

A Work Project presented as part of the requirements for the Award of a Master Degree in  
Management from the NOVA School of Business and Economics

**ACH BRITO – Sell or not sell?**

Family Business Field Lab

JOÃO PEDRO AZEVEDO TEIXEIRA GUEDES MONTEIRO

2772

A Project carried out under the supervision of Alexandre Dias da Cunha

January 2017

## **Acknowledgements**

Ach Brito case completion was only possible thanks to Professor Alexandre Dias da Cunha, who encouraged me, was always available for me and helped me through five demanding months;

My Family, who supported me every single day;

Aquiles Filipe Ferreira de Brito, who was available to share his experience and more relevantly, part of his private life;

## **Abstract**

This case study is based on a real family business, Ach Brito. The company has more than 100 years of history and is in its 4th Generation. It is a well-known Portuguese firm that has had a stable growth and sells in more than 50 countries. The main focus of this case is on participation selling in a family business context.

The case intends to: illustrate how family companies can surpass obstacles and return to a stable path; leading to a discussion regarding capital selling in a family business context; family business decision-making complexity and emotional value impact. Ach Brito's case is a basis for discussion of family business theoretical content. The case includes a teaching note to beacon the lecture of the case in classroom context. Complementary readings and discussion questions with suggested answers are available with the objective of enhancing the learning process.

Keywords:

Family business, Socioemotional Wealth, Emotional valuation, Participation selling

## **Ach Brito – Sell or not Sell?**

### **Introduction**

Whilst walking around the hallways of the main factory, located some miles away from Porto in Vila do Conde, and appreciating all the bustle and rich fragrances surrounding him, Aquiles Filipe Ferreira de Brito was debating, by himself, the decision of selling a major part of his great grandfather's business to Menlo Capital.

The second semester of 2015 had just started and Ach Brito's results in the last 10 years were admirable taking into account the macroeconomic context and, particularly, the situation in Portugal since the beginning of the crisis in 2008. "I believe that I think slightly differently from other family businesses. I see investors as an opportunity, not only in downturns but also when the company is doing well. I believe that the main problem in family companies is to look for investors when there isn't a way back. However, I have to admit that luck was an important factor during my journey at Ach Brito. One example is investors' interest in betting on Ach Brito. They always appeared at the right time and with the right people" – affirmed Aquiles Filipe. It is important to refer to the fact that at the end of 2014 big transformations happened in the structure of Ach Brito's ownership. The company was then solely owned by Aquiles Filipe, after having bought his sister's and PortugalVentures' stakes (a 6-year partnership that began at the end of 2008).

The company accounted for an accumulated revenue of around five million euros between the three brands<sup>1</sup> (Ach Brito, Claus Porto, and Confiança) and 60 full-time employees (half of them with graduate degrees). The firm presented a stable growth pace through past years but there was still an enormous margin for growth. Ach Brito's strategy lied in a huge effort to sell even more and expand to other markets, principally, through Claus Porto's brand (luxury market) which already sold all over the world and had sales outside Portugal that represented almost 70% of the revenue. However, not everything had gone as expected and the contract with the counterparty responsible for the distribution in North America (LAFCO Inc.) had been terminated after more than 20 years of partnership due to business incompatibilities.

---

<sup>1</sup> Exhibit 1- Ach Brito company sales by brand in Millions (€) - (2014 and 2015)

Regarding, the other two brands that made-up part of the company's portfolio, Confiança and Ach Brito, the main stream of revenue were the sales realized in Portugal, with products mainly directed at the mass market and low or medium segment.

Aquiles Filipe had never worked directly in the business until 1994 but the connection with Ach Brito was always present in his life – “I remember going to the factory to visit my grandfather Achilles José. I was passionate about the fragrances, mainly of two particular soaps called ‘Pati’ and ‘Musgo Real’.” – reminisces Aquiles Filipe. However, with Achilles José's death in 1988, Delfim de Brito (Aquiles Filipe's uncle) became in charge of the business, but after 6 years he decided to sell off his 50% stake.

In a risky, impulsive and insane move, the young siblings decided to buy their uncle's share and took leadership of the company with the objective of keeping the legacy of the past generations alive. Without any experience, only "an emotional decision and devoid of rationality where the heart clearly won over rational thought" – states Aquiles Filipe – seemed to justify the enormous challenge the two siblings decided to face: an almost century-old company with over 100 employees and struggling to compete in a market dominated by large retailers with low-priced products.

After 20 years of hard work and restructuration devoted to Ach Brito, Aquiles Filipe had to decide what would be the best decision for the family and for the business – “I devoted half of my life to the company which carries my family's name and of which I am proud of. However, other factors are important and I have to analyze the pros and cons of letting another investor come in”. On one hand, the opportunity to inject more capital into the business and to work side by side with experienced risk capital investment firms such as Menlo Capital was a great one and it would easily leverage the business to a level that Aquiles alone couldn't do. On the other hand, he bought the totality of the company from his sister and PortugalVentures to assure that the tradition and history that the Brito name represented for him was preserved - “One of the things that I am more proud of is my family name and I want to preserve it as long as possible”. Selling a major part of the business to Menlo was a huge opportunity, but non-financial issues also influenced Aquiles' decision. It was not just a question of future earnings, but an emotional issue also.

How could he sell part of his family's business again (but now a major part, meaning a much lower probability of acquiring the business back again later) that is undoubtedly a traditional and genuine family business which is stable and does not have significant financial problems? How could he put aside the emotional connection to his family's business and sell a major part of it? Would he be capable of dealing with the loss of control and the entrance of more and new non-family managers in the administration? After the five years "partnership" with Menlo, what would be the future of the company? Would he be capable of rebuying the business and become responsible for the destiny of his family's company again?"

All these questions had been hovering around Aquiles' head and the answer wasn't "around the corner".

The Brito family's four-generation-history could easily be adapted for the cinema, such were the challenges, glories, and obstacles the oldest Portuguese soap manufacturer had to face in its hundred years of existence.<sup>2</sup>

### **First Generation – The beginning of a great legacy**

Achilles de Brito's professional career began as an accountant at Claus & Schweder, a company founded in Porto in 1887 by two Germans<sup>3</sup> who were the pioneers in producing soaps and fragrances. Products that in this epoch were considered luxury ones, or in Portugal at least. Claus & Schweder had always labored in Oporto between 1887 and 1914 however, with the beginning of World War I, the Germans were forced to leave Portugal and the company was ultimately abandoned.

Achilles de Brito, along with his brother Affonso, saw an opportunity in the soap and fragrance market and decided to found Ach Brito & C<sup>a</sup> Lda<sup>4</sup> in 1918 in Oporto<sup>5</sup>. In September of 1920 Willy Thessen, a former director of Claus & Schweder, joined Ach Brito as a fragrances chemist. The

---

<sup>2</sup> For a complete overview of all generations consult "Ach Brito genealogy" in appendix

<sup>3</sup> Exhibit 2 - Claus & Schweder founders Ferdinand Claus & Georges Schweder

<sup>4</sup> Exhibit 3 - Ach Brito founders, Achilles de Brito and Affonso de Brito together with Willy Thessen

<sup>5</sup> Exhibit 4 - Ach Brito facilities in Avenida de França (Porto 1920)

company gained a solid reputation based on the use of modern techniques and technologies and acquired its consistent market space from the very beginning.

In 1925, the capital of Claus & Schweder was sold in a public auction that Ach Brito won, turning the dream of acquiring the company, founded by Ferdinand Claus and Georges Schweder, into a reality, which at the time had about 30 years of history and a huge brand reputation. It was the combination of the experience and the prestige of the Claus & Schweder brand together with Ach Brito's innovation that began to up build the success of the firm. Achilles de Brito decided to maintain the two brands' entity which allowed the company to work in two distinguished segments. Despite Claus & Schweder's already impressive record of national and international awards, after Ach Brito's acquisition, it continued to expand this awards' catalog due to the great synergies created with the junction of the two companies.

