Strategic Renewal in the Family Business During Succession (The Walter Rau Food Company)

Sabine B. Klein
Sabine.klein@ebs.edu
Torsten M. Pieper
Torsten.pieper@ebs.edu
European Family Business Center
ebs European Business School, Germany
Schloss Reichartshausen
65375 Oestrich-Winkel
+49 611 36 018 720
Fax +49 611 36 018 702
www.ebs.edu

Abstract

Walter Rau Food Company is a family owner and family led food producing company in Germany. Facing the challenge of transition, the company's as well as the family's history come into play. The different view points and intentions of the people involved set the stage. 'How to organize succession?' is the leading question.

Other issues, besides ownership and leadership succession, which are relevant to this case, include non-family management, impact of sale on the family, strategic renewal during succession, and conflict and communication in family businesses, among others.

Acknowledgements
The authors would like to thank M. Hubertus Rau for his active contribution to this case. Furthermore, the authors would like to point out that without the support and the approval of the entire Rau family, this project would have never been possible.

Introduction – A Conversation with Consequences

December 1990. A splendid evening at the Rau estate reaches its end. It is late, and most of the guests have already left. The only two people still sitting in the library, finishing the excellent claret wine, are Ulrich Rau and his good friend Rolf. Of course, old Bordeaux wines and hunting dominate their conversation, but the topic changes when Ulrich suddenly turns to Rolf with a concerned look on his face. “Listen, Rolf, I would like to ask you a serious question. I badly need advice from both a good old friend and an experienced businessman” “Well”, replies Rolf, “if you need advice from two people at the same time, then I will definitely need another glass of wine.”

Rolf loves to joke around but at the same time he can feel that Ulrich is seriously worried. Their relationship is a special one: they are not only close friends sharing a passion for hunting; their friendship shares a high level of mutual respect since they have both built up and successfully managed their companies in two entirely different sectors (Rolf in advertising and Ulrich in the food sector). They have been friends for over 30 years, and they know they can count on each other.

Cozily sitting in front of the fireplace, Ulrich shares his concerns with Rolf: “I think, Rolf, it’s time for me to leave the company. I am now 66 years old and I just don’t feel good enough any more to keep this speed up for another ten years. I am not sure how many more years I have left and I would like to enjoy them together with my wife. But aside from all that, we need to find a solution to my succession, and we must be really careful. You know the quarrels of the past very well and I do not want my children to live through the same troubles as I did. There is no doubt in my mind; *my* father’s will was a threat.”

“Why not leave then the whole company to the most competent one of your children and give the others an equivalent part of your heritage?” asks Rolf. “Well, this is exactly where I get stuck: I simply do not know whom I should leave the entire company to” replies Ulrich. He continues, “You know, Sabine recently came up with the idea to change the legal structure of the company and to divide ownership and management by the company’s bylaws. I am not convinced that it is a good idea; she wants to change every little thing around here. But what for? We already have a good solution for the management of the firm. The group companies are run by skilled teams of non-family managers and Gerd will close the gap between me and the children.

You know, Sabine is so academically minded, much more than her husband. Michael is much more practical although he too graduated from university. But on the other hand, I cannot place my son-in-law in front of my own sons like my mother did to me. Well, of course, Michael is older and more experienced than they are, and he has perfect formal training. But I trust that my sons will also turn out to be as skilled as I am without having any university training. It is true that, at the moment, Hubertus does not meet all my expectations up in the North, but he is young and inexperienced, and there is a lot he needs to learn. I’m not sure; maybe I should send him abroad to get some outside experience in order to widen his horizon. Then there is Uli; he is still too young to decide whether he will fill the big shoes later on or not.”

Rolf, surprised by Ulrich's words, has never seen him so worried through all these years. Ulrich seems almost lost in the situation. But persistent as Rolf is, he wants to help his friend to find a solution to his concerns. So, Rolf suggests, "It is true that you are facing a difficult choice, Ulrich. But suppose you cannot find a solution. Why not sell the business and split the gains in equal parts? Then each of your children can start their own enterprise and you get rid of all your worries. I am sure you will get quite a nice price for the company. Enough to open one firm per child and for you to spend a decent life with Eva."

"I also thought about selling the business." replies Ulrich. "Nestlé was particularly interested and we already started initial conversations about a potential sale. But then, I realized that only in a private company can you enjoy the freedom of being your own boss. And to stay independent is really worth much of the trouble. Therefore, we have to find an organizational structure to ensure the independence of the business for the next generation. First and foremost, the children cannot ruin the company by spending too much money, because when you are weak, you easily become a potential target for an acquisition. But, as much as I am tired of the ongoing discussions about my succession, I sometimes think that this is not our main problem. Maybe I am just too old for these young children. So, what would you do, Rolf?"

The more details Rolf learns, the more he starts to worry about how he would master the situation. "Well, I agree that a sale would be the worst solution." replies Rolf. "But honestly, as much as I would love to help you, Ulrich, I cannot tell you what to do. What I would do in your place is ask for professional help from a consulting company. Why not plan a joint meeting under the moderation of a consultant, with your wife, your children, a member of the top management team, and you. Then, everybody can share his or her concerns and interests and, at the same time, the consultant can learn your respective points of view. I have a few good contacts that I can share with you, if you want."

The History of Ownership of the Walter Rau Group

Walter Rau Food Company is located in Western Germany. It was founded by Walter Rau in 1903 as a small company producing dairy products for local clients. At the beginning of WWII, Walter Rau, the typical patriarchal founder and owner-manager, had built the company up to 1.400 employees. At that time, the company was not only producing dairy products, but also margarine, oils and fats. Apart from these operations, the company operated a whaling fleet with a so-called mother ship and 12 hunting boats. The fleet was hunting for whales in the Arctic Sea.

