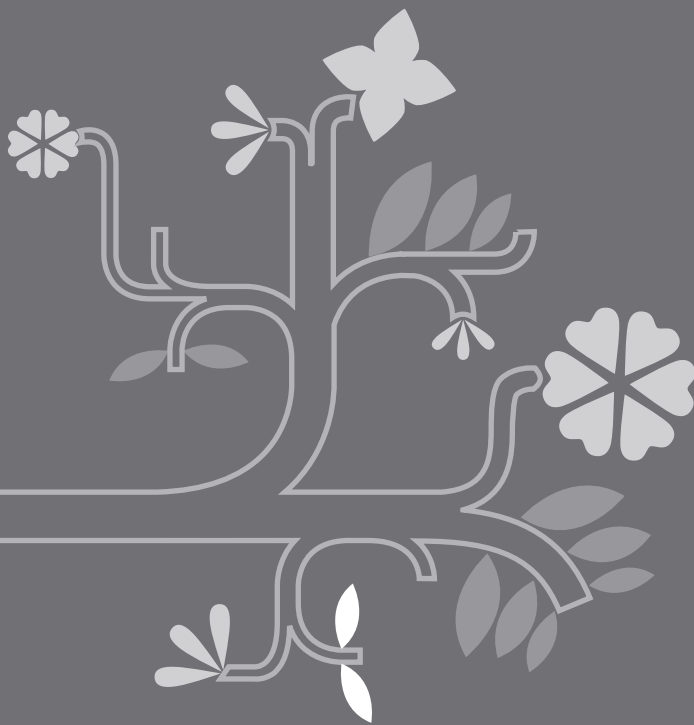


Winner

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Arco

“A Passion for Success”





ARCO  
Winner  
J.P. Morgan IFB Family Business Honours 2009



**Brief description :** Arco is the UK's leading supplier of personal protective equipment, workwear and workplace safety products. Now in its 125th year, the business can point to 39 branches, 100,000 customer accounts and a turnover well in excess of £200 million.

**Industry sector:** Distribution

**Founding year:** 1884

**Founders:** Messrs Morrison, Goudie and Byrne.  
The Martin family joined in 1907

**No. of employees  
in 2008:** 1,575

**No. of family  
shareholders:** 11 including members of the third, fourth and fifth generations

**Generation:** Third and fourth

**Sales in 2008:** £224 million

## First impressions

Our visit to Arco's Hull headquarters reveals a family business positively buzzing with industry. The impressive National Distribution Centre, with its groundbreaking pillar-less interior enabling maximum storage flexibility and the UK's first super flat floor surface to be pre-cast, is a monument to stylish efficiency and was purposely built in Hull as a sign of the family's commitment to supporting the area.

*"It has been quite a journey from making tennis balls for Wimbledon to becoming the top safety experts in the UK!"*

Tom Martin, President, Arco

Smiling employees exchange light-hearted banter with Joint Managing Director Thomas Martin, who enjoys a paternalistic relationship with his staff and spares no effort in singling individuals out for special praise. Throughout the Distribution Centre, large boards illustrate the importance to this business of communication, while one junior employee takes pleasure in surprising us with the statistic that 40% of Arco warehouse workers are women.

Our tour takes us through a brand new set of facilities where the business conducts training and language classes for employees. Senior management are proud that a significant number of employees learn English at Arco, while everywhere we look there are posters trumpeting the company's three core values: Respect for People, Excellence in Reputation and Hard Work and Enterprise.

The dedication of Arco staff is no better exemplified than by their response to a recent incident that threatened to flood the Distribution Centre; employees worked through the night to clear the spillage and the eventual damage was negligible. The employee responsible even tried to block the leak with his bare hands!

**"Respect for People; Excellence in Reputation; Hard Work & Enterprise"**

Arco core values

# A brief history of Arco

## 1884

Stanley Morrison & Co founded as Arthur Stanley Morrison & Co. in Duke Street, London by Messrs Morrison, Goudie and Byrne.

