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Friedr. Schwarze

The Friedr. Schwarze GmbH & Co. KG

A Hénokien through Family and Business Cycles

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1. Introduction and motivation

If we look back on what is nowadays a 351-year family firm, its history, tradition, legacy, and evolution can be summarized by the motto: “Brands, people and milestones”. The Friedr. Schwarze GmbH & Co. KG was, indeed, able to preserve and nurture its traditions and values with a real passion for details. Honoring the family inheritance, ensuring trustful partnerships and good employee relations, listening and reacting to customers’ needs are all equally important elements of the company philosophy and represent the key for sustainability through time and over generations. The Friedr. Schwarze GmbH & Co. KG puts high emphasis on always looking ahead by setting new market trends with the introduction of new brands at the right time, acquiring exciting products, and reshaping, as well as, further developing existing brands. Is this the core of a “secret” or “magic formula” that made it possible for this family firm to survive for more than three centuries and across changing times?

Writing about the Friedr. Schwarze GmbH & Co. KG has been a unique, exciting, and challenging experience. Exciting, especially because it is not so common to have the opportunity to investigate such an “old” family firm. Moreover, it becomes even more exciting if you realize that it is not just about a firm surviving for more than 350 years, but that it is also a unique opportunity to understand how is it possible for the family to preserve its legacy and perform its influence along this exceptional time-frame. Is this maybe another part of the Schwarze family’s “secret”? Is keeping family control and influence through time and generations a *conditio sine qua non* to survive for such a long period in a sustainable way?

Among others, these have been some of the main reasons why we have decided to take the challenge to start our journey through the Friedr. Schwarze GmbH & Co. KG case. Our aim is to explore, get to know, reflect, understand, and systematize this very interesting case of an exceptionally long lasting family firm.

Different angles of observation have been assumed to fully grasp the main elements and different aspects of this case at hand. They will be presented along its development and we hope you will enjoy this journey and take the opportunity to reflect and challenge, through your own perspective, some of the aspects being presented and discussed.

1.1 The Schwarze family and *Les Hénokiens* association

One of the main distinctive characteristics of Friedr. Schwarze GmbH & Co. KG compared to many other family firms is its ability to survive for more than three centuries. How is this possible? Is it a special “episode” which only applies (or happens) to family firms? Furthermore, and elaborating more on the last question, is this a special case of a Darwinian effect which just few family firms worldwide have been able to achieve? Indeed, also among the universe of family firms, it cannot be taken for granted that by being a family firm, the family will always be able to preserve its control over the firm and as such survive as entity. These and other fundamental questions about family firms’ longevity and survivability are addressed and explored by the *Les Hénokiens* association which is localizing, understanding, and connecting family firms from around the globe that are older than 200 years.

You might agree with us in saying that this is a special setting to investigate, analyze, and discover more about the “magic formula” or the “untold secret”, which has allowed those family firms and in particular the Friedr. Schwarze GmbH & Co. KG¹ to survive throughout time, history, environment, and sometimes, also, themselves.

1.2 Main focus of the case study: Key research questions

In order to identify the distinctive aspects of the Friedr. Schwarze GmbH & Co. KG, we have used a combination of deductive and inductive approaches. Being one of the central investigators active for many years in the family business research field, we were able to use existing knowledge and capabilities in order to derive some core research questions. This lens of analysis, stemming from previous research and practical experiences on family firms, leads us through the first part of the analysis. Nevertheless, as the main antecedents of longevity and survivability throughout time are still uncovered, demanding for further investigation, we have decided to use an additional inductive approach by keeping the exploratory aim of this case study through a set of discussion points (through the means of a semi-structured interview), which have allowed us to maintain the discovery and exploratory character of this journey.

In sum, by combining an explanatory and exploratory case study research setting through deductive and inductive techniques, we believe to have reached a sophisticated level of

¹ Friedr. Schwarze GmbH & Co. KG is a member of Les Hénokiens association.

understanding the Friedr. Schwarze GmbH & Co. KG. The main research questions, which we approach, are listed below:

- How have the family and the firm evolved in the timeframe where Mr. Friedrich Schwarze has been in charge (relating also to industry and market developments)?
- How have the family, ownership, and governance structures as well as mechanisms evolved from the 10th to the 13th generation?
- Which future developments in terms of family shareholders and management of the firm will Friedr. Schwarze GmbH & Co. KG face?
- How have the succession processes in ownership and management been managed? How will they be managed in the near future? What will happen in the 13th generation?
- What are the governance mechanisms (formal and informal) that were in place, are in place, and possibly need to be implemented for the future?
- Have there been critical situations from one generation to the other and through which mechanisms have they been managed and solved?
- What is the vision of Mr. Friedrich Schwarze on how to successfully and sustainably manage family-related and business-related goals in order to survive for so long and across different generations?
- What is the actual structure of the business group?
- How has Mr. Friedrich Schwarze considered or does consider critical aspects in some “specific” decision-making processes? And, which actions have taken place during his time in the firm?
- How does the international outlook of the firm look like? What are the plans for the future?
- How is it possible to manage so many different brands and keep the Friedr. Schwarze GmbH & Co. KG’s identity still visible for potential customers and also for future family shareholders/managers?

1.3 The methodology

To develop this case, we used a consolidated research approach widely recognized and accepted in management, entrepreneurship, and family business research: the case study analysis. This method, if rigorously conducted, offers the possibility to explore, understand, and systematize the evidence emerging from the case. Hereafter, we will motivate why a “single case

study²” design is most appropriate and what have been the main “units of analysis”, “within the case” we decided to focus on.

Specific steps have been followed in order to systematically gather useful data and subsequently develop the case study. They are summarized hereafter:

- **Step one:** *secondary data collection* through multiple sources (*construct validity*) and understanding of the firm and the family (also via an initial direct contact to Mr. Schwarze). The aim was to get preliminary knowledge in order to properly prepare the case study protocol (*reliability*) and the subsequent face-to-face interview with Mr. Schwarze. In this step, we have conducted a “preliminary” telephone interview³ with him in December 2014 in order to introduce each other beforehand and used this opportunity (without a fixed protocol) to discuss some core aspects of his family firm. In this phase we have specifically focused on:

- a) Understanding the structure of the family firm (and the business group). A visual representation is included at the end of the section.
- b) Understanding the genogram of the family with a focus on the 11th, 12th and 13th generations. A figure at the end of the section provides a comprehensible overview.
- c) Understanding the evolution of the firm by analyzing the period since Mr. Schwarze has been in charge (relating also to industry and markets developments);
- d) Discussing directly with Mr. Schwarze other aspects we have learned about the family firm (through our secondary data collection).

- **Step two:** developing the structure of the *questionnaire*, which has been used for the *semi-structured interview* with Mr. Schwarze. The questionnaire was sent to him in advance to provide the opportunity to think about the questions and develop additional discussion points. In this step we have investigated some main aspects such as the *family structure, the ownership structure and governance mechanisms, strategic decision-making processes and actions, industry and firm environment*⁴. The interview was conducted in English and recorded in order to be able to subsequently write a transcript.

² Specifically, we use a single case study, which is embedded in a strong family context as we focus on multiple units of analysis within the case.

³ The one-hour telephone interview was recoded and then transcribed. Two interviewers were present next to Mr. Schwarze.

⁴ Those aspects were investigated by taking as a reference point the 12th generation (incumbent), which is currently active in management (Mr. Schwarze is the CEO). A comparison was made also in relation to the 11th generation (past) and the 13th generation (incoming).

- **Step 3:** preparing the transcript and start drafting the final case. In this phase we developed the overall storyline for the case by integrating the two previous parts based on explanation building, using logic models and addressing rival explanations (*internal validity*). Once the case was completed, Mr. Schwarze was asked to read and comment on the text in order to approve the final written statements. In case of disagreement on some points the open issues were further discussed (*construct validity*)⁵.

