BIBBY LINE GROUP

REGENERATING A FAMILY BUSINESS

THROUGH DIVERSIFICATION AND OWNERSHIP GOVERNANCE

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REGENERATING A FAMILY BUSINESS THROUGH DIVERSIFICATION AND OWNERSHIP GOVERNANCE

John Bibby (1775–1840), the business founder

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On his first day in office on September 1st 1946, as Derek Bibby walked into his father's office, which was full of replica models of Bibby ships, he found himself standing next to the portrait of John Bibby, his great-grandfather who had founded the company in 1807.

Sir Harold welcomed Derek as the fifth generation Bibby to lead Bibby Line Shipping and proceeded to offer the advice he was given by his father on his first day in the office: "Remember son, the secret to our success has always been never borrow any money, so that you can never go broke".

Derek nodded in agreement but, in years to follow, he was to borrow to successfully diversify the business from transporting passengers to operating bulk LPG and container ships.

However, by the early 1980s Bibby Line was in deep trouble, gripped by a combination of business and family crises that threatened to create the "perfect storm".

From the late 1970s market conditions had deteriorated very sharply and it became clear that the previous decade's substantial shipbuilding programmes had resulted in too many ships sailing the oceans in search of a diminishing volume of cargo.

The worldwide depression hit Bibby Line's business hard, ships had to be sold and staff made redundant.

As freight markets plummeted, so too did the market value of ships, and in 1978 the company suffered a crippling year.

Although it made an operating profit, interest payments on its debts and the sale of ships at below their book value led to a net loss of more than £13.5 million.

"*We were overtrading*," explained today's sixth-generation board member Sir Michael Bibby, "*and we'd bought too many ships via debt financing*."

With many UK shipping companies failing it was touch and go whether Bibby Line would survive. Tragedy then compounded the commercial crisis when, in September 1980, the company's bulk ore carrier MV Derbyshire was lost with all hands, overwhelmed by a typhoon in the South China Sea.

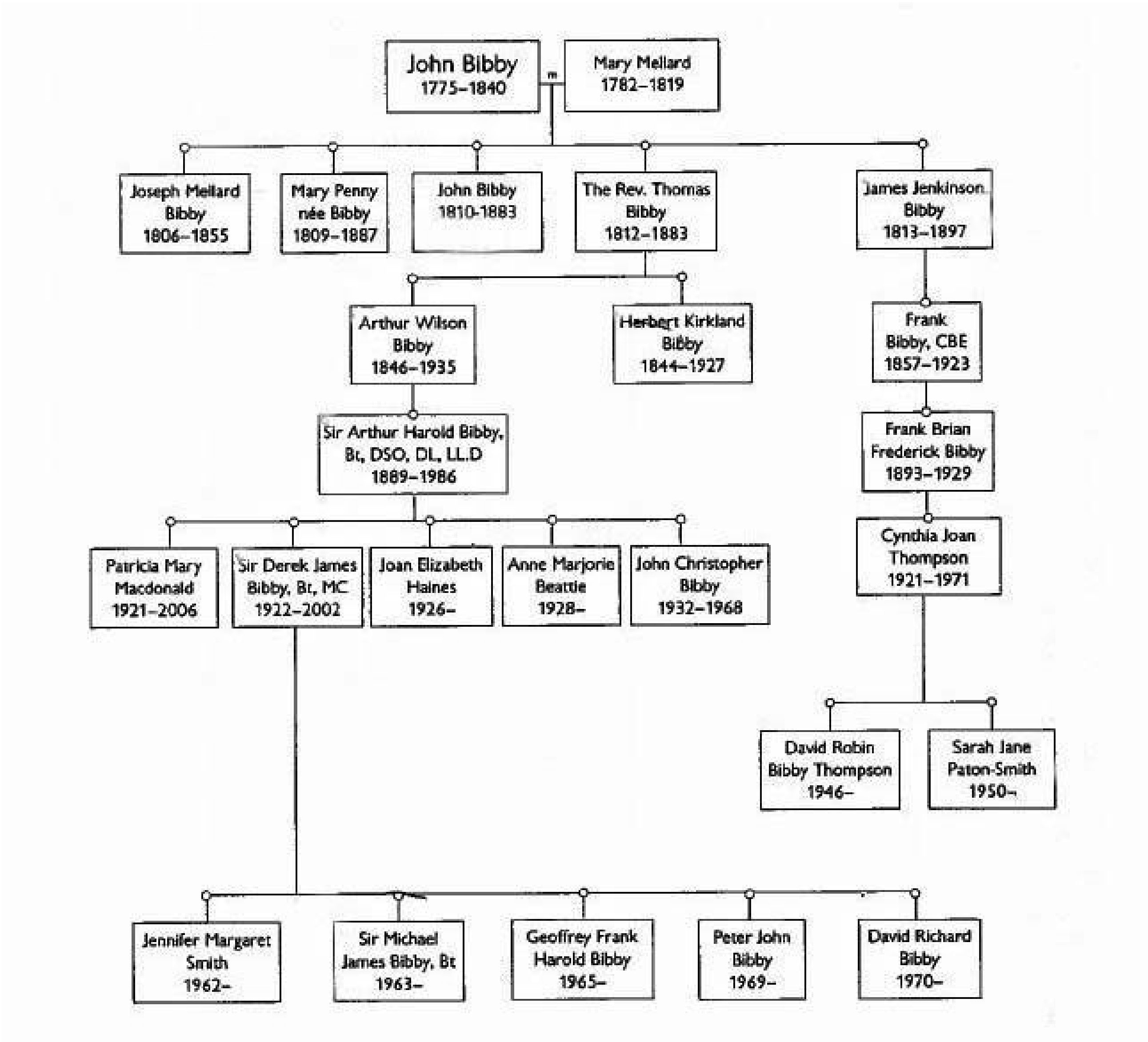
In these testing times when it was hard to imagine how things could get worse, Derek Bibby faced a second crisis – this time on the family front. The family shareholders were struggling to stay united.