## 1890

Business moves to Hull and focuses on sports equipment.

## 1907

Martin family becomes involved through Tom Martin (Great Grandfather), who revitalises the industrial side of the business.

## 1930

Company expands into the supply and fixing of rubber floor coverings, asbestos heat insulating materials and fibre acoustic insulation.

## 1959

Tom Martin (grandson of first Tom) joins the company.

## 1960s

Tom's brother Stephen joins the company. Tom and Stephen Martin become Joint Managing Directors.

## 1970s

Expansion into North-East. Acquisition of Atholl Asbestos and Rubber Company, enabling wide expansion into Scotland.

## 1980s / 1990s

Further expansion into Bristol, Bury St Edmunds, Aberdeen, Glasgow, Wessex, Merseyside, Watford, South Yorkshire and Cumbria. Thomas Martin (son of Tom) joins in 1988, Richard Martin (son of Stephen) joins in 1995.

## 2000-02

National Distribution Centre opens. Jo Martin (daughter of Stephen) joins. Thomas Martin and Jo Martin become joint MDs.

## 2004-08

Expansion into further locations including Plymouth, Leicester, Cardiff, Coventry, Bellshill, Darwen, Stoke, Basildon, Stratford, Poole, Warrington, Heathrow, Northampton, Leeds, Swansea, Portsmouth, Doncaster and Dublin.

## 2008

Appointment of Nicholas Hildyard as Joint MD following the sad death of Jo Martin.

“We feel we have a great opportunity to use our expertise to save lives”

Thomas Martin  
Joint Managing Director  
Arco



**Thomas Martin.** After three years of London-based direct marketing Thomas applied for a position within the Product Management team. Developing Telesales was an early focus followed swiftly by spells in Product Management, Purchasing, Branch Operations, and as Trading Director, Supply Chain Director and now Joint MD. Outside work Thomas sits on the Yorkshire & Humber CBI Council, and volunteering takes him to Scarborough where he remains a Governor of Bramcote School – it also takes him around the country rolling out the successful B-2-B fundraising model for the RNLI. Current specialist subjects include home restoration and salvage scavenging.

## Business model

### A winning formula

Since the early 1960s, when brothers Tom and Stephen Martin joined the business, Arco's has been a story of rigorous expansion directed by successive pairs of dynamic joint MDs. Between 1968 and 2002, Tom and Stephen acquired 12 regional branches outside Hull, organically developed a further eight, and launched the first of the company's bulk storage operations. Tom's son Thomas and Stephen's daughter Jo took the reins in 2002 and continued where the previous generation had left off, acquiring two additional businesses and developing an additional 20 branches for the UK network. In addition, Thomas and Jo completed the centralisation of the firm's supply chain from the National Distribution Centre in 2006. The joint MD approach is not set in stone; Stephen and Tom aspire to 'enlightened ownership', allowing Thomas and Nick to run the business as they see fit.

During the last few years, the business has bolstered its staff with numerous high-calibre recruits to complement the family in the boardroom, most notable among them current Joint MD Nick Hildyard, who assumed the role in early 2008 following the tragic death of Jo Martin.

*"The professionalism of the Martin family and of the other directors rivals that of a plc, and was a major factor in my joining the company."*

Nick Hildyard, Joint Managing Director, Arco

Under the stewardship of Thomas and Nick, in 2008 the business opened its first ever overseas branch – in Pune, India – and enjoyed a turnover of over £224 million. The business is now an undisputed market leader in safety, and features in numerous sectors including Construction, Food, Manufacturing, Fuel & Chemical, Transport and Distribution. Always looking to the long term, Arco has invested £50 million over the past five years to centralise its supply chain, branch network and systems, an investment that puts the business in a good position to weather the current economic crisis and enhance its standing in the market. Moreover, Arco has won various industry awards, including a regional prize at the 2008 National Business Awards and two awards for Innovation and Corporate and Social Responsibility.

