

Part A

Sitting in his office in *Rua Castilho* in the center of Lisbon, staring at the traffic and the July sunset, Pedro Miguel wondered if he had made the right decision that afternoon. After meeting with an international company interested in buying the building where Loja das Meias' flagship store stood and hearing their (very interesting) offer, he said no.

It was the year 2006 and Pedro Miguel had been performing all the functions of a CEO for a couple of years now, even though his father, Pedro António, was still the majority shareholder with 51% of the capital. The remaining capital was in the hands of Pedro António's three sisters (see exhibit 1).

Pedro Miguel's sisters, Marina and Manuela, were also involved in the business. The latter handled finance and marketing while the first dealt with merchandising, window design, stocks and purchases. They had been working in this business since they were teenagers, helping out during summer breaks and Christmas sales, when customer affluence increased considerably. They had been hearing and learning about the business since they could remember. It was in their blood.

"We're a lucky family", he thought. They had always been able to overcome obstacles and conflicts without considerable damage to family bonds or the business itself. Consensus was usually found when making a decision. There had always been at least one branch of the family interested in pursuing the family business path. How many family businesses have been in the same family for over 100 years and for four generations? How many of those never had a non-family manager? Yes, Loja das Meias was certainly a special case.

Nonetheless, the possible sale of the flagship store had been proving to be tough decision. Located on Rossio square, once one of the most prestigious shopping spots in downtown Lisbon, the store had been continuously decreasing its performance for a considerable time now (see exhibit 2). Despite the efforts to turn the situation around, it was losing money. The potential buyer's offer was a great one and it would easily solve the issue. But how could they abandon the store that was the point of reference to customers, even tourists, and had always been the face of the company? How could they ever sell the place where everything started 101 years ago?

The Beginning

The story began in the end of the XIX century, when a young man, Pedro Rodrigues Costa, moved to Lisbon to work in a downtown store on the corner of *Rua*

Augusta with Rossio square. He worked and studied at the same time at a nearby Commerce school, incentivized and motivated by his boss, Mr. Pimentel. Back then stores opened at 11 am and closed at 11 pm from Monday to Saturday and were open on Sunday mornings as well. So Mr. Pimentel allowed him to study in the store. Pedro stood out for his hardworking attitude and creativity.

The owner of the store was a man without heirs, so when he died he left it to his three favorite employees among which was Pedro. Progressively, he bought his associates' shares and became the sole owner of the store. By this time, he changed its name to Costa&Filhos. Loja das Meias, where only socks and corsets were sold back then, was officially on the hands of the Costa Family (see exhibit 3).

The second generation

Pedro Rodrigues Costa had two daughters and two sons (see exhibit 1).

Back in the day, women were not usually involved in the business world, so Horácio and Pedro Jr. were the successors. The first, an introverted man, had a calling for finance and organizational areas. Pedro was a more outgoing person with an artistic and creative side. He was the social complement of his brother; a great public relations' man. They stroke a good balance.

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The store evolved to keep up with the social, technological and architectural changes of the time. It was expanded with an upper floor (see exhibit 4) and the first elevator in a portuguese commercial space was installed. Stores' showcases became more important at this time. Loja das Meias won numerous contests for its creative window decoration and display. New sections were created - including perfumes, and accessories (wallets, belts and jewelry) - and a new tailoring service for women was introduced.

During the Second World War, Portugal was a stopping point in the escaping journey of many aristocrats, nobility and royalty members from Europe to the USA. Loja das Meias was their choice during the stay because it was a reference in terms of quality and prestige. Among the clients of the store were Duke of Windsor, Elsa Schiaparelli, Jean Renoir, Guillermina Suggia, Baron of Rotschild, King Humberto of Italy and Carol of Romenia.

The Third Generation

Pedro Rodrigues Costa Jr. had three daughters and one son, Pedro António (see exhibit 1). The latter, started working early in the business at the age of 18. His aunts and father gave him a share of 7.5% for motivation and remuneration purposes¹.

Upon Horácio's early death at 54 (1951), his shares were equally divided among his siblings as he was neither married nor had children. A similar arrangement was made years later regarding sister Amélia, for the same reasons.

The store continued to succeed, taking advantage of the golden 60's to initiate another renovation and attract a younger audience. It started selling Christian Dior shoes and introduced Levi's jeans in Portugal for the first time. A sportswear section is created to connect with the younger target.

