture capital and investment businesses; the retail business, which is a separate quoted public company with its own independent board of directors; and Pentland Brands, which is run by an executive committee whose membership is drawn from the senior members of the Pentland Brands division. This Group combines strategic and management experience with the divisions' direction and detailed decision-making.

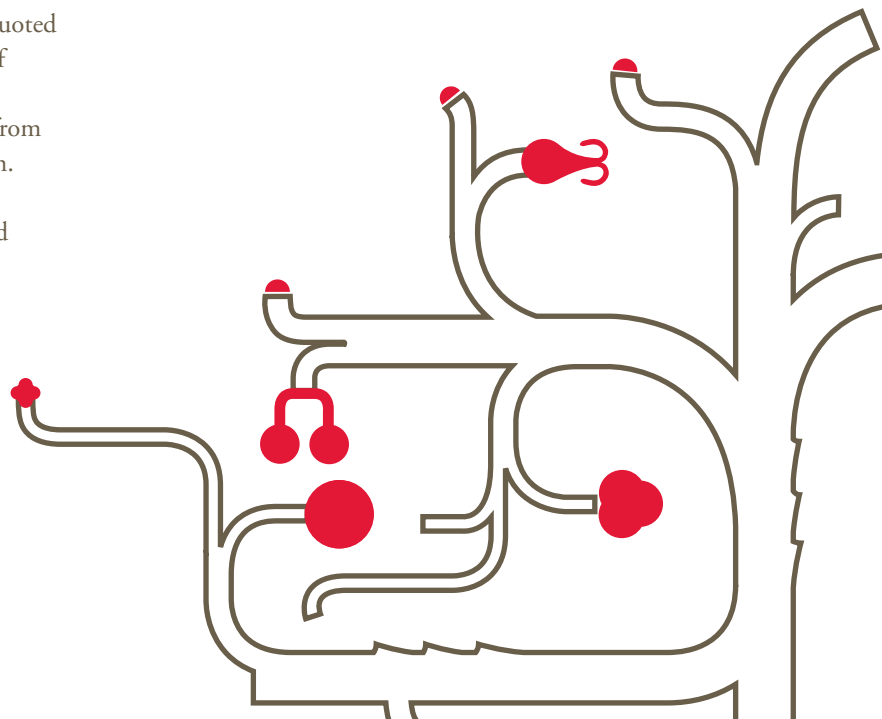
"Because the shareholders are all on the board, they know where the value creation is."

Tim Hockings, Director & CEO, Pentland Group

As Stephen Rubin assumes a more non-executive role, the business is achieving a gradual separation between the roles of family and business leader. At a company where all the shareholders are also on the board, business and family lines are blurred but communication and consensus-building are facilitated.

The company has developed to offer a role for and reflect the interests of the Rubin family. In addition, the firm has a generous dividend policy, so no shareholders wish to sell; it is understood that they would all be happy to take a share in buying out a member who wished to leave.

Employees are incentivised through a bonus scheme.



Succession

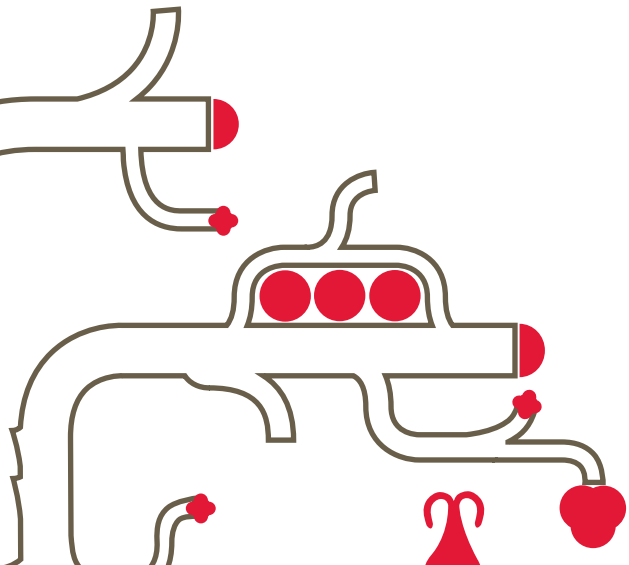
The Chairman has already ceded the management of the main Pentland Brands business to his 43-year-old son Andy, who joined the board in 1995 as Marketing Director before becoming CEO in 1998. Andy's sister Carrie is also a prominent Director, having joined the business from school and become increasingly involved with the Foundation. Carrie also maintains extensive relationships with both suppliers and customers.

Changes of leadership in family businesses can be traumatic; both Stephen and Andy acknowledge that there are differences between their leadership styles but both argue that this diversity has benefited the business. As Stephen says, whereas his entrepreneurial approach might have enabled Pentland to expand considerably during his tenure, Andy's Harvard MBA background and managerial style is better suited to the type of business Pentland has become.

All family members attend company events and mix with corporate members to demonstrate that this is a family company. It is always stressed that this is a long-term family business.

"I see myself as building on what my father has achieved and taking it to the next level."

