



1999

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Recommended Citation

(1999) "NEJE Interview with Stew Leonard Jr., CEO, Stew Leonard's Company," *New England Journal of Entrepreneurship*: Vol. 2 : No. 1 , Article 1.

Available at: <http://digitalcommons.sacredheart.edu/neje/vol2/iss1/1>

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NEJE Interview

Stew Leonard Jr.
CEO, Stew Leonard's Company

Stew Leonard's Dairy stores, located in Norwalk and Danbury, Connecticut, are well known to shoppers throughout the state, as well as to consumers who drive in regularly from nearby New York, New Jersey, Pennsylvania, Massachusetts, and Rhode Island. Both locations are famous for their "Disney-esque" themes and characters that make the food shopping experience unlike that of any other supermarket in the world.

Founded by Charles Leo Leonard in 1924, the company has been bottling milk continuously for seventy-five years. The second generation of the family, Stew Leonard Sr., changed the business in 1969 from delivering milk door-to-door to a retail business along Route 1 in Norwalk. His original store contained twelve different dairy items and offered a drive-through convenience window for shoppers. The first building has grown and changed dramatically through twenty-one different additions and renovations.

Stew Leonard's has been listed in the Guinness Book of World Records as the store with the fastest moving sales per square foot (roughly ten times the industry average), was featured in Ripley's "Believe It or Not," has been the regular stopping-off point for businesspeople from around the world to study how the Leonards develop their marketing mix strategies, and was cited by Tom Peters in his book, *A Passion for Excellence*, for management commitment to quality. The Danbury operation was added in 1991 and a new store, to be located in Yonkers, New York, is scheduled to open later this year.

NEJE: It's not often we conduct interviews while our featured entrepreneur is using his cell phone.

Stew Jr.: That's what happens when you average fifteen-hour business days and need to be in several places simultaneously.

NEJE: You represent the third generation of Leonards in the family's business. Are things managed differently now that your father is no longer involved in the day-to-day running of the operation?

Stew Jr.: Well, there are certainly bound to be changes in any business once the previous generation retires, but we share the same core values that my mom and dad instilled in us: total commitment to making Stew Leonard's the highest quality operation we can. Dad always emphasized how important it was to be committed to excellence.

NEJE: It's one thing, though, for your father to run a business by himself. Isn't it quite another to have to get along with siblings?

Stew Jr.: Yes, it is. I have three siblings, Tom, Beth, and Jill. Although we're a close family, we haven't always gotten along, but we try to have regular meetings to air our gripes and to discuss our issues.

NEJE: Are all four of you actively involved in the operation?

Stew Jr.: No, I'm the CEO and Beth and Jill have important positions within the company as vice-presidents. Tom is no longer involved in the day-to-day operations of the company.

NEJE: Why is that?

Stew Jr.: Tom was given a lot of responsibility for running the Danbury store, but things just didn't work out. He is no longer involved when we make decisions affecting the business side of the operation. However, all four of us have equal shares in the equity of the business. My folks have always insisted that each of us be treated fairly and as equals when it comes to ownership. Nothing will ever change that. Our equity interests are the same.

NEJE: So how is everyone compensated?

Stew Jr.: Each of us is compensated based on the position we hold and the performance we put in.

NEJE: How does that affect the equity interest? Are profits declared annually and paid out four ways?

Stew Jr.: There is no distribution of profits. We each get a salary. Whatever is left over is reinvested in the company because we need to fuel our growth as we add new stores. At some point, we could go public, sell the business, or even bring in other partners. However, that "some point" isn't even on the radar screen for us.

NEJE: Is the business run as a democracy where every sibling has one vote and majority rules?

Stew Jr.: No, it's not. I don't believe a business like ours can be run like a democracy. It just wouldn't work. Several years ago when my dad was easing himself out of the business, he designated me as the CEO. When my sisters and I vote on major decisions on where the company will go next, my vote must always be in the majority.

In other words, Jill and Beth can't vote one way and me another to accept a proposal. If neither agrees with me, we continue to negotiate. Before we move ahead, at least one of my sisters must agree with my position. Of course, it's

best if we all feel the same way, but that's not always possible.

NEJE: Is there resentment expressed by your siblings over your effective veto power in the business?

Stew Jr.: Not that I've noticed. Oh sure, there are times when discussions get pretty heated, but Dad selected me to run the business after he retired and my sisters have come to accept that fact. I was the oldest and the one with the most hands-on experience at the time. I believe it had nothing to do with gender, it was just the fact that I was closest to my dad and the one he felt could carry on the family business with the most commitment. It's also given my sisters an opportunity to spend more time raising their children and to take time off.

NEJE: Are any spouses who married into the family also in the business? If so, does that create special problems or issues?

