

For Business Advantage, April, 2006

THE SECRETS OF CENTENNIAL FAMILY BUSINESSES

The Mennel Milling Company: A Century of Values

By Donald Levitt

Alphonse Mennel was hired as general superintendent when the Harter Milling Company was founded in Fostoria, Ohio in 1886. He became president of the flour mill in 1896, and in 1917 Alphonse and his sons Louis and Mark purchased control of the company and renamed it The Mennel Milling Company. Louis's son Donald M. Mennel became president in 1958. The current president, Donald L. Mennel, represents the fourth generation of Mennel leadership, and his two sons entered the business last year.

Secrets of Success

Secret #1: Develop patient shareholders

“We pay an absolute *de minimus* dividend,” notes Donald L. Mennel. “Our shareholders are patient. We are growing wealth in the capital appreciation of the corporation rather than through dividends – so our owners can’t be greedy. They need to separate the business from the family, and not take money from the business for personal needs. Last year we offered to buy back \$200,000 in shares but there was very little subscription. The parents advised their children to not sell their shares.”

Secret #2: Raise children to live on modest incomes

“We don’t raise children to live as if they are wealthy. Too much wealth spoils the child,” says Mennel. “Our message is ‘You’ve got to make a living on your own.’ The shares are a wonderful asset to hold, but you need to make your own way in the world. You can trade in shares at the proper time, but if you don’t need it, we recommend against it. My father really started these values when he borrowed a lot of money to buy the company in 1958. He lived on a tight budget and invested in the future, and all of us were raised this way. Having a mortgage and learning to live on a budget is more important than having everything given to you.”

Secret #3: Plan ahead for gifting ownership

Donald M. Mennel, who is now 88 years old, started gifting shares to his children and grandchildren over 30 years ago, and just completed his gifting several years ago. Donald L. Mennel started gifting to his children as soon as they were all out of college. “You need to start early because the shares continue to appreciate,” notes Donald L. Mennel.

Secret #4: Prune the family business tree

In the second generation, Louis Mennel bought out his brother Mark. In the third generation, Donald M. Mennel and his mother bought out the other shareholders. In the fourth generation, the company has bought out Donald L. Mennel's siblings and their spouses.

Secret #5: Have your children work elsewhere

Donald L. Mennel worked as an English teacher before joining the company, and his two sons have each worked successfully at other companies before joining the family business. "I really believe children should work somewhere else before coming to the company. You don't want them second guessing whether they could have gotten a job," says Mennel.

Secret #6: Recruit strong external board members

The Mennel Milling Company has had external board members since 1960. Of the seven current board members, three are family and/or current or former managers in the business, and the remaining four are external members. Of these four, each brings a unique perspective to the business: one was an executive in his family-owned flour milling business until the business was sold; one is an executive in oat milling; one is the president of his family-owned food manufacturing business; and one is an international investment banker.

Secret #7: Borrow money

"We are highly leveraged," notes Mennel. "If you can grow your business at a rate higher than borrowing, why not borrow and grow? On every program we look at the return on investment. If we can see pay back, we'll go for it."

Secret #8: Remain private

"I view us as stewards of our business," says Mennel. "Too often when companies go public, especially without family leadership, they don't use the money as if it were their own. It's not their name on the door, and it's not their reputation. Being privately-held limits our growth, but we would never go public."

Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month's topic, and other family business issues, can be found at LevittConsulting.com.