

Making a Sibling Startup Work

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BY DEANNE STONE

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WHILE on vacation in Italy back in 1983, Lee Gravely and her daughters, Frances and Susan, admired the dishes on which lunch was served in a hotel on the Amalfi coast. Avid collectors of ceramic dinnerware, they knew instantly that the hand painted plates, decorated with colorful, playful animals, were unusually fine. Who was the ceramicist? They inquired. His name was Don Vincenzo Solimene and he lived nearby. After lunch, the three North Carolina women visited the factory where they saw equally stunning designs.

The women were surprised when they were told that Solimene's dinnerware was not widely distributed in the States. On the spot, the Gravelys offered to become his wholesaler in the United States. Solimene expressed interest. Frances and Susan spent the next three days at the factory learning how he and his assistants handcraft and paint their products. They left with samples of five distinctive patterns they wanted to test in the market.

From that bit of serendipity, a thriving business was born. Today the company founded by the three women—Vietri Inc. in Hillsborough, North Carolina—is a leading wholesaler of Italian ceramics with revenues of \$6.5 million a year. The business has shown a profit every year, and during its first decade sales surged 40 percent or more each year.

Vietri Inc.'s success was not just luck. Chance favors the prepared mind. Susan and Frances Gravely, both in their 30s then, had grown up in a business family and were experienced

businesswomen. They had good business contacts in North Carolina. They knew how to track down information and where to go for the best advice. They also did something that was unusual for an entrepreneurial family business: In Vietri Inc.'s very first year, they put together a board of directors to help guide the growth of their new enterprise.

The sisters' one misstep was to underestimate the special challenges of a family business. Three years apart in age, they had an especially close and respectful relationship. They decided to work as co-presidents and make decisions by consensus. "We were naive," says Frances, the older sister. "You can't run a business that way." But when tensions developed, the sisters were smart enough to turn to their board of trusted advisers.

A SERENDIPITOUS MEETING

The lunch on the Amalfi coast wasn't the only serendipitous event leading to the birth of Vietri. The whole story of that trip reads like a Hollywood script:

The sisters are taking their recently widowed mother on a much-needed holiday. On the flight to Italy, Frances strikes up a conversation with a man named Fabio Puccinelli. She introduces him to her mother and sister. Charmed by the Southern women, he gives them his card and invites them to visit him in Florence.

On the last leg of their trip, in Florence, Lee's purse containing all three passports is snatched by a thief on a Vespa who whizzes off. Getting no help from the local police, Frances calls the friendly man they met on the plane. Puccinelli rushes to their aid. By day's end, the women have new passports and travelers' checks, and they are being squired around the city by Puccinelli.

When the sisters tell him of their meeting with Solimene and their proposal to become his wholesaler, Puccinelli introduces them to a friend working in a Macy's buying office in Florence and escorts them to several Italian shipping companies and banks. Puccinelli, it turns out, is a member of Florentine aristocracy with extensive connections in European art markets. If the sisters decide to follow through with their plan, he will be glad to help them negotiate their first contract.

Susan and Frances return to North Carolina and spend three months studying the import business. Working around the clock, they price out everything from cardboard boxes and packing "peanuts" to UPS freight costs. They carry suitcases full of samples to specialty gift shops. Encouraged by their research, the sisters write a business plan, and their mother agrees to provide the startup capital. Finally, the sisters return to Italy. With Puccinelli as their interpreter, they place their first order for 30,000 pieces of Solimene's Campagna dinnerware.

PERFECT TIMING

Vietri (named after an Italian fishing village) was incorporated in the fall of 1983. The three owners—Lee Gravely and her two daughters—set up shop in Frances's home in Chapel Hill. Susan and Frances were co-presidents. Lee, never a paid employee, was a binding force for their collaboration. Known as "Momma" around the company, she accompanied her daughters on buying trips and to trade shows and, on occasion, even helped unload trucks.

A month after opening their doors, Vietri set up a small display in a friend's showroom at the Highpoint Furniture Market. The orders flooded in, and half the first shipment was sold

before it touched American shores. The story was repeated a few months later in New York. "Everyone was captivated by the colors, the whimsical animal motifs, and the craftsmanship," Frances recalls. "Our timing was perfect. We were about two years ahead of the trend in this look."