Walter Rau was married three times and had seven children altogether; two with his first wife, who died young, one with his second wife, whom he later divorced to marry his God-child, Anita, who then mothered two daughters and twin sons. Until his death in 1940, Walter was the sole owner of the company. In his last will and testament he dedicated the entire business as well as all other belongings to his latest family. His wife Anita received 50 %, and their four children inherited 12,5 % each. The other children from his first marriage had already been paid-out. His second wife, with whom Walter Rau had a son named Georg, had also been previously paid-out. Hence, in 1940 the ownership was distributed as follows:

<u>1940 – 1946</u>

Anita Rau	*1900	50 %
Renate	*1923	12,5 %
Ulrich	*1924	12,5 %
Hubertus	*1924	12,5 %
Brigitte	*1928	12,5 %

According to Walter's will, the two sons, Ulrich and Hubertus, should have taken over the leadership of the family business "at the moment they were qualified to take on this job".

With WWII, though, came tremendous change, both for the business and the Rau family. One of the twin brothers, Hubertus Rau, disappeared in Stalingrad. The whaling fleet had already been confiscated by the Nazis in 1939, and after the war, all possessions in Eastern Germany were lost; only the tiny fabrication in the Western part of the country, producing margarine and dairy products, was left over. Hubertus was declared dead in 1946. 50 % of his total shares (12,5 %) were distributed equally among his siblings Renate, Ulrich, Brigitte and his step-brother Georg, and the other half (6,25 %) went to his mother, Anita Rau.

<u>1946 – 1951</u>

Anita Rau	50 %	+	6,25 %	=	56,25 %
Renate	12,5 %	+	1,5625 %	=	14,0625 %
Ulrich	12,5 %	+	1,5625 %	=	14,0625 %
Brigitte	12,5 %	+	1,5625 %	=	14,0625 %
Georg	0 %	+	1,5625 %	=	1,5625 %

When Ulrich returns from Russian imprisonment in 1949, he was only 25 years old. He immediately started an apprenticeship to learn about the business while his brother-in-law, the husband of his older sister Renate, was running the business together with Ulrich's mother Anita. In 1952, Ulrich Rau bought the shares off his step-brother Georg.

<u>1952 – 1955</u>

Anita Rau					56,25 %
Renate					14,0625 %
Ulrich	14,0625 %	+	1,5625 %	=	15,625 %
Brigitte					14,0625 %

However, when Ulrich wanted to join the family business in 1952, his own mother refused to turn the leadership over to him, claiming that he was not yet qualified for the job and therefore, according to his father's will, he had to be kept out of the business. In 1955, Anita bought the shares from her daughter Brigitte.

1955 – 1975

Anita Rau	56,25 %	+	14,0625 %	=	70,3125 %
Renate					14,0625 %
Ulrich					15,625 %

After 53 court trials, three of which went up to the highest German court, Ulrich was finally allowed to enter the family business in 1958. The turning point of this endless chain of trials came when Ulrich found out that the Ph.D. his brother-in-law held was not registered at any university and therefore non-existent. Anita Rau died in 1975, and the three children inherited her shares in equal parts (23,4375 % each).

1975 – 1976

Renate	14,0625 %	+	23,4375 %	=	37,5 %
Ulrich	15,625 %	+	23,4375 %	=	39,0625 %
Brigitte	0 %	+	23,4375 %	=	23,4375 %

Brigitte died in 1976, only one year after her mother. According to her testimony, her brother Ulrich is to inherit her total shares, but in turn, is obliged to pay-out his nephew.

1976 – 1977

Renate					37,5 %
Ulrich	39,0625 %	+	23,4375 %	=	62,5 %

Renate died in 1977. In the same year, her husband, also the executor of her will, left the limited partnership company (Kommanditgesellschaft, shortly KG), to get a more advantageous shareholder agreement for the minority owners. Ulrich agreed to his leaving, and continued the business together with his wife Eva, with whom he had three children. All in all, it took him more than 20 years to buy back his mother's and two sisters' shares, thus becoming the sole owner of the family's business.

1978 – 1985

Ulrich Rau	98,18 %
Eva Rau	1,82 %

In 1985, the limited partnership company was transformed into a (a limited liability company, or a private limited company) GmbH & Co. KG[1]. Ulrich Rau Verwaltungsgesellschaft mbH (a

[1] A GmbH & Co. KG is a German legal form that consists of a limited partnership (KG: Kommanditgesellschaft) and a private limited liability company (GmbH: Gesellschaft mit beschränkter Haftung). While the KG has advantages taxwise, there needs to be not only at least one owner with limited liability (Kommanditist), but also at least one with unlimited liability (Komplementär). To overcome the risk of unlimited liability, the GmbH

management company owned equally by Ulrich and Eva Rau) was founded and entered as a complementary. The GmbH (Plc.) held neither shares nor voting rights in the KG.

1985 – 1988

Ulrich Rau Verwaltungsgesellschaft mbH

Ulrich Rau	50 %
Eva Rau	50 %

Walter Rau KG

Ulrich Rau	98,18 %
Eva Rau	1,82 %

In 1988, the hidden participations (stille Beteiligungen) of the three children Sabine, Hubertus und Ulrich Jr. were switched into shares of the limited partnership KG (Kommanditanteile).

1988 – Today

Ulrich Rau Verwaltungsgesellschaft mbH

Ulrich Rau Sn.	50 %
Eva Rau	50 %

Walter Rau KG

Ulrich Rau Sn. (* 1924)	89,18 %
Eva Rau (*1926)	1,82 %
Sabine (*1962)	3 %
Hubertus (*1965)	3 %
Ulrich Jr. (*1966)	3 %

The Walter Rau Group in 1990

During the post-war "Wirtschaftswunderjahre" (the years of the economic revival of Germany), companies tended to grow rapidly. It was the time when the question was not "What shall we produce?" but "How much can we produce?". Market shares were distributed, a lot of money was earned, and strategy was not at all a concerning matter. In his first years as CEO, Ulrich hired a personal assistant, Gerd, who later on also became a friend of the family, and his alter ego in the company. From the outset, the two were very different from each other: Gerd was very control-oriented, and as a consequence, he mistrusted everybody out of fear of having to share the slightest bit

takes the role of the owner with unlimited liability, so the owners do not risk loosing more than the equity in case of bankruptcy. The GmbH & Co KG is the most prevalent legal form for family companies in Germany.

of power. Ulrich, on the other hand, was more concerned with the softer side of things. His warm-heartedness always offered an open ear for his employees. However, in combination the two built an effective and unbeatable leadership team at the top of the company. One of the first decisions the two made was to divest from the dairy sector and to concentrate their efforts on margarine. The company was among the first ones to supply ALDI, now a well renowned retailer, but at that time a small start-up business run by two brothers. Walter Rau also produced margarine for bakeries, for industrial use such as cookie producers, and also a small brand of its own: Deli Reform. In 1990, the former small rural company had grown again to a national player with some international clients such as Tesco in the UK. The company employs 380 people in the margarine business, 330 in the oils and fats business and another 800 in the deep frozen food sector. (see appendices 1 and 2). However, during the past years, the market situation had become increasingly concentrated, both on the retailing and production side. For instance, when Walter Rau was president of the German Margarine Producers, this association counted over 300 members; as few as only 30 were left when Ulrich Rau served as President. The same tendency can be observed among the retailers. What was once over 50 large-sized competitors dropped to only five, but giant, players.