By the 1980s at Bibby Line, discontent and division was undermining the ownership of the group, with 45 per cent of the shares in the hands of cousins who were unable to influence the dividend or share price due to the corporate structure.

At the same time, Derek – who had held the post of chairman since 1969, and revitalised the business during his career – was planning retirement, but there was no clear family successor.

He was determined not to repeat the examples of his father and grandfather, both of whom had remained at the helm to a great age and refused to delegate authority to their successor. Derek had a young family, none of whom had yet entered the company (see the family tree, Exhibit 1).

Exhibit 1, Family Tree



The 1980's "rebirth" of Bibby Line

In a battle for corporate survival, Derek Bibby set about rebalancing the company's business model, reorganising its ownership and restructuring its management. Derek had a four-point plan:

1. **Diversifying the business** in order to reduce its reliance on, and vulnerability to the cyclical shipping industry.

2. **Professionalising the business**, including recruiting a non-family CEO to take over prime responsibility for managing the company.

3. **"Pruning" the ownership tree** to ensure closer alignment between ownership and management.

4. **Setting up an ownership trust** so that owners of almost 80 per cent of the business became trust beneficiaries rather than direct shareholders.

Diversification

Shipping has always been one of the world's most cyclical industries, and Derek had often considered diversifying outside the company's traditional shipping interests in order to reduce its exposure to this volatility.

The crises encountered from the late 1970s brought extra urgency to this vision. The board of directors took the view that if Bibby Line wished to remain in shipping then there was more to be done than simply strengthening the company's shipping business.

Initially, however, the diversification strategy was constrained by lack of cash, and the focus had to be on businesses that did not require equity.

Bibby Line had already developed a financial services business in the 1970s through its leasing activities, and in 1981 it moved into debt factoring with the formation of Bibby Financial Services (BFS).

The business provided companies that conducted a substantial number of transactions on a credit basis with finance against unpaid sales invoices.

This was a very unstructured sector of the financial services industry at the time. It was operated from small, sole-proprietor shops spread around the country, which were competing with rather than leveraging the banking sector. BFS bought up these small businesses and began incorporating them into a financial network.

In the following year, 1982, Bibby Line decided to expand its maritime business to include "coastels" (floating accommodation) and jack-up platforms (mobile drilling platforms used in shallow sea depths).

ACL container ship

The Coastels were initially chartered to the government to house troops in the Falkland Islands. This strand in the diversification strategy had historic roots – in the Second World War several of Bibby Line's fleet had seen service as troop transporters and hospital ships. Military and support contracts could be traced back to the Boer War in South Africa. The initiative secured early rewards in the form of several high-profile contracts: as well as housing British troops in the Falkland Islands, floating detention facilities were provided for the New York Department of Correction.

