

# The New Zealand Sock Company

## Challenges of a family business

- M. Claire Dale, Deborah Shepherd and Christine Woods

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The New Zealand Sock Company provides a good example of an entrepreneurial family business that has successfully changed and grown to meet the needs of the market. Euan Sparrow, a fourth generation family member, has led the family business from a retail store to an entrepreneurial sock business manufacturing in NZ and abroad. NZ Sock has faced many changes in the external environment including deregulation, high labour costs, cheap import substitutes and a small domestic market. These and other constraints have forced Sparrow and his team to be innovative and globally focused. The case highlights a number of challenges faced by Euan Sparrow; these include: attracting good staff, working with family members, developing international supply chains, partnerships and markets, and staying motivated and focused as the owner manager.

## INTRODUCTION

Driving home from the office late one evening Euan Sparrow reflected on the challenges of the day. There were exciting opportunities ahead and the ever present sense of responsibility. Euan was the fourth generation family member to continue Sparrow's Fashion, the oldest privately owned fashion retailer in the southern hemisphere. Would one or more of his children eventually carry on this family business? What about the other businesses Euan has started - NZ Sock Company and Paladin Research? Would they be interested? Is he providing a legacy of opportunity or burden and responsibility? What would happen to the businesses if the next generation of family

did not take over the reins? Considering these questions prompted Euan to reflect on over 120 years of Sparrow family business and the changes seen during that time.

## THE EARLY YEARS: ESTABLISHMENT OF SPARROW BROTHERS

After arriving in Aotearoa New Zealand in 1872, William Sparrow, a tailor, wrote back to his family in Scotland and said: "What a great country it is out here!" So in 1874, his mother and father packed up their other six other children and came out to settle in Dunedin. Euan Sparrow, great-great-grandson of John Sparrow, William's father, still has the engraved watch presented to John by the Members of the Caledonian Railway Society when he left Scotland.

William went up to Ashburton in 1877 to manage the New Zealand Clothing Factory, developed by Bendix Hallenstein.<sup>1</sup> He managed that for 10 years, then in 1887 opened his own men's clothing store. Introducing a new service, on Saturdays he rode his horse and cart out to the sheep and cattle stations and took orders from the workers for suits and other apparel. When they came into town to collect their new suits and visit agricultural shows, some would take advantage of another service William offered, burning their old suits in a tank at the back of the shop. Two of William's sons, Albert and William (known as W.J.) continued the business in partnership, with Albert looking after Footwear and W.J. taking care of Clothing. Eventually Albert decided to go farming, leaving the business to W.J., after which the firm became W.J. Sparrow.

Once all of his sons were back from World War 1, W.J. Sparrow said to them: "I've been waiting long enough. I am getting on, if you boys want to buy me out, you can." So the five brothers, Douglas, Bill, Cip, Alan, and Reg, got together and they each bought a fifth share. The five brothers managed the business for a short time before the youngest, Reg, who did not like being told what to do by his older siblings, left and joined a competitor store across the road before establishing his own retail store in another town. Of the four brothers who stayed in the family shop, Cip recalled: "People used to say: 'How do you get on, four brothers all in there together?' And I used to say: 'We don't scrap over anything, because we all have our own jobs.'"

## OWNERSHIP TRANSITION: CIP SPARROW

Cliff Sparrow, known to all as Cip for reasons none can remember, worked in the shop after school as a parcel boy. He would bike to the shop after school, and work till 4.30 or 5 o'clock, and bike home. It was the sort of thing you were expected to do, and all W.J.'s thirteen children worked there at some time. When his father, William, became ill and was hospitalised, an extra salesperson was needed. Cip suspended his schooling temporarily. However, it took longer than expected for W.J. to be well enough to return, and when he did Cip stayed on. From the start, Cip had enjoyed going in to the family store, and had only ever expected to work there. That continued until World War II broke out in 1939.

When Cip was conscripted in 1943, his older brothers, Doug and Bill, had already gone to serve in the War, and his other brother, Alan, had been called up by the government as a farm worker. Cip was finally released from duty in February 1946. While he was away, he had begun thinking about training for school-teaching, but W.J. said: "No, lad, come into the shop." Cip's first training was a memorable piece of father's advice: "Now remember, there is only one way to make money in this world, and that is to take your coat off and work for it." In the shop, widespread shortages meant all the stock was sold before it came in. Nationwide, a system of rationing was in operation: people were issued with ration books of coupons, and couldn't buy petrol, food, clothes, or shoes, without coupons. They paid for their goods at the time of purchase, but the coupons rationed the quantity purchased, and enabled the government to know and control consumption. Cip's first job back in the shop was to count the hundreds of ration coupons, packet them up, and send them off to Wellington.

