

Progressive



Photo: Daniels + Company

Continuity of ownership is part of the Schaeffer sales strategy, says Jay Schaeffer Shields (right) with National Fuel Additives Sales Manager Hoon Ge.

Pioneer

By Mark Ward, Sr.

Founded in 1839 by German immigrant Nicholas Schaeffer, St. Louis-based Schaeffer Manufacturing Co. is, literally a pioneering company. Now a \$50 million fuel additives manufacturer, the company launched as a maker of soap and candles from animal fats. Soon, the upstart company added lubricants that greased the axles of covered wagons heading west in the California gold rush. Alaskan prospectors also brought along Schaeffer's "Black Beauty" grease to fry their eggs and protect their faces from the winter cold.

Mississippi River steamboats lubricated their engines with Schaeffer's "Red Engine Oil." To service the growing demand, the company switched to petroleum-based lubricants in 1859 – making it the oldest oil company in North America today. Company founder Nicholas Schaeffer became St.

is virtually unique. Yet just as important, says chief operating officer, Jay Schaeffer Shields, "We continue to be a progressive and pioneering company."

Still headquartered in St. Louis, Schaeffer Manufacturing supplies lubricants and oils to a wide range of customers in agriculture, industry, mining, construction, and transportation. "And we're the largest manufacturer of fuel additives in North America," adds Shields. "That's why we call ourselves 'the largest oil company you've never heard of!'" Premium diesel additives are its primary fuel-related products, including its pioneering soy-based "biodiesel" additives.

Perfect Blend

Shields is excited about the growth potential of this company's fuel additives business. Just a few years ago, the agricultural sector accounted for nearly 60

160-year-old Schaeffer Manufacturing continues its trailblazing ways – most recently with soy-based diesel fuel additives – through six generations of family ownership.

Louis's first millionaire, supplying lubricants to heavy industry – as well as soap to a couple of young Cincinnati brokers named Proctor and Gamble.

Today, when businesses change hands almost weekly, a company with a 160-year history [see sidebar, p. 12] is remarkable. But when that company has been in the same family for six generations, its record

percent of Schaeffer Manufacturing's total sales. Now that figure is down to about 35 percent, not because farm sales have declined but because activity in other sectors, including the petroleum industry, has sharply increased. Over the past decade, the company's annual sales volume has doubled to more than \$50 million.

AT-A-GLANCE

- *Founded in 1839, Schaeffer Manufacturing has remained under the same family ownership for six generations*
- *A producer of petroleum-based lubricants since 1859, Schaeffer is the oldest oil company in North America.*
- *The company believes diesel additives are increasingly important for today's sophisticated engines and to help fuel marketers differentiate their product.*
- *In 1998, Schaeffer introduced the first soy-based diesel additive, and in 2001 the first soy-based gasoline additive.*

“Our strategic plan calls for sales volume to hit \$100 million within seven to nine years,” reports Shields. “And to achieve that goal, we look at our ‘key results areas.’ Fuel additives are one those of areas, and we think it can grow even faster than other areas of our company.”

Shields cites three reasons for his optimism. First, he says, “as the largest maker of fuel additives in the country, we deal with a lot of big companies. So when we add even one refiner or terminal operator as a customer, that alone could boost our volume by 50 percent.” Second, he continues, “the petroleum industry currently represents about 15 percent of our total business. So we have a lot of room to keep growing.”

Third, Shields believes that his company offers a compelling partnership to fuel marketers. “As a jobber, you might ask, ‘If Schaeffer does only 15 percent of its business in fuel additives, why would I deal with them? Are they really dedicated to fuel additives?’ But there is a very good answer to that question,” he asserts. “Our lubricants customers are actually the *end users* of diesel fuels. So we’re *already* dealing with the end users – and we want to help fuel marketers get them as fuel customers. We sell you the premium additives to distinguish your product, and then we help you bring in new customers to buy that product.”

Shields acknowledges that marketers might have a second question about his company. “The components of our fuel additives are chemicals,” he notes, “so we buy them from the major chemical companies and blend them at our St. Louis plant. You might ask, then, ‘Why not just go directly to the chemical companies and buy the additive components myself?’ But then you would be dealing with huge, large-volume corporations.”

By contrast, adds Shields, “We know your business. And we can change direction on a dime, to give you any customization you might need.” Besides, he points out, the larger chemical companies “usually have their main products and, for anything else, they just buy the components from other companies anyway.”

As a privately held company, Schaeffer Manufacturing will not disclose production figures, but Shields does indicate that the company could easily triple its fuel additives production capacity without adding to its existing plant. The total company workforce includes some 75 central plant employees and 400 local sales representatives.

