

MOUAT'S TRADING COMPANY

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Housed in the general manager's office of Mouat's Trading Company¹ was an old oak desk that in a previous era had been used for accounting. Sitting on the corner of that desk were two dusty bottles of ink, one black and one red.² The bottle of black ink was nearly empty while the red was almost full (Exhibit 1). Kevin Bell, the company's general manager (GM), had kept the ink bottles as a reminder of the company's successful past and of his responsibility to maintain the company's success into the future.

Bell was proud that his tenure as GM had seen no red ink – all of his 14 years with Mouat's Trading Company had been profitable. During his time with Mouat's, the company's revenues and appraised value had nearly doubled and were projected to continue growing. While Bell was proud of the company's financial performance, he was more proud of his company's importance to the 10,000 full-time residents of Salt Spring Island, British Columbia, Canada. Mouat's Trading Company had been family-run for over one hundred years and was an important pillar of the island community, directly employing over 50 locals. Eighty percent of company revenues were generated by three retail stores, which the company owned and operated. The remaining portion of the business came from leasing space to 33 retailers including Sears, CIBC and Thrifty Foods, one of the island's largest supermarkets. All told, Bell oversaw 76,540 square feet of retail space, the most of any company on the island.

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case and its accompanying instructor's manual were anonymously peer reviewed and accepted by the *Journal of Case Research and Inquiry*, Vol. 1, 2015, a publication of the Western Casewriters Association. The authors and the *Journal of Case Research and Inquiry* grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors. Copyright © 2015 by Tony Bell. Contact: Tony Bell, Thompson Rivers University, 900 McGill Road, Kamloops, BC, Canada, V2C 0C8, Tel. (250) 377-6092, email tbell@tru.ca

¹ Mouat's Trading Company Website: <http://www.mouatstrading.com/main.html>

² In accounting, black ink is used to denote profits, while red ink is used to denote losses.

For Kevin Bell, despite years of profitability, not everything was as settled as one might think. The company was vulnerable, and Bell knew that he was the reason. He was also the person best able to resolve the company's looming problems.

The biggest problem facing Bell was finding his successor. At 63 years old, he was in good spirits and in good health, but Bell knew that things could change quickly, and should his health turn, he had no suitable replacement ready. After a few years of informal searching, no obvious candidate had emerged, and Bell was now ready to formalize his search.

While finding a successor was his immediate concern; Bell was also worried about the company's aging board. At 63, Bell was one of the youngest board members and with the average age of board membership approaching 70, Bell knew that plans needed to be laid now to ensure a smooth transition to the next generation. He knew the answers wouldn't be easy, but he wouldn't feel comfortable retiring until these issues were resolved.

History

Mouat's Trading Company was started in 1907 when Gilbert Mouat and his mother Jane (Exhibit 2) purchased the general store from the previous owners (who had founded the store in 1900). In the earliest days, the store not only served as the island's main source of basic supplies, but also as a trading point for local farmers,³ who could exchange their harvest for credit – saving them an expensive trip to the mainland. The company saw immediate success, and expanded from one building to three within the Mouat family's first five years of ownership. Over the following decades, the business continued to grow, selling not only household goods such as hardware and groceries, but also expanding to include shipping island cattle and lambs, buying and selling raw logs, and even making funeral arrangements for island residents. In 1912, the business expanded into automobiles, operating a Ford dealership for over 30 years until the mid-1940s.

³ Kahn, C. (2006). *Mouat's The First Hundred Years*. Mouat's company publication.

Mouat's continued its operations through the First World War, the Great Depression and the Second World War.⁴ As Salt Spring Island's population grew and changed, so too did Mouat's, shifting the focus of the retail store towards hardware. In the 1950s, the company developed and rented retail space to the Bank of Montreal. This first foray into property management would become a cornerstone of the company's future growth.

The 1970s saw a major change for Mouat's Trading Company and for the geography around the company's store. With the island's growth came an increased demand for retail space. Because Mouat's was located at the end of a peninsula (Exhibit 3), expansion was geographically impossible. If the company were unable to expand, the retail center of the island would likely have shifted inland from the waterfront, and this would have been disastrous for Mouat's. As a solution, the company filled much of the area between the peninsula and the mainland, reclaiming substantial waterfront space. Through the 1970s, the company expanded, constructing a number of retail buildings on the reclaimed land.