2. The Friedr. Schwarze GmbH & Co. KG: the family firm and its evolution through time

The origins of the Schwarze family in Westphalia can be traced back to the 17th century, offering the first documentations about the family firm. What started as a small distillery in Westkirchen is today an internationally successful firm with a portfolio of more than 60 different spirits and liquors. Tradition, economic developments, and the commitment of twelve generations have contributed to shaping the family firm, which is today known as the Friedr. Schwarze GmbH & Co. KG.

2.1 Origins and historical perspective

By the middle of the 17th century, the young Joan Schwarze emigrated from the small village Beelen to the neighboring Westkirchen, where he earned his high reputation as tax collector. He is said to be the founder of “Swartens Hoff und Brennhaus”, founded in 1664 in Westkirchen. The business specialized on producing cereal liquor, called *Korn*, from local surplus harvest, which is considered the cornerstone of today’s liquor producing Friedr. Schwarze GmbH & Co. KG. What started off as a “byproduct” of farming in the 15th century to make use of surplus harvest, had by then developed to be an integral part of the local culture. In 1483, Michael Schrick, a doctor from Westphalia, wrote the following: “*Wer alle Morgen trinkt geprant Korn ain halbe Löfel vol, der wird nymer krank*”, which can be translated as “*Who has half a spoon of Korn every morning, will not get ill anymore!*” Thus, entering the business of *Korn* production was following the cultural context of Westphalia at those times, and Joan

⁵ As the main purpose of the case study is to foster the discussion and reflection among potential readers (with and without a family background), we have decided to not use theories in order to strengthen some of the main explanations, logic models and patterns concerning the case. Hence, we have decided not to check explicitly for *external validity*. We believe that in this way we can preserve the readers’ inductive approach throughout the case.

Schwarze had the financial means to set-up the required infrastructure for local production. Joan Schwarze's grandson Joan Hermann Schwarze (1716-1794) succeeded the business in his early twenties and decided to move it to the up and coming town Wigbold Oelde, not far from Westkirchen.

In 1836, Gottfried Schwarze decided to gain some experience in the new world before entering the family firm and spent one and a half years in America to learn about their technical progress. Upon his return, he modernized the production process, introduced new technologies to ramp-up production and to reduce costs. Just in time, as he would learn later. Leveraging these new technologies, he was forearmed to face the growing competition from the potato spirit distilleries, offering a cheaper product to the rather parsimonious Westphalians.

At the same time, the first network of railroads was set-up in Westphalia and with it the Cologne-Mindener railway connection. The establishment of the rail system fostered the economic development of the area. From 1844 onwards, the railway connection allowed Schwarze to expand its distribution network to areas outside Westphalia and earned new customers. The Company started to sell bulk grain spirit to the East of Germany and thus gained a leading market position. Further, the entire area experienced an economic upswing during that time, hence regional sales also increased.

To conclude, the industrialization of the 19th century was a blessing for the well-managed Schwarze family firm. They enjoyed a competitive advantage due to their highly modern production site, a solid customer base in Westphalia, high brand identity and proximity to the railway network, allowing the distribution of their products to the wider region, thus reaching a broader potential customer base and increasing their brand visibility.

2.2 Milestones

As described above, the first documentation of the Schwarze distillery is the "Swartens Hoff und Brennhaus" founded in 1664 in Westkirchen. Here the foundation stone of today's Friedr. Schwarze GmbH & Co. KG was laid. The next major documentation is the relocation of the production site to the more populated Wigbold Oelde around 1740 initiated by the young Joan Hermann Schwarze, who married the daughter of the major of Oelde and moved his production and business to Oelde. The newly set-up distillery focused on its core product *Korn*, maintained the traditional and proven methods of production and carefully cultivated the regional market with a strong focus on building a brand on the high quality of their products and the strong family

commitment.

Almost one century later, in 1836, Gottfried Schwarze decided to travel to the New World (America) before taking over the family firm in order to learn more about the use of new technologies. Upon his return, around one and a half years later, he modernized the production plant based on his obtained knowledge and experiences on the other side of the ocean. The main aim was to increase productivity and save costs through the use of new technologies, while at the same time preserving the traditional art of distilling.

From today's perspective, he basically implemented the just-in-time logic within his firm. In 1844 the establishment of the Cologne-Minderer train connection fostered not only the customer base, reach and growth potential, but also the competition. There was a particular increase of new and modern distilleries using the cheaper potatoes instead of cereal, which confronted the traditional distilleries with severe challenges. However, the lucky combination of the modernization of the production process and, just a couple of years later, the industrialization of the Westphalian region, secured Schwarze a sustained competitive advantage. They could produce at reduced costs and expand their distribution network to different geographic regions, hence ramp-up production even further. This ensured success, while many of the regional distilleries could not compete with the increasing price pressure.

In 1912, Friedrich Schwarze (10th generation), at the time running the family firm, claimed legal protection for the "typical black and white image" of showing a farmer as trademark of the Schwarze Company and Brands. At that time, this was a very visionary step, as branding had not been established as typical business tool yet, especially not in the distillery industry. When Wilhelm Schwarze⁶ (1914-1998), 11th generation, took over from his father in law, he built on this visionary marketing strategy and creates the brand "Schwarze Weizen Frühstückskorn" the flagship for quality and tradition of Schwarze. Instead of focusing on the local market, he turned Schwarze into a well-known brand for high-quality products with a strong image representing a century-old family tradition. He established a Coca-Cola franchise in 1951 and hence founded a second enterprise for the Schwarze family.

In the early 1980s, Friedrich-Wilhelm Schwarze (hereafter Friedrich Schwarze), belonging to the 12th generation, entered the family business as the third born child (but firstborn male) of five children. At first, he was solely responsible for the franchise with the Coca-Cola company

⁶ Mr. Wilhelm Schwarze (born Brüning) married Ms. Ilse Schwarze (daughter of Mr. Friedrich Schwarze (grandfather) and mother of Mr. Friedrich-Wilhelm Schwarze (grandson)).

(which will be discussed in more detail hereafter) and later managed the family firm together with his father. After acquiring Koenig & Schlichte and their portfolio of traditional and established brands in 1990, they founded the Schwarze & Schlichte distribution company, which later played a major role in the successful internationalization of several brands. Between his entry in the company and the establishment of the distribution company, Friedrich Schwarze subsequently and smoothly took over responsibility until he finally became CEO in 1990.

Due to the strategic location and extended portfolio, the spirits production was moved to Steinhagen in 1992, mainly to overcome capacity constraints. Between 2001 and 2004, the acquisitions of several traditional German and international brands led to further diversification of the portfolio, without ever losing the core traditions and values of the Schwarze family. In 2003, the Friedr. Schwarze GmbH & Co. KG purchased the spirits division of the *Racke Group* and due to the far larger volume, relocated the Schwarze production to *Rinteln*.

3. The Schwarze family: structure and generations

The family tree allows for a good understanding of the broad family structure as well as the evolution of the Schwarze family and the involvement of its members in the firm along 13 generations. By preserving traditions and values for more than 350 years, the family kept the business together. As the scope of the case study is to investigate and understand the current development of Friedr. Schwarze GmbH & Co. KG, we will mainly focus on the family structure

with specific reference to the 11th, 12th and 13th generations. By taking the 12th generation as main reference point (the one to which Mr. Friedrich Schwarze belongs and which has currently influence in the ownership and the management of the firm), the main aim is to understand structures and dynamics of this generation (*current generation*) in comparison to the predecessors (11th generation, the *past*) and the incoming one (the 13th generation, the *future*).

3.1 The past, the present, and the future: focusing on the 11th, 12th, and 13th generations

The generation currently leading the family firm is the 12th mainly represented by Friedrich Schwarze through his role as major shareholder and Chief Executive Officer (CEO). In the following section, we aim to depict how involvement in ownership and management has been transferred from the 11th to the 12th generation and to what extent the succession to the 13th generation is already under way. This way of analyzing family involvement in a family firm,

despite its challenges, offers a unique opportunity to grasp the essence of the family firm and allows the investigator to understand the antecedents of governance structures and mechanisms as well as strategic decision-making processes.