In 1990, Walter Rau has a group turnover (excluding investments) of approximately 0,5 billion Euro and has almost 1.500 employees. The group is composed of three subsidiaries with participations in several companies operating in Germany and Malaysia (see appendices 2 and 3 for group structure and investments).

I. Walter Rau Neusser Öl und Fett AG (Public limited company)

Walter Rau Neuss is a repudiated German producer of high-quality vegetable and special fats for the entire European food industry. The market share for special fats for the sweets and baking industry in Germany is 50%. In 1990, the company generated a turnover of 125 million Euro and employed 330 people. However, the turnover was volatile and depended considerably on the prices of the raw materials and the exchange rate of the U.S. Dollar. Over the years, the site has grown to an impressive size. Besides being Europe's biggest copra pressing plant with an annual capacity of 100.000 t, it also has a fat refinery and hardening plants for fat refinement. High-output and large capacity can also be found when it comes to packaging. The packaging site for fats can not only be used for consumer products (that are marketed from Hilter), but it can also be used for industrial products. With an annual capacity of 40.000 t, the plant is Germany's second biggest packaging site for fats after Unilever's "Meistermarken" factory. Furthermore, Walter Rau Neusser Öl und Fett AG is the only German producer of premium cacao-butter substitutes. To assure a regular supply with high-quality raw materials, several acquisitions and investments have been made over the years (see appendix 2).

The legal form of Walter Rau Neusser Öl und Fett AG (a public limited company) is a limited company with shares that cannot be traded without restrictions. Following German law, the shareholders of a limited company do have to appoint an "Aufsichtsrat" (supervisory board), a governance body, which then has to appoint the management team, the "Vorstand" (management board). As the German system is a two-tier system, members of the governance board are by law not allowed to become members of the management team. In the Neusser Öl und Fett AG, the (Aufsichtsrat) consists of a nephew of Ulrich Rau, who is the son of his oldest sister Renate; a well-known entrepreneur;, and the lawyer of the Rau-family. The company is run by two “Vorstände”, a CEO and another member of the top management team. In 1990, the CEO was Ulrich Rau’s son-in-law, Dr. Michael Klein.

II. Walter Rau Lebensmittelwerke GmbH & Co. KG, Hilter

With a market share of 20%, Walter Rau Hilter is Germany’s second biggest margarine producer after Unilever. In 1990, the company generated a turnover of 125 million Euro and employed 380 persons. Hilter is reported to be the most sophisticated and lowest-cost production site for margarine in Europe. Like in Neuss and Hansa (see next section), R&D is concerned with continuous product improvement and innovation. Hilter also supplies special margarine to bakeries, confectioneries and restaurants. The company produces and markets margarine together with a large range of fats and oils (i.e. salad oils) both for the wholesale and retail market. The company’s portfolio contains several investments with high-output production facilities (see appendix 2).

Walter Rau serves both the channel retailers with their own brand, Deli Reform, and the content retailers and discounters with their white labels. ALDI as the biggest single customer buys between 40% and 60% of the whole production of Hilter. Concerning turnover, the numbers are a bit lower since the prices Walter Rau gets from discounters are lower than those for their own brands.

Walter Rau Lebensmittelwerke, as already discussed in the ownership section, is a GmbH & Co KG (a private limited liability partnership company). This is a special German legal form in which two types of companies are merged. The KG (Kommanditgesellschaft) is a private company with two different types of owners (limited partnership). The “Kommanditisten” are partners who are only liable for a fixed sum, that is, the capital they put into the company, while the complementary “Komplementäre” are liable for their private fortune as well. Therefore a GmbH (Ltd) is founded and becomes Komplementär. The GmbH, a legal form with private limited liability, then becomes the leading company within the system. This is to say that the GmbH is responsible for the management of the whole entity, regardless whether it has the majority of the shares or not. In the GmbH, the owners appoint the management team directly and they are entitled to tell the management how to proceed, in terms of what to do and what not to do.

Walter Rau Lebensmittelwerke has a governance board (not required by law) consisting of three people; again the family’s lawyer, a former secretary of state, and Rolf, the friend of Ulrich Rau. The management team consisted of Ulrich Rau himself, who served as CEO, Gerd, who was responsible for Controlling and Strategy, another non-family manager responsible for marketing, sales, and human resources, and one other for R&D and production. So, in 1990, the management team consisted of three non-family managers and Ulrich Rau as CEO.

III. Hansa Tiefkühlmenü GmbH & Co., Hilter

Hansa produces 450.000 deep-frozen convenient meals every day. The company employs 800 people in production sites located in Hilter, Biebergmünd (close to Frankfurt M.) and Halle (Saale). Hansa serves three different markets. Traditionally, it supplies factory canteens with ‘à la carte’ menus. This sector generates approximately one third of the overall turnover of 100 million Euro. Social

institutions (mainly day-care centres, schools, hospitals and charitable associations) represent Hansa's second group of customers. Last but not least, the third market includes retailers and frozen food home delivery companies, like Bofrost or Eismann. Their product line reaches from menus to single components (i.e. tomato soup). Like Walter Rau Hilter and Neuss, Hansa maintains investments and sub-contracts with several other firms.
75.1% of Hansa belonged to Walter Rau Lebensmittelwerke; 4.9% to Dr. Oetker KG, and another 20% to Langnese Iglo (the deep frozen food subsidiary of Unilever). For both non-family owners, contracts were in place to buy the shares back at a given time for an already negotiated and fixed price. They only became owners because they wanted Hansa to take over their clients from the factory canteen market and by bringing the clients in, they received shares in return for the already fixed exit. The legal form again is a GmbH & CoKG. The governance board consisted of three members, Gerd Meier representing the main shareholder, Walter Rau Lebensmittelwerke, a top-manager from Langnese Iglo, and the CEO of Dr. Oetker KG, August Oetker. The management team consisted of only two non-family managers; one responsible for "internal affairs" such as production, R&D, human resources, and controlling; the other for marketing and sales.

