Herff Jones: A Jewel of the State

Focus: Employee Ownership, Acquisitions

By Rebecca Patrick

Herff Jones is an Indianapolis original. The company, founded in 1920 by its two namesakes, has seen many remarkable chapters and today continues its dedication to recognizing life's milestones and memorable moments. The Herff Jones product line includes class rings, robes and apparel, yearbooks and corporate awards.

The modern Herff Jones was shaped under the direction of CEO A.J. (Jim) Hackl from 1968 until his retirement in 1998. Hackl is responsible for the company being entirely employee owned, as well as establishing the culture of entrepreneurship. Herff Jones was built through acquisitions and over much of the past decade has resumed that activity – largely under the direction of president Joe Slaughter, who assumed leadership in 2006.

Employee control

Herff Jones is one of the nation's largest 100% employee-owned corporations. The deal that made it all happen took place in two stages. In 1989, nearly a third of the company stock was sold through the formation of an employee stock ownership plan (ESOP). Six years later, the ESOP acquired the remaining shares.

Mike Cheek, former CFO at Herff Jones who continues in a special project capacity with the company, says Hackl could have taken the company public, sold it to an investor or to a competitor, but was motivated to do an ESOP for several reasons.

"His real interest was in trying to reward all the people across the company who had made it successful over the years. Sure, company leadership and executives play a key part, but the people running presses and doing customer service or working in the invoice department – they all make the company successful and Jim was well aware of that."

Past and present leaders of Herff Jones (left to right): Dave Daly, Bob Potts, A.J. Hackl, Jim Hubbard and Joe Slaughter.

Dateline Herff Jones:

1920: Namesakes founded company in Indianapolis; products: insignia jewelry.

1920s -1940s: Class rings and award medals added to product line.

1944: Produced the Bronze Star medals for heroism for World War II soldiers.

1971: Listed on New York Stock Exchange.

1973: Purchased by the Carnation Company.

1980: Expanded into Canada with yearbook and diploma business.

1985: Small group of employee investors acquired Herff Jones from Nestlé, which had bought Carnation.

1989: Investor group sold about a third of its stock to employees through an employee stock ownership plan.

1995: Remainder of company sold to staff.

2011: Acquired Varsity Brands Inc., specializing in school spirit products and events.

ESOPs also offer financial advantages for both parties.

It's a benefit plan for employees that is not taxed at the time of the contributions, but when the money is distributed at retirement age. Additionally, an ESOP has the potential for a level of appreciation that fixed income investments do not. For an employer, an ESOP can generate substantial tax savings and increased cash flow.

Speaking of money, there was a great deal of it at stake for the small group of investors – led by Hackl – who had purchased Herff Jones from Nestlé. That led to the prudent decision-making of rolling out the ESOP conversion in two waves.

"He didn't want to put the company and the people in a position of being 100% employee-owned right away because that would entail a lot of risk that was really unnecessary at the time. His conversation with the management group, employees and ESOP committee (which he had formed at the onset of consideration) was, 'I'd like to try this ESOP vehicle. Let's try it for a while and try it on a minority basis and just see how it works,' " Cheek recounts.

"It took about a year and half from the day Hackl met with the financial advisor for the first time until we closed the (initial) ESOP deal."

In terms of procedure, company stock is earned by Herff Jones employees based on formulas driven off of salary. Shares are assigned annually based on an individual's percentage of the total salary pool of the company.

There is a trustee who looks after the plan, a board (controlled by outsiders) and an internal ESOP committee of employees from all corners of Herff Jones.

The cumulative effect on employee morale was great, Cheek declares, once they recognized "this really is going to be a retirement plan that means something."

That sentiment was amplified when the company became fully employee-owned in 1995. It is also one factor in the low turnover rate.

The mindset that goes along with an ESOP is a motivating dynamic. When you own part of a business, you take things more seriously. In turn, management really does not want to let down its workers.

"It has a definite impact on the way the maintenance man does his job and so on … people not only talk about being employee owners around here, they act like it," notes Slaughter, who has been with Herff Jones for 38 years.

Case in point: A recent water main break in a storage building that houses printed materials sprung employees into action.

"By the time we got over there, there was a guy from IT, the HR lady was in a dress with a squeegee and all of the foremen had squeegees and mops, pushing the water out of there," Slaughter describes. "You don't see that many places, but when it's your place, you do what you have to do."

As for the management perspective: "We grew up with all these people, the people we work for are our friends. While we never made any stupid decisions on purpose before we were an ESOP, you do think about it longer, harder and more creatively when you understand that the people you are working with shoulder to shoulder own the company," he shares.

