

A large, stylized letter 'H' composed of three vertical bars. The leftmost bar is white, and the two bars to its right are red. The 'H' is set against a dark background.

HOOVER'S

ANDBOOK

of

AMERICAN
BUSINESS

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JOHN A. BYRNE, *BUSINESS WEEK*

EDITED BY
GARY HOOVER,
ALTA CAMPBELL,
AND PATRICK J. SPAIN



HOOVER'S

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**AMERICAN
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**EDITED BY
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Hoover's Handbooks are intended to provide their readers with accurate and authoritative information about the enterprises profiled in them. The Reference Press asked all profiled companies and organizations to provide information for its books. Many did so; a number did not. The information contained herein is as accurate as we could reasonably make it. In many cases we have relied on third-party material that we believe to be trustworthy but were unable to independently verify. We do not warrant that the book is absolutely accurate or without any errors. Readers should not rely on any information contained herein in instances where such reliance might cause loss or damage. The editors and publishers specifically disclaim all warranties, including the implied warranties of merchantability and fitness for a specific purpose. This book is sold with the understanding that neither the editors nor the publisher is engaged in providing investment, financial, accounting, legal, or other professional advice.

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5. To reward our employees creatively and fairly, without prejudice
6. To allow our key people to participate in the fruits of their labor through an incentive stock option program
7. To hold to the highest ethical business standards, including complete honesty and openness in all our dealings, erring on the side of generosity when in doubt
8. To enhance the wealth of our suppliers, from distributors and printers to landlords
9. To continually expand our product line
10. To enhance the wealth of our shareholders by creating an enterprise of lasting value

ABOUT HOOVER'S HANDBOOK OF AMERICAN BUSINESS

Last year we at The Reference Press broke new ground with the first annual publication of *Hoover's Handbook*. This book, the first widely distributed, reasonably priced, easy-to-use annual reference book on major companies, was an immediate success. We have received many letters and cards asking us to expand our coverage of business, in particular non-US companies. In response we have moved the foreign companies to a separate volume, *Hoover's Handbook of World Business*. That book, which also contains information about the most important nations of the world, can be found at your bookstore or ordered by using the postcards at the back of this book or by calling 800-486-8666.

The book you hold in your hands is therefore limited to companies based in the United States. The only companies included in both books are the Big Six accounting firms, whose global presence is pervasive. We have used this opportunity to expand our coverage of American companies, especially the young growth companies. Additions this year include Amgen, Blockbuster, Borland, and about 30 others. We plan to continue adding companies and invite your recommendations. Of course, every one-page profile has been completely revised to bring the events and statistics up-to-date.

We believe that anyone who buys from, sells to, invests in, lends to, competes with, interviews with, or works for big companies should know about those companies. Taken together, the two *Hoover's Handbooks* represent the most complete source of basic corporate information readily available to the general public. We have gone to great effort and expense to provide you with a concise, accurate, and timely guide to business. The key items in each corporate profile are highlighted inside the front cover of the book.

This book consists of 4 components:

1. The first section, "Getting the Most Out of *Hoover's Handbook of American Business*," reviews the basic concepts of business, from principles of strategy to measures of performance. We also describe the contents of each profile in the book and recommend other sources. The section concludes with our pick of the top ten American companies for the 1990s.
2. Next we have included "A List-Lover's Compendium," which contains lists of the largest companies in the book and lists of the largest companies in various industries. This section begins with a tabulation of our Hoover's Ratings of each company in the book, a new feature this year.
3. The third and most important part of the book contains the profiles themselves — 500 one-page descriptions of major enterprises, arranged alphabetically.
4. The book concludes with three indexes: (1) the companies organized by industry groupings, (2) the companies organized by headquarters location, and (3) the main index of the book, containing the names of all brands, companies, people, and places mentioned in the profiles.

As always, we hope you find our books useful; we invite your comments: by phone, by fax, or on the postcards at the back of the book.