The Problem to solve

In 1990, as Ulrich Rau pointed out to his friend Rolf, neither ownership nor leadership succession is solved. Ulrich Rau himself is 66 years old and does not feel as fit as he used to. He and his wife Eva control the majority of both the GmbH and the KG of Walter Rau Lebensmittelwerke Hilter, which serves at the same time as a holding company for the other two companies. Ulrich and Eva Rau's three children are 28 (Sabine), 25 (Hubertus) and 23 (Ulrich) years old. Sabine has university training in management and strategy and holds a PhD in organizational behaviour. She currently runs her own small training company, organizing executive seminars led by professors and mainly serving the top-management of larger family businesses. Her husband Michael, who is a member of the top-management board of the oils & fat division. They have two children, aged 3 and 1. Michael also has university training in management and holds a PhD in business administration. Hubertus just got married and is working in a subsidiary of Walter Rau, a small butter fat producing company up in the North of Germany. He did an apprenticeship at a bank before joining his family's company. Ulrich Jr. is working as an assistant manager in a well renowned hotel in Budapest, Hungary, after having completed his training as a cook. He is not yet married.

Ulrich follows the suggestion of his friend Rolf and asks a consultant to moderate a joint discussion with Dr. Gerd Meier, his son-in-law Dr. Michael Klein, his eldest son Hubertus, his wife, and himself. The aim of the discussion is to find out how they can proceed in finding a strategy and a structure that will ensure the well-being of both the family and the company.

The Group Discussion

Participants:

Ulrich Rau, owner-manager of Walter Rau Food Company, 66 years old

Eva Rau, wife of Ulrich and mother to his three children, one daughter, 28 years old, and 2 sons, 25 and 23 years old. No official role in the family business, no formal training, but assisting her husband Ulrich ever since they got married.

Gerd Meier, PhD, the CFO of Walter Rau Food Company, 61 years old and has more than 30 years experience in the company. A good friend of Ulrich's.

Michael Klein, PhD, member of the management board of the oil and fats division, which is an independent company with 60 % of its shares belonging to Walter Rau Food Co. Michael is 36 years old, has been with the company for two years and is married to Ulrich's daughter Sabine.

Hubertus Rau, 25 years old, after high-school and military service he passed an apprenticeship with a bank, now working in a 5 million Euro subsidiary producing butter fats in Northern Germany.

The consultant

(Group Discussion)

Some thoughts concerning the succession: Ulrich Rau

We really need to find a solution for our succession problem. I don't feel that good anymore to go on with this speed for another 10 years. But we have to be really careful. I don't want my children to go through the same trouble that I did. My father's will was a threat.

Concerning management we found quite a good solution. The group's companies are run by skilled teams of non-family managers and Gerd will close the gap between the children and me.

Sabine recently came up with the idea to change the legal structure of the company and to divide ownership and management by company's bylaws. I don't think that's a good idea. She is so university minded, much more than her husband; he is more of the practical way although he also passed university. But then, I will not put my son-in-law in front of my sons like my mother did this to me. Yes, he is older and he has a perfect formal training but my sons might turn out to be as skilled as I am without any university training. And Michael must also learn something about working together with his colleagues. It's true that Hubertus at the moment is not performing too well up in the North, but he is young and there is a lot he still has to learn. Maybe I should send him abroad to get a wider horizon.

And anyway, this is not our main problem. I am just too old for these young children. I also thought about selling the business. Nestlé was interested and we already started first conversations about the matter, but then we broke up. I always loved the freedom being my own boss. Being independent is really worth a lot of trouble. So we have to find a structure to ensure the independence of the business for the next generation. One of the points I have to make sure is that the children can't ruin the company by spending too much money. Well, but now we've got this bright consultant with us. I am really wondering with what he is coming up.

Some thoughts concerning the succession: Eva Rau

I have no idea why Ulrich asked this consultant in for this ridiculous discussion. I can imagine that he got that idea from Rolf. Succession, well, yes, but as far as I thought everything was clear. We have gone through this again and again, Ulrich and me. He absolutely wants to avoid that any of the problems he had with his mother happens to the next generation.

So, instead of leaving the company to all of us, he should just leave it to Hubertus. He should then, of course, make sure that Sabine and Ulrich Jr. get something instead. And, as well, that Hubertus has to take care of my well being. But this should not be too complicated. And anyway, I do not see Ulrich retiring within the next decade and just play golf and go hunting. He always talks about stepping down, but honestly, I think he cannot be without any work.

All in all, this discussion is just a waste of time.

Some thoughts concerning the succession: Dr. Gerd Meier

It is getting more and more complicated. Ulrich is tired and he really wants a solution for his succession. Management is well prepared, no problems from this side. Ulrich asked me years ago whether I would step in to close the gap between him and his children's generation. And he will stay as president of the supervisory board anyway, which, in practice, means that he is still the boss, just not as much involved in day-to-day business as now.

I am not sure why we are having this discussion today; especially, I am worried why this consultant was asked to come here. We have a highly-skilled supervisory board. What is it good for if we do not discuss matters like this with it? The lawyer on that board has been the assistant to Ulrich's lawyer during his trials with his mother in the fifties. Well, it's true, he is not too much of my taste and, even more, each time he lifts the phone, he sends his invoice right after. But at least this guy knows the whole story; he is not such a youngster who just jumps in and thinks he can change everything in a finger turn. And then there is our friend who was the personal assistant to the Minister of Economy for several years. He is a skilled guy also knowing the whole story. Well, Ulrich's friend Rolf is an entrepreneur himself, I would even prefer him to discuss this matter with.