The third step in the programme was moving into new, less cyclical areas. Bibby Distribution (BDL) was formed in 1985 to take advantage of the increasing involvement of third-party contractors in the domestic movement of goods, and the business took a stake (and eventually a controlling interest) in a warehousing and distribution contractor. A significant advantage of this investment was that, although it required substantial assets, it was not capital intensive as these assets could all be leased, so the company's capital remained available for shipping investment.

Professionalising the business

The second component of the 1980's reorganisation focused on formalising some of the group's important structures, processes and procedures. At board level a key move was the decision to appoint a non-family group managing director.

Derek Bibby, in his 60s and having worked hard to keep the business afloat, decided in 1985 to become non-executive chairman and to hand over day-to-day executive responsibility to a non-family MD.

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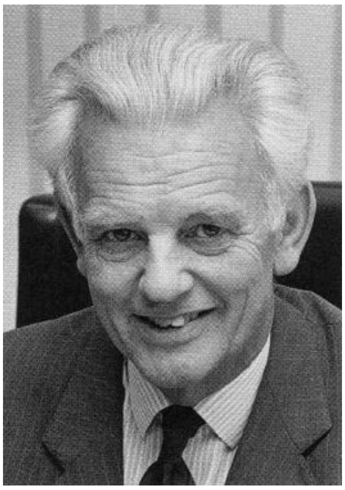
Bibby appointed Simon Sherrard, who brought ten years of financial experience working in the Far East with Jardine Matheson to his new job. As the fifth generation, Derek's preferred successor appointment would have been from within the family, but his eldest son Michael was only just out of university and not yet ready to play a senior role in the management of the family business.

Simon Sherrard's mandate upon joining was to run the business and to continue with the diversification agenda, bolstering the group's ability to withstand downturns in its core shipowning business: "*We were fighting for our lives at the time*," he recalls, "*and we had to succeed*."

As well as introducing fresh perspectives and expertise, one of his early responsibilities was to oversee the expansion of the group's nascent debt factoring business. Following Derek's death in 2002, Simon Sherrard's role also involved mentoring Derek's wife, Christine Bibby. He had undertaken the task at the request of Derek Bibby who was terminally ill and keen that his wife should be equipped to play a more informed role within the family group. Derek believed Christine could work behind the scenes as confidante and adviser, and act as a strong symbol of family unity.

Derek's' eldest son Michael Bibby joined the business in 1992, having acquired his chartered accountancy qualifications and four years' of experience working for Unilever. Although not strictly a mentor to Michael, Simon Sherrard provided a sounding board, and crucially played a role bridging the gap between the generations.

Simon Sherrard's tenure at Bibby Group was certainly not as caretaker however. He was to spend over 30 years with the group, including 15 years (from 2000) as non-executive chairman.



Sir Derek Bibby (1922–2002), fifth generation group chairman

Sir Michael Bibby, sixth generation, former Group Managing Director. Currently Member of Board

Simon Sherrard, Non-executive Chairman from 2000-2013

Paul Drechsler, Chairman since 2014

During this latter period he worked to ensure the group board (which includes two influential non-executives) was appropriately skilled for the size and dimensions of the business, and to monitor the formulation and implementation of group strategy.

In July 2014 it was announced that Simon Sherrard would be retiring from Bibby Line Group, to be succeeded by Paul Drechsler who was an influential figure in British industry.

In 2018, John Cresswell was appointed CEO of Bibby Line Group. In 2015, Michael Bibby's younger brother, Geoffrey Bibby, who had run multiple business outside Bibby Line Group also joined the board as a non-executive director.

Restructuring ownership

As a group managing director, Sherrard also oversaw the implementation of Derek Bibby's strategy to reorganise family ownership of Bibby Line Group.

Pruning the family tree

Following the death in 1986 of the fourth-generation leader Sir Arthur Harold Bibby, his son Derek used part of his inheritance to buy up large blocks of shares owned by descendants of James Jenkinson Bibby (1813–97), the youngest son of the founder and a second-generation co-owner of the business (see Exhibit 1) and to purchase also some smaller shareholdings owned by external non-family investors.

These shares, together amounting to a majority stake in the business, were acquired by Derek Bibby and his family branch through newly established ownership trusts.

The background to the acquisition was that "cousin shareholders" who played no role in the management of the Bibby family enterprise had become increasingly disaffected as their dividend income fell in the business downturn, and they also had no "escape route" because there was no market in the company's shares.