Family tradition meant that when a brother retired, those who were left paid out what they could. By 1978 Cip owned 100 per cent of the business and decided to gift his shares to his three children: 90% to Euan who was managing the business and 5% each to his other two children. Cip then retired from active day to day involvement in the business, but remained a Director. However after his wife passed away in 1996, Cip decided he wanted to help, and took on the role of quality control: checking the product before it leaves the factory - a role still held in 2007.

## EUAN SPARROW

Euan left school at 16 with no formal education, and started as a Trainee Manager at the main store of Beaths & Co in Christchurch, similar to Smith & Caugheys, and Ballantynes: successful, established multi-generation family stores. Beaths & Co trained young people, and they were tough, "but they were great trainers", recalled Euan. "I rose quite quickly through the ranks, and ended up as a Branch Manager. I did that for a couple of years, and then went on to manage the Ashburton branch."

Three years into his training, Euan was managing one of their stores, and Cip said to his brothers: "If he's good enough to manage one of their stores, he is good enough to come into our own business". They asked Euan to start as Manager in Allenwood (on the outskirts of Ashburton), and he agreed. A couple of years later, Euan said to Cip: "Dad, I need 12 months out of here." And with a friend he took off to Europe and ended up getting a job as a courier with Contiki. He had no intention of returning when he received a phone call from home telling him his father was hospitalised with chest pain. So he came back, and he stayed.

Following the retirement of the other brothers, Cip and Euan were running the business together. Euan recalled "Dad and I had no problems. We got on well together, and we worked well together once his brothers had gone. It was good. In fact, it was quite amazing when I think back now."

The Allenwood branch was sold and Sparrow Brothers consolidated back to a single store in Ashburton, Euan assumed a managerial role. It was there that he met and married Christine who had recently moved to Ashburton. About two years after they married, Euan decided Sparrow Brothers would open a fashion store, Village Clothing Company. This was established in separate premises to "Sparrows" as the locals knew it, and this store grew and successfully competed with Glassons and other similar retail stores, which had introduced cheaper fashion clothing ranges. Euan commented: "We sort of hopped onto the gravy train for a while."

The fashion retail store wasn't quite so easy for Christine who managed the business. She recalled being thrown in the deep end and having no idea about retail. She looks back on those early days and wondered:

How did I do it? I would be looking at the numbers and codes on the order sheets and thinking: 'I wonder what this means?' I was breast-feeding our new baby, Gabrielle, so she came on the buying trips to Auckland. I used to put her in the bassinet underneath the racks of clothes!

Christine found it hard, but also exciting. With Euan's help, and through networking with a business-women's group in Auckland, she quickly started learning about buying, retail, and customer service. In the late 1980s and early 1990s, as retail tightened up, Sparrow Brothers consolidated back into one store, they introduced a ladies apparel section, and Christine continued as buyer for that range. Initially, because of the competitiveness, and because their sales figures were low, Christine was scared she wasn't good enough. "Then I realized that it was a transition of society, and it still is. But it was a huge weight on my shoulders, because I was so scared that it was going to fall apart under my watch."

## THE NEW ZEALAND SOCK COMPANY

Cip Sparrow had a long association with Tom Phaup's Hosiery Company and in 1980, when it came onto the market, Euan and Cip decided to take a significant risk and make an offer. It was accepted so Cip sold his holiday home and his boat, and cashed up other investments, and Sparrow Brothers purchased the business. The factory had nine machines, and three part-time staff plus Tom, and another mechanic. When people said to Cip and Euan: "But you've got a family business in retail, this is manufacturing...", their response was: "We reckon we can do something with it."

Mosgiel Ltd, a large knitwear manufacturer, went into receivership shortly after they bought Tom's sock factory. Cip said to Euan: "We've only got nine machines, and Mosgiel has got a hundred. Whoever buys it is going to put us out of business." They opened negotiations and put in

a low bid for 90 per cent of the machines in combination with a sock company from Timaru that agreed to take the other 10 per cent. The bid was successful. To bring the plant up to Ashburton and consolidate the manufacturing they had to rapidly build a new part onto the factory, and put on a new shed at the back. So, in one month they went from nine machines to eighty machines leaving no doubt that they were seriously in the sock business. Euan and Cip managed the factory themselves with Euan also managing Sparrow Brothers. He remembers:

We mucked around with that for probably 10 years and I guess we just coasted along ... . Our main function was doing school and rugby socks, and cheap work socks. In the last 10 years we have really taken it by the scruff of the neck and said: 'Hey, I m not doing this for fun any longer. I am doing this to make some money and create some wealth for ourselves.'