The complicated thing about this succession is the imbalance in the family. Sabine and her husband are too independent. I would prefer not to have to work for them. They have got their own ideas, their own networks, they are not too easy to influence. And I do not need anybody telling me what is best for the company. I have been with this company for more than thirty years now; I have contributed a lot to where we stand today. Our markets have become pretty tough these days; the concentration process in retail is hard to face for a small company like ours compared to our competitors like Cargill or Unilever. When I think, the biggest threat would be to be sold. I love this company; my heart beats for it and I am the best to know what we need in this situation: we need a strong management team that is empowered to take decisions and we do not need endless discussions with academics. Ulrich is too sentimental; he often thinks with the heart instead of using his head and leaving the feelings aside. Hey, we run a business here, not a second Salvation Army.

Some thoughts concerning the succession: Dr. Michael Klein

In a way, I am in the wrong place in here. I love working for my father-in-law but I am not experienced in this whole succession issue. And anyway, it's Sabine's family and her family's company, not mine. Yes, I know, we are also discussing our future and the future of our children. But I am not sure whether I would like to link their future to the destiny of the family business. I prefer them to grow up independently and to learn whatever they want to learn. If they want to go into business, well, there are thousands of opportunities out there to do so.

On the other hand, I also understand my father-in-law. He wants to keep it in the family. Well, if this is his goal, he should change the legal form into an ‘Aktiengesellschaft’ (Limited Company) and separate the ownership from the management. There are several family businesses that have succeeded with this model.

I am sometimes not sure what Sabine wants. In a way, for her it is quite simple. The family business was there all her life and she was opposing her whole life. I doubt that her father considers her to be a potential successor. Firstly, she is female, but secondly she never told him she was interested in succeeding him. They talk about the business a lot, yes, and there is no one in the family he talks to about business matters like he does with his daughter but then, well, we will see.

For me, it is not important to stay in the business. The only thing I would refuse to is to work for one of my brothers-in-law. Hubertus is born as an entrepreneur; therefore from his point of view there is no need to try hard and work his way up. And Ulrich Jr. is just joking around, not feeling at all at ease with the potential role of an entrepreneur. Even a shareholder position might be too much responsibility for him. I am really wondering whether this consultant can add anything valuable to this discussion.

Some thoughts concerning the succession: Hubertus Rau

I am really happy that we are going to write down the succession plan. It has been too long already. With my father-in-law working in the company, I have a lot more information than before. After this discussion, we have to call our board to inform them that I will be my father’s successor and we also have to get the paper work done as soon as possible.

I am so fed up with this butter company, I cannot tell. There is no way for doing a good job in this business. I am really looking forward to get away from the North. It is much nicer here in the headquarters. Father asked me some days ago whether I would prefer to go abroad – but where should I go? I would be too far from Hilter and what would be happening while I’m away? I need to think this over very carefully. It all depends on the timing of father’s retirement.

When we write down the succession plan, of course, we have to make sure that mother is looked after well if something happens to father. I assume Sabine and Ulrich Jr. will get some shares, but they won’t be able to interfere with business decisions. Sabine has always been complicated. But now she is married and has two children; I am sure that will help. And Ulrich Jr. will not fight for the business. Michael will continue to work for the oils and fats division. He probably will perform quite well. So, there is somebody in the family I can talk to about difficult business decisions. From my point of view everything is clear; I am really looking forward to this afternoon.

Some thoughts concerning the succession: The Consultant

This is a tougher job than it looks at first sight. The family is very well together on the surface. The only one opposing is the daughter. But this seems to me a ritual accepted by her father and therefore, it is tolerated by the rest. The father is looking for harmony in the family and the mother is organizing his family and his business life in way that ensures this harmony. I doubt that this harmony will last once he is not the controlling force of the family any more.

The ownership structure at the moment is relatively simple: The food company is also the holding company of the group. This holding is a typical German construction: It is a private company with five owners, Ulrich Rau (89 %), his wife (2 %) and the three kids with 3 % each. There is a supervisory board, but as they are in a “sandwich” position with Ulrich Rau being their only relevant owner and at the same time Ulrich Rau being the CEO of the holding, they meet twice a year for a sophisticated talk about the company’s and the economy’s perspectives and then are having an excellent dinner accompanied by even more outstanding wines.

Management seems well organized, as well. In the three companies, there are non-family managers running the companies and they all have been with the company for years, successful years. The only family member on a management board is the son-in-law and he seems to be well established; successful and accepted by employees, customers, and banks.

The biggest problem is the market for the main company, the margarine market. It is a mature market where Walter Rau holds about 15 % market shares in Germany. 75% are held by Unilever, and about 10 small companies are sharing the rest. Walter Rau is doing good business in the retail sector with discount chains such as ALDI, Lidl and Penny. Walter Rau only has one brand of its own, Deli Reform, which has not even 2 % market share. Besides that, they produce for the bakeries and professional business customers, both small but profitable businesses. Although the cost structure of Walter Rau is very good, the price war of the last years has reduced profits dramatically. Unilever invested a lot in buying market share and they succeeded with their strategy. But now prices are down.

To find a solution for the next generation, it will be necessary to redefine the family’s and the company’s strategy. What do they want to do together? Who are their clients? What are their resources? What could they do better than their competitors? Well, I think we have to start with the shared dream before we come to business strategy and later to the structure.

Appendices

Appendix 1: The Walter Rau Group - Chronology of Important Events from 1903 to 1991

1903
Walter Rau founds the company. Start of margarine production in Hilter, Germany.

1929
Acquisition of Simons Oil Mill, Neuss, Germany

1935/39
Purchase of 'Berliner Schmalz-werke' (manu-facturing lard) as well as 'Hagenower Käsewerke' (cheese). Both plants were located within the former GDR and were destroyed during the war.