The acquisition had the effect of reuniting ownership of Bibby Group with the family members charged with its management – currently Sir Michael Bibby and his brother Geoffrey Bibby were members of the board. Michael and Geoffrey's sister Jennifer Smith, had also been involved in the business as non-executive director and had resigned in 2015 to focus on philanthropic initiatives.

In ownership terms it also resulted in a "rejuvenation" of the business, transforming it back into the equivalent of a second-generation "sibling partnership" as opposed to a sixth-generation "cousin consortium", while also opening the way for further business diversification, with the new, tighter ownership group more willing to take a longer-term view.

Ownership trusts

The ownership stability argument held sway at Bibby Line Group, and the vesting of shares into family ownership trusts in the mid-1980s was explicitly seen by Derek Bibby as a way of making the family shareholders more of a passive group going forward. He was keen to avoid the tensions and sometimes outright hostility that had marked shareholder relations in the past, particularly during the tenure of his father Sir Arthur Bibby, when shareholders sometimes obstructed proposals that the board of directors regarded as vital for business development.

Building the family ownership trust (which today holds almost 80 per cent of group equity), and turning shareholders from occasionally troublesome factions into an attached, united component of the family governance mix involved a significant transfer of power towards the board and the management of the business.

Bibby Line Group ownership trust: Key objectives

The ownership trust structure is the vehicle for holding 78.3 per cent of the shares in Bibby Line Group for the benefit of the descendants of Derek Bibby (1922–2002). Voting control and capital are held centrally by the trustees who act as a single shareholder voice on the group board, thereby preserving the company from conflicting family views and interests.

The trust objectives were set in the 1980s by Derek Bibby and are confirmed annually by the trustees, including:

1. **Income** To provide a secure income from increasing capital for children, grandchildren and remoter issue.
2. **Capital** To enable capital, and the income therefrom, to be passed from generation to generation with minimum tax liabilities, thereby preserving family wealth.
3. **Shares** To enable Bibby Line Group shares to be acquired to ensure continuing control by the existing family, without any one family member having, or being regarded as having, a controlling interest (but that a healthy business future for the group should remain of paramount importance).

Growing the business

After the successful diversification and repositioning of the group in the 1980s, the 1990s ushered in a period of relative stability, allowing for the integration and consolidation of the new group of businesses:

• **Debt factoring**: The factoring business quickly became an important player in the financial services sector, soon accounting for 50 per cent of the UK independent (i.e. non-bank) debt factoring market. This prompted further geographical expansion of this business, and Bibby Financial Services today operates in 46 locations across 16 countries, with over 6,000 clients globally. In 2012 it was the largest contributor to group profits.

• **Coastels**: The shallow water accommodation business continues to play a major role in the group's maritime division.

Coastels today provide workforce accommodation for projects around the world, offering a cost-effective alternative to local hotels or land camps. Once a coastel has finished its charter it can be removed from site, leaving little or no trace of its role. Like Bibby's traditional shipping business, the accommodation barges' operation is cyclical as the barges undertake a series of 'projects' with no certainty as to when or where the next project will be, but helpfully the two businesses usually follow different cycles.

• **Bibby Distribution**: After further acquisitions and growth, BDL today enjoys a national reputation for contract logistics, warehousing, distribution, systems integration and added value services. This business operates 2,400 trucks and trailers from 105 depots around the UK, offers more than 2 million square feet of warehousing accommodation and employs 2,500 people.

In 2000 Michael Bibby, who had joined the family business in 1992, was appointed managing director of Bibby Line Group, and Simon Sherrard became non-executive chairman. Under Michael Bibby's direction, the group has grown its established businesses as well as continuing to branch out into new products and markets.

During 2005–07, when the global economy was at its peak, Bibby Group sold all of its chemical and LPG tankers and jack-up platforms, using the funds to pay off debts and invest in developing its offshore interests (which, in 2013, were the most profitable parts of the group) and coastel fleet. Importantly, the well-timed sale also allowed the group to continue diversifying, including acquiring a majority stake in the fascia group Costcutter.

The Costcutter acquisition

Costcutter Supermarkets, which runs a network of some 2,500 stores throughout the UK, offers independent retailers a range of convenience store brands to suit their location, customer profile, size of store and their own business goals.