Schaeffer can also manage delivery needs. Additives are shipped in 55-gallon drums or 275-gallon totes, with 24-hour delivery available within a 600-mile radius of the St. Louis plant. The company can also ship product to terminals, where marketers can take delivery of their purchases. “We make the additives and then the marketers do the blending themselves with their own fuel stocks,” says Shields.

Profitable Partnership

Although Shields gets offers to buy the company almost weekly, he says his family has no interest in selling. The company remains with the family not just out of pride but because the company’s sales operations depends on it.

The company’s sales are built on its network of nearly 400 local representatives, explains National Fuel Additives Sales Manager Hoon Ge. “Keeping the company under the same ownership is a vital part of our strategic planning,” he says. “Our reps work on straight commission. They’re business entrepreneurs just like us. If we have continuity of ownership, then we can provide the longevity and security needed to recruit and retain the best people.”

Company principles have also made a conscious decision not to achieve growth through acquiring other companies. But Shields believes the current wave of industry consolidation has boosted the need and opportunity to market fuel additives. “We know that jobbers are really being pinched by low margins, and that makes it hard to compete on price alone. So we offer premium fuel additives that can help independent marketers differentiate their diesel products from the competition.”

Marketers can be assured that their local Schaeffer representatives “are on the team without being on the payroll,” says Shields. “They work with you, to educate you and your end users about the benefits of using fuel additives, so that you can build your business and bring in new customers. That’s why it’s so important that our

Premium fuel additives can help independent marketers differentiate their diesel products from the competition.

reps are in it for the long term – and why, as a company, it's strategically important for us to maintain continuity of ownership."

Schaeffer Manufacturing invests substantial revenues in training local sales reps, says Shields. The process begins with a five-day training school, followed by a refresher school after nine months, another in the second year, and ongoing training thereafter. The company also publishes its own weekly sales magazine. With the line of premium diesel additives, Shields and his team can help independent fuel marketers gain lucrative commercial accounts and fleet sales.

According to Hoon Ge, Schaeffer offers market exclusivity to its customers "because we don't want to say we're helping to build your business, while also building your competitors'." Support starts with pump topers and banners, and customizable brochures and

videos. But the partnership doesn't end there. "We can conduct a seminar on your premises to show your employees how to sell premium diesel. And your local rep can take it a step farther by setting up a half-day seminar, with lunch, to educate your end users on the benefits of additized diesel," explains Hoon Ge. "You can invite your commercial and fleet customers. And you can also give us a list of *potential* customers you'd like to reach. Then our rep can go out and get them to come. We usually have 15-30 people at these seminars."

The pitch to fleet owners is that they can enjoy the advantages of additized diesel – including premium performance at reduced cost – without having to do the blending themselves. "In one recent case, we had a utility company with 1,300 vehicles that wanted to use our additives, but they preferred to buy the fuel already blended from a local jobber," offers Shields. "So we brought the fleet owner and the fuel marketer together. Everybody benefited – the utility company, the marketer who got their business, our local sales rep, and Schaeffer Manufacturing."

Products That Perform

Ultimately, successful sales rest upon a product that

performs. "Using our additives gives you an edge in marketing, because it differentiates your diesel fuels from the rest," reiterates Shields. "That helps boost your margins, which is vital if you're going to survive in the marketplace today." But there is also a second vital reason why additized diesel is needed today.

With current government mandates to promote clean air, "engines today are more sophisticated. They're more sensitive to fuels and fuel deposits, so additization is needed for peak performance and engine life," explains Hoon Ge. "And as engines get even more sophisticated in the future – and as the government mandates the use of ultra low-sulfur diesel fuels – the need for additives will continue to grow."

Schaeffer manufactures a complete line of premium diesel additives that include Diesel Treat 2000 summer and winter fuel treatments; Arctic Flow Plus anti-gel additive; Neutra and Neutra Plus fuel stabilizers; Valve Shield lead substitute and Valve Clean detergent; and Fuel Shock biocide to kill bacteria in diesel fuel. One product that is getting a lot of attention today, however, is the company's SoyShield biodiesel additive.

The research that led to SoyShield was conducted in the mid 1990's with support from National Biodiesel

When the company brought SoyShield onto the market in 1998, it was the nation's first premium diesel fuel additive derived primarily from soybean oil.

Board and the Minnesota Soybean Research and Promotion Council. With its own laboratory facilities staffed by three full-time chemists, Schaeffer was quickly able to recognize the potential for biodiesel. When the company brought SoyShield onto the market in 1998, it was the nation's first premium diesel fuel additive derived primarily from soybean oil. Five years later, Schaeffer still supplies about 90 percent of the biodiesel market.

"Our goal, however, is not just to become a big distributor of biodiesel, but to specialize in premium biodiesel," says Shields. By adding SoyShield to #2 diesel, users get the same performance as conventional premium diesel. A gallon of SoyShield cost about \$15 (prices may vary by local markets) and can be blended

with 500 gallons of fuel. That works out to only 2 or 3 cents per gallon of #2 diesel, compared to spending about 5 cents extra for conventional premium diesel.

