the king of cash

The Inside Story of LAURENCE TISCH

CHRISTOPHER WINANS

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To my mother, Ellen H. Winans
and brother, R. Foster Winans

Acknowledgments

Larry Tisch made it clear in 1991, when first informed this book was in the works, that he and his family saw no need, indeed no market, for such a book. His response to a request for cooperation was that he couldn't imagine more than 12 people being interested in reading such a biography. His explanation was that the story of his life would prove to be remarkable only in its lack of revelations worthy of National Enquirer headlines.

He made it clear, however, that if the book was going to happen, he was willing to help ensure that the final product was as accurate as possible. The research and writing proceeded. Frequently his closest associates rebuffed requests for interviews—on the record or not—because this was an unauthorized biography.

When the book was close to completion, I approached Tisch again. Recognizing that the book was on track to be published, he agreed to review every detail. He identified errors of omission as well as those of commission. He objected to facts and quotes that in his opinion were out of context or given the wrong emphasis and pointed out elements that he believed were irrelevant, yet he never demanded that anything be changed. Neither he nor the rest of his family held back in answering all additional questions put to them.

Tisch's input, along with that of his wife, Billie, and their four sons, was invaluable—especially coming as it did after most of the research had been completed. The family made little effort to control the content of the book or to tone down the more negative anecdotes, reinforcing what I had already concluded: that Larry Tisch possesses the necessary self-confidence not to feel the need to manage the truth.

Many other people assisted in this effort, but two in particular need to be mentioned: Jane Dystel, my agent, helped focus my attention on Larry Tisch as a story worth telling and found a publisher who agreed—and encouraged me to do the best job I am capable of, from conception to completion. Ruth Mills, my editor at John Wiley & Sons, deserves praise for disproving decisively the conventional wisdom that book editing is a lost art.

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Larry Tisch: Money Maker

Laurence Alan Tisch came seemingly from nowhere to take control of CBS in the mid-1980s and was still very much in the public eye in 1994 when the CBS turnaround he had engineered seemed poised to crumble. At the end of 1993, CBS lost a bidding contest to keep its lock on professional football broadcast rights, which many viewed as critical to CBS's programming strategy to attract viewers. In May 1994, Rupert Murdoch's Fox network spirited away eight important affiliated stations—a potential blow to ad revenue. A month later, Tisch began serious negotiations to merge with QVC Inc., the leading home-shopping cable channel, and to cede management control to Barry Diller, QVC's chairman. It was a short-lived proposal that nevertheless renewed intense speculation about the next chapter in the eclectic career of Larry Tisch.

Ever since Tisch began to accumulate CBS stock in 1985, the media had sought to make sense of the billionaire's disparate collection of investments. Larry Tisch started his business career by buying up hotels and plowing the profits into a seemingly unrelated collection of businesses: movie theaters (Loew's), insurance (CNA), cigarettes (Kent), watches (Bulova), ships, oil rigs, and finally broadcasting when he became head of CBS. The common thread that Tisch detected was an untapped potential to generate tons of cash. He had no all-encompassing corporate profile in mind as he built his holdings. For Larry Tisch, the game was business and the cash at the end of the day was how you kept score.

Over the years, Tisch sat on the boards of corporate giants such as Getty Oil, Macy's, and others. He counted among his friends billionaire investor Warren Buffett, the influential Federal Reserve chairman Alan Greenspan, and notorious junk-bond king Michael Milken. He influenced a host of world leaders—George Bush, Shimon Peres, Moshe Dayan, Golda Meir—who viewed him as a leading spokesman for the American Jewish community, a role that sprang from his long association with Jewish charities. Presidential hopefuls and numerous other politicians sought his support as a respected member of the business establishment.

Virtually every day of the week, news is reported in the mainstream national media that in some way directly involves Larry Tisch, yet his name is hardly a household word. Throughout his life, he has lived modestly, kept a low profile, and stuck to the fundamental business principle of increasing the value of any investment entrusted to him.

Born in Brooklyn in 1923, the grandson of Russian immigrant Jews, he graduated from high school at the age of 15 and from college shortly before turning 19. He started his business career at 23 by advising his parents—who had started out their marriage literally penniless—to invest $125,000 of their own cash in a New Jersey resort hotel. Within 10 years, Larry was the financial power behind a multimillion-dollar hotel chain, which he quickly transformed into a multibillion-dollar conglomerate ranked among America's largest corporations.

Forbes magazine's 1994 survey of personal wealth put his net worth at $1.14 billion, making him one of the 49 richest Americans. The empire he oversaw encompassed assets of more than $40 billion and generated revenue of nearly $14 billion annually.

What was remarkable was that Larry Tisch accumulated this vast fortune without any apparent ambition to do so. He had no burning desire to be rich. At no point did he visualize his future success and devise a plan to get there.

"I never thought in those terms," Tisch said. "I just enjoyed business and we were doing business. I never thought of it as money-making. You're involved. You're doing business. You try to build it up. You do the best you can everyday. And whatever happened, who cared? It was never a question of accumulating money as such. Fortunately, right from the beginning, money was never a problem. It was the game."