The Editors
Austin, Texas
October 15, 1991

Getting the Most Out of

Hoover's Handbook of American Business

Because of the pervasive nature of business corporations, we at The Reference Press believe we can all benefit from a better understanding of these giant enterprises. Certainly, if we are thinking about buying stock, we need to know what to look for, how to predict which businesses will be successful, and how to judge and measure the performance of a company. But it is becoming equally important to judge the performance of corporations as employers, suppliers, and customers. We can no longer assume that, just because a business is big, it is permanent, or that it is a secure place to work. Most of us were born into a world where "the Big Three" meant GM, Ford, and Chrysler; within 10 years, we may find that Asia and Europe each has one of "the Big Three," perhaps all three.

Thousands of business strategists, analysts, journalists, and managers spend their lifetimes trying to figure out what's important in business, what separates the winners from the losers. Thousands of books and articles have been written on topics from management methods to marketing tactics. While *Hoover's Handbook* does not pretend to be a textbook, we believe the book will be most useful if you have a basic grasp of the key issues in business.

In the following pages, we've tried to explain concisely and clearly some of these concepts.

- First, we address the big picture — the study of why businesses do the things they do. This approach is called strategic analysis or economic analysis.
- Second, we look at financial analysis — the study of the financial performance of businesses. This section also touches on significant concepts useful to investors.
- We then describe how to use each profile and its components.
- Next we include a brief section of recommendations for further reading.
- Finally, we conclude with our selection of the ten American companies best prepared to take advantage of the opportunities of the 1990s.



THE BIG PICTURE

ENTERPRISES

The 500 organizations profiled in this book are best described as enterprises. Some are large, with bold objectives: the best example is the United States of America. Most began with more humble goals. These enterprises deliver a variety of products and services, from ketchup to hammers, from PhD degrees to surgery. To illustrate the diversity of enterprises at work in the world around us, we have included public companies and private companies, and even several nonprofit and governmental entities.

Nevertheless, all can be called enterprises. Each began in the mind of one person or a small group of people. To have made it to the size and influence required to be included in this book, they must have enlisted more people over time. To one degree or another, these people must share the same underlying goals. For an enterprise, whether private or public, for profit or not, is simply a group of people who have joined together in pursuit of a common goal.

Business Enterprises

Most of the enterprises in this book are business enterprises. These differ primarily from nonbusiness organizations in the way they are financed. Whether General Motors or the AFL-CIO, enterprises need money. Governments usually get most of their funds from taxation. Universities and religious and service organizations generally rely on the charitable instincts of people who share their interests.

By definition, business enterprises are funded by private capital. These enterprises cannot rely on taxation or on charitable solicitation. Instead, they must find investors or lenders. The most fundamental

source of financing for private enterprise is equity capital (selling stock), which is further described later in this section.

In order to persuade people or financial institutions to invest their savings in a business enterprise, that enterprise must offer the promise of a financial reward, or return. While this book is full of stories of successful enterprises, others here have not been good investments.

When industry began evolving from individual craftspeople and cottage industry, requiring larger groups of people to maximize the technology of the Industrial Revolution, business was usually financed by people who already had a great deal of capital: often those who had inherited land from their feudal ancestors.

As more and more individuals, such as small merchants and skilled craftspeople, began to prosper from this revolution, there was no way for them to readily participate in large business ventures, other than by working for a paycheck. This new middle class, with modest savings, could not become part owners of a major enterprise. While they were interested in participating in the profits of these enterprises, they could not afford to take the risks involved.

The most traditional forms of business enterprise are the sole proprietorship and the partnership. In a sole proprietorship, you put everything you own at risk. If your business goes broke or gets sued successfully, you can lose your house and all your other personal property. The same is true of partners in a general partnership. Even if you put up \$5 and your partner \$1,000,000, people owed money by the partnership can come after you for everything you've got. This high level of risk prevented small investors from sharing in the success of great enterprises.