### Expert opinion



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This case highlights well the diversity and complexity of issues that can arise even in a small family business, especially

in an increasingly competitive global market. The challenge for the very survival of these firms will be to find the right answers - that's where family business models and research come in to play.

Some of the more interesting issues brought up in the case include:

1. A long legacy. Dating back to 1887, five generations of family have been in leadership. Planning for unplanned events such as succession is often insufficient. In this case, Euan's father was hospitalized causing Euan to change career plans, and the current children have not been adequately groomed for leadership.
2. The business value of a family. "People are like family. And that is why it makes the business decisions very hard." "People go above and beyond the call of duty." Losing the family effect through sale or leadership changes can be costly to the competitive positioning of the firm.
3. Attracting the youth to the business ...the role of growth. A major issue facing family businesses today is how to create a career opportunity that is attractive and not boring. A lifestyle business will only serve a few of the children versus a growth opportunity to attract all. Is there enough of a challenge and

independence for the children to be excited compared to other choices they have?

4. Family working relationships are complex and dependent upon individuals, the structure of the group, and a host of other family and cultural issues. For example, in this case:
  - a. Not all family should necessarily be involved in the firm... it worked well between father (Cip) and son (Euan) only after the other brothers left.
  - b. A strong difference in views often exists - mother/father don't want children to work in the business but grandfather and some children feel entitled.
  - c. Understanding the abilities and interests of the children can often take years for everyone to realize. While it is common for there to be a lack of training and preparation of family members prior to joining the firm, successful succession requires a strategic multiyear plan.
  - d. Ever changing industry structures beg the question of whether family members have the right skills and interest for the competitive environment facing the firm? The need and role of non-family CEO's increases when, as in this case, "My kids aren't interested in it," "I wouldn't want them to be in retail," or "There is going to be another shakedown in retail"

The emerging research on family business and corresponding consultant professional community can provide multidisciplinary tools to help document and analyze the complexity and interaction of these issues and to recommend plans and decisions necessary to ensure growth and success. While never definitive - each family business is unique - these tools provide the opportunity to increase the likelihood of fully informed, rational decision making for the often emotional context in which family firms operate.

By mid 1980, Euan had an office in both businesses. The factory was growing rapidly and Euan was spending most of his time there. He decided to appoint Richard Wilson as General Manager of Sparrow Brothers, and left him to run the business. Richard had been with Sparrows for 25 years, starting there at the age of 15. “He’s done a great job”, said Euan. “He has really kept our business going for us; he still does. And he’s been there so long, people call him Mr. Sparrow!”

They rebranded as the NZ Sock Company in the mid 1990s and a new management team was put in place. Craig Burt was employed as Marketing Manager, and responsible for driving sales and innovation. He had worked in the industry, “the rag trade”, for 25 years. Tina Moore became Operations Manager, reporting directly to Euan, and was responsible for the day-to-day running of NZ Sock Company. Tina has seen many changes; she described the culture of the business as

... very much a family. When we have staff functions, people are like family. And that is why it makes the business decisions very hard, sometimes, because its quite a close-knit group. And, like any family business, people go above and beyond the call of duty as a normal employee, and anything they can put in extra, above just doing what is expected, they will do it. I think, in family businesses, and in smaller businesses, in particular, as an employee, you take on board a lot more.

Over the next decade NZ Sock faced many challenges most notably the removal of import duties, the increasing costs of manufacturing on-shore compared to off-shore competitors and the challenge of exporting, made more difficult because of the high NZ dollar. In spite of these difficulties the company continued to grow.

## ANOTHER GENERATION

While it was perfectly natural for Euan to join Cip in the family business Gabrielle faced different issues when she came in to NZ Sock Company as the boss’s daughter. In 2002, Euan informed Tina that Gabrielle wanted to come into the business and that he wanted her interviewed like everyone else. Should she get the role, then she was to be treated no differently to anyone else on staff. For Gabrielle, going to work in the family business as a receptionist was a big decision.