Unfortunately, at the beginning of the 40s, Affonso died and didn't leave any heirs. Consequently, Achilles de Brito became the sole owner of the company. Achilles de Brito died in 1949 and his son, Achilles José, became the leader of Ach Brito despite only having a minority participation of 25% (the remaining 75% was distributed between his three sisters)<sup>6</sup>.

### **Second Generation - Golden years**

Taking advantage of the market growth and of the company's market-leading position in the 50s and 60s, Achilles José<sup>7</sup> diversified the company's product range: Besides soaps, Ach Brito started producing creams, 'l'Eau' de toilette, toothpaste, lotions, shampoos, talc and rice powder, among others. Furthermore, in that epoch, Portugal had control over a wide number of colonies. Achilles realized the opportunity for this potential competitive advantage and started to export to the African colonies. Specific products like soaps with allegorical names such as 'Piri-Piri' or 'São Tomé' were created and contributed largely to its good business performance. In the 60's Achilles José acquired his sisters' part, becoming the only owner of the company, which was not surprising considering his connection and devotion to Ach Brito.

---

<sup>6</sup> For a complete overview of the evolution of ownership in Ach Brito consult "Ach Brito ownership" in appendix

<sup>7</sup> Exhibit5 - Achilles José de Brito, Ach Brito leader for 39 years and responsible for the introduction of lithography in Ach Brito.

Achilles José also decided to open a lithography in order to carry out the entire production process on the company's premises - from manufacturing to labeling (hand-painted) and the packaging of products. Additionally, besides printing the labels for its own products the firm also performed work for 'Tabaqueira' (tobacco producers) and 'Sanderman' (Port wine producers) two of the most important firms in Portugal at the time.

The 50s and 60s were marked by a considerable and sustained growth in Ach Brito. Before the Carnation Revolution, Ach. Brito employed 400 workers and continuous success was foreseen.

In the 70s, the third generation entered the business when Achilles José decided to grant 40% of the stakes to be divided equally between his sons (Delfim de Brito & Aquiles Delfim de Brito).

### **The Carnation Revolution (25<sup>th</sup> of April 1974)**

The end of a dictatorship regime took place in Portugal on 25<sup>th</sup> April 1974. The Carnation revolution, as the name implies, was a peaceful military revolution yet had significant social repercussions and an expressive impact in the political and economic scenario.

In the political context, the two consecutive years were marked by a revolutionary process. Left and right parties, occasionally with violent acts, fought for the implementation of their ideology and plans for Portugal's future.

Concerning the economic panorama, the first and most important consequence was obviously the emergence of a completely new situation within the labor market, with severe class struggles. Not only was strong pressure put on enforcing higher wages felt, but also for increased labor strength inside companies. It is easy to understand that the appearance of this new frame of social classes' relations in Portugal led to increasing pressures for a nationalization process of the economy. The most important firms were nationalized, the structure modified and people who identified with the "New State" were taken into exile.

Ach Brito was also touched by the revolution's aftereffect. Curiously, Aquiles Filipe was born precisely two years before the revolution, on 25<sup>th</sup> of April of 1972. Obviously, the memories of that hectic period are nonexistent, however, he did share some testimonies transmitted by his grandfather, for whom he has great admiration for having handled the business family "in times that

were tricky and extremely complicated. In the years following the revolution, there were attempts by some workers, to take over the company. My grandfather was a respected person and was able to handle this situation, but he was startled and failed to adapt the company to new challenges". Armando Pimenta, a factory worker who worked for Ach Brito for 41 years, now retired, witnessed the company's transformations after the 25<sup>th</sup> of April. He recalled that after the initial celebrations of the revolution, the following years were turbulent, which affected the growth of the firm. " On April 25<sup>th</sup> we celebrated the revolution with champagne, but in the following years there were some situations that left Achilles José crestfallen," said the former worker. "In the first year there were no changes, but in 1975 there was a strike with direct threats to my employer. I remember that no one was allowed to enter or leave the factory, not even the Brito family. This episode was humiliating for Achilles José which affected and discouraged him." Despite a few incidents in the post-revolution years, the company continued to labor, Achilles José was responding affirmatively to the wage increase demands of the workforce and was trying to retrieve the business performance of prior decades. However, as Aquiles Filipe mentioned "modernization and adjustment to the market didn't occur after the 25<sup>th</sup> of April" and his grandfather "didn't let anyone support him in the leadership and management of the company".

### **Third Generation – Will the Ach Brito legacy end?**

In 1981, Aquiles Delfim de Brito died and the 20% of the company he owned, went to his son Aquiles Filipe and daughter Sónia despite still being too young to be involved in the business. In the month of May of 1988, Achilles José died thus leading to the 60% he owned to be distributed between his three heirs (Delfim 30%; Aquiles Filipe 15%; Sónia 15%) and Delfim Ferreira de Brito occupied his father's position in the company. Ach Brito had stagnated since the April revolution and the business was struggling to fight big retailers' and international markets' competition. "My uncle, Delfim didn't manage to overcome business obstacles and competition. As a consequence, in 1993 when we perceived that the company was in a really difficult situation he decided to sell his stake" stated Aquiles Filipe.



Delfim de Brito called his nephew to the factory to tell him that some people were interested in acquiring the business but first he wanted to warn Aquiles. “I remember arriving at the factory on my motorcycle, taking off my helmet and having messy hair. My uncle was convinced that my sister and I would choose to sell our part as well.” – Aquiles Filipe said. Aquiles Filipe, at that time was 22 years old, had no professional experience and had a marketing degree to finish, decided to buy his uncle’s part - “After my uncle questioned me if I wanted to buy his part I asked him for some days to deliberate this idea and to discuss it with my sister Sónia. I remember it perfectly, I went to my sister’s bedroom and I told her: “This is our name, our family business. We cannot sell it”. She wasn’t convinced and she wanted to sell the business. However, I insisted and managed to convince her. When I contacted my uncle to tell him that we would buy his share, I heard and felt the surprise and perplexity in his voice due to it being a completely unexpected decision.”

#### **Fourth Generation – Revolution, regeneration, and expansion**

After an irrational and risky decision, the two siblings anticipated years of hard work to get the business back on a successful track.

In an initial phase the company had to be restructured and as Aquiles Filipe stated: “the major problem was to pay employee indemnification, while at the same time there were two or three consulting studies recommending that we close the company or produce in mass in order to compete with big retailers and to export more.” Besides the business issues, the two siblings also had different emotional attachment to the company, distinctive perspectives on running the business and never established concrete rules on how to manage the company, thus complicating, even more, the delivery of products – “I sacrificed myself in the name of the family business. My sister’s priorities were not the same.” – Aquiles Filipe noticed. However, Aquiles Filipe’s determination and the relationship, at the time, with distributor LAFCO was essential in inverting the negative business trend. From 1994 until the beginning of the 21<sup>st</sup> century the Aquiles Filipe mission was to salvage the company from a situation with reduced possibilities of turning back.

Only in 2002, the company broadened its horizons to international markets mainly through the premium brand of the company, Claus Porto, that began to be exported all over the world,

positioning itself in exclusive and reputable stores “At the beginning of the 21<sup>st</sup> century, our brands were sold in almost all continents. I had the opportunity of seeing our products in the showcases of the best stores in New York.” – Aquiles proudly stated. A risky but surprisingly effective strategy was implemented – “We decided to recover our historical collection packaging with over 100 years of tradition and use it in our products that were improved with new and better ingredients. This made it possible to rebuild and redefine the identity and strength of our brands” affirms Aquiles Filipe. An excellent strategic implementation and the high quality of the products, quickly bore fruit: Oprah Winfrey (2007) presented the products on her show and Claus Porto started to sell its products in over 50 countries.