"An enterprise, whether private or public, for profit or not, is simply a group of people who have joined together in pursuit of a common goal."

The Corporation

It seems a natural evolution that society figured out a way around this. The idea of incorporation is that a business enterprise is an entity unto itself, that the individuals putting up the money are not personally liable for all the debts and problems of the enterprise. If you buy stock in a corporation, your risk or liability is limited to the amount you invest. In the US, we use the term *corporation*; in France, the equivalent of "anonymous society" (SA); and in the United Kingdom, *public limited company* (PLC), stressing the limited-liability aspect of the corporate entity.

When the concept of the corporation was first invented, it was considered revolutionary. Even economist Adam Smith thought the concept was a fad that would not last, one of his few obvious errors of prediction. Today, the corporation is taken for granted. Many of us who work for corporations underestimate the power of this invention.

The concept of incorporation, in whatever language, has allowed millions of people to share in the fruits of enterprise, whether their own enterprise or that of others. The corporate form of business organization has allowed massive projects to be undertaken and new ideas to be tried — ideas that would never have seen the light of day were they dependent on taxes, charity, or the willingness of sole proprietors and partners to risk everything they had.

The business corporation pervades our lives. Most of us work for one, be it large or small. Virtually everything we consume comes from one. And whether we buy stocks or bonds directly, put our money into mutual funds or pension programs, or loan it to banks or life insurance companies, much of our savings ends up financing business corporations.

THE ROLE OF DEMAND

Any understanding of a company must first start with a basic grasp of the industry in which the company competes. And that industry perspective starts with the demand for the products or services produced by the industry. In looking at any company, 3 questions must precede all others:

1. How much of the product or service do people (or other companies) buy?
2. How much of it do they buy from the enterprise under consideration, compared to what they buy from competitors (what is their market share)?
3. How easily can customers substitute some other product?

All products, from diamonds to bread, have unique characteristics, but none is as important as these 3. All companies have their own attributes, as discussed in the following pages, but none is as critical as these 3.

The nature of the soap company, whose products almost everyone uses, is different from that of the jet engine maker who sells to a few. The maker of specialized orthopedic shoes looks at the world differently than the mass producer of sneakers; he or she faces a different world. If your company has a market share leader like Kodak film or Heinz ketchup, the challenges are vastly different from those for a new, young competitor. Most business enterprises have products that are well established as well as new, experimental products. The makers of slide rules found out the hard way that their product was replaceable when the more powerful but inexpensive pocket calculator came into being.

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"At one time the telegraph and the telephone were competitors; railroads and airlines fought over passengers. In each case, correctly picking the survivor paid off for investors and employees alike."

What answers should we look for to these 3 questions? While each case is unique, a company is generally in pretty good shape if everybody uses lots of the product, doesn't buy it from anybody else, and can't substitute anything for it. Aside from government-endorsed monopolies like electric utilities, we can't think of any case in this book in which a company can respond to all 3 questions with such strong answers.

That is what makes business such a challenge for the people who manage it.

Changing Demand

Of equal importance to the 3 answers is the trend in the answers: in other words, for each question, is the answer this year the same as the answer last year? Is the answer getting better or worse? A lot better or a little better? A lot worse or a little worse? To understand the direction of change over time (better or worse) and the rate of change over time (a lot or a little), we can rephrase the 3 questions:

1. Are people buying more or less of the product or service each year?
2. Is this firm's market share rising or falling?
3. Are people more often substituting other products, or is the product becoming more entrenched?

The direction of change (up or down) is the starting point here. A company with rising demand for its products, such as one that makes VCRs, has a more promising future than the maker of black-and-white TV sets. The company with a rising market share (Toyota) is headed in a better direction than the firm that's losing share (General Motors). At one time the telegraph and the telephone were competitors; railroads and airlines fought over passengers. In each case, correctly picking the survivor paid off for investors and employees alike.