1937
First expedition of the Walter Rau whaling fleet.

1959
Launch of Deli Reform, the first 'health margarine' in the German market.

1958
Ulrich Rau, son of the founder, takes over management

1957
Setting up of an own margarine tub packaging plant in Hilter.

1954
Acquisition of the majority shares in 'Hansa Mühle AG', Hamburg.

1966
Inauguration of the Hansa frozen food production facility in Hilter

1966
Foundation of Hansa Tiefkühl-menü, Hamburg, Germany (deep frozen foods)

1965
Merger of 'Hansa Mühle AG' and 'Stettiner Ölwerke' now known as 'Ölmühle Hamburg AG' refinery (minority holding).

1976
Foundation of 'Hansa Catering and Party Service GmbH', Hilter

1973
Launch of 'Halbarine', the first low fat spread in Germany

1972
Acquisition of shares in 'Albako Margarine-fabrik', Berlin (majority holding)

1971
Launch of the first puff pastry margarine in square format

1985
Entry into the butter fats-business by acquisition of 'Tetzlaff & Wenzel GmbH', Bremen, Germany

1981
Acquisition of shares in 'Inter-continental Speciality Fats Sdn. Bhd.', Selangor, Malaysia

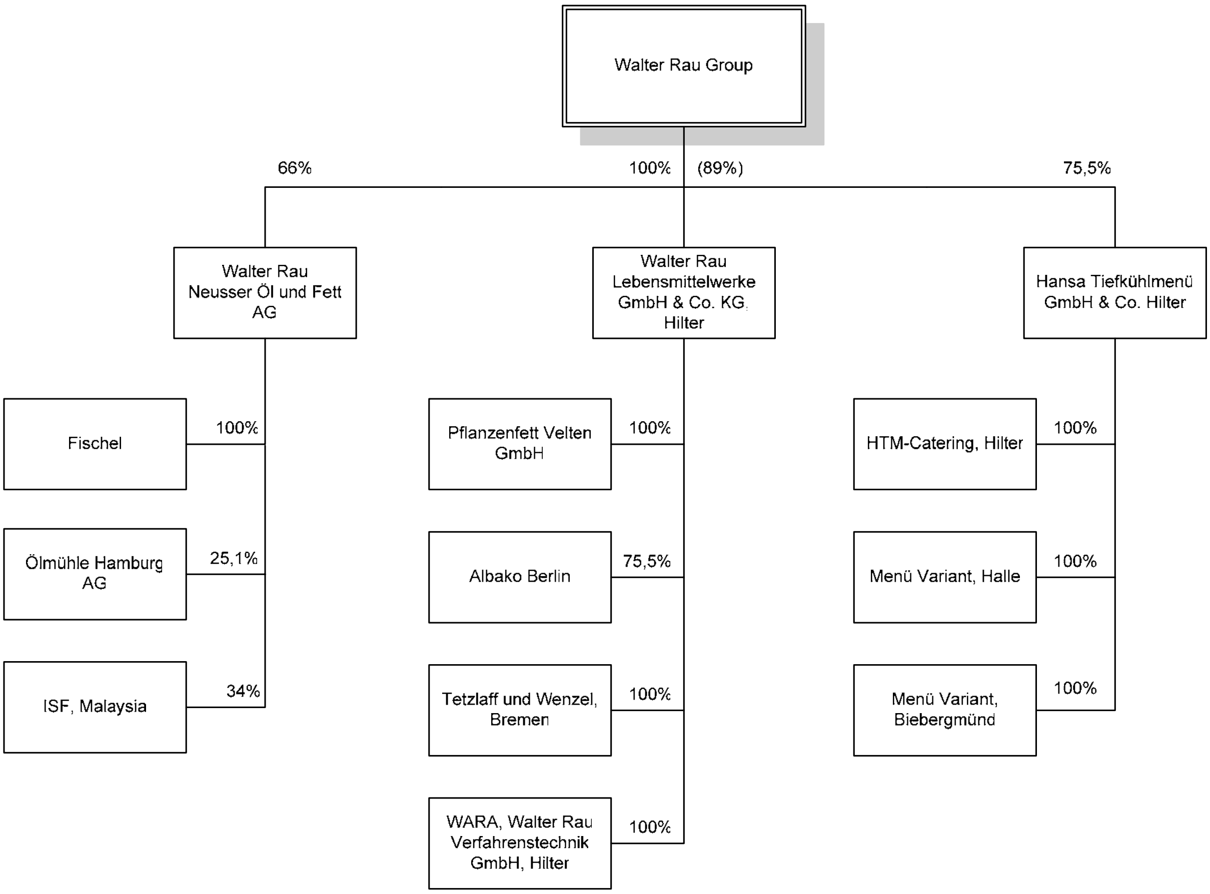
1980
Foundation of 'WARA' (Walter Rau Process Engineering GmbH)