Stew Jr.: Beth's husband, Bill, was part of the business for ten years, but he left voluntarily to pursue other interests. It worked out fine. Jill's husband and my wife have never been involved in the operation, so it's not an issue for us.

NEJE: Often, entrepreneurs who build very successful businesses have trouble letting go of their "baby" to the next generation. How did Stew Sr. manage to hand off the business?

Stew Jr.: My father is a brilliant businessperson who built this operation from the ground up based on very definite opinions about how business should be conducted. One of the things he firmly believed in was just having this one

store in Norwalk and not expanding. He was afraid we wouldn't be able to keep up our attention to quality if the family was stretched too thin supervising more than one store.

However, when he had to leave the business several years ago, Dad had no choice but to let go of the reins of the operation and watch what his children could, or could not, accomplish. Well, we were able to show him we *could* manage the family operation and expand it without losing his original vision or the company culture that is so dear to him.

In fact, Dad has often mentioned how proud he is of the job we've done. That has made it infinitely easier for him to let go. We've accomplished some things he never would have taken on because he felt they couldn't be done. But we showed him we could do it!

NEJE: Does Stew Sr. ever visit the stores and start giving employees orders? Isn't it natural for someone as successful as he has been to come by and take over?

Stew Jr.: Dad is still very much involved and respected by team members. (Editor's note: All employees are referred to as "team members.") When it comes time to have a picture taken with a team member's family at special occasions, the member typically wants *my dad* in the picture. They love him and appreciate what he's done over the years to provide them with a secure and respectful work environment.

NEJE: So, frankly, it seems there are still opportunities for your dad to create some difficulties for you by having everyone feel he's still the boss.

Stew Jr.: No, my dad and I talked about this at length. He really tries to avoid creating confusion as to who's the boss as much as possible. I told him that if he really wanted to keep making decisions, he could pull the fifteen-hour days and talk to interviewers at 9 PM at night. When you want to continue leading, then you have to put in the hours. At nearly seventy years of age, that's something Dad doesn't want to do any more. He's on to other things. I'm forty-four. I have the stamina and the will power to do what needs to be done to keep Stew Leonard's growing. Since I'm willing to do what it takes, I make the decisions along with my sisters. Those boundaries have to be respected.

NEJE: Would you say the management styles are different between the generations?

Stew Jr.: Absolutely. No two people ever manage the same way. I've been to college and I have an MBA. I have tried to bring professional managers on board to fill in where family members do not have the required expertise. That is becom-



The Leonard children: Stew Jr. (standing), Beth, Tom, and Jill.

ing increasingly important as we grow and expand to three stores. We would be doing the family a disservice if we didn't bring on the best talent we could find. Dad felt differently. He only really wanted to work with family by his side.

NEJE: *Do you instill a sense of loyalty among the employees by having them consider the company one operation, or are the stores pretty much their own separate entities?*

Stew Jr.: We always encourage our members in the stores to think of the "big picture," to think of how to help out the entire operation with their ideas. However, we don't move personnel around between the stores very often, or have combined team member meetings or even hold one, big holiday party. We tried that for a couple of years and participation really fell off. People complained about having to travel too far to one central location. So, we have our members develop store loyalties, but we ask them at the same time to remember that no matter which store they work in, they are all under the same umbrella.

NEJE: *What about the fourth generation of Leonards?*

Stew Jr.: My parents have thirteen grandchildren. The hottest topic in the family is how we are going to divide up the responsibilities in the business among those grandchildren who are interested in, and capable of, moving the business forward. We've had lots of consultants come in and help us sort things out among myself and my siblings. They have helped us recognize "red flags" that could eat into the trust and respect we have for each other.

Now, we're looking for outside help from those who can aid us in moving into the fourth generation of owner/managers. The oldest grandchild is fourteen; we need to come up with these answers over the next few years. We don't have the luxury of waiting around for answers to come to us.

NEJE: *Was there one notable person or group whom you turned to for advice in the past?*

Stew Jr.: Absolutely. That person is Leon Danco, who runs seminars for young people thinking about going into their family's business. Leon is considered by many as the "Father of the Family-Owned Business."

NEJE: *Will the fourth generation have the inherent right to take over responsible jobs within the company?*

Stew Jr.: No, they won't. We wouldn't be able to keep the best and brightest of our managers if they believed they couldn't move up to the very top of the organization in the future. There's no such thing as a position that will be held

specifically for a family member.

NEJE: *If you were speaking to your children, and your siblings' children, right now, what would you tell them are the advantages and disadvantages of becoming the fourth generation of Leonards to go into the family business?*

Stew Jr.: I'd encourage all of them to seriously consider going into the business. Our store sales are strong and growing; our management attitude is healthy, progressive, and open to change. They will be able to see and learn things from the top of the organization which will be very meaningful to them, and their careers will be unlimited.