In December of 2008, with the acquisition of the unique and direct competitor Confiança SA, the oldest national soap factory founded in Braga in 1894, the two oldest soap factories in the Iberian Peninsula were together, which enabled the expansion to all market segments across the board.

In 2009 a state fund, at the time called InovCapital (currently PortugalVentures) decided to invest in Ach Brito after Confiança’s acquisition. This proposal represented an undeniable opportunity due to a capital injection in the business just after the crisis had begun without demanding great changes in the control and management of the business. Aquiles Filipe and his sister, after some discussion, accepted the deal and sold 43% of the company- “We sold a minority position, the top management team still remained the same. It was a tough decision, however, it was an incredible opportunity to leverage the business to a higher baseline.” – Aquiles points out.

In 2014 the company results were considerably better than in prior years and the prospects for the next years were optimistic. “The entrance of PortugalVentures, a state fund that bought 43% of Ach Brito, was positive in several perspectives namely creating business discipline, “cleaning house” and leveraging the firm with more capital allowing for stability in a phase where a lot of companies were struggling to survive. However, my desire in 2014 was to continue the improvement process that the company had been experiencing since the beginning of 2009.” – Aquiles affirms.

In March of 2015, as agreed in a shareholders’ agreement, PortugalVentures started to prepare its exit from the business. Aquiles Filipe mentions that “the relationship with my sister was not the best. My sister and I had the majority of the company and there was a risk of her joining the ‘other

side’.” Aquiles Filipe started to forecast some scenarios that could jeopardize the future of the company and decided to negotiate the totality of the business with his sister and PortugalVentures – “Besides the financial part, which I consider important, my biggest concern was with the company’s future. I consider people to be really important in businesses, however, people go and the company stays. I felt that 100 years of history and 20 years of my sweat could have been in vain. For that reason, I decided to negotiate with PortugalVentures and my sister in order to acquire the totality of the company. Fortunately, I managed to succeed”. – Aquiles Filipe stated proudly.

### **PE proposal and the beginning of the negotiation process**

Ach Brito successfully recovered from a turbulent phase into a stable growth plan after 20 years of hard work. It then received a proposal from Menlo Capital to acquire a major part of the centenary family business, thus originating a huge dilemma for Aquiles Filipe, who had become the sole owner of the business that carried his last name a couple of months before.

Aquiles Filipe believes that “you should never close the door to anyone, independently if someone wants to buy or sell because you never know what the future reserves”. Hence his decision to negotiate with Menlo.

On June of 2015 Aquiles Filipe and Ricardo Cunha-Vaz (Menlo partner) met for a first meeting where the main objective was to discuss the possible contract conditions and understand each other’s motivations in the deal.

The meeting started with Aquiles Filipe stating: “I am conscious that this deal can be incredible for the development of Ach Brito. You have the capital, you have the knowledge, you already have successful cases in your portfolio but do you really believe in Ach Brito’s potential as I do? You have to be aware that you’re buying the company but you’re also getting a new partner.” Aquiles stopped and with a smile says “I am no longer the 22-year-old boy without experience or knowledge and endless batteries. With the resources that I have, it is impossible to take Ach Brito to where it deserves to be. Obviously, as I have already mentioned, together we are capable of it. However, as you know, one of my first priorities is to preserve my family’s legacy.” After listening intently while drinking some water, Ricardo Cunha-Vaz responded:” In all projects that I am involved in,

the first rule is mutual respect. Before assessing Ach Brito's potential we have to guarantee that our relationship will be based on respect and trust." Ricardo picks up his glass of water and looks straight at Aquiles "Before reaching any agreement, if it so happens, everything will be discussed transparently like the water in this glass. Moreover, Menlo has the right resources to offer and Ach Brito has the potential that we are looking for. We "fit" each other perfectly, it's an inevitable marriage. We have the chemistry, we just need to respect and trust each other so that the negotiation is as successful as our partnership will be!"

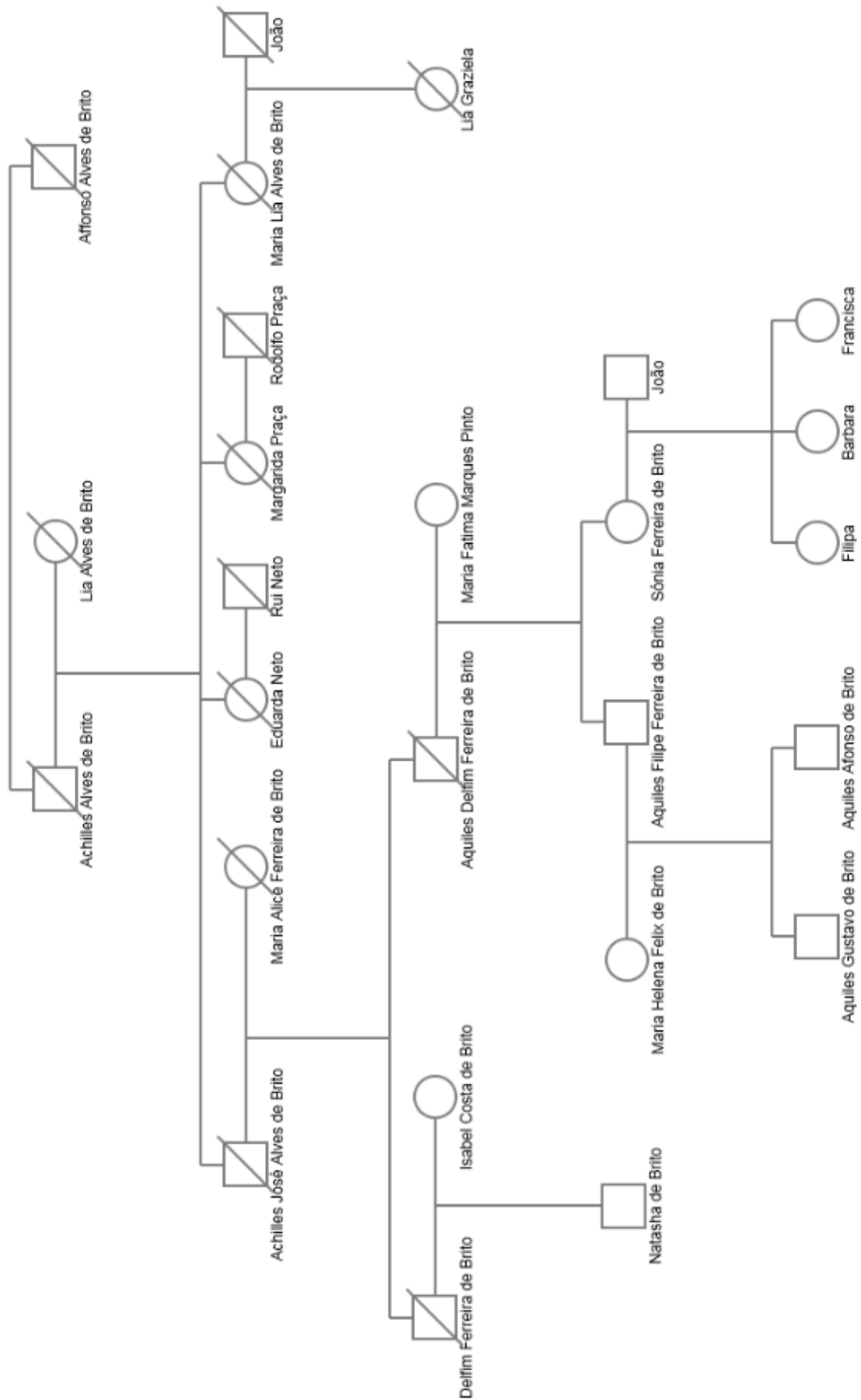
Even though the chemistry between Ach Brito and Menlo was notorious, it was also crystal clear that this negotiation would be an agitated one and the outcome would be completely unpredictable. Aquiles Filipe's main concerns were not only for the growth of the business but also for the expansion of Ach Brito's brand, something that would be more feasible if an investor could inject more capital into the business and a renewed and stronger management team were formed. Nevertheless, the company was stable and had a reasonable debt ratio and didn't have any special financial needs at that moment. To Aquiles, selling a majority position of his great grandfather's firm would be more an emotional and personal decision than a financial one, as his main objective was "to keep the business alive for another 100 years preferably with my family name on it".