Any analysis of trends must also pay attention to the rate or relative size of change. For example, suppose your company shipped 9,000 items last year and 10,000 this year and crows about the increase of 1,000 to all within earshot. But are you listening to the competitor who went from 1,000 to 2,000 in the same period of time? Next year, will they just gain 1,000 again, or will they double again, to 4,000? Any analysis of change must focus on the percentage rate of change, which was 11% (increased by $\frac{1}{9}$) for your firm but 100% (doubled) for your smaller competitor.

The Customer

Whether we look at the absolute level (how much) or the rate of change (what percent), understanding demand is the starting point for understanding any enterprise. For those charged with the task of managing an enterprise, this means that nothing is more important than understanding the customer and the customer's needs.

We believe that the managers of the successful enterprises in this book generally follow 3 simple rules with regard to their customers:

1. These managers put themselves in the shoes of their customers and follow The Golden Rule: they treat their customers the way they would like to be treated. They use, and believe in, their own products. When Lee Iacocca starts driving a Toyota, it's time to sell your Chrysler stock.
2. They go out of their way to know the characteristics of their customers. Where do they live? How old are they? How much money do they make? How much schooling do they have? Are they single or do they have families? If customers are individuals or families, the answers to these demographic questions are discovered by conducting market research (e.g., surveys) and by studying

the census. If customers are other businesses, many of the answers are in this book.

3. These managers do everything in their power to ensure that potential customers know that the company's products and services exist, and know where to find them.

Once we understand the demand for a company's products and whether the firm is gaining or losing market share (and at what rate), we can look at the other ways in which industries and companies differ.

COMPARING INDUSTRIES

Each industry has its own unique set of characteristics that go beyond basic demand and that affect every company in the industry.

Cyclical Versus Stability

The home-building industry goes up and down with mortgage interest rates and other factors. Stockbrokers prosper in good markets and lose customers after crashes. On the other hand, the demand for toothpaste and shoes is pretty reliable. The cyclical company must be prepared for the natural cycles it will experience; Coke is more worried about market share and Pepsi than about year-to-year swings in total soft drink demand.

Business Products and Services Versus Consumer Products and Services

The skills required by Walt Disney are vastly different from those required by Caterpillar. Selling millions of \$5 movie tickets or \$30 videocassettes is a radically different

proposition from selling bulldozers at \$500,000 apiece. Cat requires fewer but longer sales calls; Disney announces its products with ads and opens the doors. Disney doesn't even know the names of all of its customers. Some companies with expertise in selling to businesses have tried and failed to sell to individual consumers, and vice versa.

Different Price Points

There is also a big difference between selling \$10,000 cars and \$50,000 cars and between selling \$300 washing machines and rolls of toilet paper. Marketing skills demonstrated in one area may not be successful at different price points. Higher-priced items usually require more effort per sale on the part of both buyer and seller than small, inexpensive things.

Commodities Versus Differentiated Products

When you buy gasoline, you know pretty much what you're getting. Commodities are simple products, often made in huge quantities by many firms. Usually, the most important factor in picking whom you'll buy from is price. Texaco couldn't sell gas at \$5 a gallon next door to a Shell station selling it for \$.50. At least Texaco wouldn't sell much. However, determining the difference between Giorgio perfume and Obsession is much trickier. Individual emotions and tastes come into play. The two products do not appear the same to the consumer. Novels by James Michener are not exact substitutes for those of Sidney Sheldon. Most companies in this book try to differentiate their products from those of the competition; some are successful and some are not.

There are many other ways that industries differ; the 4 listed above are among the most common. There is nothing inherently

"The skills required by Walt Disney are vastly different from those required by Caterpillar. Selling millions of \$5 movie tickets or \$30 videocassettes is a radically different proposition from selling bulldozers at \$500,000 apiece."

good or bad about a cyclical industry or a commodity-producing company. But a company's odds of prospering are greatest if demand is stable and growing and if that company has successfully differentiated its products or services from those of the competition.