3.1.1 The 11th generation

Friedrich Schwarze (10th generation) and his wife had four children, one son and three daughters. His son died and the 11th generation of the Schwarze family hence consisted of: Ilse Gertrud, Margret, and Hannah Schwarze. Core players in the 11th generation were Ilse Gertrud Schwarze, born Schwarze, and her husband, who took on the Schwarze family name after marrying Ilse Gertrud. She held 52% of the shares, which she received from her father. He was strongly in favor of having a majority of shares held by one tribe of the family to allow for a smooth management process. Her sisters Margret and Hannah each held only 24%.

In this context, it is of highest importance to mention that Friedrich Schwarze was originally planning to pass on the family firm to his son, as this was the tradition in the Schwarze family until then (succession based on primogeniture). However, as his son had fallen during the Second World War, he had to rethink the traditional succession strategy followed until that time. He came to the conclusion to split the ownership among his three remaining daughters, but to give the majority of shares to Ilse Gertrud, who was married to Wilhelm Schwarze (born Brüning), whom he held capable to manage the family firm. Wilhelm Schwarze held a leading position (CEO) in the family firm, after marrying Ilse Gertrud in 1947 and taking on her name. Margret also worked in the firm for about ten years, but not in a leading position. The third sister Hannah was shareholder but never worked in the company.

Ilse Gertrud, according to a “family shareholders’ agreement (contract)”, which was established by her father in 1953, had the right to buy out her sisters. However, she always preferred to keep harmonic relationships among siblings. When Hannah died in 1963, the shares were inherited following the last will of the late Friedrich Schwarze, their father. He was aiming at bringing ownership under the control of one family tribe. He had decided to redistribute Hannah’s 24% of shares between Ilse Gertrud (who got 18%) and Margret (who got 6%). Around the same time Ilse Gertrud transferred 4% of her shares to her husband, leading at the end of this succession in ownership phase to the following ownership structure for the firm in the 11th generation: 66% Ilse Gertrud Schwarze, Margret Schwarze 30%, and Dr. Willem Schwarze (Ilse Gertrud’s husband) 4%.

3.1.2 The 12th generation

As described in the previous section, the late Friedrich Schwarze's last will to keep the family firm under the control of only one family member leaves the family tribe of Ilse Gertrud Schwarze and her husband, Wilhelm Schwarze who jointly owned 70% of the shares. They had five children who would represent the 12th generation. It is also important to mention that neither Margret nor Hannah had children, thus the 12th generation completely derived from the family tribe of Ilse Gertrud Schwarze.

Mr. Friedrich Schwarze (our interview partner and current CEO of the family firm) is the third (in birth order) among the five children of Ilse Gertrud and Wilhelm Schwarze. He has two elder sisters Margret (firstborn) and Ursula (second born), one younger brother Joachim Arthur (fourth born), and a younger sister Gertraud-Irmgard (fifth born). Our interview partner Mr. Friedrich Willem Schwarze is the firstborn male, suggesting, as traditionally done before in the Schwarze family, he would surely be the successor of the family firm by applying a *de facto* primogeniture rule (the oldest boy gets it all logic). This is a very interesting aspect that has to be considered when trying to understand succession dynamics and logics in family firms that have traditionally been based on the primogeniture rule and, if not possible, on the eldest son logic. Indeed, the importance of this informal norm is also suggested by Mr. Schwarze during the first phone-interview: "*Since its origins, the structure of the business has always been like the one of a big farm [...] the one who runs the business gets most of the land or all of it*". As it clearly emerges from his statements, in addition to the traditional primogeniture logic there are additional motivations leading to the decision to always "prune" the family tree from one generation to the other, and the main reason is to give to the leading family member also the authority and decision-making power to efficiently run and manage the family firm.

Mr. Friedrich Schwarze received 12% of the shares – out of his aunt's (Margret Schwarze) 30% ownership of the family firm – in the course of his baptism. His grandfather, Ilse Gertrud's father, initiated this, as Friedrich was the eldest son and thus potential successor for the family firm. This direct ownership transfer is a step which is in line with his wish to make sure that there will be only one family tribe who manages the firm. Friedrich-Wilhelm is the only among his siblings who directly received shares from his grandfather.

Mr. Friedrich Schwarze's mother (Ilse Gertrud Schwarze) suddenly passed away in 1982, without leaving a clear will on how to distribute her shares; only a document stating she wanted them to be distributed among her children. The ensuing discussion evolved around the most

efficient allocation of Ilse Gertrud's shares. As Friedrich already held 12%, which he received from his grandfather, he would have been the most logical successor fully in line with his grandfather's wish to always establish a majority in one tribe. However, as this solution was neither in line with Ilse Gertrud's wish and might have caused tensions among the siblings, the option of equal allocation was preferred. In the end the following allocation of shares was agreed: Wilhelm Schwarze received 6% of the shares and the remaining 60% were equally distributed among his five children thus leading to 12% each.

After this ownership succession the new ownership structure looked as follows:

- Mr. Friedrich Schwarze held 24% (12% from his grandfather and 12% from his mother);
- Ms. Margret Schwarze held 12% (from her mother);
- Ms. Ursula Schwarze held 12% (from her mother);
- Mr. Joachim Arthur Schwarze held 12% (from his mother);
- Ms. Gertraud-Irmgard Schwarze held 12% (from her mother);
- Mr. Wilhelm Schwarze held 10% (4% from his wife and now 6% again from his wife).

As the only one of the five siblings, Friedrich always showed an interest in working for and eventually running the family firm as successor. Starting in the early 1980s, he joined the family firm on different levels, trying to find his place in the firm next to his father. Friedrich became CEO of the Coca-Cola franchise in 1987 and of the traditional family company in 1990. In 1998, Wilhelm Schwarze passed away. His will clearly stated that his 10% of shares should be solely given to his eldest son Friedrich increasing his total amount of shares to 34% and thus building another stone towards the substantial control exercised by only one family member which was so wished by his father in law.

The last set of shares held by the 11th generation belonged to his aunt Margret. Friedrich had already "received" 12% of her shares at his birth under explicit wish of her father. In 2002 Margret died, but before that, she agreed that her reaming 18% of the shares were supposed to be equally distributed among her five nieces and nephews. Thus, each of them received 3.6%. 2002 is also the year in which the ownership succession process from the 11th to the 12th generation is finally completed. The ownership structure of Friedr. Schwarze GmbH & Co. KG is the following:

- Mr. Friedrich Schwarze holds 37.6%
- Ms. Margret (Schwarze) Hosenseidl holds 15.6%;

- Ms. Ursula (Schwarze) Wiik holds 15.6%;
- Mr. Joachim Arthur Schwarze holds 15.6%;
- Ms. Gertraud-Irmgard Schwarze holds 15.6%;

The subsequent step in the consolidation of the ownership structure of the Friedr. Schwarze GmbH & Co. KG would have led Mr. Friedrich Schwarze to buy enough shares of his siblings to hold the majority. By this it would have been possible to reach the aim (envisioned by his farther and earlier by his grandfather) of getting the family firm under the control of just one family tribe. However, it has not been possible for Friedrich to find an agreement with his siblings and to get a minimum 51% of the shares in the aftermath. From the face-to-face interview it emerges that Friedrich has taken this in a very constructive way and decided to “let go” the intention to “prune” the family tree and get under his control the full family ownership. Hence, in the 12th generation there are different types of family shareholders, one family shareholder who is active in the business (Mr. Friedrich Schwarze) and four passive family shareholders who are not involved in the day-by-day business activities. This also means that passive family shareholders are interested in keeping their shares and getting value (financial returns). The relationships between the current family shareholders (siblings) can be described as peaceful. There has never been any rivalry among the siblings and in particular in relation to Mr. Friedrich Schwarze’s leadership of the firm. His commitment and dedication to the family firm are highly appreciated by his siblings.