In 1976, in the midst of the expansion, the company's then GM, Tom Toynbee, was paralyzed with Guillain-Barré syndrome (a nervous-system disorder). This sudden illness was a major setback for both Toynbee and the company, but with the support of family members who resided on the island, Toynbee was nursed back to reasonable health, and the company was kept on track until he resumed his role as GM.

In 1999, Kevin Bell purchased an ownership stake and was brought in to be the company's general manager. It was important to the previous owners that the business stay connected to the original Mouat family, and through marriage to Nicola Toynbee, Kevin Bell fit this criteria. Bell's tenure with the company had been a successful one, the rental properties and company-run stores continued to evolve with the community (Exhibit 4). Bell was respected by staff, tenants and customers, and during his 14 years of management, the company's annual

⁴ <http://www.mouatstrading.com/hist2.html>

revenues and profits had nearly doubled. Although his time had been enjoyable, Bell was ready to retire.

Salt Spring Island⁵

Located in the Gulf Islands between Vancouver and Victoria, Salt Spring Island was the picturesque home to over 10,000 full-time residents (Exhibit 5). Because of the island's remoteness and beauty, it was very popular among retirees – the median age of Salt Spring Island's citizens was 53, a full 13 years older than the Canadian national median.⁶ The island was also home to many high-end Vancouver commuters. Saltspring Air and Harbour Air were competitors that offered float-plane service which shuttled residents from Salt Spring Island to the heart of downtown Vancouver in fewer than 40 minutes, making for a shorter commute than that of most Vancouver suburbanites (Exhibits 6 & 7).

Mouat's had been an institution on the island for over a century, and its history had earned it a great deal of loyalty from locals. Bell felt that because of the small population and unique culture of Salt Spring Island - a place with no traffic lights and an artisan philosophy - it was unlikely Mouat's would ever face on-island competition from "big box" stores. The company's waterfront location meant that its retailers were often a first stop for tourists. However, the internet was changing customer habits, and Bell had begun to feel increased competition from online retailers such as Amazon. Bell knew that the island's remoteness and culture would not completely shelter his company from competition, and his successor would need to be capable of adapting to a shifting retail environment.

⁵ Salt Spring Island Promotional Video: <https://www.youtube.com/watch?v=bRbMBzk0xyl>

⁶ <http://www12.statcan.gc.ca/census-recensement/2011/as-sa/fogs-spg/Facts-csd-eng.cfm?LANG=Eng&GK=CSD&GC=5917027>

Finding a Successor

Bell thought back to his predecessor's illness. It served as a reminder that life was unpredictable. When Toynebee fell ill, the family had a support network in place that kept Mouat's moving forward. If Bell fell ill, he felt he had no safety net in place, and the result for the company could be disastrous. Bell was healthy, and he wished to make a succession plan immediately, rather than waiting to be forced to make a difficult decision in a time of crisis.

He had three questions in mind that if resolved, would help him to focus his search:

- 1) Should the new GM be a family member?
- 2) Should the new GM be living on (or have lived on) Salt Spring Island?
- 3) Should the new GM become a shareholder?

Bell's immediate response was to answer each question with a resounding "Yes." Upon reflection however, he realized that achieving all of the above criteria was probably not possible, and might not be prudent. Finding a candidate who was a family member, with history on the small island, who had the financial wherewithal to purchase a major stake in the company was going to be difficult. Even if Bell could find a family member, there was no guarantee that they would have the skills required to manage the business successfully or the desire to live and work on Salt Spring Island. Bell knew he needed to consider the costs and benefits of each of the criteria carefully to decide which (if any) mattered most. The company's sound financial condition meant that all succession options were a possibility.

Regardless of whom he hired, Bell knew that managing the transition process well would be as important as candidate selection. He wanted to ensure that his successor received the right support to help him or her continue Mouat's tradition of success. Bell wondered what specific steps he could take to ensure a smooth transition in leadership.

For years, Bell had been inviting nieces, nephews and other possible candidates to the company's annual board meetings, wanting to see if any had a particular interest or aptitude for managing the business. This informal search had yielded no viable candidates. He wondered about a contingency plan: What should he do if this phase of the search failed to find his replacement?

