# THE VITAL CORPORATION

How American Businesses—Large and Small—Double Profits in Two Years or Less

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**_Garry Jacobs and Robert Macfarlane_**

PRENTICE HALL
Englewood Cliffs, New Jersey 07632

Prentice-Hall International (UK) Limited, *London*
Prentice-Hall of Australia Pty. Limited, *Sydney*
Prentice-Hall Canada, Inc., *Toronto*
Prentice-Hall Hispanoamericana, S.A., *Mexico*
Prentice-Hall of India Private Limited, *New Delhi*
Prentice-Hall of Japan, Inc., *Tokyo*
Simon & Schuster Asia Pte. Ltd., *Singapore*
Editor Prentice-Hall do Brasil, Ltda., *Rio de Janeiro*



10 9 8 7 6 5 4 3

**Library of Congress Cataloging-in-Publication Data**

Jacobs, Garry
The vital corporation : how American Businesses—large and small-
-double profits in two years or less / by Garry Jacobs and Robert
Macfarlane.
p. cm.

Includes bibliographical references.
ISBN 0-13-946450-6
1. Corporate profits. 2. Corporate profits—United States.
I. Macfarlane, Robert. II. Title.
HG4028.P7J33 1990
658.15'5—dc20 89-28975
CIP

ISBN 0-13-946450-6

**PRENTICE HALL**
**BUSINESS & PROFESSIONAL DIVISION**
**A division of Simon & Schuster**
**Englewood Cliffs, New Jersey 07632**

Printed in the United States of America

# Acknowledgments

Many individuals and organizations have made significant contributions to this book. We would especially like to thank more than 200 managers from the following companies for time, energy, interest, and frankness with which they shared their experiences, insights, achievements, difficulties, and unfulfilled aspirations. Wherever possible, we have tried to acknowledge individual contributors in the text of the book.

**AMRE**
**Ben & Jerry's Homemade, Inc.**
**C & J Industries**
**Expeditors International**
**Federal Express**
**Gartner Group**
**Linear Technology**
**Listen Up, Inc.**
**Mesa Airlines**
**Nedlloyd Lines**
**P.A.M. Transport**
**Patten Corporation**
**Ross Incineration Services**
**Trimedyne**
**Vipont Pharmaceutical**
**Waltz Brothers**

We would also like to acknowledge the pioneering work of The Mother's Service Society of Pondicherry, India, in conceptualizing the process of corporate growth and socioeconomic development that is the inspiration for the ideas presented in this book.

At our office, Jan Feldberg and Salli Smith spent literally hundreds of hours arranging appointments, transcribing interviews, and preparing manuscript. We convey our deep appreciation to them for their patient, dedicated work.

# Companies Referred to in This Book

American Express
AMRE
Apple Computers
Audio Associates
Audio Centre
Audiocraft
Bajaj Auto, Ltd
Bang & Olufsen
Ben & Jerry's Homemade, Inc.
Bryn Mawr Stores
C & J Industries
Chargeurs
Chrysler Corporation
Delta Airlines
East Asiatic Company
Elizabeth Carbide
Expeditors International
Federal Express
Ford Motors
Gartner Group
General Electric
IBM
J & M Incorporated
Kennedy & Bowden Machine Co.
Linear Technology
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Patten Corporation
Pflanz Electronics
Precision Grinding, Inc.
Ross Incineration Services
Scandinavian Airlines
Sound Advice
Trimedyne
Vipont Pharmaceutical
Waltz Brothers

# Industries Referred to In This Book

Airfreight
Airlines
Appliances
Audiovideo Manufacturing
Automotive
Computer
Consumer Services
Electronics Retailing
Financial Services
Food
Freight Forwarding
Hazardous Waste Disposal
Home Improvements
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Shipping
Tool and Die Machining
Trading
Trucking

# The Challenge

To speak of doubling revenues or profits in one or two years sounds like hype and cheap propaganda. But this is no pipe dream. Almost every company has doubled or tripled its revenues or profits once or many times in the past. Only then, the process occurred more or less by itself or in response to a fortunate external circumstance. When doubling happens in this way, we rarely reflect on the real how or why that made it possible. Rapid growth in revenues and profits is the result of a process which every company can consciously utilize to accelerate its growth and dramatically improve its bottom line.