Someone needed to go on maternity leave and I knew nothing about anything. The only memory I have of the NZ Sock Company is going in with my older brother and climbing the piles of socks as far as we could get without having to fall down. We were up at the old factory ...It was absolutely terrible conditions. I didn’t have a desk. I didn’t have a phone. Craig, Tina, another woman doing accounts, and me, were all in the same open-plan office that just had shoulder-height walls. Every time the phone rang, I had to see who wasn’t

on their phone, so I could answer it. I was finally given a little laptop that used to be Dad’s, and had to teach myself to use it.

After two years as receptionist, Gabrielle told Euan she wanted to learn more about the company. She remembered saying to her Dad: “I don’t know whether or not this is where I want to be, but will you give me a chance?” As receptionist, Gabrielle had got to know a lot of the smaller customers. In her newly appointed sales role, she went with Craig to Rebel Sport and with Euan to Farmers Trading Company, then was on her own for Smith and Caugheys in Auckland, and Ballantynes in Christchurch. Initially she found it difficult with no prior training in sales or marketing. In 2004, she went on a six week course at the Canterbury Employers’ Chamber of Commerce which more than anything led to an increased confidence in her sales role along with some new techniques for selling.

In 2005, Gabrielle’s next role was out in the machine room, working alongside Craig, and learning more about yarns and how he designed a sock. She spent some time with Lisa, another designer responsible for designing women’s socks and looking after the Japanese customers. Her intention in the future is to spend time with Tina: “I want to see how she’s managed to pretty much run the factory for Dad.” She also wants to learn more about Paladin Research the research and development company recently spun out of NZ Sock Company. This business has a health and wellbeing focus designing socks for people suffering from diabetes and obesity and people looking for specialised footwear.

I said to Dad: “I’m 23 now. You’ve had three years from me, and you’ve probably got two left before I want to go back overseas.” He knows I’m not ready to take over a company, and that my brain is probably not in managing a company, and he said: “Whether it comes to take over running the company is a long question. In the meantime you have the opportunity to stay here in sales and marketing, or work with Tina, or with Don in accounts, or there are opportunities with our partners overseas...” I want to go and work for someone else, though, before I come back and work for Dad again. So, we will see what happens.

Christine hopes the children do not join the family business as it is too hard, and rather than being at the factory, she wished Gabrielle would pack her bags and travel, despite her mortgage. Paul was working there because he didn’t know what he wanted to do, and Christine hoped he too would pack his bags and travel. Euan has mixed feelings. As a fourth generation family business owner, there is a tension. Whilst hoping that all three children travel and gain a variety of work experiences, he is also partially delighted that two of them are working with him at NZ Sock Company.<sup>2</sup>

Expert opinion



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Most of us get paid to go to work. We get wages or if we get into management we get a salary. As we grow in our

employee role we come to make big decisions, with other people's money.

The story of the Sparrow family is one of entrepreneurial endeavour over 120 years and four generations. No certain wages or salaries here, rather risk of plenty or little. But spirited there is no doubt. What are some of the characteristics evidenced by the Sparrow family journey?

Down to earth, simple genuineness of expression like "Now remember there is only one way to make money in this world and that is to take off your coat and work for it". Priceless.

'Thrown in the deep end' is Christina's description of buying trips to Auckland with her baby daughter in the bassinet underneath the rack of clothes. Later, that same daughter Gabrielle is in her own deep end in the chaos of the early days of the sock company and again selling in Auckland to major chains without an ounce of sales training. She'll be right!

This 'deep end' is evidenced at a more serious business level when Cip Sparrow steps up to buy Mosgiel a

business 10 x Sparrows size - nine machines versus a hundred! Seldom would the Board of a large company exercising "good governance" sanction such a risk!

But these are committed people. Cip sold his holiday home, his boat and cashed up investments so Sparrow could earlier buy Tom Fox Hosiery Company. He put his personal lifestyle on the line and took the punt to go from retailing to manufacturing.

There is a line of responsibility here, that we wage and salary earners can hardly imagine. Christine expressed it in her way when she expressed the anxiety of the "huge weight on her shoulders...I was so scared that it was going to fall apart under my watch".

Look to at the challenge of the journey through the generation from retailing to manufacturing, from selling in Ashburton, to New Zealand to global. This is no faint-hearted journey.

Each generation has been captured by the opportunity and rather quickly the responsibility. And yet there is now a tendency to almost not wish the opportunity or burden on our sibling. Earlier 'WJ' said "if you boys want to buy me out you can". The response was that all five sons stepped up to the plate and bought a fifth each. Today Euan accepts "his kids aren't interested in it... "yet blood is thicker than water, daughter Gabrielle noticing her brothers were not interested thinks "I've got to do it". Perhaps all those selling trips with her mother in the bassinet got into her blood! Burden or opportunity?