NEJE: *What's the downside?*

Stew Jr.: I would tell them not to get involved in the business unless they are absolutely committed to their work. Each one will face very high expectations from their parents, uncles and aunts, and the stores' team members. Each one will be under a very different kind of magnifying glass compared to other employees. Unless they have a real commitment to make the business grow, it would be the wrong place for them to work.

NEJE: *What will you expect from the fourth generation?*

Stew Jr.: At the very least, a solid college education and probably graduate school or study in a technical field. Perhaps some will go on to culinary arts and get very specialized technical skills around food preparation and presentation. Others will need to be extremely creative and their artistry will be required. Some will definitely need marketing and financial skills.

NEJE: *What other advice would you offer them?*

Stew Jr.: It's all too easy to get lured into a family business when you're young and just completed college or graduate school. The job is waiting for you, the company may have excellent growth prospects, your family wants you in the business because they can trust you, and you instantly are doing better financially than your friends.

However, ten or fifteen years down the road you may realize it's been the wrong fit all along. Then what do you do? If you don't have a college degree, you will have little to fall back on. That's why I emphasize getting that degree before you ever think about joining a family business.

Then, I think it's best if this person goes to work for at least two years in a nonfamily-owned company, preferably in a related field. Because the business is not family-owned, the family member would get invaluable experiences. These

include being just another employee and not having the same last name as the owner; getting an honest and frank performance review and not receiving preferential treatment because your family owns the business; and learning how to "bite your tongue" and carry out assignments you may not like but have to do to keep your job.

You'll learn what it feels like to work hard on a project and watch as your supervisor takes credit for it. Also, instead of designing your own work schedule because you expect preferential treatment as a family member, your supervisor will be designing your work time for you on a take-it or leave-it basis. All these things should be experienced first before a young person joins their family's business. Otherwise, they may never be learned at all.

NEJE: Anything else?

Stew Jr.: Just one more thing. When you become a member in your family's operations, don't always expect to be treated fairly with every decision. Close your eyes to inequity. You can't expect to win every time there's a disagreement and it's hurtful and destructive to carry around grudges because your point of view hasn't been accepted.

NEJE: When the fourth generation does begin working at Stew Leonard's, who's going to evaluate their contributions?

Stew Jr.: Definitely not their parents! We'd all be biased. No, it needs to be someone else. Parents have a tendency to take a long-term view of their children. If they are going astray, the parent can always say, "Oh, it's just a phase they're going through. They'll be fine in another few years. Just let them grow out of it."

Well, you can't build a growth strategy on dreams. Our business has a very short-term point of view. Yes, we plan up to three years ahead when we can, but the only way to run a successful grocery operation is to concentrate on what's happening right now. Is a customer dissatisfied? What can we do to make it right? What is our competition doing today?

In the future, top managers brought in by us will be working at all levels of the company hierarchy, and the CEO could easily be someone from outside of the family. This happened with Wal-Mart. There isn't a Walton at the head of the company, and they're doing very well for themselves.

Our family has to put the business first and not our own, individual interests. If we haven't learned that lesson, then we could be putting the family business in jeopardy. It would be a great disservice to everyone, both team members and family alike, for us to hold onto specific management positions and allocate them to Leonards if my children or my nieces and nephews in the family's fourth generation are not qualified to fill those slots.

Ultimately, as you know, it will be our customers who rate everyone in the organization, both family and people brought in from the outside. If they don't do their jobs, the business won't survive. And it shouldn't. Stew Leonard's Dairy will only prosper if everyone here in our operation remembers how important it is to be responsive to the customer.

NEJE: Have you ever been approached by outside organizations to buy out the business? You could "solve" the generational issues by just selling everything and spreading around the money.

Stew Jr.: We're always being approached by potential buyers who would love to own our concept. However, the operation is a very personal one; we each identify with our dad's sense of commitment to the company to keep it going. The sheer thought of ever selling Stew Leonard's to a big national food company gives me the shivers. It's totally incomprehensible to me and my sisters. We never discuss it. It's not in the cards. I don't care how much money is offered, it just isn't going to happen.

NEJE: What about taking the company international some day? The Disney Company has done that successfully both in Europe and in Asia.

Stew Jr.: There has been a lot of interest on the part of the Japanese for us to take our concept to their country. I have lectured in Japan on our management practices and marketing tactics. Our Pacific Rim contacts are very interested in us pursuing business interests in that part of the world, but frankly, I think I'm going to leave that to the next generation. On that note, I think besides the marketing, finance and food management requirements we will need from the fourth generation, add a thorough knowledge of international commerce. It probably will come in handy!