3.1.3 The 13th generation

The incoming generation is the 13th and consists of four family tribes with 16 family members. The siblings of Friedrich Schwarze have altogether 14 children; Friedrich Schwarze has two children (a daughter (firstborn) and a son). Concerning the involvement of the 13th generation we can suggest that currently there is an indirect transfer of ownership (in four out of five tribes) as shares have been transferred to members of the 13th generation but still without voting rights. Specifically, in 2012 Friedrich Schwarze has transferred his shares (without voting rights) equally to his two children (18.8 % each). Three of his siblings, have partially transferred shares to their heirs⁷. Hence, through the growth of the family in the different tribes we have now a constellation of 21 family members (belonging to the 12th and 13th generations) which are

⁷For privacy reasons we do not disclose information on the other four tribes.

organized in five tribes, as shown in Figure 1.

Figure 1: Friedr. Schwarze GmbH & Co. KG's family tribes

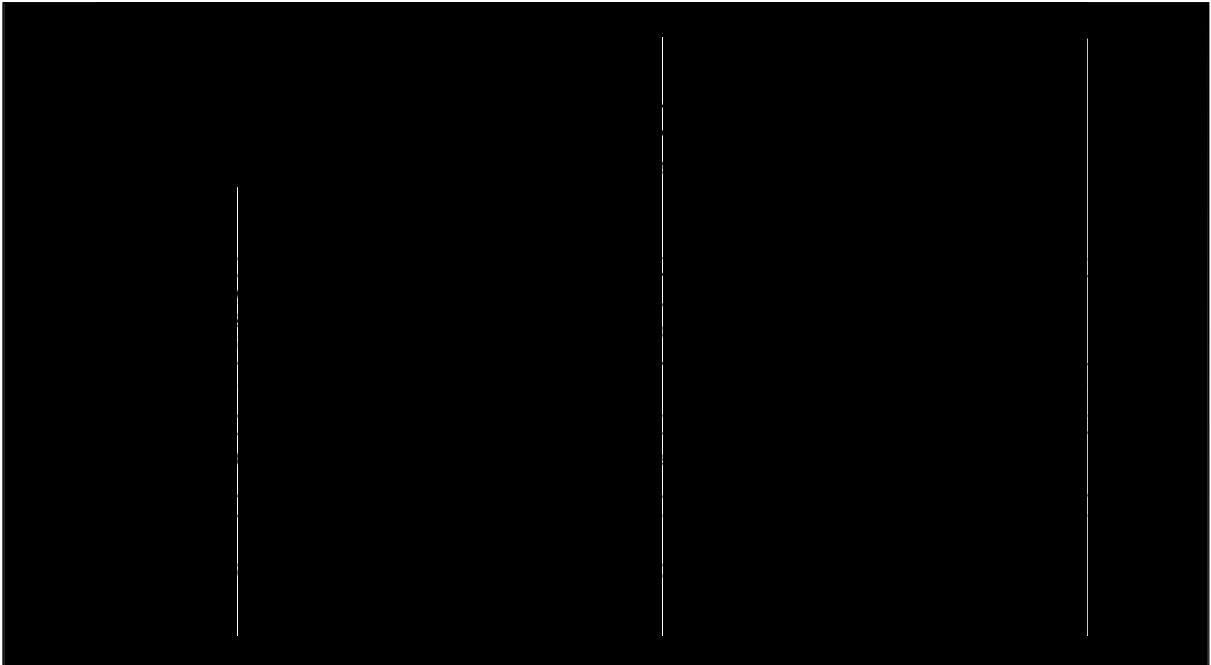


Figure 1 shows that each family tribe has one leader (from the 12th generation) and their respective children (from the 13th generation).

During the face-to-face interview we have been able to get insights on Friedrich's relationships (in the firm and family context) with his two children. They have always had a very close relationship to the business, as business issues were informally discussed and explained by their father at home (a way that is typical for family firms and through which senior generations realize a transfer of informal capabilities and tacit knowledge). As father he has always given

them the option “to choose” upon their career path (e.g., especially in terms of choices concerning their studies). They knew that the family business was always an option for them as a future employer, but Friedrich has never confronted them with this possibility. Although there has never been pressure to commit to the firm succession, Friedrich Schwarze made sure that

both his children were aware of the family firm and its legacy. Freedom of choice seems to have been the main credo he has followed as father with his children. This situation has slightly

changed after his children received part of the shares of the firm. Indeed, since then they have always been officially informed about the operations and main strategic directions of the firm. Their cousins, on the contrary, have never really been exposed to the business during their

childhood, as their parents have never played an active role in the management of the family firm.

Following the suggestion of one of his sisters, Friedrich has recognized the importance of getting the members of the 13th generation closer to each other and organized family events, which by then were rather limited, in order to give the members of the new generation the opportunity to get to know each other and the company better. Friedrich has thus initiated three family get-togethers for the members of the young generation to improve their knowledge about “their” family firm, its operations, and especially the communication between each other. He recognizes the strategic importance of having “responsible” family shareholders to make sure that they could together act as a cohesive group of family shareholders aiming at preserving the firm’s wealth and the family legacy. Indeed, the forthcoming succession in ownership and then in management (when completed) will leave the Friedr. Schwarze GmbH & Co. KG with a completely different constellation of shareholders and ownership structure, which surely will challenge the future development of the firm and also the family.

The next ownership succession will be the first one in the history of the family firm, to leave as a result a rather diverse group of shareholders, consisting of 16 family shareholders belonging to five different family tribes. Hence, all initiatives Friedrich is taking are aiming to pave the way for a fruitful teamwork among all members of the incoming generation. Lately, his daughter has applied for a position in the family company and was approved by the advisory board (*Beirat*) after discussing with the shareholders.

3.2 Open issues

As previously discussed, ownership succession has already been performed in four out of the five family tribes. Although the voting rights of Friedrich’s children have not been transferred yet, he has developed a culture of family meetings for the youngest generation in order to expose them to the business and prepare them for their future role as responsible family shareholders.

Another scenario might be one in which the minority family shareholders from the 13th generation could intend to sell their shares directly to Mr. Schwarze’s children. In fact, the capital they would liquidate under these circumstances might be used for investments in potential own businesses for their personal fortune. In case this scenario would become reality, an additional issue would derive from the question on selling to whom instead.

As Friedrich Schwarze’s daughter plans on joining the firm next year and has expressed a

strong interest in eventually taking over the business (succession in management); one option would be to create clear majority ownership conditions. Hence, this would mean for her to buy the shares from the cousins if they are willing to sell. However, there might be alternative feasible and sustainable ways to efficiently allocate the shares and voting rights among the two siblings.

4. Family shareholders' agreements and meetings

The following section focuses more specifically on the roles and responsibilities of the current family shareholders (from the 12th generation) within the Friedr. Schwarze GmbH & Co. KG. Furthermore, it presents the ways through which relationships among family shareholders are disciplined via formal shareholder agreements. Finally, it focuses on how formal family shareholder meetings are held in order to understand how family shareholders exercise influence over the strategic directions of their family firm. This discussion about mechanisms among family shareholders is considered as part of the overall discussion about formal governance mechanisms.

4.1 Family shareholders' agreements

The family shareholder group of Friedr. Schwarze GmbH & Co. KG consists of all members of the 12th generation (and also includes the majority of members of the 13th generation even if they do not participate in formal meeting due to the not yet transferred voting rights). Relationships among family shareholders with voting rights are disciplined through a limited number of agreements. This is due to the fact that family shareholders of the Friedr. Schwarze GmbH & Co. KG have a more passive role in the firm. Indeed, one of the most important

shareholders' agreements mentions the transfer of voting rights from family shareholders to an advisory board (in German known as the *Beirat*). As consequence, the direct family shareholders' influence over the firm is very restricted.

Family shareholders exercise strategic influence by directly electing their representatives for the Beirat. Once elected, the members of the Beirat have a five-year mandate with some decision-making influence over the strategic direction of the firm. This includes the entry and exit of family members, managers and core strategic choices or investments. Of particular interest is the nomination process for members of the Beirat, which will be presented and discussed more detailed in section 5.1.