Yet according to tests conducted by the National Biodiesel Board, the additized fuel offers mileage improvement of 5 to 7 percent over #2 diesel without the soy-based additive. Horsepower is improved by up to 5 percent, fuel lubricity up to 30 percent, and cetane by up to 3 or 4 points. The SoyShield additive also provides improved injection-cleaning, corrosion-inhibiting, moisture-control and deicing, and lowers the fuel's cold filter plugging point.

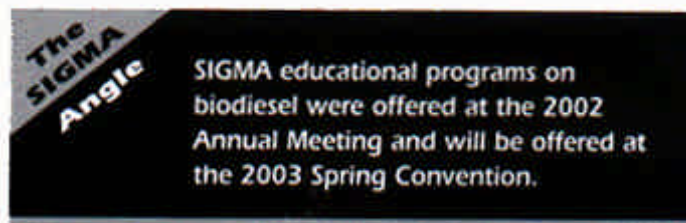
When Schaeffer brought SoyShield to the market in 1998, it sold the product initially to the agricultural sector, particularly soybean farmers. "It seemed logical to distribute SoyShield first to the people who produce soybeans, and we already had distributors in place for the agriculture market," Shields comments. SoyShield quickly proved its effectiveness and started to attract other customers. The Nebraska Department of Transportation was an early adopter of the additive when the agency decided to use SoyShield for all its diesel vehicles and equipment.

Today, Biodiesel is gaining ground in the transportation sector. "Being a member of SIGMA has been a real benefit for our company, because at the SIGMA meetings, we can make our product known to the marketers who-according to the statistics- sell one third of all the

fuel sold in the United States," says Shields. "Through SIGMA, we can make contacts with marketers but without the pressure of it being a sales call."

Though additized diesel has limited application at the retail level, "if you have retail sites that are already selling diesel to consumers, you can certainly use our additives as an extra marketing edge," says Shields. Indeed, some industry observers suggest that higher gasoline prices – together with advances in diesel engines and fuel additives – may boost the popularity of diesel passenger cars in the United States. The Volkswagen Jetta, for example, gets about 50 miles per gallon of diesel fuel and can travel 600 miles between fill-ups. Meanwhile, General Motors and Chevrolet both sell diesel –powered heavy pickup trucks for the consumer market.

On the other hand, two years ago Schaeffer introduced SoyUltra as the first *gasoline* additive made from soybean oil. The product helps gasoline burn more cleanly, boosts gas mileage up to 5 percent, improves lubricity by up to 45 percent, provides greater deter-



FROM SOAP TO SOYSHIELD

1814: Nicholas Schaeffer is born in Germany, where as a teenager he goes to work for a soap and candle maker.

1832: With his three brothers, Schaeffer immigrates to America. The family arrives in Baltimore and heads west, but the brothers' horse is stolen, so the four men must cross the Allegheny Mountains on foot. Schaeffer settles for a few years in Cincinnati, then moves to St. Louis.

1839: Sensing opportunity in St. Louis, Schaeffer establishes a soap-and candle-making business. The city has become an important Mississippi River port through which engines need lubricants, which Schaeffer manufactures from animal fats, as he does his soaps and candles. The lubricant is sold under the trade name Red Engine Oil.

1849: Gold is discovered in California. During the ensuing gold rush, many prospectors and pioneers arrive in covered wagons whose wheels are lubricated by Schaeffer's "Black Beauty" axle grease. The product is also popular among Alaskan miners who use Black Beauty grease to fry their eggs and protect their faces from winter cold.

1859: Schaeffer switches from animal fats to petroleum-based lubricants.

1860s and '70s: St. Louis is America's eighth-largest city and its port is second only to New York in tonnage handled. By 1870, St. Louis is behind only New York and Philadelphia in the number and value of its manufacturing plants. With the rising demand for industrial lubricants, Schaeffer becomes the city's first millionaire. Soap and candle making also remain a big business and customers include two young soap brokers from Cincinnati named Proctor and Gamble. Schaeffer is an esteemed business and civic leader who serves as a director of the Mercantile Exchange and on the board that draws up plans for the St. Louis Cathedral.

1875: During an economic panic, Schaeffer generously co-signs notes for several German friends in need. When their mortgages collapse, Schaeffer, too, is financially ruined but manages to hold onto his company.

1880: Nicholas Schaeffer dies and his oldest son Jacob is named company president. Over the coming

gency, and reduces wear on fuel pumps and injectors. These advantages can be important for operators of older vehicles that need 89 octane mid-grade gasoline to prevent pining and run-on. SoyUltra does not increase the octane, but can allow these operators to use additized 87 octane regular gasoline at as savings of between 5 and 10 cents per gallon.