In 1971, a new shopping center with a parking lot was built in *Rua Castilho*. Loja das Meias chose this location to open its second store and bought the space.

The 1974 Revolution

The year of 1974 marked the end of a 50-year dictatorship in Portugal. The revolution was not only a military one but also a social one. Consumers' habits, preferences and mentality changed; the market targeting the upper class was associated with fascism. Therefore, Loja das Meias adjusted its offer to the new market needs. Moreover, most of the stock started to be produced in Portugal, helping the development of the national economy.

Later, in 1981, the first modern, European-inspired shopping center was built in Lisbon in the Amoreiras area. Loja das Meias was a pioneer and rented a space to open its third store there.

The year of majority control

In 1995, the company opened the fourth store in the historical center of Cascais. A small house from the 40's was bought and restored for this purpose as a way of maintaining the brand's quality and luxury image.

¹ Common practice at the time was that owners did not have a salary; their remuneration would come from the potential results/dividends.

At this point, cousin Manuel proposed to Pedro António selling him his share. He was the son of aunt Fernanda (see exhibit 1) to whom she had already passed on her 26,5% share. Consequently, in this third generation, the capital was divided by the three sisters (Teresa and Maria da Graça with 15% each and Manuela with 18%), Pedro António with 25,5% and cousin Manuel with 26,5% (see exhibit 5).

Manuel was always present in general assemblies and presented a collaborative attitude, but his professional life was and had always been completely detached from Loja das Meias. Aware that Pedro António would gain majority control over the firm if he bought the 26,5% share, Manuel chose this cousin to propose the sale.

And so it was. Pedro António had always been the informal leader and the most involved shareholder. His siblings never questioned his vision, strategy or managing skills. However, this was the first time anyone held the majority control over the family business (see exhibit 6).

A few steady years followed. Management took advantage of this stable period to renovate the stores: the one in *Rua Castilho* in 1996 and again in 2006; Cascais' in 2005; and Amoreiras' in 1997 and once again in 2007.

The peace is interrupted

The year of 2006 brought the tough decision Pedro Miguel was facing right now. The understandable emotional connection to the Rossio store had led to extraordinary efforts to save it. Apart from a renovation of the store's design and display, it had been working as an outlet for the last two years as an attempt to adjust to new type of consumer that shopped in the downtown area. After a huge fire that partially razed this area in 1988, the social environment of this older part of town started to change and was never the same.

The upper class target was no longer shopping there. Moreover, the current global financial crisis was crushing the fragile Portuguese economy and consumers purchasing power. Therefore, the outlet seemed like a plausible adjustment. However, whoever visited the store was under the impression that Loja das Meias was presenting itself this way in every store. Regular customers, accustomed to high levels of quality and a certain brand image, were not pleased. Additionally, this type of clients was increasingly demanding regarding service and facilities – like parking space, which was missing in that older part of town. Consequently, despite the efforts and the particularly low rent, the flagship store was losing money.

Real estate ownership

When Pedro Rodrigues Costa had to divide his heritage among his children, back in 1905, women were not actively involved in the business world even if they had company shares. Therefore, as compensation, his two daughters received higher shares of the real estate (the downtown building where the first Loja das Meias was established). The rationale was that his sons would manage the business in the future and make a living out of it at their own account. However, in case the business failed, his daughters – who were not responsible for it – would still be able to receive rents from the building.

This rationale was applied to the next generation as well. As a result, Pedro António now held majority control over the business but only 5% of the building.

His cousin Manuel, connected to the business through his deceased mother's heritage, held a share of 50% of the building (even though he had already sold his share of the business). The rest was spread among Pedro António's sisters (see exhibit 7). Furthermore, the building was owned under a co-ownership agreement which meant that every decision regarding it had to be made unanimously to be legal. This was a further complication for the decision-making process regarding the sale of the store.

An issue for the next generation

“We could keep it running for a few more years”, Pedro Miguel said to himself. Maintaining an underperforming store was not an ideal option but maybe they could turn it around, maybe the market would change and the economy would improve soon. Maybe they could still keep that piece of family history alive. “Or maybe we're completely delusional”. The truth was that delaying any decision regarding this particular store – selling, changing, renovating, renting - would only bring additional issues. The co-ownership agreement demanded unanimous decisions; how would consensus ever be reached in Pedro Miguel's generation (the next and fourth one)? There were over 14 of them (see exhibit 1). The decision-making process was revealing itself to be complicated enough when only his father, aunts and cousin Manuel were involved. “I don't think anyone has realized this yet”.