By year's end, Vietri had sold \$250,000 of Solimene dinnerware. Aware they had to expand their product line, Susan returned to Italy for a second buying trip. Once again destiny intervened, this time in Milan. Susan happened upon a group of artisans selling their wares on the sidewalk. The elegant wood table accessories of Pietro Manzoni caught her eye. Manzoni had been with Italy's premier woodworking atelier for years. Now he had his own shop and his products were just as fine—at prices Vietri could afford. Susan brought some of Manzoni's salad bowls, trays, and ice buckets back to the U.S. and showed them to buyers at Neiman-Marcus. Manzoni became Vietri's second star. Others followed.

Vietri soon became one of the country's leading wholesalers of handcrafted Italian ceramics, wood accessories, and glassware. Later, the sisters added American-made garden and patio accessories as well as linen and wrought iron pieces to Vietri's line. In 1990, to accommodate its growing inventory, the company built a 30,000 square-foot office building and warehouse that included a quality-control test kitchen.

The company now carries 1,200 items from 28 different lines. It has permanent showrooms in eight major cities and sales representatives in the other urban centers. Specialty stores remain the company's main customers, but lately sales from higher-quality direct mail-order catalogs have begun to takeoff. Vietri's hand blown glass fish is the all-time best-selling Christmas tree ornament in the Neiman-Marcus catalog.

A FAMILY TRADITION

Both Susan and Frances came to Vietri with solid business credentials. Susan had helped start and run two successful women's clothing

stores for wealthy investors. Frances, whose background is in communications, had worked for private industry in Chapel Hill and in London.

Tere Yow, a board member and former Vietri employee, says Susan and Frances's success has as much to do with their personalities as with their know-how. She met Susan when they both worked in retail in New York. Yow was one of Vietri's first employees and often joined the Gravelys at trade shows and on buying trips. "These women have never met a 'stranger,'" she says. "They're all great talkers and have endless curiosity."

It's amazing how much information they take away from a chance meeting." As for the sisters' style and sense of design, Yow says it's in the genes. "You have only to meet their mother and visit her home to know where they get their artistic eye."

Chris Harris, one of the original board members, has known the Gravelys since he was a child. His mother and Lee were college roommates. Harris sees the invisible hand of their father, Lloyd Lee Gravely, who was an influential businessman, guiding Vietri's success. Lloyd was president of ChinaAmerica Tobacco Co., a family owned firm started by his grandfather, that did business all over the world. During the tobacco season, foreign buyers came to Rocky Mount, North Carolina, where the Gravelys lived, to sample tobacco blends. Foreign visitors and local businesspeople were frequent dinner guests in their home, and Frances and Susan were included in the conversations.

It was their father who had told his daughters that if they ever started their own business, they should create a board of directors made up of friends who have experience in areas that they don't. Many new family businesses rely exclusively on the advice of lawyers and accountants. That's a mistake, says Raymond Jones, a Vietri board member. "At the beginning, most decisions are business decisions, not legal ones. What's needed is a broad-based group of advisers."

From the outset, Frances and Susan sought help from experts. They gave careful thought to selecting board members who fit Vietri's needs.

"We looked for people who had different kinds of experiences," says Susan, "people who had started their own businesses, worked for others, had bankruptcies as well as successes. They also had to be willing to give us free time."

Within a year of starting Vietri, the sisters had invited five of those advisers to serve as directors. The board has grown to nine, including Susan and Frances. Although not a member, Lee Gravely attends all meetings.

Luckily, the sisters have had an exceptional circle to draw on. Among those who have served as Vietri directors:

- Jack Bailey was a close friend of their father. He had started more than a half dozen successful companies.
- Bob Allen used to be married to Frances and Susan's aunt. Until his recent retirement, he ran a \$60million company. He has a close relationship with Susan. "I gradually evolved into her confidant, advising her mostly about personal relationships. As president, Susan has had to make hard choices and put family matters aside for the success of the company."
- Chris Harris's background is in insurance and real estate. He advised Susan and Frances on negotiating leases and constructing the office and warehouse. His experience working in a family business also prevented Vietri from rushing into computerizing their operations.
- Fabio Puccinelli, Frances and Susan's guardian angel, also served a term on the board. He knew the business from both sides of the Atlantic.
- Tere Yow's expertise is in merchandising, personnel issues, and staff structure. "Susan trusts my opinion on what will sell. She also relies on me for questions regarding staff and policy. Many of the people I worked with are still there."
- Raymond Jones is a sophisticated businessman whose son went to the same prep school as one of Susan's brothers.