"It is very important and very essential to their financial well-being and their ability to retire with honor and dignity that you make the proper decisions. It has a significant impact on the way we think about things around here."

Acquiring minds

In 1968, when Hackl took charge at Herff Jones, the company was basically a class ring operation; no cap and gown or diploma divisions – to name a few.

"Our sales reps were selling all these products, so the thought was why don't we actually provide them. He (Hackl) went out and very systemically got us into all of those businesses," Slaughter observes.

Many of those early acquisitions were made possible through "a real influx of capital that started in 1973 when we were purchased by Carnation (which later sold to Nestlé). That was a marriage made in heaven. They had all this dough they wanted to put to work and we had a president that wanted to build plants and wanted to buy companies. It was beautiful," Slaughter recalls.

During this roughly 15-year period, Herff Jones greatly expanded its "schoolhouse" product line. Two of the more significant deals were Nystrom (maps and globes, 1975) and Collegiate Gap and Gown (1979).

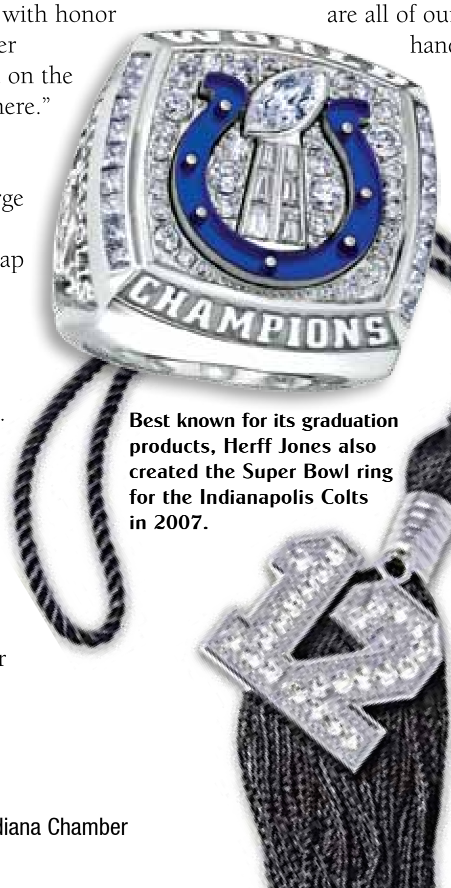
Then the acquiring was essentially put on hold from 1989 until 1997 as the debt amassed in buying the company from Nestlé was paid off.

"Once we got out of debt and started to generate some capital, then we wanted to put that to work, which we did beginning in 2003," Slaughter states.

Notable acquisitions since include: Burr Patterson & Auld (collegiate recognition products and jewelry, 2004); two globe makers – George F. Cram Company in 2005 and Replogle in 2010; a pair of robe/gown companies – Shenandoah Robe Company in 2006 and Murphy Cap & Gown in 2008; and Framing Success (custom-made diploma/certification frames, 2008).

The biggest deal, however, for Herff Jones is its most recent endeavor of bringing Varsity Brands Inc., the recognized leader in school spirit, under its umbrella. Varsity provides everything related to cheerleading and dance teams, and holds various types of events annually, including national championships that are televised on ESPN. The merger was finalized at the end of July.

"We were lucky to find Varsity Brands. It's a wonderful business that has grown in revenue 34 of the last 36 years. It's related to our school core and made sense to us on so many levels," Slaughter maintains. "They go to market in a very similar fashion to the way we have historically gone to market – sales reps calling on schools. It's a very seasonal business, as are all of our other businesses. The match just seemed to be hand and glove."



Best known for its graduation products, Herff Jones also created the Super Bowl ring for the Indianapolis Colts in 2007.

Varsity also helps open the door for expansion outside of the U.S. and Canada.

"Most of our other products are exclusively American traditions. They just don't travel very well. When you talk to most anyone anywhere else in the world about the concept of a class ring, they don't get it. It doesn't make any sense to them," Slaughter acknowledges. "But cheerleading does make sense and is being exported, so it gives us an opportunity."

When asked to compare this deal with some of the past acquisitions, Slaughter says it really doesn't.

"Our sales this year that we just closed the book on were $485 million; Varsity's sales are $270 million. That's bigger than half – and a pretty big bite for a little company like ours."

INFORMATION LINK

Resource: Herff Jones at (317) 297-3740 or www.herffjones.com