3,000 WORD CASE STUDY

John Smedley: Transforming a British luxury family business

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| Subjects | Family business, business model, business strategy, business transformation, sustainable competitive advantage |
| Level | Intermediate |
| Date created | July 2018 |
| Case type | Field case |
| Length | 2859 |

Keywords

John Smedley, Luxury, fashion, British, family business, business transformation, competitive advantage, change management, strategy

Abstract

John Smedley is a 234-year-old family business based in the UK. It specializes in knitwear, within the premium-luxury sector and still operates from its original manufacturing location in Lea Mills, Derbyshire. Change management has been a key feature of the firm since inception in order to cope with continuous market shifts as evidenced in its business sustainability over three centuries. These transformations include manufacturer to brand perspective, mono wholesale channel to multi-channel and sustaining growth whilst retaining private family ownership. Business environment change presents both a challenge and an opportunity for John Smedley, today faced with adapting to a business landscape being disrupted by global ecommerce, extensive global out-sourcing and increasingly connected consumers (Ebeltoft, 2018). For John Smedley navigating this new world is critical to sustaining future business expansion.

Family business research has been growing over the past two decades yet is still considered an emergent field of study with greater need for specific research into addressing the complexity of decision-making in family businesses and how they are similar and different to non-family organisations (Pounder, 2015). This case study of John Smedley aims to highlight some of the characteristics and issues unique to family business decision-makers and asks students to consider how family firms should approach business transformation, to discuss what core competencies and capabilities are required, to identify the challenges and how these might be distinct from non-family businesses and propose strategies to overcome them.

Learning Objectives

1. To understand the need for integration between shared vision and implementation within a family business
2. To identify the distinct differences between family businesses and non-family businesses
3. To evaluate John Smedley’s product and marketing strategies in relation to their brand principles.
4. To explore strategies for John Smedley to sustain competitive advantage in a volatile market
5. To assess the key competencies and capabilities required to engineer business transformation within a family firm
6. To analyse the issues in leading and managing family businesses and how to overcome them

Introduction

Knitwear specialist John Smedley is an idiosyncratic company within British luxury fashion, claiming to be the “oldest manufacturing factory operating from its original site in the world” (Maclean to Alexander 2015) (see Figure 1). The company was founded in 1784 in Derbyshire, UK, when Peter Nightingale and John Smedley opened a mill near a brook in Lea Mills. Then the mill specialized in producing muslin and spinning yarn but by the end of the 18th century it had evolved to knitting and hosiery manufacturing. Today, the business remains a family-owned business, managed by the eighth generation of the founding Smedley family and is renowned for its fine-gauge knitwear, which was recognized with the receipt of a royal warrant in 2013 (Wright, 2013). It produces c.400,000 knitted garments each year, 70% of which are exported to over 35 countries and shows during London Collections: Mens (Mirza, 2018; Palmieri, 2016). In the UK it has around 200 UK stockists and 500 overseas (Spybey, 2015) with wholesale prices ranging from £20 for knitted accessories to £95 for cashmere jumpers.

Reported turnover in March 2018, was £18mn, a growth rate of 6.4% year on year and a profit (before tax) of £582,000, a decrease of 8.6% year on year (Fame, 2018). The business currently employs 350 staff (see appendix 1 for key financials 2014-2018). Over its 234-year history, John Smedley has encountered significant moments of change as shown in the timeline (see Figure 2). Six core brand values drive the business: Britishness, quality, design, craftmanship, color and community (John Smedley brand bible), some of which can be found stenciled onto the walls of the factory to remind and reinforce (See Figures 3 and 4).