1991
Acquisition of the spread manufacturer 'Pflanzenfett Velten GmbH', Brandenburg East Germany

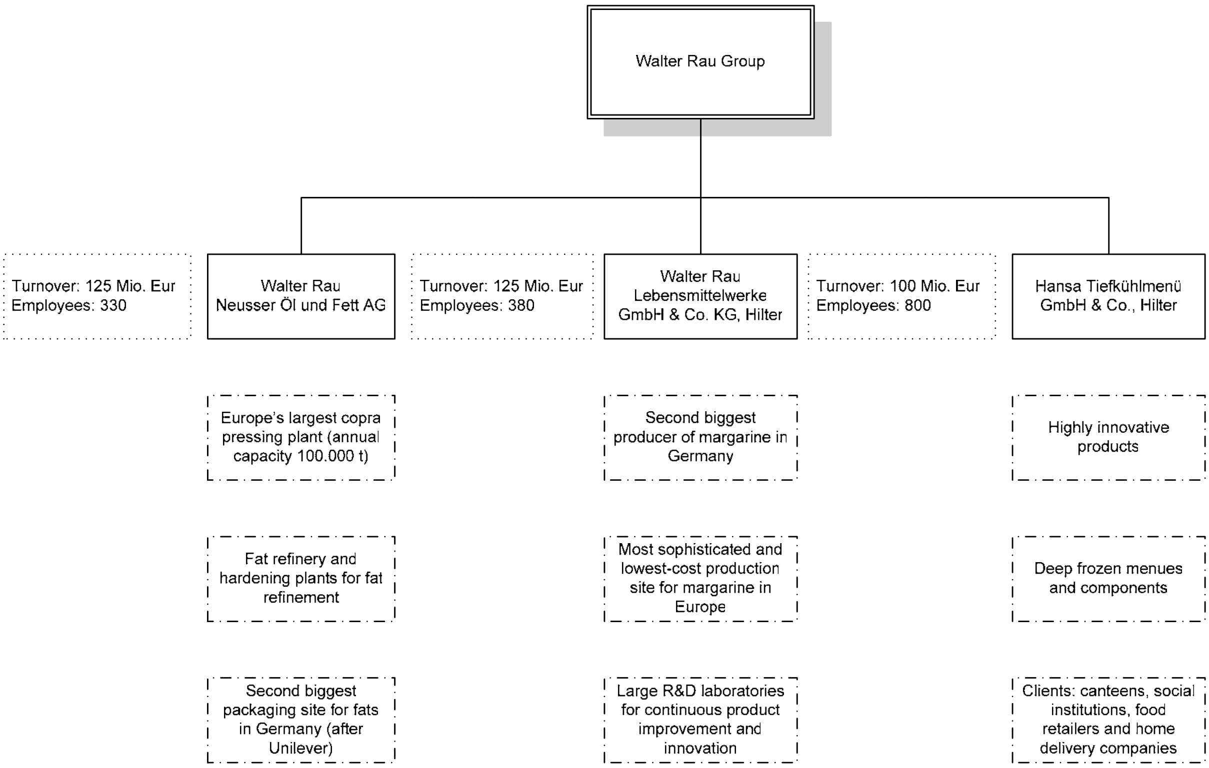
1990
Acquisition of the frozen food production facilities of 'VEB Speisepro-duktions-betriebe', Halle/Saale, Germany

1900 1910 1920 1930 1940 1950 1960 1970 1980 1990

Appendix 2: Walter Rau Group Structure and Participations in 1990



Appendix 3: Walter Rau Group 1990 - Quick Fact Sheet



Teaching Note „Walter Rau“

Walter Rau is a case that can be used to discuss different topics inherent in the case. The first topic is the succession matter and the pattern of succession in the Rau family. Second, there is the market structure and the strategic decisions necessary to maintain success. And third, from the German point of view, the legal question of how to organize the succession in a smooth way is of high relevance to incoming lawyers dealing with family businesses.

As this is a case presented in international surroundings, we will concentrate on linking the first two topics, namely succession and strategic renewal. As Klein (2003) illustrated, strategic renewal and succession follow, in parts, a similar processes. Figure 1 shows the strategically-used succession process (Klein, 2003).

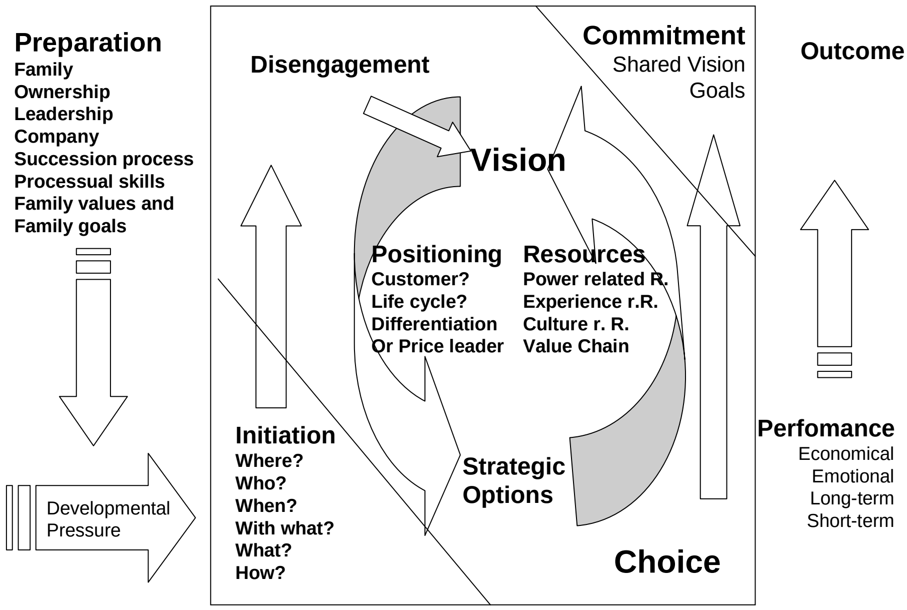


Figure 1. The strategically-used succession process (Klein 2003, p. 212)

The Rau family in 1990 is still in the preparation phase of succession. First, an analysis of the four relevant elements, family, ownership, leadership, and the company in the market is needed. Family goals and values need to be explored and the skills already existent in the family should become clear. With the growing developmental pressure, the question of whether to initiate the succession process deliberately comes up and must be answered. There are pro’s and con’s concerning a deliberately triggered process, but as Ulrich Rau is already in his late 60’s it seems to be high time to get started. The next question to answer is who to integrate into the process: only family members, or in-laws as well?, what about non-family managers, board members and consultants?

The next step would be to find out how Walter Rau can improve service to their clients (who are their clients?) in order to outdo their competitors, and whether they have the resources needed to achieve their goals and objectives. In this phase, strategic options have to be explored, f.e. price leadership in the margarine sector. This would then imply to sell their own brand, which is not contributing much in tons, but is nonetheless providing good margins and is the pride of the family. To concentrate on their respective strength of producing high-level margarine for discounters and white labels could be extended by producing brands for

Unilever, for example. But this would require selling Deli Reform. An alternative would be any kind of differentiation such as medical food, diversification into either other products or other markets. What alternative is chosen impacts the way the family has to act. Being a price leader requires cost discipline across the entire family. It is unfair and impossible to advise managers to save costs by driving modest cars, flying economy class, and cutting costs wherever possible, when meanwhile, the family members are driving their Porsches and asking for a company gardener.

Only when the strategic option is decided upon, a structure to realize this strategy can be derived. It is important to note that structure follows strategy. To explain this process to participants, figure 2 will help. Always start building your family business house from the ground up.