Energy is the driving force for growth. Every company possesses five unlimited sources of energy that can be converted into dynamic engines for rapid growth and high profitability. These engines propelled the growth of a Silicon Valley chipmaker from $7 million to $60 million in five years. They enabled a struggling $5 million Chicago precision machining company to escape bankruptcy and convert $350,000 of losses into $350,000 of profits in one year. They drove the growth of a Brussels shoe repair service into a global service company with over 4,000 retail outlets around the world. By tapping just a little of the power of these engines, an ailing airline went from losses of $20 million to profits of $80 million in one year. Ford Motors rode these engines from losses of $3 billion to become the most profitable car maker in the world. And one impetuous, entrepreneurial firm harnessed its powers to build a high-flying $4.6 billion company from scratch in 15 years with the aim of becoming the largest transportation company in the world by the end of the century.

These engines are available to every company, because you already possess them. All that is needed is consciously to turn the keys that unlock their potential and release their powers for rapid growth and high profitability. Then doubling the company or the country will look like a modest proposal.

*Garry Jacobs*
*Robert Macfarlane*
Pondicherry, India

# Introduction

This is a book about the *process* of corporate growth, what makes it happen, what makes it stop, and how it can be accelerated in any company to dramatically increase revenues and profits within a very short time. The emphasis in the preceding sentence is on the word "*process*." Growth is a natural process that is occurring all the time, all around us. People grow, companies grow, nations grow too. This growth usually occurs in response to some fortuitous opportunity in the environment, or it is compelled by the pressure of external conditions. But these are only stimuli that initiate the process, not the process itself. The process of growth is an internal mechanism in all living organisms and is propelled by its own energies. In companies, that process is initiated and directed by management.

Companies are growing all the time without ever fully understanding how or why that growth takes place. In other words, the process of growth is usually unconscious or at best semiconscious. But occasionally there are individuals, such as Tom Watson at IBM or Fred Smith at Federal Express, who have acquired a deeper understanding of the process and have utilized it to accelerate the growth vastly and multiply the profits of their companies. This knowledge and productive power are available for all who seek to acquire it. It is a knowledge that individuals can discover for themselves by observing and understanding the process as it expresses in their own lives and their own companies. Those who acquire knowledge of the process have the capacity to achieve extraordinary results in business.

We live in a country that has grown phenomenally over the last two centuries to become the most prosperous nation in the world. Our growth has been swift, spontaneous, and exponential—so much so that we have not had the time or inclination to stop and reflect on the process by which we achieved it. Today this nation is beset with problems—a burgeoning national debt, an enormous trade deficit, a simultaneous mixture of unemployment among low-income groups and lack of skilled people for higher paying jobs, and the ever-present specter of inflation. As a nation, we lack the same knowledge that most companies lack, the knowledge of the process of growth that made the nation great and the power to make it far greater still, if only we fully utilize the country's and our own potentials.

In a real sense, individuals who discover the process of growth and accelerate the growth of their own businesses do a real service to the nation. They are the pioneers who show us what is possible and blaze a trail for others to follow. This book is intended for the trail blazers, who in growing their own companies, serve the nation and help it grow.

The book can be read on three levels: theory, example, and practice. It presents the basic principles of the process of corporate growth. These principles are illustrated by inspiring examples of companies of all sizes and descriptions drawn from a wide range of industries, which have utilized the process to grow very rapidly and double or triple their profits in a short time. For those who are practicing managers, the book also contains a number of specific strategies for applying the principles in your own company or department and a series of detailed exercises to assist in making the ideas and their application as real and relevant to your company as possible. These strategies and exercises have been tested and proven extremely effective in our work with a wide range of companies.

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"I set the limits on my growth."

**Terry Crabbe, Sound Hounds**

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Dreyer's Grand Ice Cream
DSC Communications
Federal Paper Board
First Financial Management

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United Artists Communications
United Illuminating
UNOCAL
USX
Vista Chemical
Wells Fargo & Co.
Wendy's International

What do all the companies in this list have in common? Each of these companies reported profits last year at least twice as large as their profits the year before—in some cases as much as five or ten times larger. A few of them also doubled their revenues last year.

What distinguishes these companies from one another? Just about everything else. They come from all parts of the United States, a complete mix of manufacturing and service businesses, high tech and low tech, old and young, very large ($20 billion) to very small ($1.1 million).

We could probably fill a book with the names of companies that doubled their profits or revenues last year. Would the name of your company be on our list? If not, why not? If yes, will it be on next year's list too? That is the subject of this book.

Howard K. Cooper, president and CEO of Trimedyne, a Los Angeles-based high-tech medical equipment manufacturer, is obsessed with these questions. His company more than doubled its sales and profits in 1988. Revenues grew from $12 million in 1987 to $31 million, while pretax profits increased from $500,000 to $6.5 million. For Cooper, the challenge has been: "How to introduce my people to the concept of 2X, meaning twice again next year. Some guys would be happy to do $12 million again. But we (top management) won't be and neither will the shareholders." What about you?