Future Governance

Bell was also worried about the governance of the company as shares were passed from one generation to the next. The company's shareholder group was composed of Bell, his four brothers, and two members of the Toynbee family who were related to Bell through marriage. The company's shares were equally divided among the shareholders and at meetings, their voices were equally heard. Bell's role as GM had him organizing and leading the company's annual general meeting, where board members would discuss the past year's results and the strategic focus of the company moving forward. The group was extremely close, and all parties trusted each other. As a consequence, Bell was given a great deal of flexibility to manage the company in the way he felt was best.

The shareholder group had an average of three children each, and most of those children had spouses, so passing on shares from one generation to the next would be highly dilutive. The next generation was also spread out geographically and did not share the same close connection as the current group. Many had very little connecting them to Mouat's Trading Company or to Salt Spring Island. Bell saw this as a potential source of future tension, and he wondered if there was anything that could be done now to prevent future problems. He had considered a few options:

- 1) Encouraging shareholders to elect non-family members to the board.
- 2) Keeping a family-based board, but encouraging shareholders to hire an advisory board composed of outside professionals.

- 3) Doing nothing, and allowing the next generation to tackle the problems if and when they came.

He knew each option had advantages and disadvantages, and he wondered if there was another way of dealing with this potential problem which he hadn't considered.

Moving Forward

Bell loved Mouat's Trading Company, and he looked forward to retiring on Salt Spring Island. He knew he couldn't retire without finding and training his replacement and deciding what to do about the future governance of the company. Despite the challenges, Bell was upbeat. His 14 year tenure with the Mouat's Trading Company had been good, and he was confident that he would find the right person to lead the company into a successful future.



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Tony joined the faculty at Thompson Rivers University in 2007 after earning a CA designation in 2003 and an MBA in 2006. He earned the school's teaching excellence award in 2013, and his YouTube channel, which focuses on educational accounting videos, has garnered over 1,000,000 views.



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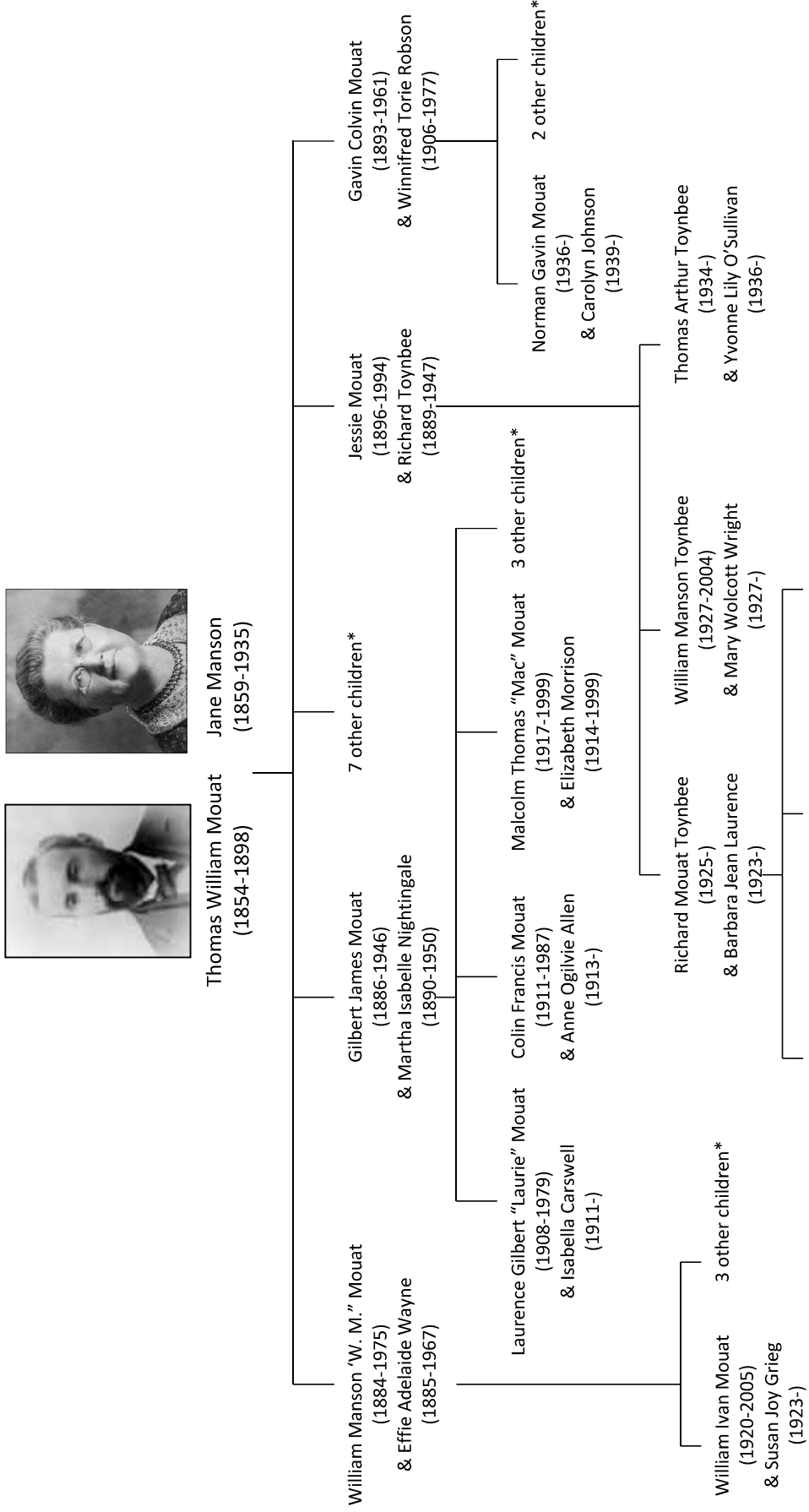
Exhibit 1. Ink Bottles on Kevin Bell's Desk