COMPARING COMPANIES

Within any industry, each company may take any number of approaches. Which approaches it takes are what managers are paid to decide. The individual characteristics of a company include attributes relating to strategy, financing, and managing.

Strategy

Every company has a strategy, whether expressed or not. Those firms with no apparent strategy can be considered to have haphazardness as a strategy. Companies can also have the same strategy year after year or change strategies periodically, sometimes falling into haphazard phases. Perhaps more than any other aspect of a company, strategy is a direct reflection of the views of the people at the top.

Consistency

In general, the most successful companies in this book are those that have kept a clear vision in place for many years. Southwest Airlines (20 years old) sticks to its original principles: low fares, no meals, and fast, friendly service. It reduces costs by flying only Boeing 737s.

At the same time, it is pointless to stick to strategies that time has passed by. When the railroads first lost their passenger business to airlines and then most of their small

freight business to truckers, they were forced to review their status. The successful ones have emerged as huge haulers of bulky commodities such as grain and coal and of heavy products like automobiles. Many of our older industries have had to develop creative strategies to adjust to changing times, new technologies, and foreign competition.

Diversification

Probably the single most common method of shifting strategy is to diversify. While diversification generally connotes moving into whole new fields of endeavor, it can also take 3 other forms:

- 1. Geographical diversification.** One of the most fundamental forms of growth is to take a good idea to new territory. Holiday Inns started in Memphis and worked outward; Wal-Mart began in Arkansas and is still in only 35 states. Coca-Cola early in its history began peddling its product in Mexico and Canada and now sells worldwide.
- 2. Horizontal diversification.** This term, from economics, means to diversify by buying competitors or similar companies in other locations. The giant trusts of the late 19th and early 20th centuries (for example, U.S. Steel) were formed by combining most of the major companies in an industry. Our largest trash collectors, Browning-Ferris and Waste Management, were originally formed by buying up local and regional mom-and-pop operations.
- 3. Vertical diversification, more commonly referred to as vertical integration.** This means buying up your customers and/or your suppliers. At one time, Henry Ford's River Rouge plant in Detroit made its own steel and glass, and finished Fords rolled off the other end of the production line. Integrated oil companies are those with wells, refineries, and filling stations.

"Southwest Airlines (20 years old) sticks to its original principles: low fares, no meals, and fast, friendly service. It reduces costs by flying only Boeing 737s."

Geographical, horizontal, and vertical diversification are all well-established strategies for increasing the size and competitiveness of a company. In the 1960s and 1970s, more companies began to diversify into vastly different fields.

The term *conglomerate* came into use in the 1960s to describe firms that operated in several unrelated industries. Managers of these firms came to believe that they could manage anything, that the basics of running a steel mill were no different from those of running an airline. While managers undoubtedly will continue this debate, the companies in this book indicate that prosperity is easier to achieve when an enterprise is focused, or at least sticks to fields with something in common. While Sears retail stores seem different from Allstate car insurance, the company originally sold the insurance to its retail customers. Sears's later introduction of the Discover credit card was a natural outgrowth of its experiences with its own Sears credit operation.

This book contains only 21 enterprises that were so diversified that we could not assign them to some broad industry group. While almost all the firms have diversified to one degree or another, most have remained in fields that are in some way related, such as mass-marketed consumer products. Most of the diversified companies are in two or three industries. General Electric stands out as one company that is an industry leader in several businesses that are, at best, only vaguely related.

Innovation and Technology

Each company can also take any number of roads with regard to innovation. Fred Smith at Federal Express created a whole new industry. Some companies take a good idea and apply it in a different way: Home Depot is the application of the Toys "R" Us concept of giant, low-priced specialty stores to home-improvement retailing. Other companies are based on cloning: Amdahl

was founded to make copies of IBM main-frame computers for a lower price. Costco Wholesale applied the Price Company concept in another part of the US.