As decision-making power is directly transferred from family shareholders to the Beirat, there is no specific need to have additional shareholder agreements to guarantee efficient strategic decision-making processes nor agreements to handle occurring conflicts (through conflict resolution mechanisms) among family shareholders. According to Friedrich Schwarze, as there are no strategic decisions which are directly taken by the group of family shareholders, besides the election of the Beirat, the likelihood of having potential detrimental conflicting situations among shareholders is reduced. However, it needs to be highlighted that in order to get to this stable situation within the family shareholders group, it is crucial that the different strategic objectives, goals, and identities of the family shareholders are counter-balanced in the election of the members of the Beirat. Thus, we can argue that an efficient election of the Beirat is a necessary pre-condition to have stable relationships among the group of family shareholders afterwards.

Despite the stable and efficient family shareholding and governance structure of the 12th generation, the future will be very challenging when the number of potential shareholders is going to increase to at least 16 (assuming that all members of the 13th generation will receive shares). Indeed, each family shareholder of the 12th generation has, currently, one vote in the Beirat election. This means that, if we think in tribe logic, each tribe will have one vote, stressing that before exerting the vote, an agreement among the family shareholders of each tribe should be

found. This leaves an open challenge to the future family shareholder group with the almost indispensable necessity to implement additional “family business governance mechanisms” (such as family council, family constitutions, and family meeting).

Another shareholder agreement manages the entry of family members into the business. The final decision-making power over this choice is delegated to the Beirat, which votes on whether the family member (potential candidate) has the relevant qualifications and competencies for the job at hand. Furthermore, the pre-requirement for any family member to become CEO is to have at least seven years of industry experience. Nevertheless, consistent power over this decision remains in the hand of the family through its CEO (Mr. Friedrich Schwarze) who has the right to present the potential family candidate to the Beirat. It is very interesting to reflect on the potential consequences of this agreement if there should be the case of nominating an external CEO, as he/she would not benefit from the same rights as an owner-manager.

When referring to family shareholders it is also worth understanding how dividend policies work within the Friedrich Schwarze GmbH & Co. KG. It is clear that a certain percentage of

dividend payments needs to be retained in the firm for future investments, such as acquisitions of new brands or other projects supporting strategic growth. This practice, which is prevalent among many traditional family firms, stems from the 19th century and has since then always been applied in the Friedr. Schwarze GmbH & Co. KG. Despite of this rule, a certain degree of flexibility is guaranteed as well. Indeed, according to Friedrich Schwarze, the four tribes have different expectations and needs regarding dividend payments, which he is currently managing upon request. Hence, whenever one of his siblings asks for dividend payments, he grants them as long as they are reasonable and following the rule of keeping a certain percentage within the firm.

Another important aspect in terms of family shareholders and relationships among its members is the agreement on how shares might be sold. This agreement states that if a family shareholder wants to sell his/her shares, that this is solely possible within the family. Moreover, Friedrich Schwarze can preempt only 49% of the shares. This agreement was initiated by his aunt, who did not agree with his grandfather's philosophy of keeping the absolute majority of shares (more than 51%) within one tribe. During the interview it turned out that this agreement against preempting an absolute majority of shares is a rule Friedrich Schwarze would like to abolish. However, his siblings oppose against this suggestion.

In sum, it is very interesting to observe that specific types of family shareholder agreements are in place in Friedrich Schwarze GmbH & Co. KG in order to develop a beneficial interplay between the family and the firm with regard to efficient decision-making procedures. However, it is important to emphasize that all these agreements are driven by "family orientation" and hence not always aligned with the firm-specific logic. Especially, the "one tribe one vote" rule (to elect the members of the Beirat) follows an egalitarian logic treating family shareholders in the same way even though they have different percentages of shares. Probably it could be interesting to further reflect on how family shareholders' dynamics might change if each shareholder would have the power to vote according to his/her personal shares. Currently, there are no changes planned in this direction, whereas this issue might become more pronounced in the next generations due to the mentioned increasing number of family shareholders.

In sum, the family shareholders of the Friedr. Schwarze GmbH & Co. KG seem to be satisfied with the current practices, as there are no signs of disagreement. Since the shareholder votes are predominantly transferred to the Beirat, composed out of trusted members with relevant experience and competence, the family shareholders seem to have the feeling that the right strategic choices are derived, beneficial for the firm and themselves.

4.2 Family shareholders' meetings

The official shareholder meeting takes place once a year with Friedrich Schwarze and his four siblings as representatives of the family tribes. As all voting rights, but the right to accept or to reject the annual report, have been transferred to the Beirat, these meetings represent mainly informational exchange in which Friedrich is informing the other family shareholders over the current situation of the company, further strategic plans, as well as key financial numbers. Except for some questions on the balance sheet, Friedrich Schwarze could not recall any disputes or conflictual discussion during these meetings. On the one hand, this is due to the incident that the Beirat receives the balance sheet beforehand and, if not objecting against it, the approval can be regarded as act of faith by the family shareholders on the members' competence. On the other hand, as the "non-active" family tribes are interested in not losing wealth, they have no reason to criticize Friedrich Schwarze decision as CEO as long as the firm is performing well.

In addition to these official shareholder meetings, there have been several other events lately – initiated by Friedrich Schwarze and one of his sisters – to bring the 16 members of the next generation together and to properly introduce them to the company by e.g. visiting the production sites or learning about brands and the industry. As family ties among the five tribes are not very strong, it is necessary to create strong relationships between the family members of the 13th generation and also with regard to the family firm. Through these events, Friedrich is

trying to develop a feeling of belonging and responsibility as shareholders of the family firm. Furthermore, he is providing the opportunity to get to know each other better. Both aspects are vital conditions for creating a strong foundation for the future of the family firm in order to avoid potential conflicts between the growing tribes, especially with regard to the imminent leadership succession transfer from the 12th to the 13th generation.

Currently, they mostly see each other in the annual shareholder's meeting. His efforts to reunite the new generation are hence not only motivated from a business point of view, but might also be an attempt to pave the way for a united family behind the firm and settle obsolete issues between the tribes once and for all.

5. Governance structure and mechanisms

In the following section, we will elaborate on the rather unique role of the Beirat in the Friedrich Schwarze GmbH & Co. KG. The Beirat's structure and working style were

initiated and developed in 1987 by Friedrich's father as well as the financial auditor of the company.
The

main intention was to ensure that the CEO could freely decide on a day-to-day business level and on midsized investments. The final decision-making authority for larger investments and path-changing strategies should lie in the hands of people who have the necessary expertise and the firm's best interest in mind with less personal biases as the management.

5.1 The Beirat as main formal governance mechanism

As starting point it is important to understand the structure and responsibilities of the Beirat. As already discussed, the family shareholder agreement fully passes the decision-making authority for bigger investments over to the Beirat. Hence, it takes responsibilities over the family firms' decisions instead of its owners. The family shareholders have the main duty to elect suitable members who represent their interests in the best way possible. This agreement was established in the aftermath of Ilse Getrud's death and the following discussion on how the shares should be allocated. All shareholders at that time agreed on this regulation, as it reduces dispute among them and ensures the informed and independent decision-making body in the best interest of the firm.

The Beirat consists out of four experienced members, having the knowledge and competencies to take on that role. Although four members seems to be quite a small number at first sight for a committee that has to take decisions regularly, Friedrich Schwarze is convinced that it is the most reliable form. Any decision against the CEO has to be supported by at least three members. This system is more reliable than a committee of five – with a necessary majority of 3:2. Having four members reduces opportunistic behavior and makes decisions more effective as a 3:1 vote against a strategic decision or plan is stronger majority that the issue at hand needs to be reconsidered. So far, there was only one non-uniform vote in 1998 (3:1 in favor of Friedrich Schwarze's decision), when the decision was on when to sell the Coca-Cola franchise business – immediately or by the end of the contract in 2011.