Certainly more of a challenge than we mere mortal wage and salary earners will experience.

I took Paul just recently to Poland and Germany, and I've got him mixing with people who are beyond his years, but his lights sort of started coming on, and he said: 'Perhaps I wouldn't mind doing this.' I said we would talk about it some time; I don't want to put any pressure on him. And Gabrielle is now saying that she wants to know more about the business. I don't know how she will take to the financial side, but she will be very good at sales, because she is a people person.

The size of the NZ Sock Company Co, in terms of staff numbers, was 40 in 2004, and Euan hopes over time to reduce that to 30. He is over half way there, after 2 people resigned, and he laid off 4 others in 2005. "Probably it is awful, but as I said to Dad: 'It is just reality. I have borrowed another couple of hundred grand and put in labelling machine, which means we don't need 6 people.' And Dad understands." In terms of financial growth, the business has been growing at 10 per cent per year for the last 4 years.

## THE FUTURE

Sparrow Brothers opened in 1887, and Cip would like to see his grandchildren being involved. Euan feels differently, and will probably sell 49 per cent of that business to Richard, his Manager. That would strengthen Richard's continued commitment to making it work really well. Euan reflected: "My kids aren't interested in it, and I wouldn't want them to be in retail. Retail is too tough. Christchurch is so accessible now, whereas once, in those rural communities, nobody ever shopped out of town." The shopping malls have already decimated small town traders, and he predicts another shakedown of retail in Aotearoa NZ.

The family retail businesses will close. They're having a tough time because all the shoppers are going to the malls, and the chains have got bigger. The year the Warehouse came to Ashburton, we dropped \$200,000 out of retail, and we've never gained it back. We are lucky if we get 5 per cent increase in turnover a year, and the costs have been going up. Its just become so competitive.



JIM WHEELER, *Kudzu!*

However, for an owner manager, there is still good money in it. “Our accountant says it is a good solid business. There are no variables, and if you keep your costs down, you can take a decent living out of it. The kids’ education came through it, but we’ve never taken a lot of money out of it, because of the debt factor. Richard would make a good living out of it, but that is all. And we used to have four families live in a level of luxury off it!”

From Gabrielle’s perspective, she would like to have some future involvement in a part of the changing company but at this point is not sure what that role might be:

I’d like to see myself in Sparrows, whether or not as the manager, or just overseeing the books, I’d be quite happy. My older brother didn’t want a bar of the Sock Company or Sparrows, and I’ve never thought my little brother would either, so I’ve always felt that I’ve got to do it! And I’ve seen my Dad stressed and angry, and I don’t like to go through that. But now that I’m here and learning about it, I can see why he gets like that. I still don’t know what I want to do, but at this point in time I’m not that worried.

Euan acknowledged that if he hadn’t have gone into the factory or some other company, he would have become very bored with Sparrows. He wanted to take on a challenge, and he’d like to be able to be seen to be doing it on his own. But he likes to do it with people around him. “So I guess if I can develop a network of people around me who are the brains with the finance and dollars and cents, and the kids can be involved as front-people and selling themselves, that is where I would like to see it. But the choice is theirs.”

I look back on the 2001 business plan, and we’ve achieved that. And in the 2004 business plan, I said we will go out of school socks and rugby socks, which we have just recently done. The next stage is to move offshore as quickly as we can to develop relationships direct with retailers: cut out the distributors, the middlemen, and develop relationships with retail chains in the major countries. The problem I have is who is up for this? I don’t think I have got all the right people on the bus. I can do some of it myself, until I get the right people. In fact, this morning, I was going to sit down with the kids and say: ‘This is what I am thinking. If you guys want to come along for the ride, you can.’

Euan, still in his early fifties, has time on his side and a commitment to continue growing his businesses. However, succession for each of the businesses will increasingly become a pressing issue over the next five years. ■

1 Ashburton is a rural town on the Canterbury Plains of the South Island of Aotearoa New Zealand.

2 At this time Byron, the eldest son, worked in Wellington in the Film Industry.

This case was written with the cooperation of the NZ Sock Company. All data contained in the case are based on field research and public sources. The authors would also like to thank the Employers and Manufacturers Association (Northern) for their financial support in completing this case. The case is not intended to be used as illustration of either effective or ineffective handling of a managerial situation.