Black and Red Ink Bottles

In accounting, black ink is used to denote profits, while red ink denotes losses. Bell's office contained the two bottles pictured above.

Exhibit 2. Mouat's Family History

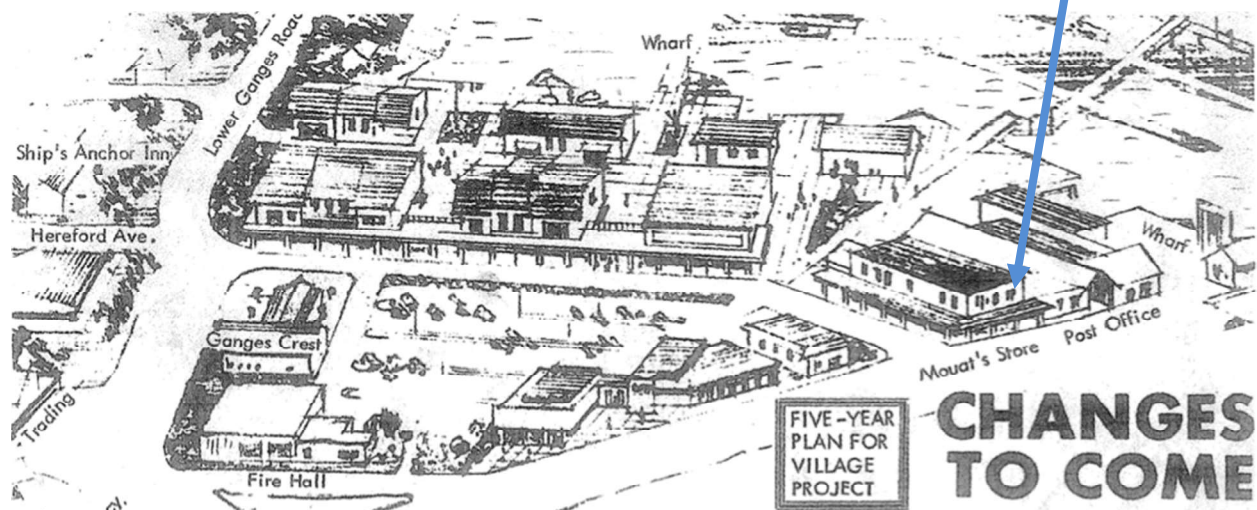
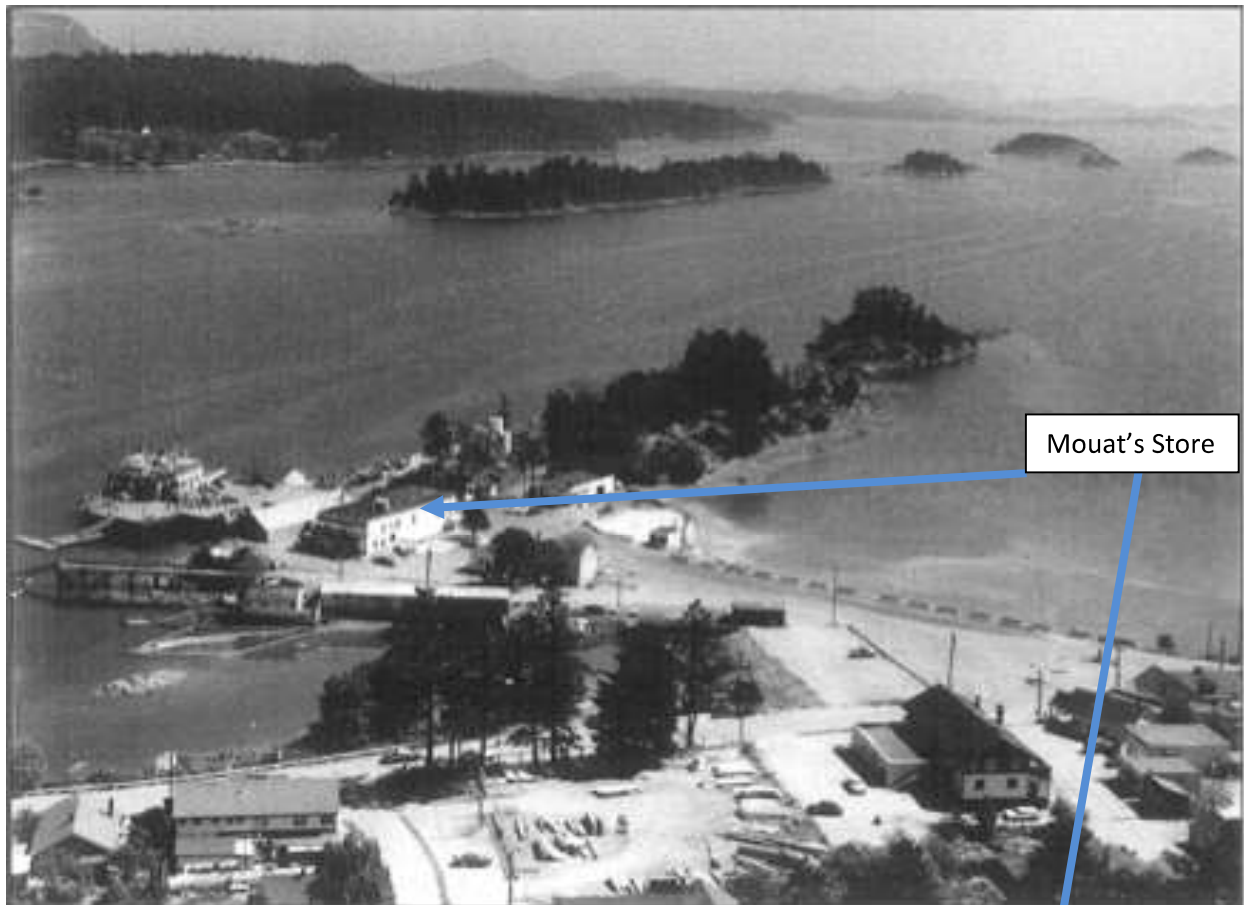


* siblings not involved in the family business.

Source: Kahn, C. (2006). *Mouat's The First Hundred Years*. Mouat's company publication.

Exhibit 3. Mouat's on the Peninsula

In the early 1970s the company filled and expanded into the bog areas surrounding the peninsula; the plan (below) reshaped the waterfront. Exhibit 4 shows the waterfront in 2015.



Source: Kahn, C. (2006). *Mouat's The First Hundred Years*. Mouat's company publication.

Exhibit 4. Mouat's in 2015



In 2015, Mouat's properties were the retail center of Salt Spring Island. The labeled properties housed Mouat's 33 tenants and three company owned stores.⁷

⁷ To get a better sense of the store and surrounding area it can be useful to use Google Street View: <http://tinyurl.com/mouatsstreetview>

Exhibit 5. Salt Spring Island



Source: nationalgeographic.com

Exhibit 6. Seaplane Service



Several competitors offered inexpensive flights between Salt Spring Island and nearby destinations like Vancouver and Victoria. The main mode of transportation on and off the island was provincially run ferry service.



Exhibit 7. Flying in to Ganges Harbour, Salt Spring Island

Flying into Ganges Harbour, Salt Spring Island, overlooking Mouat's Trading Company.