**Brand values:**

1. *Britishness:* “There is a real sense of pride knowing that after more than 230 years we still celebrate true British craftmanship and make every single product within Britain”
2. *Quality:* “I trust the product. I feel reassured in what I am wearing as I know it has been made with care, with the highest quality materials
3. *Design:* “Our customers feel our dedication to design through subtle touches and details that speak to them”
4. *Craftmanship:* “Fashion can be seen as becoming too throwaway. We are here to make knitwear that goes beyond trends where true craftmanship is everlasting”
5. *Color:* “Color is emotive and powerful and helps to communicate our design expression to our audience”
6. *Community:* “We reach out to our worldwide customers and partners to build a community of trust for our garments”

(John Smedley brandbook)

It aims to keep steadfast to these values whilst navigating business model transformation from a manufacturing first business with a distribution network “predominantly wholesale to predominantly retail” (MD interview, 2015).

Figure 1: The John Smedley factory

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Figure 2: John Smedley timeline

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Figure 3 and 4: John Smedley brand value stencils

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**Family businesses**

As a family business – defined by Pounder as “a business which is owned and or managed by a family” (Pounder, 2015 p. 1187) – John Smedley is distinct from non-family businesses in strategic and organizational dimensions as well as in family involvement in vision, ownership, company management and governance. This strong interrelationship between family and enterprise sets it apart. As the current MD asserts, “a key difference about my role is being a member of the family that owns the business, I bridge the gap between the management and the ownership. That is important because the family has the ability to bring a kind of morality to the business, which perhaps non-family owned businesses don’t have. Our agenda is not entirely commercial, its bound around the association with the brand, its provenance, longevity, family legacy, and how we want to take care of it and the people that work here”. John Smedley have continually invested in innovation and people, despite the challenges of being a capital-intensive business, specifically in buildings, machinery, staff and training. They were one of the first to install the first ever fully-fashioned knitting machine in 1825 and in 1993 to invest in the latest Japanese knitting technology to further improve product innovation and production efficiency (see Figure 5). They do not follow fashion trends but focus on creating effortless style in the design of every garment.

Business Problem

**Business transformation**

John Smedley has engaged with business transformation as a response to continuous market shifts over its lifespan. It is important to explore the difference between change management and business transformation. The former means implementing finite, discrete initiatives and is execution driven e.g. implementing a new software system. The latter focuses on a portfolio of initiatives that cuts across an organization with the goal being on business reinvention, or a new or revised business model based on a future vision. It is characterized by unpredictability, iteration, experimentation and risk (Ashkenas, 2015).

Anthony (2016) offers 3 categories of business transformation: operational – doing what you are currently doing but faster, better, cheaper; operational model – doing what you are currently doing but in a radically different way and lastly, strategic – changing the essence of a business. How this applies to John Smedley’s business transformation is worthy of further exploration.

**Importance of shared vision**

Neff’s (2011) research on factors impacting financial success of family businesses highlighted that shared vision among the family and management, trust, confidence in management and developing a learning network were important variables but shared vision was the most influential. Creating a shared vision has been critical to John Smedley’s business transformation achievements over time. They have done this by recognizing the current core competencies and capabilities of individuals and the business, and requirements for the future. Accordingly to Prahalad and Hamel (1990) core competencies are the foundations of a company’s competitiveness. A combination of resources and skills that distinguish a company within its marketplace. Core capability is management’s ability to develop, out of core competencies, new products and new business. The current MD could leverage his expertise and experience at other direct-to-consumer businesses to influence change within the family firm and governance board. Recognizing the need to recruit expertise in specific roles externally, operations and marketing and design directors were sought, and their strategic importance acknowledged in their promotion to the board in 2016. The current John Smedley board of directors comprises 6 people, 2 of which are family members.

Building an image of the ideal future built on an identity of the past, its distinctive strengths and communicating this to the community has been a key driver of achieving sustainable change for John Smedley thus far (Boyatzis and Soler, 2012). John Smedley respect the skills and dedication of its workforce and the craft of making. They foster new and local talent, creating dedicated teams where often several generations of families are part of the John Smedley community. As well as a commitment to the UK government’s apprenticeship scheme to hire and train people, the brand is constantly investing in its staff welfare and talent ensuring the principles of craftmanship and community are nurtured. For the MD however, the pillar of community extends beyond employees and “draws on everyone in the process, our suppliers, customers and consumers trust in us and building trust through our relationships is really important” (MD interview, 2015).