### A focus on innovation

Responsibility for innovation at Arco rests primarily with the Category Management team, which compiles the extensive product catalogue (the 'industry bible'). The team handles requests from customers throughout the UK for unique bespoke products, striking deals with manufacturing partners at home and abroad to produce them. A recent example was a new type of non-metal workboot designed not to trigger the security alarm at airports.

Beyond this, Arco can point to a consistent track record in innovation and exclusivity, as evidenced by numerous products specified in-house. These include the Sundstrom Respiratory range; Microgard limited life workwear; and significant own-brand product development in footwear, uniforms, hazard clothing, gloves, respiratory, eye and face, hearing, head and fall-arrest protection. Each of the company's product categories contains numerous examples of in-house developments, and over 35% of the company's annual sales comprise Arco-engineered and specified products. This has been a major contributor to the company's market-leading position.

The development of skills and talent within the business is a crucial area for Arco and is discussed in depth at the company's annual planning conference,

attended by all senior managers and directors. Significant emphasis is placed on ensuring that all employees have clear objectives, an understanding of how their roles contribute to the organisation and assurance that managers care about development and progression within the business. Each employee receives quarterly and annual reviews, while for particularly talented employees, there are ongoing 'Emerging Talent' reviews at board level.

*"We have created a thirst for learning."*

Thomas Martin, Joint Managing Director, Arco

The company can also point to a rapidly expanding focus on staff training, reasoning that, with over £39 million invested each year in its employees, it makes good business sense to develop them to their full potential. Accordingly, Arco delivers accredited CMI Level 5 management development programmes to senior managers. At a Director/ Divisional Director level, the company enjoys established relationships with business schools throughout the UK and Europe; while the annual budget for in-house training and development stands at £500,000. Training is conducted at four regional training centres, with this year seeing the launch of the new £180,000 Training Academy in Hull. In the next financial year the business is scheduled

to deliver 250 1-day or 2-day training modules, comprising 3,500 delegate training days; Arco also partners with local colleges to maintain an in-house English language programme for foreign workers.

*“I feel that I would be encouraged to take advantage of training and development if I wanted it.”*

80% of staff in Arco survey agree

This emphasis on training is complemented by a flexible approach that allows employees to move between roles within the organisation; one Divisional Director we met has held eleven different jobs over a twenty-five year career at Arco, achieving his Marketing Diploma with financial support from the business and ultimately gaining election as a Fellow of the Chartered Institute of Marketing. The company is now supporting him through different areas of education; several others we met had enjoyed similar backing.



# Social Responsibility

## A commitment to charity

The Arco Group Charity Committee was set up in 2003 by Jo Martin to lend formal structure to the company's socially responsible initiatives. The Committee supports employees who are involved with their local charities or community groups, matching individual funds raised to a maximum of £300 as well as responding to direct applications. Company donations amount to at least 1% of Arco's pre-tax profits; in addition to Group Charity Committee donations, the business has also given significant sums via the Disasters Emergency Committee (DEC) to support victims of global natural disasters. The business is fiercely proud of its commitment to social responsibility, supporting over 200 charities in 2008. Charities that particularly benefited from Arco's support last year included:

- Lifestyle Rock Challenge
- Bryan Gunn Cancer Appeal
- Charlton Farm Children's Hospice
- The Risk Factory
- Children's University
- Lifestyle
- Alzheimer's Society
- Chinese "Project Hope" Programme

Moreover, for all employees, socially responsible objectives form part of their performance review. In addition to these individual objectives, management teams tend to establish collective initiatives, a selection of which are listed every quarter in the company magazine, People. Arco's volunteering policy is widely publicised, with every employee given the opportunity to take two additional days paid leave each year to undertake a socially responsible activity of his choice.

*"There is an orphanage in the Ukraine that I visit to carry out charity work – Arco has given me tremendous support in this endeavour."*

Junior employee, Arco

One notable recent project involved working with local asylum-seekers, to the mutual benefit of all concerned. In addition, the company partners with organisations such as the Yorkshire Wildlife Trust and employees are encouraged to take part in environmental projects for which they receive paid time off.