Even though it was not in his hands to make a decision at this point, Pedro Miguel was the one communicating with the potential buyer as this was a CEO's responsibility. Moreover, this decision (or lack of it) would certainly affect the business that would be in his hands in a not so distant future. He just had to do something.

First things first

From all the people in the family, Pedro António had to be the one with the strongest emotional connection to the downtown's store. He was the current patriarch and all the other stores were opened under his mandate. He worked there and so had done his father and grandfather. His opinion would highly influence any change in this decision. Pedro Miguel knew he had to let his father know what he thought.

He called him at the store downstairs. "Dad, I believe we're not thinking this sale thing through. Can you come up to the office?"

Ten minutes later, father and son, sat alone in the company's meeting room. The office was empty and dead silent. After all it was a Friday evening; everyone was already home by now.

Pedro Miguel broke the silence. "I know we've already made a decision but...what if it was the wrong one?". He reinforced his concerns about the store's losses and the seeming failure of the outlet option. He reminded his father of all the social and economic changes affecting the downtown area. And he brought up the overlooked problem. "Even if we keep that store, we'll have to do something about it in a few years...a renovation, maybe an actual sale or rent the space if it continues to lose money. How will we ever reach ANY kind of agreement – let alone a full consensus- in my generation? There are 14 of us! You know how hard it is to manage people's interests. And you know how disconnected my cousins are from the business."

Pedro António was listening with his eyes on the table.

"It is a great asset with a lot meaning to us but without any value to the business anymore. Their offer is more than fair; I don't think we will be able to get a better one." continued Pedro Miguel. "We could keep it running for a few more years... but this is just a great opportunity, don't you think?"

His father remained silent with a serious expression on his face. He got up and left the room. Where was he going? Pedro Miguel followed him. They went through the small corridor that led to the office's front desk. There, on the wall on the right side of the main door, hanged four pictures of the flagship store; photographs in black and white from the time when everything started. Pedro António kept staring at them in silence.

"Let me get back to you", he said without looking away from the pictures. And he left. Pedro Miguel didn't have the chance to say anything else. If only his father changed his mind, convincing the rest of the family would be easier. Would Pedro António understand and be willing to let go? He just hoped so.

Part B

Further analysis of the situation and negotiation among the family members, resulted in a change of response towards the buying offer. The flagship store of Loja das Meias closed its doors by the end of the summer in 2007. It was sold to the Italian Benetton Group, owners of United Colors of Benetton, also a family business (see exhibit 8).

According to Pedro Miguel, “even though my father was the one with the strongest emotional attachment to the place, he understood that this was a great opportunity”. Moreover, “once everyone was on board, me and my father explained that we would only go forward with the sale of our share if real estate ownership was reorganized”. This meant that they acquired full control of the remaining real estate: the stores in Cascais and *Rua Castilho*.

The news of the closing of such an iconic store in the history of Lisbon was received with sadness from the general public. Moreover, it was perceived as a sign of decline in the “health” of the commercial activity in the downtown area. “I’m very sorry to hear about the closing of Loja das Meias’ store in Rossio”, said Pedro Roseta, president of Downtown’s Urban Rehabilitation Society³. Maria José Nogueira Pinto, ex-councilwoman, was responsible for a project for the renewal of the downtown area which wasn’t accepted as it was considered too expensive. “The downtown area of the city is getting to a point of no return. It saddens me”, she said. “Maybe Loja das Meias wouldn’t have lost hope if the project was accepted”⁴.

The Costa family seems to unanimously agree that it was a good decision and shows no regrets. “It was like a cancer for our business”, says Marina Costa. According to Pedro Miguel, it was positive for every branch of the family that was still connected to the business at that time. “For us it was really good; we didn’t make any profit from the deal but got absolute control over the rest of the real estate. Everyone else was also pleased and got their share of a great offer made by the buyer – they thought it would be better to make some money out of this than be stuck with a connection to a business in which they had no interest”.