The whole thing is not really about numbers. Doubling is only a figure of speech. The real issue is about being the very best possible, achieving the maximum possible for your business. For some, doing the maximum possible may be tripling revenues in one year like Palma Tool & Die in Buffalo, which went from $400,000 to $1.2 million in 1987, or tripling profits in one year like Eastman Kodak, whose earnings soared from $374 million to $1.2 billion in 1987. Or more.

Over the last few years we have observed young companies emerging from obscurity to take old established industries by storm, like P.A.M. Transport, a trucking company started in 1980 with 5 trucks and 15 trailers and now one of the ten largest irregular truckers in the country with over 700 trucks and 1,500 trailers. We have also seen established companies suddenly awaken from slumber and soar into prominence like Patten Corporation, a real estate company founded in 1965, whose revenues grew to $4.3 million over its first 15 years and then rocketed between 1984 and 1988 to $116 million with profits of $15 million. Along with everyone else we have watched megacorporations amble along for years with flat sales or slow steady growth and then surge forward dramatically like Ford Motors, which lost billions of dollars in the early 1980s and then bounced back to raise revenues by 80% and more than double net income between 1985 and 1988.

Numbers do not tell the whole story. They are only an indicator, an expression of something going on deeper within these companies. Doubling is as much a question of quality as of quantity. This book is about raising the quality of corporate performance from that of an average or above-average performer to become the very best. The question, as Trimedyne's Cooper put it, is "Even in the professional ranks, what makes the difference between just an ordinary player, a professional player, and the champion?"

We may measure that difference quantitatively in terms of seconds clocked, yards run, points scored, or games won. But being a champion is essentially a question of quality.

## THE MYSTIQUE OF RAPID GROWTH

Over the last few years we have studied and surveyed more than 1,000 companies around the world from North America to South India and back—companies ranging in size from a few hundred thousand dollars to tens of billions, companies in a wide spectrum of businesses from basic manufacturing—the tools, dies, and molds used to make just about everything else—to ice cream, toothpaste, stereos and integrated circuits; from down-to-earth, traditional services like selling land, remodeling homes, transporting cargo and repairing shoes; to sophisticated, high-tech businesses in the finance and information industries.

These companies differ widely in age, size, origin, geography and culture. They also share a lot in common with each other and with other companies in terms of the way they were founded, the types of experiences they have had, and the challenges and problems they have confronted. But the most significant common denominator that links them all together is that they have grown rapidly and profitably, and even more important, they have managed to maintain high rates of profitable growth over a considerable period of time.

Growth is a refreshing and invigorating experience, and there is something particularly exciting and exhilarating about rapid corporate growth. Growth is both a natural and universal phenomenon common to all living things. Therefore, it is doubly strange that corporate growth should be the subject of so many superstitions and misconceptions. Few issues are so frequently discussed these days and yet so steeped in mystery as the phenomenon of rapid corporate growth.

When we talk of rapid growth, companies like Apple Computers, Federal Express, The Limited, and Circuit City may come to mind. But there are many others—thousands of companies of all sizes and descriptions and in every conceivable type of business—that are experiencing rapid growth at this very moment. In fact there is nothing very uncommon about rapid growth at all, except perhaps that we think there is. And that is a very important "perhaps," because it often prevents companies from growing as fast and as far as they can. The myths and superstitions surrounding corporate growth would not be so important if they did not have such a profound impact on the performance of most companies.

How would you react if someone walked into your company and said that you can double your revenues or profits within 24 months? Skeptical? Suspicious? Amused? Probably not unlike Ray Kennedy, CEO of Kennedy & Bowden Machine Co. in Nashville, Tennessee, who commented: "The first time I heard the idea, I thought it was pure hype!" But in the last one year, Kennedy's profits have increased by more than 50%. His initial reaction only illustrates how unusual rapid growth seems, despite the fact that it is happening all the time, all around us and, not uncommonly, to us as well—for virtually every company has grown rapidly at one time or another.

Then why all the mystery? The mystique of rapid growth is reinforced by a host of myths and superstitions that prompt us to admire rather than imitate the accomplishments of other companies and to dream of greater success rather than striving to achieve it. This corporate lore is supported by a vast array of common sense, conventional wisdom, and objective fact. But that does not make it inevitably true or compelling. The real issue is not whether it is ever true, but whether it need be true for your company.