According to their contract, the members of the Beirat are supposed to meet three times a year to take decision on important strategic issue and monitor the management. In fact, they meet twice a year – according to Friedrich Schwarze – and for complex strategic decisions, such as new acquisitions, they also include all family shareholders (although this is not part of the shareholders' agreement). Nevertheless, there has never been an objection from the family shareholders to any decision of the Beirat so far. Hence, including them is basically just a convenient way of keeping them informed and preventing any objections after a decision has

been taken. The financial compensation for the members of the Beirat is market oriented and consists of a base payment with a variable part depending on the number of meetings during the year. The variable part, however, is only a small fragment.

5.2 Electing the members of the Beirat

By looking at how the election process of the Beirat works we will get to a more holistic picture on the decision-making logic within the family firm. To this aim, we hereafter shortly illustrate how members of the Beirat are elected.

Friedrich Schwarze has, as shareholder with more than 30% shares, the right to nominate one member for the Beirat immediately without any possible objection by the other shareholders. The second member is selected through a joined process including all family shareholders. However, for the nomination procedure it is of our utmost interest to identify how the two remaining seats are allocated. The four minority shareholders (the four tribes) have the right and responsibility to fill the two remaining seats and as such they consequently suggest two candidates (one for each seat). Interestingly, Friedrich Schwarze, as a CEO deriving from the family himself, has a veto right on the election of these other two candidates. The special characteristic of this right to object is that it can be exercised only once. However, it emerged from the interview that this right has never been exercised by him so far, revealing that this mechanisms, on the one side, prevents the minorities from proposing candidates that are not in the best interest of the firm (or candidates that Friedrich will surely dislike) and, from the other side, prevents Friedrich from opposing against candidates since he is eventually not anymore able to control the election of the alternative members (once exercised the veto right, he cannot use it again). The tenure of the members of the Beirat is always for five years. Figure 2 gives an overview of this election process.

Figure 2: The Beirat election process



This afore-described election process of the Beirat makes it possible to deduce that Friedrich Schwarze has a significantly higher influence on its composition than the other family shareholders, which is also not fully reflected in his 37.6% of the shares. Nevertheless, the fact that Friedrich Schwarze can only use his veto right once in each election entails some threats. In fact, the minority family shareholders could misuse this rule strategically in their favor by presenting a first candidate that is not viable for the business under any circumstance. By this, they would virtually force Friedrich to make use of the veto right and at the same time give them unrestricted discretion to fill the vacant seat with their favorite candidate in its consequence.

Despite this risk, there has never been any situation where the veto right has been exercised in such an abusive manner. So far, Friedrich Schwarze's experience is that the other family shareholders proactively consult him in advance and disclose the relevant information about potential candidates. On the one hand, they are asking for his professional and honest opinion on the suitability of the proposed candidate. However, on the other hand, they do not want to

unnecessarily expose their candidate – usually a friend or long-term business partner of one of the

other family shareholders – to this potential embarrassment of being initially rejected by the CEO and majority shareholder of the firm.

To conclude, the election process of the Beirat is very unique. However, it is Friedrich Schwarze, in his role as CEO, who takes the decisions, as the Beirat needs a 3:1 vote against his decisions. Thus, the actual decision-making power of the Beirat is limited to its veto.

5.3 Future structure of the Beirat

During the interview with Friedrich Schwarze it became obvious that there seem to be no specific plans on changing the structure of the Beirat or reconsidering its decision-making discretion. He pointed out that that this structure is the most suitable and feasible way to manage the family firm efficiently, as it reduces potential conflicts among the members, opportunistic behaviors, and equips the firm with the necessary professional experience. Nevertheless, he is

very aware of the fact that once the ownership is transferred to the successor of the 13th generation (with full voting rights within the five tribes), there will be the challenge to find consensus on potential candidates elected among each family tribe. Indeed, if the current mechanisms of “one tribe one vote” will still be in place at that time, this will imply that every tribe needs to find proper mechanisms to derive a shared and joint decision. In fact, as shown in Figure 2, the highest threat of conflict stems from the nomination procedure of the second Beirat member (all five tribes together) as well as the third and fourth members (all four minority tribes together and the major shareholder which could exercise the veto right).

Hence, in order to preserve the current structure of the Beirat, its election as well as authority, the next generation needs to introduce new voting mechanisms and rules in order to find pluralistic consensus within the family shareholder group and among each tribe. However, this issue will be addressed when the process of succession in ownership is complete as the current generation (the 12th) is satisfied with the status quo.

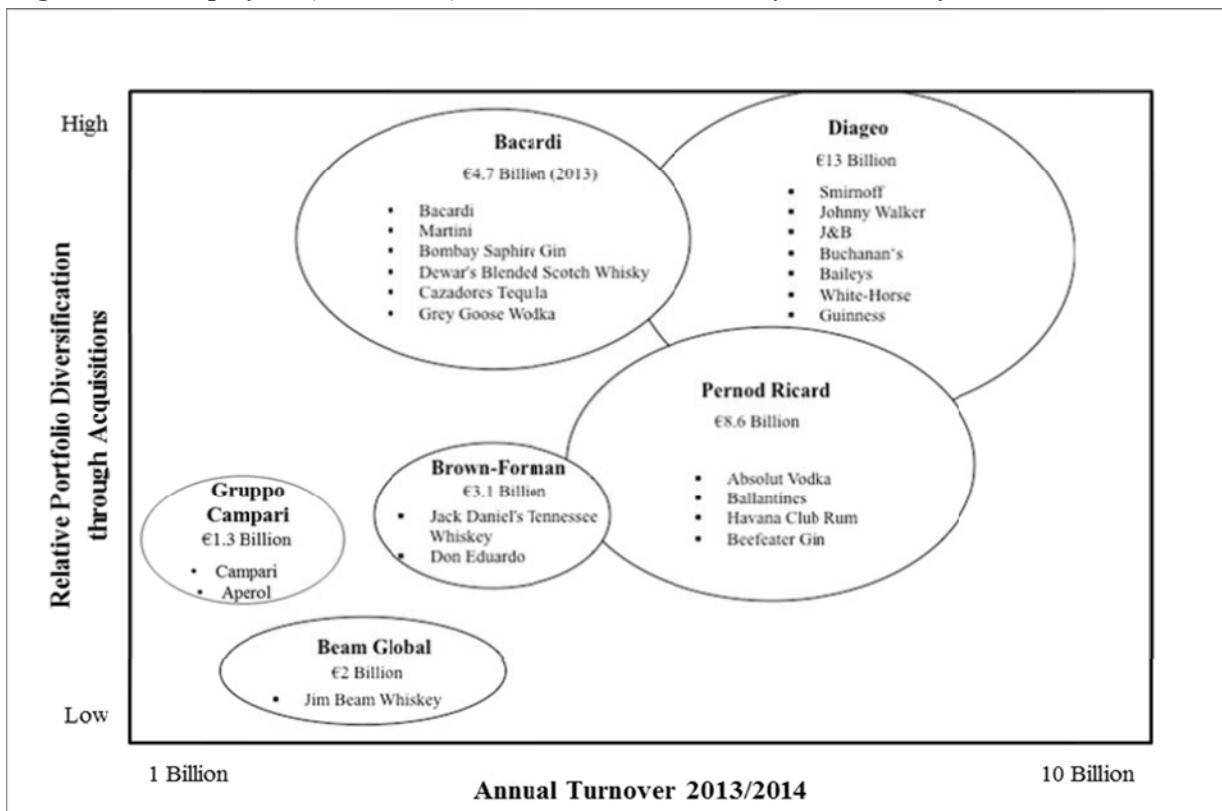
6. The firm: Friedrich Schwarze GmbH & Co. KG

The following section approaches the Friedrich Schwarze GmbH & Co. KG from a business point of view, by analyzing the industry, the product portfolio, the competitive environment as well as the internationalization strategy. At first, we discuss the broader industry context to gain an understanding for the firm’s business environment.