³ <http://www.publico.pt/local-lisboa/jornal/loja-das-meias-fecha-portas-no-rossio-ao-fim-de-mais-de-cem-anos-218807>

⁴ 2010. “Entrevista a Pedro António Costa”, Revista Comércio de Lisboa, nr.121, pages 7-9 (<http://www.uacs.pt/media/73/File/revistas/CapaUACS121.pdf>)

However, the emotional impact of this sale was visible inside the company as well, especially through Pedro António. “We could see in his posture and expression that there was something going on... and then they told us”, says Irene Carvalho, a staff member who’s been with the company for 15 years and worked at the Rossio store for seven of them, tearing up while she talked. Paula Campos, another employee, who has worked for the company for 40 years, says: “He was honest and said he missed the place, you could feel that in conversations at that time. It was like that for a while. But he has a great mindset; he bounces back from challenges and moves forward. At a certain point he said it was enough, and the cycle was closed.”

His daughter Marina states that “being as open and transparent as he is, people around him noticed he was sensitive when it came to that subject, but nowadays that’s gone”. However, “I don’t think he ever went back to that place”, says her sister Manuela. In the words of Pedro António in interview to *Revista Comércio de Lisboa* in 2011: “It was very painful, but I closed it because there was no way around it. I have once given an example: a person that has a toothache will first try to fix the tooth – that’s what we did; we renewed the store and spent a lot of money in the transformation five, six years ago. But there was no cure. So I pulled out the tooth – I closed the store. Downtown Lisbon is no longer a reflection of our brand image”.

His sisters Manuela and Teresa ended up selling him their shares. “Each of them has four children and realized that their shares would be split into smaller shares, maybe too small. Moreover, these family branches didn’t intend to be involved in the business and had dispersed interests”, explains Pedro Miguel. Only Maria da Graça, who always worked in fashion, had an interest in remaining connected to the business. Moreover, she has a special empathy and connection with her brother. Therefore, she sold him 5% and kept a 10% share. As a result, Pedro António owned 90% of the company by 2010. This is still the current capital disposition (see exhibit 9).

Nowadays, the brand operates the two stores in Lisbon (see exhibits 10 and 11) and the one in Cascais (exhibit 12). The Amoreiras’ store (exhibit 11) was renewed in April 2014 displaying a new look aligned with the international concept stores and *griffes*. The management team states that this comes as a reaffirmation of the brand’s commitment to quality, exclusivity and innovation.

The company has a franchise project in its initial stages in Luanda. In Maputo, they bought a house that is being restored and transformed into a brand store. The project should be completed by April 2015. “When it comes to internationalization we try to point to emerging markets where we can easily create more value” justifies Pedro Miguel. In sum, despite the sale of its flagship store, it seems like Loja das Meias is here to stay.