Aquiles had managed to acquire the totality of his beloved family business that he respected and wanted to preserve, however innumerable questions and doubts were hovering around his head.

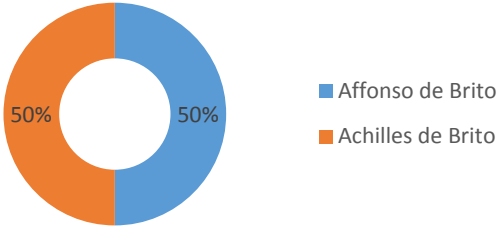
Since the Menlo proposal, Aquiles Filipe had been trying to find an answer to questions such as: "After 20 exhausting years and now a 44-year-old, am I capable of taking this company to the level that I want by myself? What will be the positive impact of the entry of new human capital? Is Menlo a reliable partner? Is the valuation disclosed by Menlo fair? What could fail in this partnership and why? What will happen 5 years from now when Menlo decides to sell their part?"

Aquiles Filipe found himself in an extremely uncomfortable position yet time was passing by and Menlo's proposal would not be 'on the table' eternally.

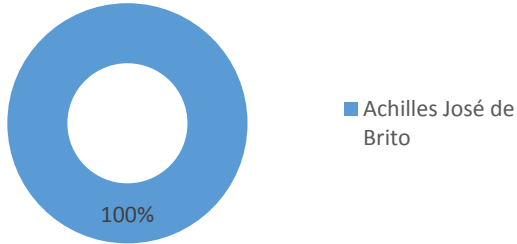
# Ach Brito Genealogy



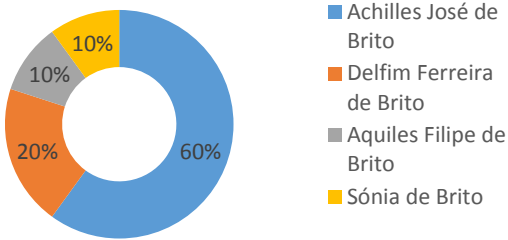
# Ach Brito ownership through four generations



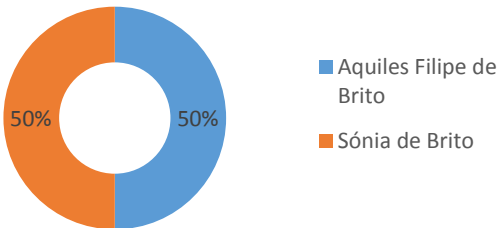
**1918**



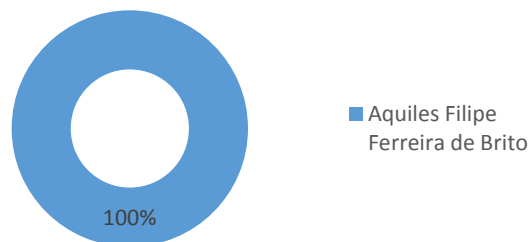
**1960**



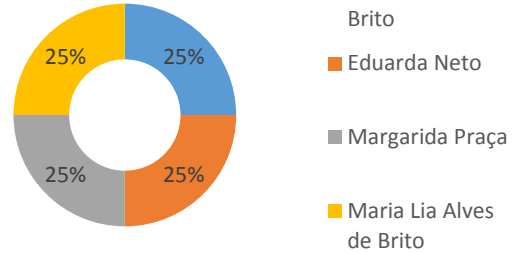
**1981**



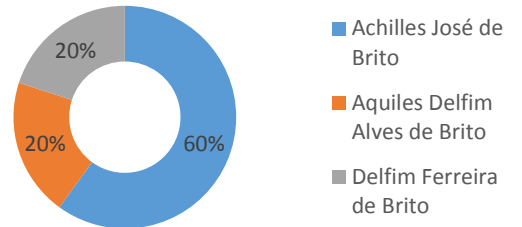
**1994**



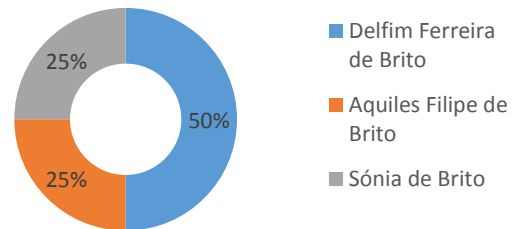
**2015**



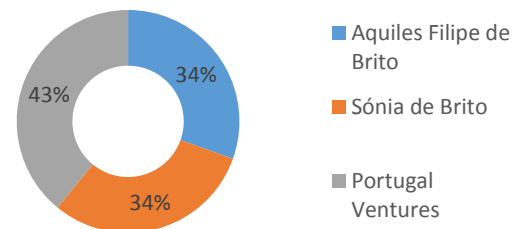
**1949**



**1970**



**1988**



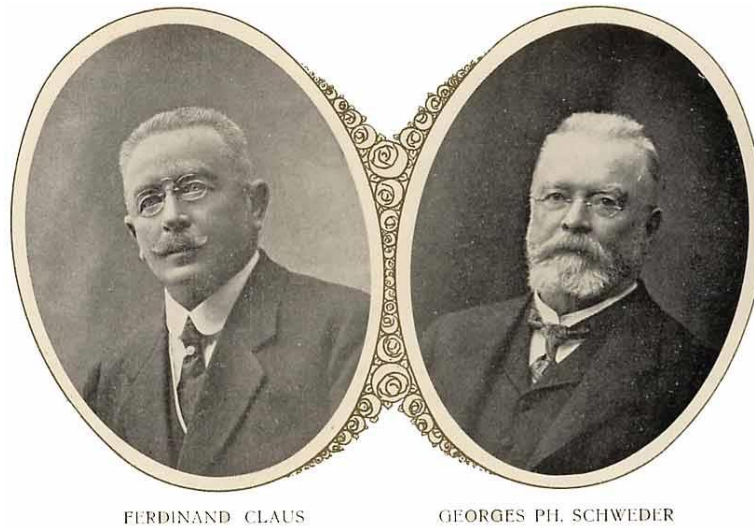
**2009**

## Exhibits

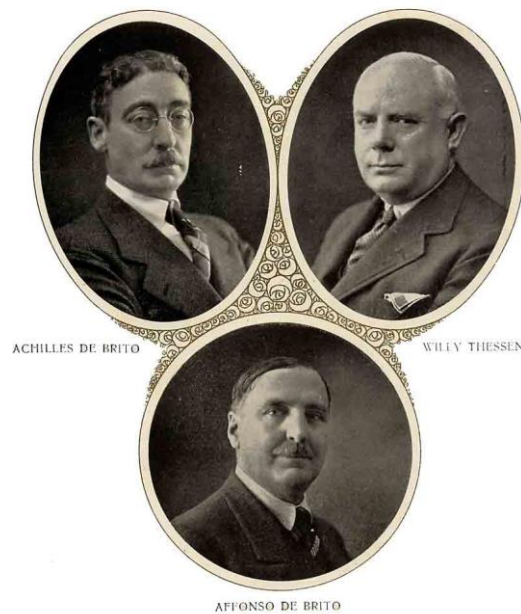
Year	Claus Porto	Ach Brito	Confiança	Total (EITDA)
2014	1.37	1.89	1.68	<b>4.94 (0.4)</b>
2015	1.45	1.93	1.86	<b>5.24 (0.2)</b>