While successful innovators can reap substantial rewards, they also entail substantial risk. The first successful large computer was the UNIVAC, made by a predecessor of Unisys. A late entrant to the field, IBM, made more money from the idea. The large general merchandise discount store was created by small, entrepreneurial companies. But no one executed the idea as successfully as Kmart, until the even-later entry of Wal-Mart.

While innovation often comes from small, entrepreneurial enterprises, this is not always the case. Minnesota Mining and Manufacturing (3M) is an unusual company that seems to specialize in innovation, from Scotch tape to Post-it notes. This tradition continues even as 3M grows larger and larger.

Whether we look at technology in computers, in chicken growing, or in toy stores, the management of each company must decide whether it will be a leader or a follower, which technologies to bet on, and how much to bet.

This book includes successful companies that have taken many routes with regard to innovation. The one common denominator of the successful enterprises is that they make quality products, year after year after year.

Financing

Business corporations have a number of choices as to how they finance themselves. Their first choice is whether to sell shares of stock to raise money or to borrow the money. While all companies have stock, they can have no debt, some debt, or a great deal of debt. The companies in this book range from zero indebtedness to several billion dollars of debt. This debt can take many

"The companies in this book indicate that prosperity is easier to achieve when an enterprise is focused."

"Because these documents are so revealing, smart potential investors pore over prospectuses."

forms, including bank loans and direct loans from individual or corporate investors (e.g., bonds, debentures, commercial paper, mortgages). The heavy use of debt (called leverage) can increase the returns to shareholders but also entails substantial risk. The distinctions between debt and equity and the risks of leverage are further examined in the financial analysis section, starting on page 20.

Another decision is whether to operate as a public or a private company. Most corporations are private, also called privately held or closely held corporations. Most, but not all, of the biggest corporations are public companies, or publicly held.

Private companies do not sell stock to the general public; while they may have thousands of shareholders, most are owned primarily by family members, managers, or employees. You cannot call a stockbroker and buy or sell shares. It is harder to get your money out of an investment in a private company (an illiquid investment). Private companies cannot raise money as easily as public companies, since they do not have access to the public stock markets. On the other hand, private companies are not required by law to reveal information about themselves, and some are indeed very secretive. This book includes more than 50 private companies.

Public companies, since their stock is available to anyone who calls a stockbroker, are required by the Securities and Exchange Commission (SEC) to report their sales and profits quarterly and to produce a full report to shareholders annually. When you call a broker and buy or sell stock in a public company, the transaction is normally executed in a matter of minutes; therefore, common stocks of public companies are "very liquid." Stocks can be traded on the New York Stock Exchange (NYSE, or Big Board), the

American Stock Exchange, or the Over-the-Counter (OTC) market, the most important part of which is NASDAQ (National Association of Securities Dealers Automatic Quote system). Most of the largest US companies are listed on the NYSE.

Most companies begin life as private companies; when and if they decide to sell stock, they are said to "go public" through an Initial Public Offering (IPO). At that time the SEC requires that they publish a prospectus detailing virtually every aspect of their business and management. Because these documents are so revealing, smart potential investors pore over prospectuses.

Public companies can also "go private," a practice virtually unknown 15 years ago. This recent financing strategy most commonly occurs in the form of the leveraged buyout (LBO). In an LBO a small group of investors borrows enough money to buy all the stock in a company on the stock market. This investor group usually includes an investment firm specializing in LBOs (for example, Kohlberg Kravis Roberts). The group often includes the management of the company being bought out. LBOs require huge amounts of debt — up to billions of dollars. Often the debt is in the form of "junk bonds" sold directly to the public — a concept we will return to in the financial analysis section.

Because of the rise of LBOs, there are now several companies whose stock is privately held (by the investor group) but whose bonds (debt) are publicly held. Trans World Airlines (TWA) is a good example of this. While technically not publicly held, such companies are required by the SEC to release substantial information because the public can loan money to these enterprises (that is, buy bonds issued by the companies).