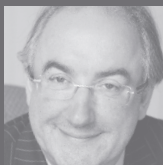
Arco's ongoing commitment to Social Responsibility was recognised at the 2008 National Business Awards where the business took the Corporate Social Responsibility Award for its region. On a personal level, the business helped Thomas Martin launch the first ever Business Branch fund-raising model for the RNLI, which has now been rolled out nationally. Since 1993, this scheme has raised in excess of £3.5 million.

*“Does our Social Responsibility improve our bottom line? We honestly don't know. To us, that's not important.”*

Thomas Martin, Joint Managing Director, Arco

“The bigger our profits the more good work we can do”

Nick Hildyard  
Joint Managing Director  
Arco



**Nick Hildyard.** In 1979, on qualifying as a Chartered Accountant, Nick left Ernst & Young to become Finance Director of Cutting and Company and Anglo Soviet Shipping Company Limited. He joined Smith & Nephew in 1982 and became Finance Director for Europe in 1984, General Manager for Northern Europe in 1989, Managing Director of the Wound Management Division in 1991 and finally in 1999 became Group Manufacturing Director. He was appointed Finance Director at Arco Limited in 2002. Following the tragic death of Jo Martin in February 2008, Nick was subsequently appointed Joint Managing Director.

# Arco philosophy and culture

## Company values

The business recognises the importance of a formal set of values and has gone to great lengths to capture these: they were not invented. In 2006, the cousins set up a working group of over 110 employees 'to capture Arco's DNA', and distil the philosophy of the business into three core values. Once the working party had reported their findings, the three chosen values were: Respect for People, Excellence in Reputation and Hard Work and Enterprise.

*"We have an opportunity to use our expertise to keep people alive by doing what we do best."*

Nick Hildyard, Joint Managing Director, Arco

The company aims to enact the first of these through its business relationships with customers, suppliers and the Arco family itself; it conducts 30 ethical audits per year and holds membership of the Ethical Trading Initiative. The company is particularly proud of its recent admission to this network, as it is one of only 44 organisations in the UK to achieve this. In March 2009, Arco was awarded the 'Big Tick' for its ethical supply chain in the Responsible Supply Chain Award category

in the annual Business in the Community Awards for Excellence.

Excellence in Reputation is maintained through the socially responsible initiatives discussed in the previous section and a determination to support the local economy, as demonstrated by the decision to situate the National Distribution Centre in Hull when Pontefract would have been a more financially viable choice on paper. The company maintains an Employee Code of Conduct, setting out the standards of behaviour expected of its people and a Dignity and Respect Policy which explains clearly how breaches will be addressed. The business takes care to maintain relationships of mutual respect with suppliers by providing plenty of warning about new systems and supply chains and regularly arranging joint strategic reviews.

The level of hard work undertaken at Arco is attested by the long hours and voluntary overtime often worked by employees, while the low relative staff turnover is testament to a positive working environment.

Moreover, the business aligns its values closely with the industry in which it works.

It has taken a presence in the Indian market-place, not only for sound business reasons but in order to tackle head-on the poor safety record of that country, where each year over 48,000 people die in industrial accidents. The business is also actively investigating other developing markets where it can make a difference and provide the expertise to ensure that its customers “go home to their families at the end of every working day”.

### Family values

At Arco, considerable importance is placed on creating a happy working environment, with all staff encouraged to express their views. One junior manager recently submitted a £10,000 CapEx request for an idea to save the company £300,000 per year; this was signed off straight away. Employees we met were keen to praise the approachability of senior management, not only of the current Joint MDs but Tom and Stephen too. Employees with plc experience also stressed their preference for the familial nature of Arco, reflected in the large number of husband-and-wife teams at the company and by the statistic that no fewer than 350 people in the business work with relatives. One employee we met had eight family members working at Arco!