Figure 5: John Smedley factory machinery

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Operating in a competitive market

Increased market opportunities and fierce competition are challenging the foundations of family businesses (Pounder, 2015) and it is posited that new entrepreneurial practices may be important for family businesses to succeed in ever changing market places. Research shows that corporate lifespans are decreasing rapidly (Gilbert et al., 2012; Leavy, 2017), suggesting that as companies grow, they require more effective ways to manage change, an efficient process that enables them to adjust.

Many traditional UK manufacturers have off-shored production to Asia due to lower material and manufacturing costs, with China alone commanding a 32% share of garment production supplying Europe (Hounslea, 2016c). UK manufacturing costs have doubled but volumes have halved over the last decade. However, price competition is not a business choice for John Smedley, as this opposes the premium quality values on which the firm was founded, and it takes pride in still maintaining. “This is a very big cultural and business challenge for the business, demanding different skill sets, different challenges, but that is the strategy” (MD interview, 2015). Growth to date has been achieved organically, with cash flow potentially inhibiting growth potential and future transformation.

Achieving and sustaining competitive advantage

John Smedley recognize that most of its manufacturing competencies can be replicated offshore – raw materials, manufacturing processes and efficiencies, even quality, but what cannot be imitated is the John Smedley brand, the heritage, the importance of location, the brand stories associated with product, place and people from the past, present and future. Indeed, the role and importance of provenance to heritage luxury brands has received much attention in scholarly research (Aaker, 2001; Collins and Weiss, 2015; Okonkwo, 2007), emphasizing the key drivers of product narrative, authenticity and place in communicating it. Moreover, the notion of brand origin, defined as the overall perception consumers form of products from a particular country, is also important, with research showing it has a positive impact on consumers’ evaluations and purchase intention (Magnusson et al., 2011). This is borne out in a UK luxury market study, which found that 60% (of the 2000 consumers surveyed) would buy a luxury product if made in the UK (Brooks, 2013). Thus, provenance and brand origin has been a key differentiator for many British luxury brands.

The need for John Smedley to compete differently is compelling. “I have to build a brand, I have to find ways to add value to the product – intangible value – that will enable us to charge a higher price to cover our very high manufacturing costs in the UK, but at the same time, remove some of the margin elements I pay to others and retain some for myself. I can do that by retailing” (MD interview, 2015). This is in response to the seismic shifts happening in the retail landscape, with digital disrupting traditional routes to market and the onset of a consumer centric omnichannel environment (Grewal et al., 2017). John Smedley has specifically responded by putting greater emphasis on multichannel distribution – own ecommerce and physical stores – expanding their store base from one in Brook Street to two with the opening of their Jermyn Street, Mayfair London store in 2016. They have developed strategic partnerships, in terms of overseas retail and distribution networks (e.g. Japanese partnership with Bigi Group, 2018) and through product collaborations with leading designers to showcase British craftmanship and UK design talent (e.g. Holly Fulton, Claire Barrow, Phoebe English, Ashley Williams, 1205 and Lou Dalton, launched at LFW, autumn/winter 2016). They have also cemented their premium positioning by showcasing at London Fashion Week since 2013 (Cvetkovic, 2017; Hounslea 2016a/b). Today retail represents c.20% of turnover, contract manufacturing 10% and wholesale the remaining 70%