There is a potential for premium-additized diesel and gasoline in the retail [sector], but that would require a big budget in television advertising and other marketing cost," says Shields. "So for the foreseeable future, our focus will continue to be on the commercial sector."

Past Is Prologue

Though Schaeffer Manufacturing has a long and interesting past, Shields says his family's company has a bright and profitable future ahead. The descendants of founder Nicholas Schaeffer who are active in the business today also include Jay's father, John Schaeffer Shields (company chairman and chief executive officer), and cousins Tom Schaeffer Herrmann (president) and Bill Schaeffer Herrmann (vice president of production).

While the company is privately held, its shares have been placed in an irrevocable trust that prevents the business from being sold. "Each member of the family pulls his own weight and has his own sphere of responsibility, and the chemistry has worked very well for us,"

says Jay Shields. "Every year for the past 18 years, we have had a two-day strategic planning retreat. That literally keeps us on the same page, because we develop and revise our written business plan."

While Schaeffer Manufacturing is the oldest oil company in North America, its horizons have also expanded worldwide with sales representatives now in Canada, Mexico, and overseas. In the United States, the company maintains 10 warehouse facilities across the country. Fifteen division sales managers oversee a sales force that expanded from 300 in the late 1990s to nearly 400 today. "While the sales volume of our competitors has been flat in recent years, ours keeps growing every year," says Shields. So we don't need to grow through the acquisition. We prefer to grow our own business.

"Like I said earlier, we got offers about every week to sell our company. But our answer is always no. There are a lot of people who have worked for us a lot of years. We owe them something. But it also makes sense from a business standpoint. Besides, if we're standing pat, that doesn't mean we're standing still. As my father John Shields is always reminding people, 'Don't let our 160 years fool you. We are a very progressive company!'" ■

Mark Ward, Sr. is a freelance writer in Greenville, South Carolina, and a frequent contributor to IGM.

years, Schaeffer Manufacturing becomes the largest soap and candle maker west of the Mississippi. Laundry bar soap is sold under the "Boss" brand name and candles as the "Star" brand.

1917: Jacob Schaeffer dies and is succeeded by William Shields, husband of Jacob's only daughter. Under Shields' leadership, the company survives the Depression of the 1930s and '40's.

1947: Tom Shields, son of William, returns from wartime service as a glider pilot. He revitalizes Schaeffer Manufacturing by introducing new products and taking the company aggressively into direct sales. Brother Gwynne Shields is in charge of production.

1950: Soap-and candle-making operations are shut down so that the company can concentrate on its lubricants business.

1982: Tom Shields dies and his brother, John Schaeffer Shields, becomes active in the business.

1992: Total worldwide company sales reach \$24 million per year.

1998: The company introduces SoyShield, the nation's first premium diesel fuel additive derived primarily from soybean oil.

2001: SoyUltra is introduced as the nation's first soy-bean gasoline additive.

2003: Total annualized company sales surpass \$50 million. Nearly 400 Schaeffer sales representatives are active in the United States, Canada, Mexico and overseas. Products include industrial oils, motor oils, gear oils, and cutting oils; transmission, hydraulic, turbine, compressor, and dielectric fluids; textile machine and food machine products; heavy-duty greases and gear, wire rope and thread lubricants; and diesel fuel and oil additives. Sales are especially strong in the agricultural, industrial, mining, construction, and trucking sectors.

TODAY: John Shields is chairman and chief executive officer of Schaeffer Manufacturing. His son Jay Schaeffer Shields is chief operating officers, while nephews Tom Schaeffer Herrmann and Bill Schaeffer Herrmann serve as president and vice president, respectively. The last three represent the sixth generation of family ownership. Having manufactured petroleum-based products since 1859, Schaeffer Manufacturing is today the oldest oil company in North America.



SPECIALIZED LUBRICANTS

Clarifications in "Progressive Pioneer" Article

There were a few inaccuracies in this article that needed to be clarified, so as not to cause confusion. They are as follows:

- 1) Page 7, 1st paragraph. Schaeffer is a \$50 million manufacturing company specializing in fuel additives and lubricants. Fuel additives are approximately 15-20% of our sales (see page 8, 2nd paragraph).
- 2) Page 7, 4th paragraph. Schaeffer is "one" of the largest manufacturers of Premium Diesel additives in North America. We probably are the largest, but figures from our competitors are hidden by the overall sales of their parent companies.
- 3) Page 11, paragraph 3. Schaeffer holds 90% of the soy-based Premium Diesel additive market, not 90% of the biodiesel market.

These points would be minor to everyone but our competitors. Thanks to **Independent Gasoline Marketing** for a very well done profile on Schaeffer Mfg. Co.

Sincerely,

Jay Schaeffer Shields
Chief Operating Officer