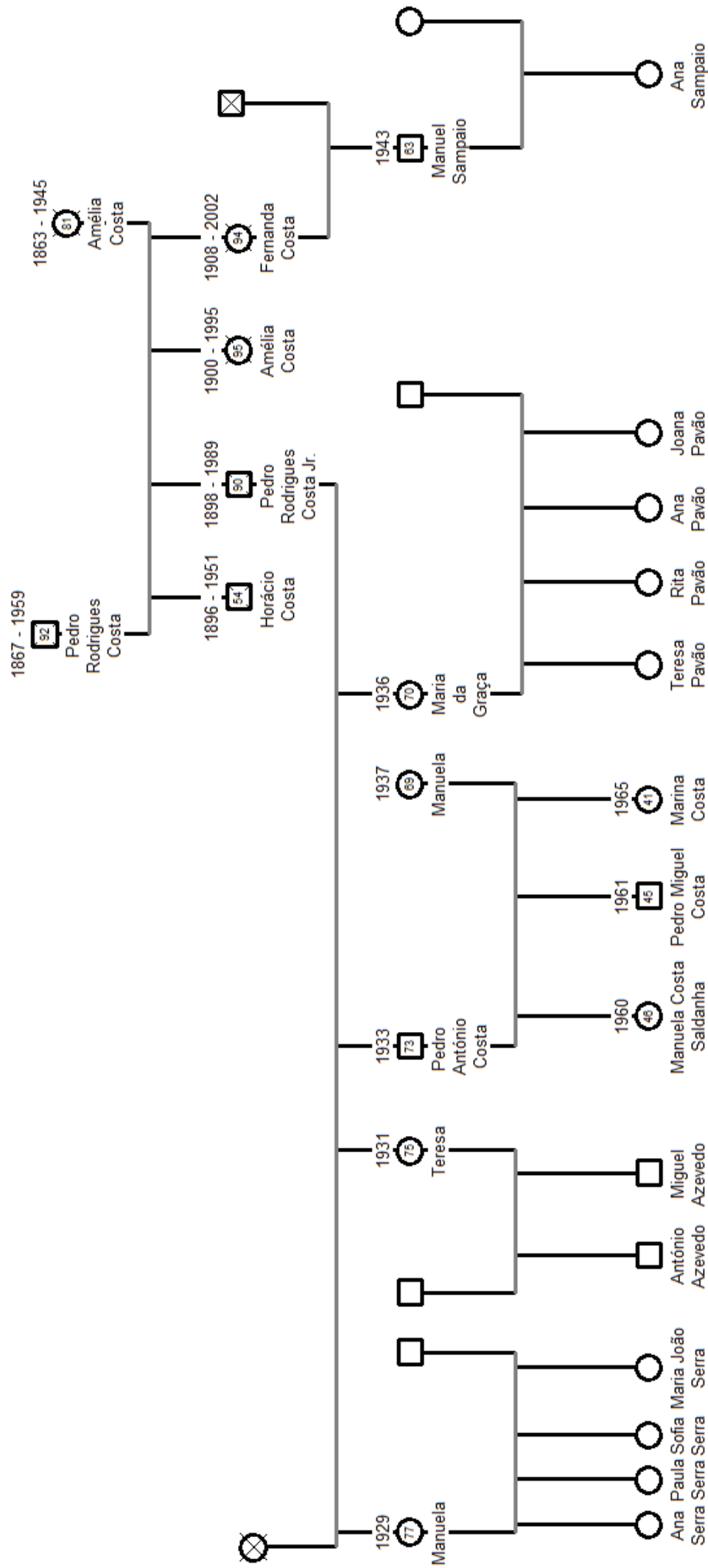


Exhibit 1 – Costa Family's Genogram (2006)

Rossio Store						
Year	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004²</u>	<u>2005</u>
Total Annual Sales €	4.629.193	4.067.464	3.692.213	3.444.963	3.044.227	2.757.914

Exhibit 2 – Evolution of the sales of Loja das Meias’ flagship store on Rossio square between 2000 and 2005, in euros.

Source: company’s financial records.



Exhibit 3 – Loja das Meias, 1917

Source: <http://oarqueolajista.blogspot.pt/2012/02/loja-das-meias.html>

² Loja das Meias’ flagship store started to work as an outlet in the 1st of December of 2004.



Exhibit 4 – Loja das Meias, 1939

Source: <http://oarqueolojista.blogspot.pt/2012/02/loja-das-meias.html>

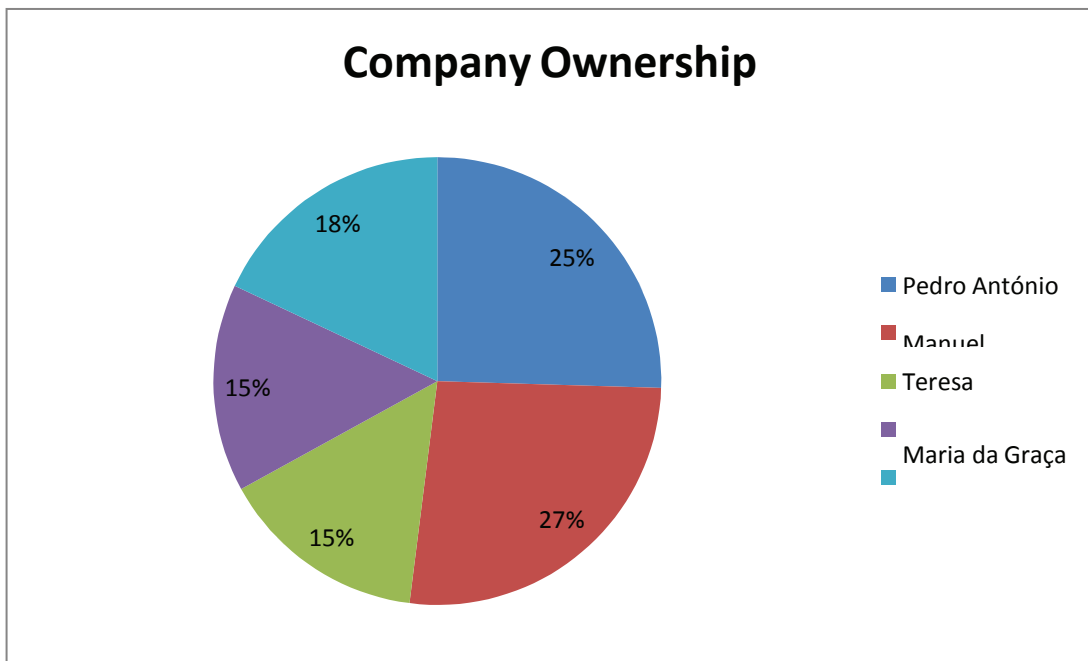


Exhibit 5– Capital ownership division in 1995 before the sale of Manuel's share.