His life-style reflected a singular lack of attachment to the accoutrements of practically limitless wealth. He drove Pontiacs purchased at his brother-in-law's dealership. The decor in his homes and offices, tastefully understated, would scarcely strain the budget of a midlevel executive with one one-thousandth of Tisch's net worth. He was the antithesis of conspicuous consumption, as sensitive to an overpriced hotel meal as he was to an overvalued Fortune 500 company.

He was a genius not of planning and design but of swift decisiveness driven by instinctively good common sense. Asked whether he ever had anything like a five-year plan for achieving certain goals, he replied, "I don't have a one-day plan."

What worked for Tisch wasn't having a plan but having a clear set of principles for determining when to buy an asset and when to sell, whether it was a business, a commodity, or a security. He looked for bargain-priced assets whose values were depressed only temporarily—typically, because of mismanagement. His overriding requirement was that he would put no more into an investment than he could reasonably expect to get out of it under a worst-case scenario. Once he owned an underperforming asset, he aggressively rooted out the cause of its stagnation and made the changes necessary to turn the tide, often by gaining ownership control and taking over management himself. A key element was Tisch's ability to quickly determine whether an investment met all his requirements and to act fast.

Tisch's boardroom coup at CBS had less to do with having a strategy to take over the company than it did with moment-to-moment, circumstantial decisions. He was a brilliant opportunist, quick to adapt to changing conditions though never one to take inordinate risks. He always made sure that, based on all available information, the odds for success were stacked heavily in his favor. That was the case when he became a CBS stockholder. From day 1, his CBS stake represented a high-potential, low-risk investment that grew stronger and safer as time passed, even though the company itself was experiencing some of its darkest days. His rapid progression from investor to director to chief executive had more to do with a leadership vacuum at CBS than with Tisch's desire to run the company. His main motivation for wanting to take the helm initially was to protect his investment until a permanent, effective leader could be found.

It wasn't the first time he had more than made up for the lack of a plan by having acute radar for a rare investment opportunity, a ready load of cash, and the unshakable self-confidence to move swiftly. Those were the qualities that, in the span of 20 years, transformed Tisch the hotelier into Tisch the conglomerateur—all the while proving himself one of Wall Street's smartest smart-money investors and one of corporate America's most sought-after board members.

His prominence in matters of business and finance often drew Tisch into the center of some of the most highly charged moments in the recent history of capitalism. He found himself at the center of the Equity Funding insurance scandal as one of its biggest investor-victims in the early 1970s. When he sold his stake in the Franklin National Bank, also in the 1970s, to a shady European financier—Michele Sindona—who then brought the bank to the brink of insolvency, the sequence of events nearly sparked a national banking crisis. He was often consulted for his levelheaded clarity in complex business controversies. Gordon Getty turned to Tisch for advice in the bitter feud between Texaco and Pennzoil for ownership of Getty Oil in the early 1980s—a feud that ultimately put Texaco on the losing end of a record $10 billion lawsuit, forcing it temporarily into bankruptcy. And Tisch came to the rescue of CBS amid the leveraged-buyout craze of the 1980s.

Taking Over as CBS Chairman

The opportunity for Tisch to assume a white-knight role unfolded in 1985 when Senator Jesse Helms, the archconservative Republican, took a shot at spearheading a shareholder revolt against CBS News's supposed liberal slant. Any vague nervousness company officials may have felt about Helms's quixotic effort quickly blossomed into outright fear when cable-TV cowboy Ted Turner emerged soon after with a precarious but potentially serious takeover bid.

In the tradition of the riskiest of the 1980s leveraged buyouts, Turner's offer was heavily dependent on junk-bond financing—low-grade, high-risk debt—and the sale of numerous CBS assets to service that debt. Still, the offer posed a real enough threat that CBS had to mount a costly defense. That's when Tisch began to build a stake—with the quiet encouragement of then CBS chairman Thomas H. Wyman. CBS employees and the general public began to ask, "Who is Larry Tisch?" Even CBS founder William S. Paley, still the company's largest single shareholder, wasn't sure, assuming at first it was Robert Tishman, the real estate developer.

The confusion was understandable: the Tisches were also heavily involved in real estate. Tisch and his brother, Preston Robert ("Bob") Tisch, along with their parents, built the foundation of their family fortune on a chain of luxury hotels and related real estate deals. By 1985, however, the hotel business was a small part of the family's rich empire. The Tisch holdings by that time encompassed Bulova, Lorillard, and more than 80 percent of CNA, as well as a large block of CBS—all under the umbrella of parent company Loews Corp. Loews was the last vestige of the movie theater chain the Tisches had bought into during the late 1950s in their first stock-market play—a purchase that would establish the Tisches' reputation as savvy corporate bottom-fishers.

The Tisch investment strategy was to acquire bargain-priced stock of publicly traded companies that held assets far more valuable than the average investor perceived. Some companies' stock was cheap despite potentially valuable assets, because management hadn't figured out how to transform those assets into ever-rising profits. In those situations, the Tisches weren't shy. They became activists. CBS was no exception, but when Wyman welcomed Tisch's investment, the CBS chairman and chief executive was betting that this time would be different. By March 1987, Wyman had lost that bet—and his job—to Larry Tisch.