*Source: Ach Brito Management Report 2015*

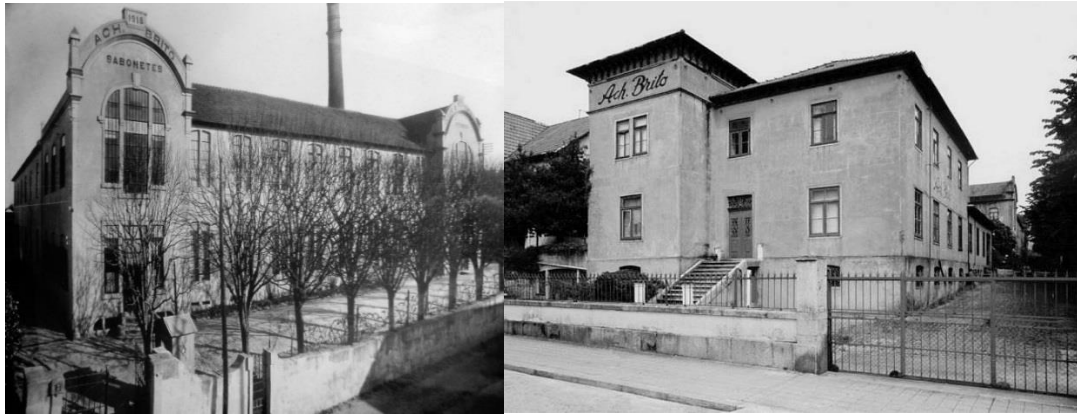
**Exhibit 1** – Ach Brito company sales by brand in Millions (€) - (2014 and 2015)



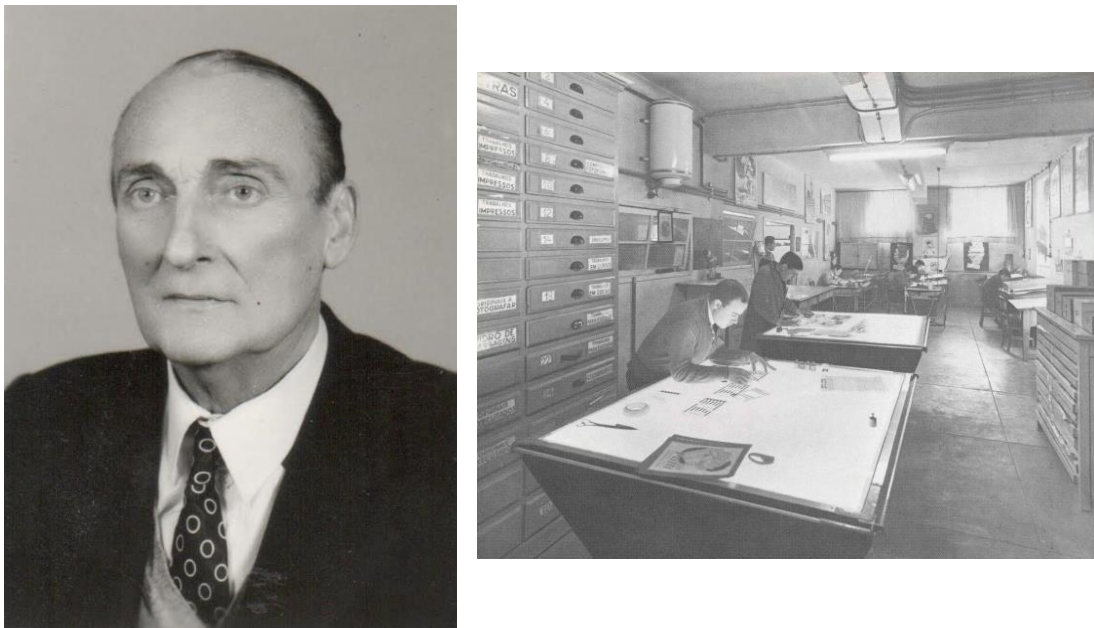
**Exhibit 2** – Claus & Schweder founders Ferdinand Claus & Georges Schweder



**Exhibit 3** – Ach Brito founders, Achilles de Brito and Affonso de Brito together with Willy Thessen



**Exhibit 4** – Ach Brito facilities in Avenida de França (Porto 1920)



**Exhibit 5** – Achilles José de Brito (on the left), Ach Brito leader for 39 years and responsible for the introduction of lithography in Ach Brito (on the right).



## **Teaching Note**

The case subject is based on a family business - Ach Brito – with over a century of history and tradition that is in its fourth generation. A proposal from Menlo Capital, a Portuguese private equity company, to enter the business partnership puts Aquiles Filipe de Brito, the founder's great-grandson and recently the sole owner of Ach Brito, in a tough position.

Based near Porto, Ach Brito is a company that has experienced huge modifications in the last 20 years, but in spite of this, was capable of surpassing the problems and becoming profitable and a very successful family business with recognized, quality products. However, after some years of significant growth, the business has started to stagnate. Having received this tempting offer from Menlo Capital, Aquiles Filipe, the representative for the Brito name, has the difficult mission of deciding whether to sell a major part of his great-grandfather's business or manage Ach Brito as a pure and 100% family-owned business.

This case illustrates the peculiar characteristics of family businesses through a brief history of Ach Brito from the very beginning, where it is possible to detect some specificities of family companies. The central issue of the case involves several pertinent issues related to family business. Main themes covered are decision-making in a family business, family relationship issues, non-family managers and selling and valuation in a family business. This is a case based on real facts and testimonials. All entities and people mentioned in the case are real.

## **Target Audience**

The Ach Brito case is suitable either for undergraduate or graduate management students that are attending family business topics. Knowledge in negotiation analysis is a plus but not mandatory.

In order to guarantee a good and interest learning experience students should be comfortable with family business concept and its main characteristics (understand the three-circle model and be capable of identifying the main differences between non-family businesses and family businesses), acknowledge the impact of emotions in family business dynamics and understand the pros and cons of opening the capital to external investors and introducing non-family managers in a family firm.

## Learning objectives

- Identify the three-circle model dimensions in interaction and apply it in the case.
- Understand the concept of socioemotional wealth and apply it to real situations.
- Clarify the particularities of a Family Business and illustrate the complex decision-making process in FB mainly due to emotional variables.
- Deconstructing of family business valuation. The different criteria of evaluations and the inclusion of emotional value:  $\text{Total Value} = \text{DCF} - \text{DFPB} + (\text{EV} - \text{EC})$
- Clarifying the positive and negative points of introducing non-family managers in a FB.