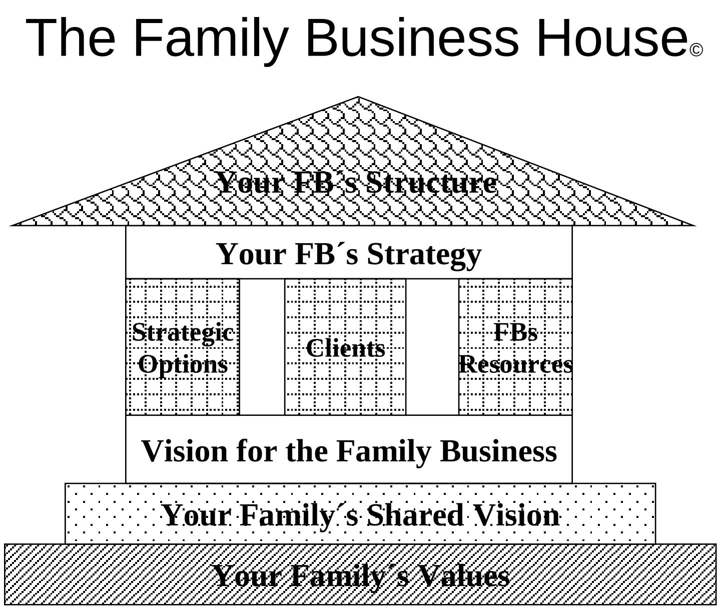


Figure 2. The family business house© (Klein 2002)

Potential Audiences and Users

This case can help to discuss succession and its related topics such as strategic orientation, resources of the family business, or family's values and vision with different target groups.

- With students, both under- and overgraduated, in order to get to learn the complexity of family business succession and its dynamics
- With family business owners and their family members in order to be "warned" of the interaction of psychological, economical, and legal issues in the succession case
- With non-family managers in family businesses in order to be aware that succession is a process which can be influenced but not totally controlled and which also influences the further professional future of these non-family managers
- With the next-generation group of family businesses (e.g. incoming owners and potential managers) in order to help them to early understand the process and to be aware of the risks and opportunities inherent of this process

- And last but not least with service providers who serve family businesses such as accountants, bankers, tax advisors, and consultants in order to learn about the peculiarities of family businesses and their impact on economic decisions.

Two ways of employing the Walter Rau Case

There are two major ways to use the Walter Rau Case. First, you may discuss the case including the roles in the class room. Second, you may just hand out the case itself, and keep the roles for the group discussion. After the case is read, divide participants into 6 groups and ask them to go into different rooms. Each group only gets one role (each a different one) and they are asked to prepare the group discussion as described in the case. After having discussed the case and the role, the group should chose one member to act out the role in the classroom discussion. If the total class is bigger than 40 participants, an alternative is to have a seventh group judging how the process was performed.

While the first alternative only takes about 1 ½ hours in a normal-sized class (if the case was read before), the second alternative needs about 1 ½ hours for a group discussion, 1 hour performance time, and at least another hour analyzing and summarizing.

Recommended literature

Breton-Milller, I., Miller, D., & Steier, L.P. (2004): Toward and Integrative Model of Effective FOB Succession, *Entrepreneurship, Theory and Practice*, June 2004, pp. 305-328.
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Müller-Stewens, G., & Lechner, C. (2001): *Strategisches Management – Wie strategische Initiativen zum Wandel führen,* Stuttgart
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Sharma, P., Chrisman, J.J., Chua, J.H. (2003): Predictors of satisfaction with the succession process in family firms. *Journal of Business Venturing*, 18, 667-687.
Steier, L. (2001): Next-generation entrepreneurs and succession: An exploratory study of modes and means of managing social capital, *Family Business Review*, Vol. 14, No. 3, pp. 259-276.

Role of the Authors

The first draft of the case was written by the second author under supervision of the first. The first author is the grand daughter of Walter Rau, Sabine, and a character of the case at the same time as being an author. After having gone through the succession process and being an assistant professor in the family business field, the first author decided to persuade her family to have their experience put down in a case in order to help others to better understand succession processes in family businesses. Sabine's own notes she took through the years as well as the company's books provided the first source for the draft.

The second author, being a research assistant and PhD student at the European Family Business Center at Oestrich-Winkel, Germany, and being supervised by the first author, collected further data in order to not only have data from people involved in the succession process but to gain a second perspective. Hubertus Rau, eldest son of Ulrich Rau sen., provided the authors with further material from the company's past by opening the files and showing old films (some even from the beginning of the company's history in 1903). Both, the first and the second author, had further interviews with non-family members involved, such as the board members, bankers, consultants, the family's lawyer and the non-family management team.

Finally, all surviving family members of the Rau family, Eva, Hubertus, Ulrich jr., Sabine, and Michael read the final draft as well as the roles provided with the case and gave comments and finally their okay for publication. We are grateful to the Rau-family for opening their doors and helping us to get document based information as well as personal insights in a most intimate process within a family business and a business family.

Walter Rau Part B

Ulrich Sn. dies in 1991. His children equally inherit his shares in the management company (16,6 % each) and the limited partnership (29,726 % each).

<u>1991 – 1993</u>

Ulrich Rau Verwaltungsgesellschaft mbH

Eva Rau	50 %
Sabine	16,6 %
Hubertus	16,6 %
Ulrich Jr.	16,6 %

Walter Rau KG

Eva Rau					1,82 %
Sabine	3 %	+	29,726 %	=	32,726 %
Hubertus	3 %	+	29,726 %	=	32,726 %
Ulrich Jr.	3 %	+	29,726 %	=	32,726 %

Sabine sells her shares in 1993 and leaves both firms.

<u>1993 – 1999</u>

Ulrich Rau Verwaltungsgesellschaft mbH

Eva Rau	50 %
Hubertus	25 %
Ulrich Jr.	25 %

Walter Rau KG

Eva Rau					1,82 %
Hubertus	32,726 %	+	16,363 %	=	49,089 %
Ulrich Jr.	32,726 %	+	16,363 %	=	49,089 %

In 1999, Ulrich Jr. leaves the firms through the means of a “Realteilung”.

<u>1999 – ????</u>

Ulrich Rau Verwaltungsgesellschaft mbH

Eva Rau	50 %
Hubertus	50 %

Walter Rau KG

Eva Rau					3,575 %
Hubertus	49,089 %	+	47,336 %	=	96,425 %