

A long-term commitment

At Schaeffer Manufacturing Co. of St. Louis, rooted in the founding family's Christian values, an irrevocable trust has been established to ensure the business stays in family hands. The owners say this strategy—which can be risky—helps their company stand out from the competition. **BY MARGARET STEEN**

SCHAEFFER MANUFACTURING CO. has been in business for 172 years—since before homes had electric lights. Its family owners, having built a successful business that includes a particularly loyal sales team, have laid the foundation to keep it in family hands for the foreseeable future.

The company, begun as a soap- and candle-making business, today sells petroleum and synthetic lubricants and agricultural chemicals. “Our motto is, ‘Family-owned, American made, globally focused,’” says Jay Schaeffer Shields, 59, the company’s president.

The descendants of founder Nicholas Schaeffer restructured the company at several key points in its history. One of these points occurred in the 1980s, when the family decided to plan for a leadership transition rather than sell the business. The company’s leaders made another critical move in the late 1990s, when they set their sights on growth.

During the recent economic challenges, their ambitious plans went only slightly off track. The downturn was just another hurdle for a company that has survived the Great Depression and both world wars.

From candles to oil

Nicholas Schaeffer was born in 1814 in a village in what is today Alsace Lorraine, France. When he was 17, he made the six-week voyage to America with his mother and three brothers.

Schaeffer spent two years in Baltimore before heading west to St. Louis. While saving the money to start his own company, he worked at menial jobs for six years. (At one of those jobs, in a tannery, he earned 75 cents per week.) In 1839, Schaeffer moved to St. Louis and started a soap and candle business near the spot where the city’s

famous arch now stands.

The company faced some trials in its early years. In 1849, a huge fire destroyed much of downtown St. Louis, including Schaeffer’s office and plant. The soap business languished as men named Procter and Gamble figured out that customers preferred soap wrapped in paper to soap sold plain out of a barrel. The advent of electric lights in the 1880s depressed the demand for candles. And in the 1920s and ’30s, the company suffered along with the rest of the country in the Great Depression.

But Schaeffer rebuilt the company after the fire, and its products evolved with the market. Its first lubricant, Red Engine Oil, was a byproduct of making soap and candles and was used by steamboats on the Mississippi. The company’s Black Beauty axle grease oiled the wheels of wagons that took settlers west from St. Louis.

“Later on we adjusted: We replaced animal fats with petroleum products,” says John Schaeffer Shields, 85, the company’s chairman.

Nicholas Schaeffer’s son Jacob ran the company from 1880 until his death in 1917. Then William Shields, Jacob’s son-in-law, took over until 1946, when Tom Schaeffer Shields, William’s son, took the reins.

Turning points

In 1981, the company faced a pivotal point in its ownership. Tom Shields was diagnosed with Lou Gehrig’s disease; his brother Gwynne, who had been a vice president, had died a year earlier. Tom Shields needed to make plans for the company after his death. He had two siblings who would survive him: his brother John and his sister Jacqueline Schaeffer Herrmann (known as Jackie).

Each of the three siblings owned one-third of the com-



Founder Nicholas Schaeffer



Family employees (from left) Rich Niedbalski, Will Gregerson, William Schaeffer Herrmann, Tom Schaeffer Herrmann, Jill Niedbalski, John Schaeffer Shields and Jay Schaeffer Shields. A job in the company is 'not just given to you—you do have to earn it,' CEO Tom Herrmann says.

pany, though Tom had been running it. "Tom originally wanted to sell the business, but John and Jacqueline wanted to keep the business in the family," says company president Jay Shields. "They said, 'We want to preserve the future of the company for family members as well as for our hundreds of sales associates.'"

"That was pretty gutsy of them," says Tom Herrmann, 68, Jackie's son and the current CEO. "The business had offers—they all could have cashed out," says Herrmann, who has held the reins since 2006.

When Tom died in 1982, John Schaeffer Shields became chairman and CEO. His sister Jackie Herrmann was board secretary. The company's current leadership started taking shape in 1986, when Tom Herrmann became president after a few years in which a non-family member, Charles Pollnow, held the position. In 2006, Herrmann became CEO and John Shields' son Jay Schaeffer Shields became president; they continue in these roles today.