**The future family business challenge**

John Smedley faces multiple business challenges going forward 1) the unique family owned and operated business structure and the associated decision making tensions and trade-offs between doing what is right for the business versus family that this often raises; 2) the rapidly changing business landscape challenge, with the demise in UK manufacturing, growth of digital, channel proliferation, shift to direct-to-consumer business models, importance of brand experiences and consumer centricity; 3) the cash-flow challenge that comes with operating a 100% family owned business centered on a manufacturing-distribution business model with no external investors to provide further capital injection. Research asserts that the continuity of family businesses would be more effective if they would behave more like non-family businesses, rather than decision-making being anchored by family traditions and legacy (Stewart and Hitt, 2012). However, as a business deeply rooted in family, John Smedley has strived to cultivate a culture that accepts continuous change, especially so in today’s volatile market. They have done this whilst maintaining their family value system – centered on credibility, honesty, respect and modesty and reflected in their brand values.The focus has been on leading business transformation and in doing so, raises awareness around the importance of leadership, engaging innovation and challenging current products and practices.

Often the success of a family business relies heavily not only on workforce capabilities but also on the impact of social and economic factors and the potential to fit with the enabling business environment (Pounder, 2015).

John Smedley’s future strategy is clearly focused on maintaining private family ownership, achieving business growth through the direct to consumer model whilst reinvesting in the firm for the future. How they will achieve this in a competitive and disruptive fashion market, running a capital-intensive business will be challenging. This, coupled with the distinct issues that family firms face regarding balancing family and business activities and, from a management perspective, conflict and tensions between family and other family members, other family members and non-family members; succession planning; governance; access to finance to fund growth and, attracting new and maintaining talent given traditional restrictions on upward mobility for non-family members (Boyatzis and Soler, 2012; Pounder, 2015; Stewart and Hitt, 2012).

John Smedley’s MD highlights two key challenges for the business going forward. First, its vision to remain a privately-owned family business, which is inherently capital intensive, results in little working capital to reinvest in the business. “Access to finance and ensuring what we choose to invest in has the biggest return on business growth is important. We are very restricted financially compared with a non-family business that has investors” (MD interview, 2015). Second, “how to achieve business model transformation, maintaining our wholesale business whilst growing our direct to consumer without incurring high overheads associated with physical retail”.

The priority is to remain a small independent privately-owned family business. This raises common issues associated with family businesses involving ownership, governance, management, succession and/or employment as fundamental business motivations are different. Are the challenges identified by John Smedley the only ones, or given the rapidly shifting business landscape, are there other priorities that should take precedence to sustain competitive advantage and achieve future growth?

Business Questions

Analyse the challenges and opportunities arising from the multiple transformations presented in the case and make recommendations for strategizing sustainable expansion.

1. How has John Smedley demonstrated sustainable competitive advantage over its lifespan?
2. Give examples of how John Smedley has/could undertake business transformation
3. What are the components of John Smedley’s shared vision? Create a diagram to visualise these. What does this say about the business values?
4. What are the opportunities and challenges of managing a family business in today’s fashion market place?
5. What are the distinct differences between family and non-family businesses and how does this impact strategic decision-making?
6. What are the key competencies and capabilities required to engineer business transformation within a family firm?
7. Given the 2 key business challenges cited by John Smedley, what are your strategic recommendations for achieving sustainable growth?
8. As a business owner and manager, what might you learn from John Smedley in terms of operating and growing a business in a dynamic fashion market?

**Teaching notes**

This case should be used as a discussion format in a seminar to understand the topic of business transformation especially within family firms, lasting c.60-90 minutes. Not all the questions need to be addressed, instructors may select based on question relevancy and time available. Teaching this case starts by asking students in a seminar (guide 30 students) to individually prepare and consider the case prior to class. Before beginning the discussion questions, students can summarize and introduce the case. This exercise would take approximately 15 minutes.

Links to the company website and utube films provides further context to the company, its Made in Britain provenance and design process

<https://www.johnsmedley.com>

# Behind The Brand: John Smedley Made in Great Britain

# <https://www.youtube.com/watch?v=Jj_G4hPWYXY>

# John Smedley: behind the design

# https://www.youtube.com/watch?v=aTSpCN3WO54

1. How has John Smedley demonstrated sustainable competitive advantage\* over its lifespan?

Students can draw initially from information provided in the case study and link this with theoretical perspectives more generally about competitive advantage and how to sustain it. They can also explore how competitive advantage might differ for family versus non-family businesses.