Retailers remain independent but are able to benefit from industry best practice and access to superior buying power. In 2011, the group bought a 100 per cent stake in Costcutter and continues to seek out opportunities to grow the division. The Costcutter investment had started to generate strong, non-cyclical revenue streams and was viewed as a long-term investment. Simon Sherrard had emphasised this point:

"*We don't get any profit and loss account contribution from Costcutter at the moment because we are still writing off the goodwill. If we were a public company we wouldn't have been able to do this because the stock market doesn't look favourably on acquisitions that don't increase earnings. But we're a private family business, and we're building wealth for the future*."

Another example of inorganic growth was Bibby Line Group's 2008 acquisition of Garic Limited – a plant and equipment hiring company to the construction industry, specialising in the manufacture and hire of containers. The order book has remained resilient during the recent economic downturn, and managers view Garic as a young, dynamic business with good growth potential.

Finally, the group had also expanded into burial parks. Following its 2006 purchase of Colney Memorial Parks in Norwich, two further parks had been opened in Epping and Beaconsfield, and a further two in 2014. Marketing itself as a natural alternative to traditional burials and cremations, in 2012 the business was renamed GreenAcres Woodland Burial Parks.

The group had appointed a former Virgin Management corporate development and strategy director, Gaurav Batra to the Bibby Line Group main board. The group's approach, adding to the diverse portfolio of activities it has chosen to build, is summarised in the accompanying table.

Diversification timeline: The main divisional subsidiaries and establishment dates

1. Historic: Bibby Maritime

Despite successful diversification out of this sector since the 1980s, Maritime remains core to Bibby Line Group's operations

Bibby Line	1807	The shipowning origins of the group
Bibby Marine*	1982	Mainly the ownership and operation of coastels and hydrographic survey vessels
Bibby Offshore*	2003	Subsea construction and offshore maintenance and support
Bibby Ship Management	2008	Crew management services

2. Distribution / Logistics

Diversification into the land-based distribution / logistics sector

Bibby Distribution	1985	Contract logistics, warehousing and distribution

3. New business areas

Bibby Financial Services*	1981	Global financial services provider specialising in cash flow funding
GreenAcres Woodland Burials	2006	Woodland burial parks providing an alternative to conventional burial and cremation options
Bibby Retail Services* (Costcutter)	2007	Yorkshire-based franchise convenience store organisation
Garic	2008	Specialist manufacturers of containers for the construction industry

* The group's largest businesses.

Informal family governance

In contrast to Derek Bibby's hands-on approach to managing family ownership of the business (the rules and structures he introduced in the 1980s that were accepted by today's family members), the family had deliberately chosen a less formal approach when it came to policies and guidelines governing other aspects of their relationship with the business.

Bibby had no written family constitution laying down formal rules about family members working in the business or management succession. There was no family council, assembly or other structures, nor were there any agreed statements of overarching principles such as the family's vision for the future of the business, their core values or business philosophy. Bibby Group's statement of corporate values (Exhibit 3) made no mention of the group's family business status.

The family believed their trust ownership structure enabled them to achieve many of their family governance objectives and that, on balance, adding formality to a system that already works well is not warranted and, at worst, could be destabilising. The family was concerned that a family council and the requirement to nominate a family leadership hierarchy could be a source of tension rather than unity.

The ownership trust was set up by Derek Bibby precisely to avoid family hierarchies and power struggles, and it was working well providing a voice for the shareholders who were able to express their views through the trustees. The balance between business and family is also fostered by the complementary roles of the two family members involved in management. Michael Bibby as managing director concentrates on the business, while his sister Jennifer focuses more on the family's relationship with the business, acting as their representative. Jennifer provides the main link between the trustees and the board of directors.

The family's flexible approach to governance allowed for ad hoc formal meetings when important topics arise. A family shareholders' meeting had been scheduled for late 2014 to discuss some of these "big-ticket" items, which are likely to include group indebtedness and defining an acceptable risk profile. Also on the agenda are likely to be the group's employment policies for family members.

Bibby Line Group was set up to remain a family business for the foreseeable future, at least until the present ownership trust structures expire in 2066. So although they had rejected, at least for the time being, the quasi-legal documents and architecture of complex family governance structures to be found in many multi-generational family firms, Bibby family members had clear views about most of the key issues, including, in one concession to formality, a concise written summary of shareholder objectives (see the text panel).