The company's products cost more than some, but they help make equipment last longer. "We're providing our customers with the lowest total cost of ownership of their equipment," Shields says.

Schaeffer has 71 employees at its St. Louis office and 140,000-square-foot factory. It is adding a second, 60,000-square-foot plant.

Although there were periods early in the company's history when it didn't grow quickly, in recent years the focus has been on growth. In 1994, the company generated about \$24 million in annual sales. It set a goal to reach \$50 million by 2000. When it reached \$53 million in 2003, company executives took the entire sales force on a trip to Florida.

Jamie Duke, vice president of corporate and international sales, joined the company in 1992. At that time, he says, it was "a 150-year-old startup."

"Schaeffer was at a stage where it was ready to make the leap to the next level," says Duke, 60, who is married to Jay Shields' sister.

The next big goal was \$100 million in sales by 2010, though in light of the recent financial crisis, "we're going to be a year or two late on that," Jay Shields says. Nonetheless, the company weathered the financial storm fairly well, he says. It currently generates about \$90 million in annual revenues and, since mid-2010, has been seeing record sales.

Shields credits the company's sales force and its customers with getting Schaeffer Manufacturing through the downturn. Because the company sells higher-end products, its customers were more financially stable than some. And because the sales staff works on commission only, they had extra incentive to make up for any decrease in sales.

Keeping it in the family

When Tom Shields died, his two surviving siblings decided to ensure that the company would remain in the family. They created an irrevocable trust that would prevent the company from being sold for about 100 years.

If there comes a time when no Schaeffer relatives are able to manage the company's operations, John Shields explains, the family will hire an outsider to run the company. The trust will end 21 years after the death of the last family member named in it.

Family business advisers say an irrevocable trust can be a risky strategy. "It can be very inflexible," says Stephen G. Salley, a senior partner with the family business center and fiduciary services group at GenSpring, a multi-family office. If no family member is able to act as trustee, a commercial trustee may be appointed; that commercial trustee may not have the same philosophy as family members, Salley explains.

"The drafting of the trust is crucial," especially for long-term trusts, Salley says. "You've got to think about things that the family doesn't think are likely: a family member in prison, alcoholic or drug addicted. There are just a million variables." Under some circumstances, courts will agree to revoke a trust.

"The irrevocable trust works well for us," Jay Shields says. "We have over 600 people who have cast their lot with Schaeffer. Knowing the company has put a significant portion of its stock in irrevocable trust so the company cannot be sold out from underneath them is a big selling point for our associates, especially when recruiting straight commission sales reps."

This commitment to keep the business in the family also helps distinguish the company from its competitors, Schaeffer stakeholders say. "The concept of being a family-owned company appeals to certain people," and helps



The company's sales staff in 1951. Tom Schaeffer Shields, who headed the company from 1946 until his death in 1982, is in the center of the front row.

attract employees who value family and stability, says Jay Ballinger, Schaeffer's northwest regional sales manager.

Although there are provisions for hiring outside managers, the family has so far led the company itself since Tom Herrmann took over as president in 1986. Herrmann started working for the company when he was 13. "I really did start at the very bottom: I started in the basement emptying water from the elevator shaft," he says. He began working full-time for the company in 1968, after college and a stint in the Marine Corps. He spent most of this career working with the sales department.

Herrmann says he knew from a young age that a high-level management position with the company was a possibility. His grandfather told him when he was a teenager that he could be president of the company someday. Still, Herrmann was not promised a job, just as family members today are not promised particular positions—or indeed, any job at all—with the company.

"Nothing's guaranteed in life," Herrmann says. "It's not just given to you—you do have to earn it."

Will Gregerson, 44, a nephew of Tom Herrmann's who is the company's controller and treasurer, worked in the company's grease room before going to college. "It was steaming hot in the middle of a St. Louis summer, and I just remember sitting there thinking, 'There is no way I'm making my living like this,'" he says. He went to college and worked outside the company in a series of jobs, including a position as a materials manager.