## Proposed discussion questions

### **1. Taking into account the information disclosed in the case and the emotions effect on family companies. Analyze Aquiles Filipe's situation and forecast his final decision.**

The situation faced by Aquiles Filipe is extremely complex and certainly one of the most important decisions that he will have to make in his 22 years of experience as leader of Ach Brito. Solely, financial value and financial benefits of control “are unable to fully explain the difference in equity value considerations between buyer and seller” (Zellweger, Astrachan, 2009) therefore we should consider the part of WTA explained by emotional factors as shown in the following formula:

Emotional Value = Willingness to Accept - Financial Value (captured through DCF) - Private Benefits of Control (captured through PV of the amount of financial benefits to shareholders)

Regarding the particularities of Ach Brito's case, it is paramount to take into account that Aquiles Filipe bought the totality of his family business in order to avoid the possibility of being in a minority position. Aquiles Filipe's positive emotional affection with acquisition has influence in his endowed emotional benefits - “The degree to which emotional benefits of business ownership transfer into emotional value is supported by the emotional affection with the acquisition of the possession (...) high levels of positive emotional affection related to the acquisition bolster the emotional benefits-emotional value relation” (Zellweger, Astrachan, 2009) meaning a higher WTA value that increases emotional value. It is also essential to notice that he has had a strong connection to Ach Brito since his childhood. Moreover, at the age of 22, he was attributed the responsibility of the destiny of his great-grandfather's business. “Possession attachment studies report that WTA is

affected by ownership history, (...) the relationship between endowed emotional benefits and emotional value is moderated by the duration of ownership, longer ownership duration supporting the emotional benefits-emotional value relation.” (Zellweger, Astrachan, 2009). Now, at the age of 44 and after a lot of dedication, sacrifice and years of active management Aquiles face a difficult decision. Besides emotional affection with acquisition and ownership duration, affective commitment<sup>8</sup> effect may also bolster Aquiles Filipe’s “link between experienced emotional benefits and emotion value” (Zellweger, Astrachan, 2009).

It is possible to state that Aquiles Filipe has a strong connection with his family business leading to the increase of emotional value through WTA value.

On the other side, endowed emotional costs (“personal sacrifices, burden of responsibility, risk exposure, dominance of professional life (...) stress, long working hours, isolation, a lack of opportunity to interact, and responsibility for the organization and employees”(Zellweger, Astrachan, 2009) also have impact in emotional value. Aquiles Filipe’s sacrifice, isolation, and responsibility throughout the years are notorious and due to this it is expected that his WTA increases. This happens because the greater the “investment of effort and time (...) the greater is the perception of value of the ownership” and it is expectable that owners that feel these emotional costs “will price these endowed costs in an attempt to avoid wasting their efforts.” (Zellweger, Astrachan, 2009). However, in Aquiles Filipe’s situation the burden of carrying the firm reached a point where he started displaying detachment created by excessive emotional costs. This leads to displaying a lower emotional value due to the “perceived costs of firm ownership being inversely U form to emotional value.”(Zellweger, Astrachan, 2009).

Demographic variables<sup>9</sup> (for instance age and gender), community culture<sup>10</sup> (collectivistic vs individualistic) and marketability<sup>11</sup> also have influence in Aquiles Filipe’s emotional value

---

<sup>8</sup> Attachment characterized by an identification with and involvement in an organization

<sup>9</sup> “Possession attachment has been found to vary through the life cycle of individuals (...) In the presence of the opportunity to pass an ownership within the family, the age of the owner is positively related to emotional value. (...) Gender of the owner affects emotional value”

<sup>10</sup> “Community culture will affect possession attachment and hence emotional value for firm ownership.” Ceteris paribus, owners involved in collectivistic cultures will display a higher emotional value meaning also a higher WTA. The opposite occurs in individualistic cultures.

<sup>11</sup> “Marketability of the ownership stake is expected to reduce possession attachment and emotional value” Privately held/Family firms’ marketability tend to be lower leading to higher WTA.

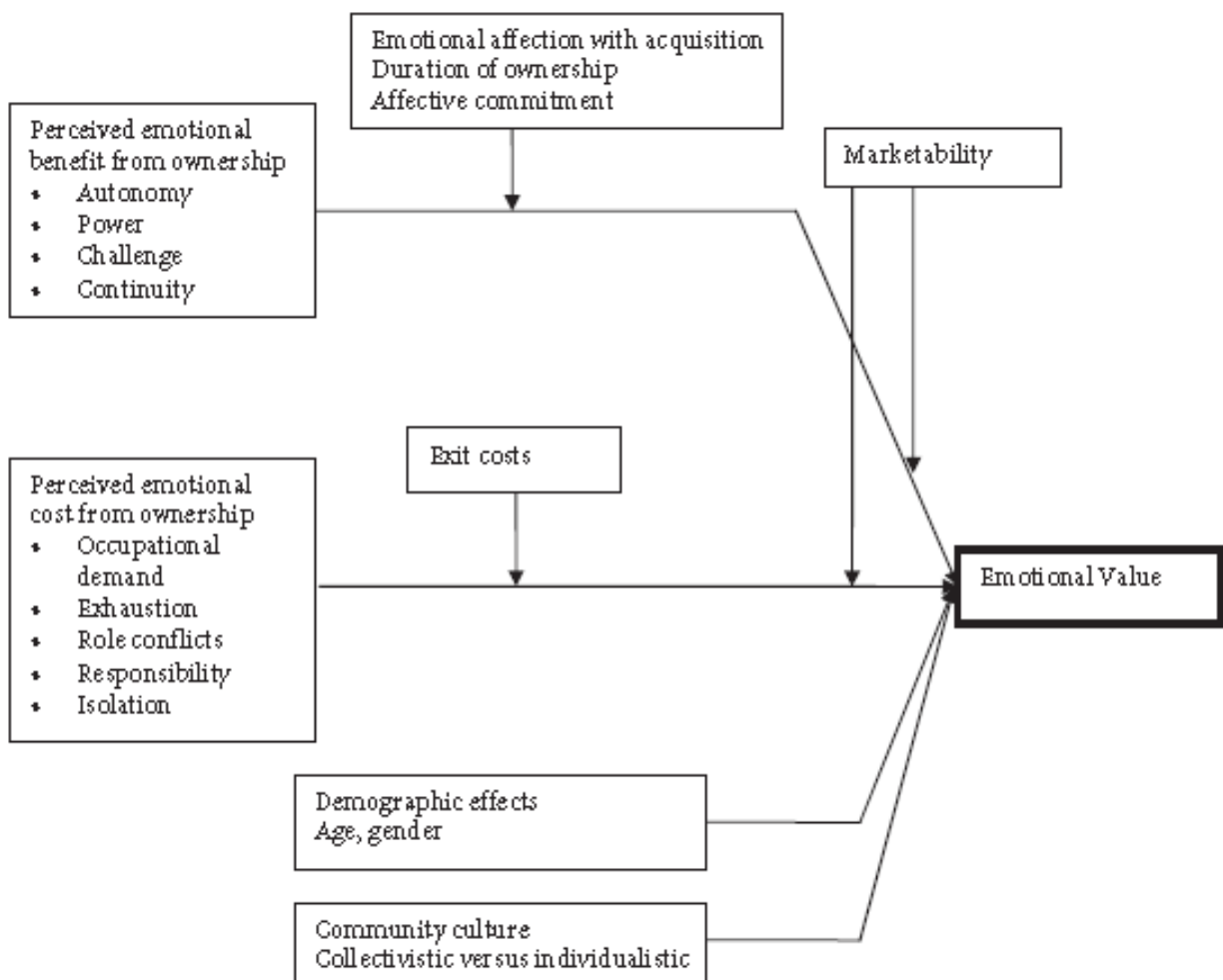
formation, however in the Ach Brito case the analysis should be focused on emotional benefits and costs.

Summing up, it is possible to affirm that emotions play an important role in strategic/selling decisions together with financial aspects. In order to decide on the selling or not part of the business Aquiles should analyze Menlo’s proposal, verify if the offer is in line with his financial and emotional valuation (framework “On emotional value of owning a firm”).

The main objective in this question is to understand the impact of emotions in privately held/family businesses. Menlo’s proposal can be really tempting to Aquiles Filipe regarding the financial aspect, yet due to the nature of Ach Brito, we cannot neglect the effects that emotions may have on decision-making.