Bibby Line Group: Shareholders' objectives

1. To maximise the long-term value of shareholders' funds by achieving a compound growth rate in shareholders' funds over a 7-year cycle of not less than 12 per cent.
2. To keep a business portfolio capable of generating recurring earnings and a dividend flow to the holding company to provide security against cyclical downturns in any particular market.
3. To develop the business without recourse to shareholders for additional capital and without diluting family ownership of the holding company.
4. To provide employment opportunities for suitably qualified family members.
5. To maintain a constant dividend flow based on £2 million in 2007 and rising with RPI, subject to profit and cash flow constraints. Currently £2.4 million.

Challenges to come

The 1980’s “rebirth” of Bibby Line was a major achievement for the Bibby family. The group had restructured and rejuvenated family ownership, and then gone to apply its traditional business expertise in new contexts, laying the foundations for today’s diversified global business, with a billion pound turnover. But plain sailing can never be relied upon, and several challenges lay ahead for Bibby Line Group.

Given the private ownership status, Michael wondered if the group ownership was best approach for managing diverse portfolio of businesses? The family was also deliberating on its hands on involvement in the business. Should the top executive team consist of a family member or should the family set up a family office playing more the role of an investment manager, and ceding day-to-day control to outside professionals (at least until the next generation is groomed)?

The seventh generation consisting of thirteen members was yet to enter the family business and Michael and Jennifer wondered what they could do to nurture their sense of identity and involvement with the family business – especially as the family stake were going to be divided into ever-smaller stakes?

Jennifer had taken a leading role in planning for a transition to the seventh generation, running a “*G7 Activities” programme that aimed to develop “a team of loyal, informed and inspired shareholders for the future*”.

The programme offered them opportunities to learn about the business (and vice versa), and to cultivate a sense of identity with, and pride in, the group’s activities. Was this sufficient? And what about the family’s informal approach to family governance? The family wondered if time was ripe to adapt a more formal approach for preserve family ownership and involvement in the Bibby Line Group?

Exhibit 2, Bibby Line Group: Corporate Landmarks

1807	Bibby Line began trading
1914	Ships requisitioned for WWI
1944	Troopships carry 10,000 men in the Second World War
1970	Bibby Line was awarded the Queen’s Award to Industry
1972	Bibby Line had over 1 million DWT in ships
1981	Financial Services division established
1982	Coastel fleet established
1985	Distribution division established
2002	Financial Services trading in the USA, Europe and Australia
2003	Offshore division established
2006	Bibby Consulting and Support acquired (since disposed of)
2006	GreenAcres Woodland Burial Parks acquired
2007	Bicentenary celebrations held across the global business
2007	Majority stake in Costcutter acquired
2007	£1 billion group turnover achieved
2007	Corporate social responsibility programme launched
2008	Garic business acquired
2008	Bibby Ship Management established
2011	Bibby Line Group takes 100 per cent ownership of Costcutter group
2012	Osiris Projects acquired
2012	Business and employees together donate £5 million to charitable causes since 2007
2013	Costcutter forms a strategic partnership with Palmer & Harvey

Source:
http://www.bibbylinegroup.co.uk/about/heritage/

Exhibit 3, Bibby Line Group values

• **Positively Challenging**: We challenge convention in all our markets to bring better service to our customers. We challenge ourselves to be the best and consistently seek to improve on the work we do.

• **Real Integrity**: We have built our business on our reputation and this is the defining quality of everything we do. We will not do anything that might damage our reputation or the quality of what we do.

• **Restless Momentum**: We understand the value of innovation and embrace change in order to grow, to strive for better ways of doing things. We have been innovating for 200 years, we appreciate that change is constant and we must keep moving, keep looking and make informed decisions to help us grow.

• **Lifetime Nurturing**: We take a long term view which allows our businesses, customers and people room to grow together. It's all about being part of a team.

• **Powered by People**: Our people are our finest asset. We protect their health and safety, we support their continued development while welcoming the best new talent into our business. The health and safety of all our people is paramount to the way we work.

• **Customer Focus**: We're dedicated to putting customers first, working with them to fully understand their individual wants and needs. Developing true, long term partnerships with our customers helps us to keep them one step ahead of the game and us ahead of the competition.

Source: http://www.bibbylinegroup.co.uk/about/our-values/

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The IFB Research Foundation was established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face. The Research Foundation's vision is to be the UK's centre of excellence for practitioner-oriented family business research.

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