When he wanted to return, the available opening was in accounting, so he got certified as a CPA. "It wasn't just a foregone conclusion that there would be a job for me," says Gregerson, who is also a board member.



Nicholas Schaeffer's son Jacob (left) ran the company from 1880 until his death in 1917. His daughter Marie (center) married William Shields (right), who succeeded Jacob Schaeffer and led the firm until 1946, when his son Tom took over.

Success without a salary

Schaeffer sells its products all over the U.S. and in some 45 other countries. The company doesn't use distributors much; it primarily sells its products directly to end users, including farmers, truckers and construction companies.

The company's 550 sales professionals work on straight commission, a system that is "naturally selective of the really good salesmen," says Tom Cori, a member of the board of directors and former CEO of chemical company Sigma-Aldrich.

"These people are very well supported, just as if they're salaried employees," says regional sales manager Jay Ballinger. "However, we let them be 100% commission because that puts no cap on their income. The people we hire and who are successful are naturally very entrepreneurial."

Ballinger and his father both work in sales for Schaeffer. They are one of several non-Schaeffer families with more than one relative working for the company.

Schaeffer provides its sales staff with training, technical support and dispute arbitration. Although the company does not establish rigid sales territories, individual accounts are protected once a sales team member has established a relationship.

"Their expression is, 'You're in business for yourself, but not by yourself,'" Cori says. Getting started in a commission-only system can be difficult, Cori says, but "once you have a set of customers, away you go."

Schaeffer sales rep Bruce Sullivan says that although it was scary to get started, he has gotten used to working completely on commission. He was unemployed before he joined the company, he notes. "I wasn't about to quit a salaried position for straight commission, but I didn't have a salaried position anymore, so I had nothing to lose."

He adds, "I've changed over the past 15 years. If something ever happened to this company, I'd go looking for something just like it." Sullivan, who home-schools his children, says he enjoys the ability to set his own schedule. "I'm able to earn a very good income and yet have incredible flexibility," he says.

Guiding principles

Schaeffer Manufacturing is guided by the family's Christian values. The company's mission statement refers to "the grace of God," and, according to Jay Shields, board meetings begin with a prayer. "It's important to have guiding principles," he says.

These values and the commitment to family ownership create strong bonds, Duke says. "You feel like you're part of a big family," he says, "and there are people out there who have got your back."

Chairman John Shields helped set this tone during the company's recent history, Sullivan says. He recalls that when he first interviewed at the company, Shields took him to Dairy Queen for a banana split. "I thought, 'Even though this family is very successful and well off, they're not pretentious at all,'" Sullivan says. Employees say John Shields goes out of his way to help workers resolve both personal and business problems.

Eight members of the controlling family work at Schaeffer Manufacturing. Bill Schaeffer Herrmann, 58, the vice president of production, is Tom Herrmann's brother.

Family members say they all get along well. "We're pretty good about working at work and not working when we're not at work," says Jill Niedbalski, 41, Tom Herrmann's daughter and the company's quality assurance manager.



Tom Herrmann (left), Jackie Herrmann and John Shields celebrate the firm's 150th anniversary in 1989.

"There are no family members that work here that aren't hard workers," says Niedbalski, who has worked for the company for 18 years.

While, as Niedbalski points out, "it's a little early" to decide who in the next generation will one day take over, it's clear the company will continue to evolve. The next big goal for revenue is \$150 million by 2015. Jay Shields says that target is based on "conservative, consistent growth."

"Ten years from now, six to eight of the key executives will not be available," Gregerson says. "How do we keep the spirit of the current Schaeffer, which is very much family-oriented, very much a Christian organization—how do we keep that same motif as we move to the next generation? How do we get bigger?"

Jay Shields says the company's top executives recently started an annual succession planning process in which they identify key positions and who might be able to fill them in the future. The goal, he says, is "seamless and transferable leadership succession." FB

Margaret Steen is a freelance writer based in Los Altos, Calif.