(\*Competitive advantage is defined as what makes a business entity better than competitors. A key challenge for business strategy is to find a way of achieving sustainable competitive advantage over other competing products and firms in a market)

1. **Give examples of how John Smedley has/could undertake business transformation**

Students are expected to apply Anthony’s (2016) 3 categories of business transformation here. An example of how this might be applied is as follows:

* Technology / machinery innovation - to be faster, better, more efficient (1825, 1993): *operational transformation*
* Product innovation - from spinning to knitting, from underwear to outerwear, recognition of importance of premium iconic product and designer collaborations (1883, 1932, 2000’s): *operational model transformation*
* Business model/culture shift from manufacturer / supplier to brand centric approach (2010): *strategic transformation*
* Channel strategy shift from mono wholesale to direct-to-consumer (multichannel) (2010) *strategic transformation*

1. **What are the components of John Smedley’s shared vision? Create a diagram to visualise these. What does this say about the business values?**

Students are encouraged to brainstorm and produce a visual that captures the components of John Smedley’s shared vision, adopting for example a mind map approach. For example, students may draw on the importance of leveraging external experience and expertise, balanced governance, investment in people, communication, vision, and business culture. This will support a broader discussion about business value systems and how these might differ between family and non-family firms.

1. What are the opportunities and challenges of managing a family business in today’s fashion market place?

Students are expected to draw on their knowledge of the current fashion business environment to explore the question. They should identify some of the unique challenges of running a family business presented in the case and consider these within the current fashion business context. For example, the impact of the UK governments apprenticeship levy on John Smedley’s investment in people / training etc. Drawing a list of opportunities and challenges for onward debate and discussion.

1. What are the distinct differences between family and non-family businesses and how does this impact strategic decision-making?

Students can draw from the case to explore and discuss the differences in terms of strategic and organizational dimensions as well as family involvement in vision, ownership, company management and governance. This can be discussed against some of the issues unique to family businesses that impact decision-making, for example, balancing family and business activities, conflict, access to finance, attracting and maintaining talent etc.

1. What are the key competencies and capabilities required to engineer business transformation within a family firm?

Students may draw initially from information provided in the case concerning competencies, capabilities, family firms and transformation and combine this with their broader knowledge on the topic to explore the question fully.

1. Given the business challenges cited by John Smedley, what are your strategic recommendations for achieving sustainable growth?

Students are expected to draw on their broader knowledge of strategic business planning to help propose options, that are realistically formulated from the challenges presented and indicate any apparent trade-offs in their proposed recommendations e.g. challenge 1 concerns access to finance, which could be offset through venture capital, but the trade-off would be giving up 100% private family ownership.

1. As a business owner and manager, what might you learn from John Smedley in terms of operating and growing a business in a dynamic fashion market?

This is an open-ended question to encourage students to critically think and apply the learnings from the case to their own hypothetical scenario. Students should be able to identify and apply knowledge of business strategy, sources of competitive advantage specifically form of differentiation, brand values, intangible assets of a firm, business innovation (business models) and business transformation etc., especially the need to explore entrepreneurial practices around iteration, experimentation and risk taking.

**Endnotes**

The author wrote this case solely to provide material for class discussion and independent learning. The author does not intend to illustrate either effective or ineffective handling of a situation. The comments and interpretation presented are not necessarily those of the company or its employees.

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**Appendices**

[Appendix 1: Key financials and employees 2014-2018]

**Image Captions**

* Figure 1: The John Smedley factory, Lea Mills, Derbyshire, 2015. © authors own
* Figure 2: John Smedley timeline. © authors own
* Figure 3 and 4: John Smedley brand value stencils © authors own
* Figure 5: John Smedley factory machinery© authors own