Jones built his own successful company and has served on many boards. He is known as the director who asks the tough questions.

- Garry Snook, a friend of Susan's, started and runs a hugely successful mail-order bicycle parts business. "Gary's talent is in analyzing options for growing a business," says Susan. "He's also very generous in letting us brainstorm ideas with his managers."

Susan and Frances regard the board as integral to Vietri's success. "It provided an objective voice, gave us something to be accountable to," says Frances. "More than anything, it forced us to regularly lift our noses from the grindstone to look at the big picture, look long term."

The board members meet only annually, but Susan makes use of their expertise throughout the year. "It's not unusual for me to call them a half dozen times a year, either for specific advice or because I need a reliable sounding board," she says.

A few years ago Susan was approached by another dinnerware company that wanted to be bought out by Vietri. Susan discussed the proposal with the board. After analyzing the pros and cons, the board concluded that the company's product line was not complementary to Vietri's. Probably the most influential voice in steering Susan away from this proposal was that of Raymond Jones. "It's easy to get excited about new opportunities," Jones says, "but often you take on not only the excitement of a new business but also its problems."

"Susan is very bright, very entrepreneurial, but there is no substitute for experience," he adds. "I review her objectives, refine her thinking and, sometimes, temper or encourage her ideas. Her thinking is about 99 percent perfect; I help her make it 100 percent."

The board's input was also invaluable during a big scare that rocked Vietri in 1989. The Food and Drug Administration had announced that it was recalling a line of Italian dinnerware created for another company because lead in the ceramics was leaching into liquids held by cups and bowls. "We were already spending tens of

thousands of dollars on lead testing," says Susan. "In 1984, we adopted California's standard for lead levels, which is stricter than the FDA's. Yet, we still faced having FDA officials knocking on our door every week."

Susan and Frances called a meeting of the board to brainstorm the best approach to assuring customers that Vietri's products were safe. Together, they worked out a strategy. The company mailed letters to their accounts explaining their procedure for testing for lead. They announced that Vietri's import specialist would answer questions and, on request, send copies of lab results. They also included printed cards describing their lead testing for retailers to give to their customers. A crisis was averted.

DEFINING ROLES

Despite their genuine affection and respect for each other, Susan and Frances quickly discovered that a family business can be a breeding ground for conflict. In the beginning, orders flowed in faster than Vietri could fill them. The frequent buying trips to Italy left the sisters exhausted and, sometimes, short-tempered. The stress of starting a new business was exacerbated by Frances' and Susan's attempt to function as co-presidents.

"You can't expect two people to always reach consensus," says Frances. "Someone has to have final authority." Moreover, the business was run out of Frances's home. Between working and buying trips to Italy, she had little time for her two young children. After two years, they agreed the arrangement was unworkable and Frances took a leave of absence, "because of tensions between Susan and me and because I was exhausted," Frances says. Susan, the younger sister, who was single and willing to work long hours, took command.

When Frances returned a year later to work as vice president for marketing, Susan, the younger sister, was running the show. She was sensitive to Frances's feelings and took steps to minimize rivalries. Both sisters understood the importance of carving out separate domains. They agreed on a division of responsibilities: Besides marketing, Frances now handles media

contacts and production of Vietri's in-house catalogs. Susan does most of the buying, traveling to Italy four times a year. She works with the board, prepares the reports, and sets the agenda for meetings. "If Frances, as a manager, is accountable to me as the president," says Susan, "then it's only fair that I should be accountable to the board."

Susan sharpened the boundaries between family and business. Early on, she had decided it would be better to have a nonfamily member handling financial matters. For the past 10 years, Penny Keady, a CPA, has been Vietri's senior vice president for finance and operations. Keady is the direct link to Vietri's bank, accountants, and attorneys. She also oversees the company's internal operations.

In addition, Susan instituted a team approach to management that includes nonfamily employees. Decisions are based on what's best for the business, not just what's best for the owners. "Frances is one manager, for example, but she does not have extra power because she is an owner," Susan says. "As a result, our employees feel very valued. When a difficult decision has to be made, I make it as the president of the company and not as an owner."