Building Ownership

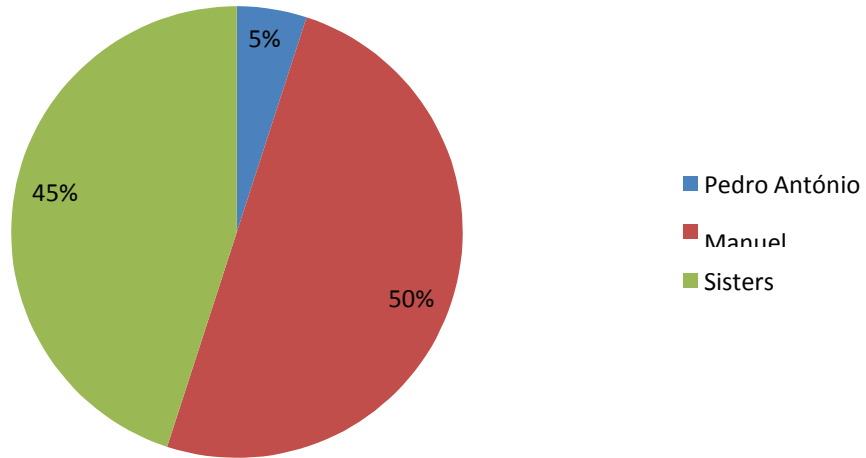


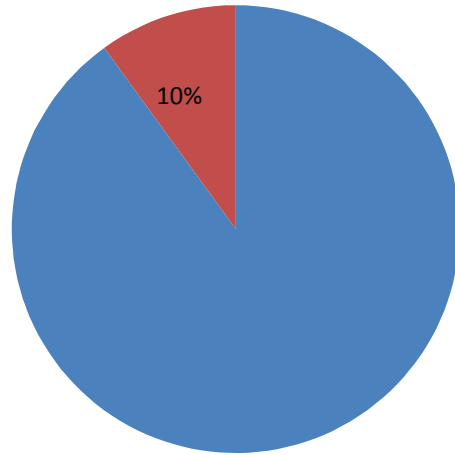
Exhibit 7– Division of the Rossio's building ownership by 2006.



Exhibit 8 : Benetton's store in *Rua Augusta*, where Loja das Meias used to stand.

Source: <http://comunidade.xl.pt/Maxima/blogs/maxima/archive/2010/03/23/uma-nova-cara-no-rossio-benetton.aspx>

Current Ownership



Pedro António
Maria da Graça

Exhibit 9: Capital ownership disposition since 2010.

Exhibit 10 : Loja das Meias in *Rua Castilho*

Source:

http://www.yelp.pt/biz_photos/loja-das-meias-lisboa?select=lmQ4Dy9mXdjl-7PcJ56heA#lmQ4Dy9mXdjl-7PcJ56heA

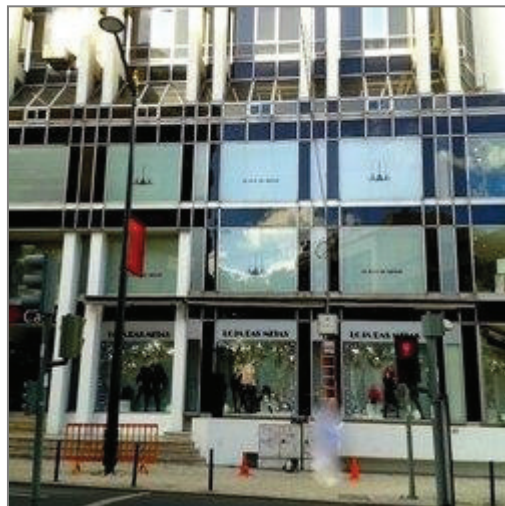




Exhibit 11 : Loja das Meias
in Amoreiras

Source:
<http://marketeer.pt/2014/04/07/loja-das-meias-inaugura-concept-store-nas-amoreiras/>

Exhibit 12: Loja das Meias in
Cascais

Source:
<http://lisboa.convida.pt/poi/shopping/loja-das-meias-4192/5>