6.1 Main industry

The industry of distilleries and spirits production is very competitive, but with high entry barriers and only a limited number of players in the market. Over the past decades, these big but also medium-sized players have been acquiring many of the smaller and regionally distributing companies and their related brands. Hence, the product portfolios of the remaining competitors are growing in terms of number and diversity. At first sight, the industry seems to be highly diverse, yet appearances are deceiving. While at an international level the market is dominated by six key players – owning most of the international, well-known brands, there have been some observable shifts in the last two decades. This was mainly fostered by the medium-sized players taking over the big players' strategy of expanding internationally by acquiring a diverse set of companies and brands and integrating them into their portfolio. To show the global industry, Figure 3 gives a comprehensible overview of the six core players, their most recognizable and profitable brands as an indicator of their diverse portfolios, often enlarged through acquisitions, as well as the turnover for 2013/2014.

Figure 3: Main players (and brands) in the worldwide industry measured by annual turnover



6.1.1 The German market

The total sales of the industry in Germany amount to around € 2 billion in 2014/2015. Compared to other European markets, the German one ranks within the three biggest markets. However, measured in terms of per capita consumption, the market becomes less attractive and has been gradually declining since 1991 by volume although slightly grown by value. Hence, German companies operating in this industry are facing the challenge of competing with the international players in a stable market, especially as many of the German companies are considerably small and do not play an influential role in the market. The two most internationally active German companies are Mast-Jägermeister and Berentzen. However, the only European company – except Diageo – playing in the same league as the big five is the Campari group from Italy, which managed to increase its annual turnover tenfold in the past 20 years. Looking at the imbalance between imports (1.5 billion in 2014) and exports (1 billion in 2014) – mainly from the US, UK and Italy – one gets the impression of German companies of playing only a subordinate role.

Nevertheless, the market in Germany is becoming ever-increasingly consolidated among a few companies that followed the big players' strategy of diversifying their product portfolio using aggressive brand acquisitions. The process started in the 1970s, when the spirits market in Germany was characterized by many local distilleries, usually specialized in only one or few products. Currently, there are roughly 50 companies in Germany and the number of independent companies is still decreasing. Their number is expected to further decline in the future, as their main competency is not the production of spirits anymore. Instead of growing organically, there has been a shift towards growth via mergers and acquisitions. Hence, the new core competency next to the production of spirits is the acquisition and promotion of brands in the national as well as international market. For potential new entrants to the market, barriers are very high nowadays and the remaining ones expected to play only a minor role in the regional markets.

6.2 Friedrich Schwarze GmbH & Co. KG: Key figures, group structure and production

In this section, we provide a short description on key figures for Friedr. Schwarze GmbH & Co. KG. Figure 4 shows the development of firm revenues over the years 2008-2014. Concerning its employees the firm currently has 103 employees and the turnover of the group has been gradually increasing over the past years.

Figure 4: Friedr. Schwarze GmbH & Co. KG's turnover 2008-2014



Friedrich Schwarze GmbH & Co. KG controls multiple subsidiaries as shown in Figure 5. The holding with its controlled firms constitutes the business group under direct control of the Schwarze family.

Figure 5: The Schwarze business group



The production of Friedrich Schwarze GmbH & Co. KG liquors is mainly located in Rinteln, where they moved to in the aftermath of the Racker acquisition, mainly due to capacity constraints. The only production site outside Germany is in Mallorca, Spain, where the regional liquor Angel d'Or is produced. However, this liqueur is bottled in Germany.

There are two additional holdings not active in the core business of spirits, providing the business group with independent revenue streams. The *Westenhorst GmbH & Co. KG* is active in the property management sector. This holding is responsible for real estate, equity in other companies and different assets. The second one is a 50% holding in the *b+m surface systems GmbH*. After selling the Coca-Cola franchise, the Schwarze family acquired 50% shares in this company based in Eiterfeld. *b+m surface systems*, with more than 300 employees, manufactures industrial painting plants for the automotive industry and for suppliers of the automotive industry. The turnover for 2015 will be around 95 Mio. €. *b+m surface systems* is a very modern high-tech producer and is a very important asset of the Schwarze family.

6.3 Acquisition of other national brands

As already described in the previous sections, acquisitions strategies seem to be highly relevant in this industry and is also emphasized by Friedrich Schwarze with an acquisition strategy supporting the Friedrich Schwarze GmbH & Co. KG to establish a competitive advantage and better position in the market. Indeed, the past acquisitions by Friedrich have strengthened the firm's competencies and capabilities. Especially the recently integrated brands are now a core asset of the firm.

The strategy is based on acquiring and creating brands to expand the firm's product portfolio. As a subsequent step and depending on the previous success of the purchased brands, Mr. Schwarze either decides to create a re-launch strategy or to build on the brand's past success. This means that the firm's product portfolio includes different types of brands, which are not directly connected with the "Schwarze" name. Indeed, there is the intention not to integrate the acquired brands into the main Schwarze brand. This strategic choice has several benefits for Schwarze as main brand but also for the acquired brands. By keeping the acquired brands as they are, the Friedr. Schwarze GmbH & Co. KG is able to leverage the image, reputation, and tradition behind them. The most important aspect is that the customer is always able to recognize the brand and the related products. As he points out, the customer is unusually not interested in knowing that the brand owner has changed (after an acquisition). Hence, making no immediate changes to

acquired brands safeguards the existing customer base. Furthermore, there is no risk of brand dilution (dispersion) for “Schwarze” and even though the portfolio of products and as such brands increases, every brand preserves its own identity and reputation, not putting it at consolidated risk.

The acquisition strategy is organized along two dimensions: brands for the national and brands for the international market⁸. National acquisition strategies focus on traditional German brands, often owned by other family firms, which have a strong legacy, history, and tradition.

The acquisition of the *Schlchte* family firm (1990) has been very unique in terms of strategic antecedents and brand integration into the Schwarze group. It started with the purchase of several traditional brands and resulted in the second-largest relocation in the history of the company. The entire production was transferred from Oelde to Steinhagen. The acquisition was not only meant to enlarge the portfolio of products and brands but also to create the *Schwarze und Schlchte Markenvertrieb* (a subsidiary directly controlled by Friedr. Schwarze GmbH & Co. KG), which operates as branch office for the product distribution. Hence, this specific acquisition not only contributed to the diversification of the Friedr. Schwarze GmbH & Co. KG’s product portfolio, but also contributed to a strategic reorganization of the family firm. The positive brand image that Schlchte had gained during its past activities combined with its international experience in distribution enabled Friedrich Schwarze to leverage these assets and create a structured as well as centralized distribution branch office. Friedr. Schwarze GmbH & Co. KG thus fostered the competitive advantage by strengthening the “Schwarze” brand through its combination with “Schlchte”. Both brands are characterized by long history, tradition, and positive reputation as traditional family firms operating in the industry, and, at the same time, by creating sustainable synergies between the distribution channels. Surely, this acquisition entailed substantial risks for the Friedr. Schwarze GmbH & Co. KG. However, due to his high commitment and dedication towards the firm, Friedrich made it possible to happen in a way that, when referring to this particular transaction, it is not uncommon to rather refer to a merger instead of the actual acquisition.

Another important example can be found in the acquisition of *Bärenjäger*. The Bärenjäger brand is not only very popular in Germany, but is also the company’s largest export contribution to a whole range of countries including USA, South America, Australia, and parts of Asia.

⁸ A detailed overview on acquisitions of international brands is provided in the next section.

By following this path of recent years, the Friedr. Schwarze GmbH & Co. KG has acquired almost ten companies with overall forty brands. These acquisitions have been predominantly financed by internal firm resources stemming from financial reserves, with only limited external capital needs. An important strategic acquisition of a national brand was the one of Racke in

2003. Through this operation Friedrich Schwarze GmbH & Co. KG not only acquired the main brands, but also the modern production plant with a consequential strategic relocation of the production facilities from Steinhagen to Rinteln.