The board has played a key role in dealing with sensitive issues between the sisters. For example, Susan recommended that the board create a compensation committee made up of three directors to oversee her own pay. Frances thought the committee should also review her salary and bonuses. The board insisted that would not be appropriate, because even though Frances was a stockholder, she reported to the president, who should have sole discretion in setting pay scales for managers.

Susan faced a tougher challenge over the question of a succession plan. The board felt strongly that a successor should be designated in case anything happened to her, to reassure employers, bankers, suppliers, and other business partners of continuity in the firm. Susan agonized over the issue and finally decided to choose Penny Keady, the nonfamily vice-president, instead of Frances. Susan felt Keady knew the most about company operations and was the best person to retain the confidence of both employees and the financial community.

"It was a terrible dilemma for me, but I made the decision because I thought it was best for the health of the business and the people who work in it, along with my sister because it would preserve the value of her stock."

Their mother's estate plan also raised painful and potentially explosive issues, but the sisters got through it. Lee Gravely owned 80 percent of Vietri Inc., and the sisters owned 10 percent each. The mother gifted some stock to the two daughters. When it appeared that Susan was prepared to devote fulltime to the business and had the experience to run it, however, the mother decided to gift enough stock to Susan to make her the majority owner. She planned to give an equivalent amount in cash to Frances and each of her two sons.

Lee Gravely's plan was, of course, supported by the conventional wisdom, which says the person most responsible for a business should own at least 51 percent so he or she has the last word. "She thought that if Frances and I were in total disagreement about something, this would resolve it," Susan says about her mother's reasoning. "She probably had also gotten advice from board members on this. She had given everyone equal value. But this [decision] was very tough on Frances, and I can understand why."

One problem was that their mother had not told them about the plan until it was completed. "She thought she was doing the right thing," Susan says, "but it would have been much better for us if we had discussed it in advance."

THE VALUE OF SHARING

Frances and Susan have learned that family relationships in a business require extra care. They constantly strive to improve their communication and to tackle problems head on. They have also concluded that having two family members in the business is enough. "We have two younger brothers we're very close to," says Susan. "Given their personalities, we probably could have worked with them. But having more family members in the business multiplies the chances of problems. It's difficult enough for Frances and me to maintain the

kind of sister relationship we want and still work together. We didn't want to risk damaging our relationships with our brothers."

Last year, at age 44, Susan married for the first time. After 12 years of total immersion in Vietri, she is adjusting her schedule to include a husband and two stepdaughters.

Despite tensions that can crop up in any family business, Frances says she couldn't have imagined doing it any other way. "I never dreamed 13 years ago that we would achieve all this. I still get a thrill going into stores and seeing a Vietri display. The experiences that Susan, my mother, and I have had together as businesswomen have been a whole other realm of sharing. It adds tremendously to what we experience together as family members."

VIETRI INC.

Business: Wholesaler of Italian ceramics, wood accessories, and glassware.

Location: Hillsborough, NC

Founded: 1983

Revenues: \$6.5 million

Employees: 34

Family managers: Susan Gravely, president; Frances Gravely, vice-president for marketing.

Ownership: Divided between Susan and Frances; Susan holds a majority of shares.

Claim to fame: Trendsetter in the tabletop dinnerware market, led by sisters who made creative use of a board right from the start.

TIPS FOR SIBLING STARTUPS

1. Consider setting up a board early on to provide advice on building the business.

2. Choose outside directors who can fill in gaps in your business experience, not just your lawyer and accountant.

3. Think twice before setting up co-presidents, especially if one sibling is clearly stronger than the other

4. Ask the board to set up a compensation committee to decide on salaries and bonuses for all employees, including family members.

5. Include nonfamily managers with special expertise in top-level decision-making.

6. Recognize that sibling rivalries often persist into adulthood. Deal with them openly and learn to respect each other as adults.

7. Develop institutional ways to avoid conflict; for example, carve out separate domains for each sibling.

8. Call on trusted board members for advice when sibling relationships are not going well.

9. Agree on some formal mechanism for breaking deadlocks on major decisions, such as using the board to mediate, or taking turns on whose view will prevail. ■

Deanne Stone is a business writer and freelance contributor to Family Business Magazine, who specializes in writing about family foundations and family businesses.

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