Putting the Shareholders First

To Tisch, the purpose of every business was to generate decent profits for its owners. That article of faith went without saying, and it applied to the mom-and-pop candy store on the corner as well as to his own sprawling conglomerate. This nugget of common sense had served him well in all his business ventures. But from the time Tisch first emerged as a major CBS stockholder in the summer of 1985, it gradually became clear that almost no one in the company seemed to think common sense applied to a company like CBS.

"There's nobody in this business at ABC, NBC, or CBS who doesn't know one thing," Tisch said. "The show is the thing. But by the same token, if you carry that to extremes, it's like the guy who drowned in an average of 12 inches of water. Sure the show is the thing. Everybody knows that; but do you sit around having the money pour out in waste while you go around saying the show is the thing?"

Along with the other two top broadcast networks, CBS was perceived as a public trust. With the government's blessing and oversight, the three major networks used the airwaves to provide a public service—the transmission of useful information. In return, they earned the right to air whatever else they believed would interest people enough to sit through all the commercials that paid the rent. The people who worked for the news operation—the core of the public service function—developed a hybrid personality: part public servant, part celebrity. Of almost no interest to many of these people was whether their work enriched the shareholders of the companies that ran the networks. Small wonder. For years, it was a tradition at the networks to keep the news divisions from showing profits for fear of eroding their aura of public service.

Profitability, however, of the news unit and every other network function was of growing interest to a new breed of investors—businesspeople who generally failed to see the payback in stroking on-air egos, especially in an environment of upstart networks and 50-odd cable alternatives.

By the time Tisch had displaced Wyman in September 1986, the Tisch family had acquired a 25 percent stake in CBS, and it was clear to Larry that the network's executives had been mismanaging the shareholders' money. CBS's board wasn't used to Tisch's no-nonsense, bottom-line-oriented management style. When Tisch walked through the front door at CBS's 36-story, Canadian black granite headquarters in midtown Manhattan on the morning of September 11, 1986—the day after being named chief executive officer—he already was tuned into what he saw as evidence of appalling waste: too many rent-a-cops in the lobby. As he made his way through the building, he accumulated proof that CBS executives had forgotten whose money they were spending. He saw too many dining rooms, and too many layers of top executives camped out in too many richly decorated suites of offices. To Tisch, it hinted of a spendthrift culture in an atmosphere of arrogant indifference toward shareholders.

He intended to change that culture fast—as had Wyman—but much of what Tisch viewed as waste former President Frank R. Stanton had purposefully built into the CBS mindset. As William Paley's prime corporate image maker at CBS, Stanton had crafted the network's so-called Tiffany image partly by sparing no expense to create an ambiance of pricey but tasteful elegance and by encouraging a cradle-to-grave generosity toward employees. The ambiance was an extension of CBS's aim to be known as the network of quality programming.

In Tisch's view, however, CBS no longer could afford a spare-no-expense approach to the network's quality. "Survival was the issue," Tisch said, "not the comfort of management." CBS was throwing money into a pit where it had no chance to grow and return a reward to the all-important owners. There was no greater corporate sin.

Worrying about maintaining a well-heeled public image, with money no object, was no longer appropriate.

"Sure we had public obligations which we fulfill," Tisch said, "but if we don't run it as a business we're not going to be here tomorrow. It's a funny kind of a business that nobody understands. Our network, ABC *network*, NBC *network—each grosses about $3 billion a year* and, among the three of us, I don't think we make $300 million in the network business. So that's $9 billion of gross with $300 million total profit for the three networks," for a measly combined return of less than 4 percent.

In a good year, CBS might earn $150 million. "It's nothing," Tisch said. "If you don't run it as a business, our fixed costs in a down year could destroy us, because when we start the season, say September 10, if our programs don't work, there's no cost to cut. I can lay off six people or eight people, but it's not like a manufacturing plant where you have a cost of goods. Our costs are all preordained. It's fascinating. It's a very interesting business for that reason. There's no leeway once you make the mistake."

Did Tisch understand these dynamics when he bought into CBS? "Not all of them" he admitted, but he wasn't completely green. His initial CBS stock purchase in 1985 was little more than a trading opportunity, but he had been exposed to the business through his friends Leonard Goldenson, CEO of ABC, and Warren Buffett, CEO of Berkshire Hathaway and the second-wealthiest man in America in 1994, with a net worth estimated at $9.35 billion.

The Tisch-Bashing Begins

One of the dynamics of the network business Tisch hadn't fully appreciated was the public's appetite for gossip about it—and CBS's own fear of bad press. Wyman, for example, before Tisch arrived, had told the board of his plan to reduce the broadcasting division's staff by 500 people to help cope with the phenomenon of disappearing earnings.

"The board was very pleased with the announcement," Tisch noted. "It was the right thing to do. So six months later I got here and I spoke to the head of personnel, who told me that of the 500 announced layoffs only 25 or 30 had been laid off. I said, 'What happened?' Well, everyone was afraid of an article in the *New York Times.*"

Such publicity might make managers uncomfortable, but managers who dared to put their own comfort ahead of that of the shareholders