Employees also appreciate the personal welcome delivered by family members to all new starters at the company, and

the constant ‘visibility’ of members of the family on the company premises. Values are communicated to the business through the company magazine, People, published on a quarterly basis, while each employee attends a quarterly Team Brief where the corporate and departmental message pertinent to him is reinforced by his line manager. Employees we met emphasized the excellent level of communication between branches and showed an appreciation of the company’s flexibility, which enables employees to move between departments.

*“There is no blame culture at Arco. People can get things wrong and not be punished!”*

Nick Hildyard, Joint Managing Director, Arco

Arco employees feel a strong sense of responsibility, not only to the business but to the public at large. During the flash floods of summer 2007, a local highway was closed and large swathes of Northern England were cut off. Employees at the National Distribution Centre worked through the night to ensure that Arco workwear and safety products could be distributed to help people in the affected areas, with one of the team doing so despite knowing that his own home had been flooded. One employee personally drove his vehicle to an affected area to lend assistance.

# Governance

## Family governance and succession

The third generation has always highlighted to the family the importance of fully understanding the dynamic of a family business; to that end, they have encouraged members to attend the Leading the Family Business course at the IMD since the 1990s. Subsequent Martin family contributions to Family Business Network annual meetings have furthered their education, with members of the family addressing Institute for Family Business events in the UK. The business conducts regular 'cultural exchanges' with other IFB member businesses. Since 2002, regular family meetings including all members of the third, fourth and fifth generations have taken place. The Martin family leaders are Non-Executives, allowing the business leaders to operate effectively. Moreover, senior management strongly believe in the necessity of formalising the family's involvement, and in 2007 established a Family Constitution with the assistance of BDO Stoy Hayward. The directors were involved in the original draft and are invited to contribute to subsequent editions.

The business has also set up a Family Council, chaired by Thomas' sister Alexandra. This convenes twice a year

and discusses potential issues when they arise, if necessary operating a 'one hand, one vote' system to achieve consensus. To date, the business has never needed to resort to voting by current shareholdings in order to resolve an issue.

Succession planning is a matter for ongoing discussion and is to be reviewed over the course of 2009.

*"We understood the potential for conflict when drafting the Constitution – in fact we all ganged up on the facilitator!"*

Thomas Martin, Joint Managing Director, Arco

## Corporate governance

Arco operates a two-tier board, with every member of the Operations Board also sitting on the Main Board of Arco Limited, which is augmented by four Non-Executive Directors. Each board member is either a Martin family member (three) or has significant Arco/plc experience (eight). The terms of reference for the Operations Board are clearly defined and reviewed periodically, and over 75% of the equity base is represented around the table. The Joint MDs formally appraise family shareholders several times per annum

regarding the company's performance, and this is also covered at the Annual Family Assembly as well as at the AGM. The company has a Non-Executive Chairman, John Theakston, who provides a sounding-board for the family and an external point of reference for the rest of the board.

*“Arco and the Martin family have long enjoyed an impeccable reputation among the Northern business community.”*

Evaluation Committee member

Arco is preparing for the retirement in a few years of current Joint MD Nick Hildyard; it was as a result of coherent succession planning throughout Nick's own Finance department that the family was able to promote him to replace Jo Martin following her death in 2008.

## Challenges going forward

*“We firmly believe that good businesses like ours make their own luck. We have been in recessions before and always emerged stronger as a result.”*

Nicholas Hildyard, Joint Managing Director, Arco

The main challenge for the business is to work out how best to maintain its momentum in a rapidly maturing market place. The directors are confident that by continuing their cautious expansion overseas they will see Arco develop from a UK market leader into a major player on the world stage.

Beyond this, the principal challenge for the business will be to ensure that the current third, fourth and fifth generations share the same understanding of what the business means; this will enable a smoother handover between generations. With its fully functioning family council, Arco can feel justly confident that this goal will soon be achieved.

*“Arco’s people really are the business – this honour is for them. Without them, the business is nothing.”*

Thomas Martin, Joint Managing Director, Arco