*“The likelihood of a sale of the ownership stake is negatively related to emotional value.”*

**Framework “On the emotional value of owning a firm”**



**2. Admit the following scenario: Ach Brito is not a family business and Aquiles is just manager of the company. What would be the main difference between the scenario presented above and the real situation presented in the case?**

What distinguishes Ach Brito's real case from the scenario presented is the fact that we are in the presence of a pure family business (owned and managed by family members) where emotions influence strategical decisions and consequently the business itself.

In order to understand the involvement of emotions in a family business, it is essential to highlight the socioemotional wealth<sup>12</sup> (SEW) concept and its set of dimensions (FIBER<sup>13</sup>). SEW "simply put suggests that family firms are typically motivated by, and committed to, the preservation of their SEW, referring to nonfinancial aspects or "affective endowments" of family owners" (Gomez-Mejia, Cruz, Berrone, 2012). This means "that family owners are likely to see potential gains or losses in socioemotional wealth as their primary source of reference in the management of the firm. Therefore, major managerial choices will be driven by a desire to preserve and enhance the family's SEW apart from efficiency or economic instrumentally considerations." (Gomez-Mejia, Cruz, Berrone, De Castro, 2011).

When analyzing different cases regarding family business it is paramount to have in consideration that "family firms are not a monolithic or homogeneous group of people with congruent interests, nor are all family businesses identical with respect to organizational characteristics and behaviors. Therefore, the issue of how to measure SEW deserves a closer look and a better assessment." (Gomez-Mejia, Cruz, Berrone, 2012). By analyzing FIBER dimensions and measuring them it is possible to have a better understanding of which variables are more relevant in each particular case.

FIBER analysis in Ach Brito case:

**Family control and influence** – Brito's family control and influence can be noticed through the 4 generations. However, when Menlo presents the proposal to acquire part of the capital of Ach Brito,

---

<sup>12</sup> SEW can be considered a "general extension of behavioral agency theory" and refers to "non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty". (R. Gomez-Mejia et al., 2007)

<sup>13</sup> FIBER stands for Family control and influence, Identification of family members with the firm, Binding social ties, Emotional attachment of family members, and Renewal of family bonds to the firm through dynastic succession

Aquiles Filipe was total owner and the only member of the Brito family in the board of directors. This situation may lead to Aquiles' higher desire to preserve SEW in detriment of monetary gains.

**Identification of family members with the firm** - Throughout the case, it is possible to observe a loss of identification with family members within the firm, particularly in the 3<sup>rd</sup> generation when Delfim de Brito decided to sell his part and in the 4<sup>th</sup> through Sónia's lack of dedication and interest in the business resulting in the selling of her part. Only Aquiles Filipe maintained the connection and the will of preserving his family name and maybe for that reason decided to acquire 100% of the company. Aquiles Filipe's objective was "to keep the business alive for another 100 years preferably with my family name on it" as mentioned in the case.

For Aquiles Filipe, the company's success was his success due to his strong sense of belonging to Ach Brito. It is possible to perceive in the case that he is proud of being part of the history of Brito's family business.

**Binding social ties** – Ach Brito's relationship with the community and other institutions issues isn't much stressed over in the case. However, it is possible to perceive that Ach Brito has had, since the very beginning, the culture of treating its employees as family members, thus strengthening ties with the community and gaining strong and long relationships with other institutions, for instance, with LAFCO (over 20 years).

**Emotional attachment of family members** – The first and second generation devoted their lives to Ach Brito. However, in the third and fourth generations, this emotional attachment fades away from the Brito family. However, Aquiles Filipe fought to recover Ach Brito with the objective of preserving Brito's name, thus making clear his special emotional connection with the company. It is important to mention that the connection between family members was a healthy one over time, nevertheless, in the last two generations different perspectives over the business strategy led to some conflicts and weak family relationships (Blurred boundaries).

**Renewal of family bonds to the firm through dynastic succession** – Within the 4<sup>th</sup> generation, legacy and tradition were extremely important to Brito family members. However, as Aquiles Filipe stated the Brito family weren't obsessed with preparing a succession plan and things occurred naturally. Aquiles Filipe's vision is basically based on the preservation of the company legacy and

Brito name as long as possible however, as stated in the case, he considers all the scenarios, including the selling of the business, and, for that reason, business transfer isn't a huge concern to him.

**Note:** Question 1 and 2 analyze emotions influence however with two different approaches. In question 1, it is possible to understand how emotional value is formed and how it impacts an owner's valuation in a buying/selling situation. In question 2, the SEW-FIBER paradigm helps to understand how emotions and decision-making affect the companies' performance in a perspective of creation and destruction of value. These two perspectives enable a more comprehensive analysis of Ach Brito's case and are important in understanding Ach Brito's case particularities. When SEW preservation has a high relevance for the family, the higher the emotional value will be. In Ach Brito's case, Aquiles Filipe can preserve part of SEW through the agreement of maintenance of the core values of his family business in a possible sale. He considers both financial and emotional aspects and his main objective is to preserve Ach Brito as a historical and solid company.

**3. Letting external entities enter the business, specifically a private equity, in a family business have positive and negative effects. What can Menlo add on to Ach Brito? Which factors should Aquiles analyze in order to decide and what can he do in order to further mitigate the risks presented by a partnership with Menlo?**

A great part of family businesses owned and run by family members usually have a more unorganized and informal structure, making growth process more challenging. As with Ach Brito, family businesses often reach a point where it is no longer possible to capitalize on the company and take advantage of all the growth opportunities due to several resource limitations.

As mentioned in the case, the main positive aspects of the entrance of Menlo in Ach Brito are essentially the introduction of experienced human capital capable of supporting the company for expansion and improving structures and processes enabling the business to proceed to the next stage of growth. On the other side, the relationship with an outside investor or non-family managers can be challenging. The sensation of losing control over the family business can occur mainly if a clear

partnership agreement doesn't exist. Moreover, adding to losing control and autonomy, a culture clash can occur between non-family managers and family managers if there isn't harmony.

To make sure that Menlo is the right partner to enter the business it is paramount that Aquiles Filipe pays attention to some aspects. For instance, Menlo's organizational structure<sup>14</sup> (Size, governance structure, the fund's investors and other capabilities) and verify if it fits with Ach Brito's characteristics. Additionally, he should analyze Menlo's knowledge regarding the industry and past partnerships' success.

Although a critical aspect for partnership triumph is chemistry, honesty, and trust during all stages of the relationship between the two parts is also a necessity. As we can see from the citation from the meeting between Aquiles Filipe and Ricardo, it is possible to state that both intervenients understand each other and want to have a respectful negotiation and a trust-based relationship. Therefore, there are signs that the foundations for a successful partnership exist and we can affirm that one of the most important and first steps for a transparent negotiation and future possible partnership is satisfied.

It is also important to answer the question regarding the mitigation of risks in the presented offer. In the Ach Brito case, it can be particularly important to secure one or more board seats, ensure enough power in certain decisions (for instance, in hiring the CEO and/or other top managers) and guarantee that the legacy, name, and trademark are fully maintained and preserved.

Summing up, Menlo and Ach Brito have basis characteristics that, like Ricardo mentions, match each other leading to a higher probability of success in this possible partnership. Despite this, Aquiles Filipe, throughout the negotiation, should consider other factors, mitigate the risks and verify whether Menlo is indeed the right partner.

### **Teaching plan**

There are several possible approaches to use this case in a class context. Two recommended options are provided:

---

<sup>14</sup> For more detailed information about Menlo: <https://sites.google.com/a/menlocapital.pt/en/>



**Option A** - An individual reading and reflection of the case together with the recommended readings is required from each student before the class.