Andy Rubin, CEO, Pentland Brands

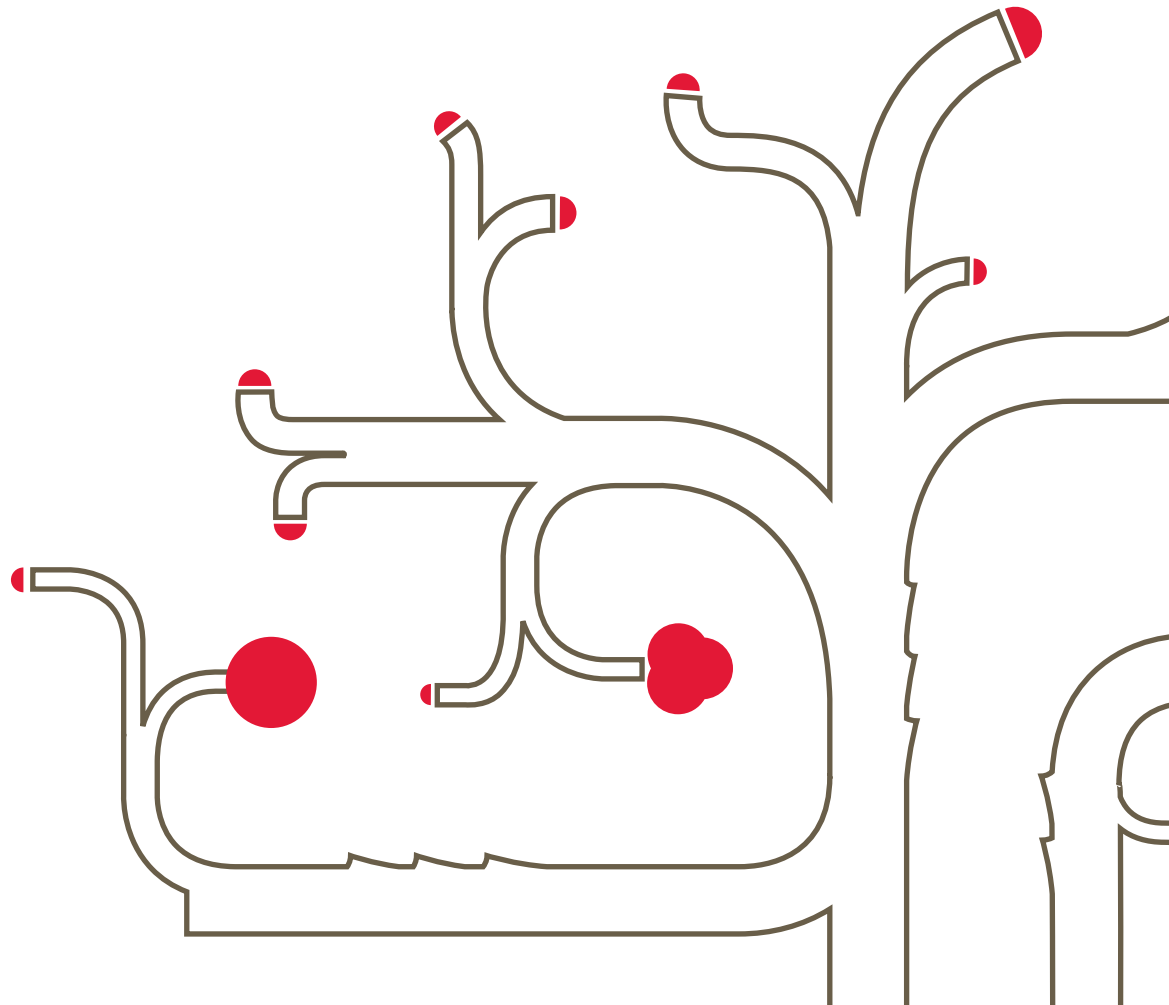


Challenges going forward

Stephen Rubin outlined two specific challenges for Pentland. First, as a family business, the company must decide how best to tackle mounting challenges of taxation and government bureaucracy. Secondly, the company must be prepared for the internet effect on physical store retail.

"We are a successful business, not only in our brands but also in the way our family and our values interact with employees on a global scale."

Carrie Rubin, Board member, Pentland Group



JPMorgan IFB Family Business Honours

Case studies 2008

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For further information on the JPMorgan IFB Family Business Honours Programme, please contact:

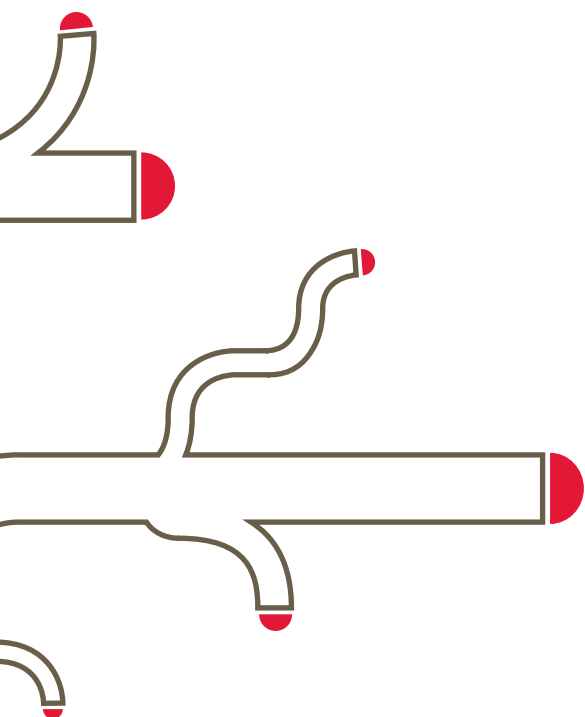
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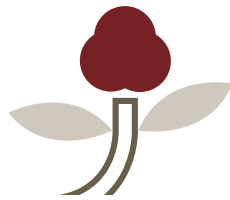
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