6.4 Acquisition of brands for the international market

Expanding in international markets for firms operating in the spirits industry requires deep know-how, a broad and dense network as well as a certain level of experience as rules and regulations (especially for distribution) differ extensively between countries and sometimes even within the same country (e.g. US). Additionally, the five main international players (as presented in section 6.1) control very powerful distribution channels and also maintain a global network of relationships that confronts any new player with very high entry barriers, which are surely are virtually impossible to overcome.

To be able to enter into these markets, smaller players in the spirit industry have to consider strategically acquiring firms where they already have access to their markets through their own distribution channels as well as networking activities. This counts for Schlichte, but also Racke, where Friedrich Schwarze aimed at casting the fundament for the firm's internationalization activities.

Friedrich Schwarze GmbH & Co. KG was able to enter the Canadian and US market with Dujardin, the Brazilian market with Schlichte Steinhäger and diverse other foreign markets with Bärenjäger as well as Three Sixty Vodka. All these examples were markets where these brands had already been introduced. Only Three Sixty was newly launched.

For the first time, in 2006, Mr. Schwarze decided to create his first own product with the intention to position it in the international markets. The result of this decision was the brand *Angel D'or* which is, as mentioned before, produced in Mallorca. *Angel D'or* and the Whisky Racke Rauchzart are the only brands in the Friedr. Schwarze GmbH & Co. KG portfolio which are not produced in Germany.

In 2009, Mr. Schwarze bought the rights of *Three Sixty Vodka* and has invested significantly in the brand, resulting in a strengthened market position. The sales for this product

have increased from 200,000 bottles to almost 3 Mio. bottles within the last six years. Currently it is the company's number one brand and the number three Premium Vodka in the market.

In order to enter new international markets and gain stakes of international distribution channels, Mr. Schwarze set up an import partnership with *Luxardo* in 2010. Luxardo is an Italian family firm active in the business of providing spirits products for baking goods. In recent years, they have also entered the branch of cocktail "taste-intensifiers", such as bitters. Other important partnerships, solely focusing on distribution, have been signed with Ron Barceló from the Dominican Republic and with Limoncello *Villa Massa* from Sorrento, Italy.

The Friedr. Schwarze GmbH & Co. KG focuses on continuously expanding the product portfolio by directly acquiring brands with international distribution and by creating distribution cooperation with international firms. Their main aim is to access new markets and to develop specific knowledge in order to be able to engage in cross-selling activities in those international markets at a later stage. The focus is, therefore, not production but the acquisition and/or distribution of new products. This suggests that the expansion of production sites of Friedr. Schwarze GmbH & Co. KG is not economically rationale. Furthermore, these types of strategic moves (building a new production site in a foreign country) are very capital-intense and entail high venturing risks. As indicated by Mr. Schwarze during the interview, the logic he follows when making decisions on new investments is very straightforward and reveals the ability to do an intelligent risk-management in order to not put at stake the overall firm through bad investment decisions".

6.5 Branding strategies

As the brand portfolio of the Friedrich Schwarze GmbH & Co. KG has been growing substantially in the last two decades, Mr. Schwarze has immediately understood the need to develop a well-structured branding strategy to be able to focus the main attention (and efforts in terms of marketing investments) on the ten core brands. He is convinced of strengths of the other brands included in the portfolio to perform as planned without putting too much attention on specific marketing actions. Indeed, Mr. Schwarze is aware of the consolidated market position those brands have and of their solid customer base.

With specific reference to the branding strategy of the ten main brands, it is important to mention that a differentiation exists to a certain degree. Indeed, depending on the brand and especially on whether they have been acquired without further adjustment, the branding strategies

can vary from re-launching to “further growth”. It is also important to mention that Mr. Schwarze is convinced of the fact that the nowadays’ spirit industry is not just shaped by “the ability of producing the spirit” but being able to create, acquire, and even trade with new brands. Therefore, for firms operating in this industry it is of crucial importance to monitor the life-cycle stage of the products in order to be able to substitute products that have passed maturity and are on the decline, while still looking for promising alternatives, thus creating a vital balance in the product portfolio.

Interesting examples were mentioned in the case of *Three Sixty Vodka* and *Dujardin*, which are two brands of the Friedrich Schwarze GmbH & Co. KG product portfolio that run very well and benefit from the marketing actions. Nevertheless, always bringing up enough new and attractive brands to balance the declining market of traditional brands will surely be a challenge for Friedrich Schwarze GmbH & Co. KG and the other players in this industry.

6.6 Partnership with Coca-Cola

In 1951, Friedrich Schwarze’s father signed a franchise contract with Coca-Cola. At that time, Coca-Cola used this strategy to enter markets all around the world. The franchisees were solely responsible for distributing Coca-Cola products in their respective region. The intention was never to integrate the franchise into the Schwarze business of spirits. Rather, it was meant to provide the family with another independent source of income.

In 1998, Coca-Cola decided to recollect their franchise agreements and centralize the global distribution of their products. Although, the contract was supposed to last until 2011, the management of Friedrich Schwarze GmbH & Co. KG, supported by the Beirat, decided to hand over the licenses immediately. The main reason for that decision was Mr. Schwarze’s belief that in order to survive in a sustainable way the focus of Friedrich Schwarze GmbH & Co. KG should be on growing the core business thus realizing mergers and acquisitions only if valuable synergies can be expected.

7. Concluding remarks

Working on developing this case has been a unique opportunity to make an explorative and reflective journey on a family firm, which is in business for 351 years. By assuming different points of observation and angles, we hope to have been able to have offered a detailed and holistic perspective of the main aspects we thought to be important to grasp the “essence” of the Friedrich Schwarze GmbH & Co. KG and to foster reflections and discussion for your own family firm, business family or firm you are working in.

The driving question has been to understand the magic formula of the longevity of Friedrich Schwarze GmbH & Co. KG. Despite the fact that we cannot get to a specific and precise answer, we envision that readers of this case, based on what we have presented, could be able to discuss their issues and come to conclusions also stemming from personal backgrounds and diverse experiences. Friedrich Schwarze is convinced that the learning process among family managers in a family firm is the key to long-term success: *“As family companies are mostly managed by family members, they have to correct all the mistakes they make by themselves. While big companies execute on the ‘hire and fire’ or ‘change figures or faces’ principle, they do not profit from learning effect of management errors. Furthermore, old companies integrate this process of learning and restarting into their DNA. They do not believe in overnight success and will not give up in a crisis”*

The case furthermore offers the opportunity, by drawing on the experience of the Friedrich Schwarze GmbH & Co. KG, to reflect on questions and challenges related to succession in ownership and management. In this regard, the detailed description of the transition phase from the 11th to the 12th generation offers interesting insights and reflects the main antecedents that have led to the current shareholder structure. If at that time you had been part of the succession in ownership process, *what would you have done differently?*

By looking now at the current family structure in the 13th generation with its 16 family

members (plus the ones from the 12th generation), it became clear that a major change is just coming around the corner since the 13th generation is on the way. *Will the five different family tribes be able to find a common understanding as the next generation of family owners? What can they do in order to properly manage their own family and business interests? Which types of formal and informal family business governance mechanisms might they need to consider, understand, and finally adopt?*

Another interesting learning from this case study can be found in the central position of the advisory board (Beirat) and their strategic involvement in long-term decisions. Its members have the main duty to manage and guide the different family shareholders towards growth, stable family control, but for utmost importance, preserving the firm survival. Nevertheless, things might also change here when the 13th generation is taking over. *Which role should the advisory board have?*

At the firm level, the spirit industry in Germany and internationally seems to be a very dynamic, challenging and experiencing radical changes. *Which should be the next strategic moves the Friedrich Schwarze GmbH & Co. KG should consider to do? Will the Friedrich Schwarze GmbH & Co. KG's business model still be sustainable in the future?*

As you can discover, the case offers different opportunities to critically think about different topics related to the interplay of family and business aspects. The main issue you should, however, reflect on above all other is: *what should the "Schwarze family" do or not do in order to survive for another 351 years?*

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Witten, 18/07/2015

Prof. Dr. Andrea Calabò

A handwritten signature in black ink, appearing to read "Andrea Calabò".