In the beginning of the class a small introduction (15 minutes) referring to the most significant facts about the Brito family business and calling attention to the focal question of the case to the class.

Afterward, the instructor should ask for the students' perspective about the case and introduce the discussion questions in order to complete the students' analysis of the case (30 minutes).

Finally, present the main conclusions to the class through a wrap-up and question if everything is clear regarding the case learning objectives. Finally, provide extra explanations if needed.

**Option B** – Use the case as an element of assessment in a group assignment (3 to 5 elements).

The case and the recommended readings should be available to the students one week before the assignment due date. Students should read the case individually and, in the group, discuss the answer to the proposed questions presented above (or question presented by the instructor).

In the class, each group should hand in a hard copy of the assignment (max 5 pages) and make a 10-minute presentation.

At the end of the class, the instructor should explain the points that were not approached by students during the presentations, do a wrap-up and ask if any doubts exist regarding the case.

### **Theory and recommended readings**

Articles that provide theoretical content related to the case that will enrich the discussion and facilitate the achievement of the main learning objectives:

- Zellweger, Thomas M, and Joseph H Astrachan. “On the Emotional Value of Owning a Firm.” *Family Business Review*, 2009.
- Berrone, P., C. Cruz, and L. R. Gomez-Mejia. “Socioemotional Wealth in Family Firms: Theoretical Dimensions, Assessment Approaches, and Agenda for Future Research.” *Family Business Review*. Vol. 25, 2012.
- Visscher, François. “Is Private Equity Funding the Right Choice for You ?” *Family Business Magazine*, 2010.

## Epilogue

It was a negotiation process marked with ups and downs and several impasses mainly due to the reduced financial need to sell part of the business and the emotional connection Aquiles Filipe had with the company - “There was no hurry to settle the business” - Daniel from Menlo Capital pointed out. As Aquiles Filipe didn't have a need of selling the company, then financially speaking the question to ask was, would the sale of a part of the business make the smaller piece of the business that Aquiles retained worth more than the larger portion of the business that he would own if he didn't sell? Aquiles believed that he should reach an agreement mainly due to the entry of intellectual capital in the management of the business that would have the aptitude to leverage the business in a faster and more effective way than PortugalVentures permitted. Another motivation was the ability to create value through synergies that could grow revenue and reduce costs to a business that had an enormous potential to explore.

Finally, on the 4<sup>th</sup> trimester of 2015, an agreement was reached and 80% of Ach Brito Share Capital was sold to Menlo Capital (64,39%) and Haitong<sup>15</sup> (15,61%). Aquiles Filipe maintained a position on the Board of Directors and owns 20% of the company.

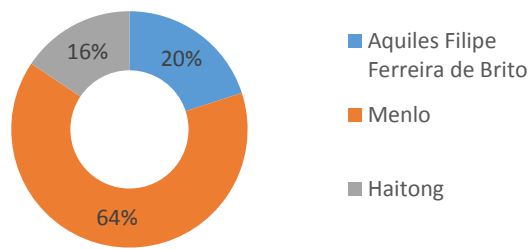
The change of ownership structure began a new stage of renewed ambition, however, the values, the memories, and the intangible heritage that a company with over 100 years of history carries is still firmly rooted. Francisco Neto was appointed as new CEO and a new Board of Directors was formed: Ricardo Cunha-Vaz (Chairman) – Menlo Capital; Aquiles Filipe da Ferreira de Brito – former owner and director; Ana Almeida Santos – Menlo Capital; José Neves Almeida – Haitong and NovaSBE; Catherine da Silveira – NovaSBE Brand Management

“I want, not only to preserve my family legacy but also to expand it and without a partner with the best management skills, capable of injecting capital in the business, it would not be possible to reach my objective”- Aquiles Filipe mentioned. Regarding the exit of the PE, Aquiles Filipe believes that it is a question to handle later and everything depends on how the company evolves in the future

---

<sup>15</sup> Haitong also bought part of Ach Brito however the main focus in the case is between Menlo and Ach Brito. Haitong didn't enter in the negotiation process and, for that reason, it doesn't have direct influence in the case central issue (selling or not the business)

## Current ownership



## References

### Articles

- Astrachan, Joseph H., and Peter Jaskiewicz. “Emotional Returns and Emotional Costs in Privately Held Family Businesses: Advancing Traditional Business Valuation.” *Family Business Review*. Vol. 21, 2008.
- Berrone, P., C. Cruz, and L. R. Gomez-Mejia. “Socioemotional Wealth in Family Firms: Theoretical Dimensions, Assessment Approaches, and Agenda for Future Research.” *Family Business Review*. Vol. 25, 2012.
- Visscher, François. “Is Private Equity Funding the Right Choice for You ?” *Family Business Magazine*, 2010.
- Gomez-Mejia, Luis R, Cristina Cruz, Pascual Berrone, and Julio De Castro. “The Bind That Ties: Socioemotional Wealth Preservation in Family Firms.” *The Academy of Management Annals* 5, no. 1, 2011, 653–707.
- Zeisberger, Claudia. “Private Equity and Family Businesses – Making the Partnership Work.” *INSEAD*, 2013.
- Pendergast, Jennifer. “The Right Reasons to Sell.” *The Family Business Consulting Group*, 2013.
- Rhodes, Kent, and Dana Telford “Emotional Ownership.” *The Family Business Consulting Group*, 2014.
- Zellweger, Thomas, and Joseph H Astrachan “On the Emotional Value of Owning a Firm.” *Family Business Review*, 2009.

- Zellweger, Thomas, and Tobias Dehlen “Value Is in the Eye of the Owner : Affect Infusion and Socioemotional.” *Family Business Review*, 2011.

### **Books**

- Poza, Ernesto J. “Family Business”, 1–25. Thomson South-Western, 2010.

### **Webpages**

- <https://www.achbrito.com/en/>
- <https://www.publico.pt/noticias/jornal/a-saga-dos-achilles-brito-168780>
- <http://150anos.dn.pt/2014/09/15/ach-brito-fragrancias-que-foram-resistindo-a-historia/>
- <http://www.reuters.com/article/us-portugal-soaps-idUSTRE51J4A220090220>
- <http://observador.pt/2016/09/30/cheira-bem-cheira-a-primeira-loja-da-claus-porto/>
- <https://www.dinheirovivo.pt/empresas/ach-brito-os-sabonetes-preferidos-de-oprah-estao-em-mais-de-50-paises/>
- [http://www.jornaldenegocios.pt/empresas/detalhe/ach\\_brito\\_compra\\_rival\\_confiancedila\\_para\\_ganhar\\_mercado\\_e\\_produtos](http://www.jornaldenegocios.pt/empresas/detalhe/ach_brito_compra_rival_confiancedila_para_ganhar_mercado_e_produtos)
- <http://www.dn.pt/bolsa/interior/ach-brito-quer-contornar-a-crise-com-mais-exportacoes-1839831.html>
- <http://expresso.sapo.pt/economia/exame/2015-10-14-Empresas-familiares-que-sobrevivem-os-casos-da-Viarco-e-da-Ach-Brito>
- [http://www.jornaldenegocios.pt/empresas/detalhe/pos\\_revolucao\\_nao\\_foi\\_perfumado\\_para\\_fabrica\\_de\\_sabonetes\\_ach\\_brito](http://www.jornaldenegocios.pt/empresas/detalhe/pos_revolucao_nao_foi_perfumado_para_fabrica_de_sabonetes_ach_brito)
- <http://restosdecoleccion.blogspot.pt/2016/01/ach-brito.html>
- <http://www.menlocapital.pt/>
- <http://www.haitongib.com/pt>
- <http://www.portugalventures.pt/en/pagina/about-us>