To quantify the potentials which we believe exist for every company, we speak in terms of doubling revenues or profits within a year or two. Such a goal may seem unrealistic to some and modest to others. But in either case, the real challenge we propose is to go beyond the ordinary and unexceptional to attain the highest possible and achievable. Our experience has convinced us that the highest possible is almost always far more than what even the most dynamic and ambitious companies attempt to achieve.

This is so because, while a great many companies experience rapid growth, very few really understand how to tap consciously and utilize systematically the sources of energy that drive and propel it. But before coming to that, the first necessity is to dispel the myths that conceal the underlying process.

## THE FIVE MYTHS

**Myth 1: There are inherent limits to how fast companies can grow.** Of course there are limits. The question is: How fast is fast? When "reasonable" companies plan for rapid growth, they think in terms of 15%, 20% or at best 30%. But much higher rates of growth are being achieved by many companies. According to *INC.* Magazine, the 100 fastest growing public U.S. companies in 1987 grew at a compound annual rate ranging from 93% to 579% between 1982 and 1986. The 612 companies which have appeared on the *INC.* 100 since 1979 have grown at an average compound rate of 90%, doubling in size on average every 56 weeks.

Such high rates of growth are certainly impressive, but they immediately raise other dominant myths about rapid growth: growth of this magnitude can only be achieved from a very small base and in newly emerging industries.

**Myth 2: Opportunities for rapid growth exist only in new, nontraditional or high-tech industries, which are not yet dominated by giants.** If Fred Smith had believed this generalization, he never would have started Federal Express and entered the parcel delivery business, which had been dominated by the Postal Service and UPS for nearly a century.

It is true that many fast-growing companies come from high-tech industries. But this generalization conceals the fact that a great many others do not—companies like Century 21 (real estate), Kinder Care (day care), Liz Claiborne (garments), and Nike (shoes). In fact the top three companies on *INC.*'s 1988 list are specialty discounters—Entertainment Marketing, Home Shopping Network, and Warehouse Club. *INC.*'s top ten for 1988 also included Care Plus (home health-care services), Sahlen & Associates (security services), and Vipont Pharmaceuticals (oral hygiene products).

There is nothing very high-tech or nontraditional about vinyl siding. AMRE, Inc. began doing custom home installation of external siding in 1980. In 1983 the company had revenues of $4.4 million. By 1986 it had grown ninefold to $40 million. Sales doubled in 1987 to $78 million and nearly doubled again to $140 million in 1989.

*The Biggest Firm in Town:* Other very fast-growing companies can be found in unlikely industries and unusual places too. Tontitown, Arkansas, is not exactly a thriving metropolis, but being the largest company in this small town is nonetheless a considerable distinction—even if the town has a population of less than 700. In 1980, with $3,000 of capital, Paul Maestri founded P.A.M. Transport under in his home town a large oak tree. The company has doubled in size every year since it was established. By 1989, P.A.M. had become a $75.8 million company.

**Myth 3: The bigger you are, the slower you grow.** True enough, most of the companies on the *INC.* list were under $10 million in size when they went public. But a number have already crossed the $100 million or the $500 million mark and are still going places—companies like Liz Claiborne, whose sales rose from $117 million to $1 billion between 1982 and 1987 (a five-year growth rate of 47% compared to the industry's 8%) while profits increased from $10 million to $114 million.

Still one could argue that a few hundred million dollars is relatively small. What about the big guys? In 1970 IBM had revenues of $7.2 billion. Over the past 17 years, it has grown another eightfold to $60 billion in 1988. The revenues of Federal Express nearly doubled between 1984 and 1986, growing from $1.4 billion to $2.6 billion. In the last two years revenues have risen another 80% to over $4 billion. Of course, Federal Express knows that it cannot keep growing at that rate indefinitely. That is why it has set only a modest growth target for the rest of the century—to become the largest transportation company in the world! Companies like Federal Express and IBM are exceptional, but hardly unique. Other major corporations like Apple, Coca-Cola, and Marriott also have targets to at least double in size over the next few years. What about your company?

But after all, anyone can increase revenues simply by lowering prices and cutting profits—which brings us to the fourth myth.

**Myth 4: The larger you grow, the smaller your margin of profit.** Let us concede from the beginning that this is certainly most often the case. The question is whether the fact is the result of the myth or vice versa? Bajaj Auto Ltd. has dominated the Indian motor scooter industry for nearly 30 years. The company grew from $1 million in 1961 to $36 million in 1976. Over the next decade sales grew another tenfold and pretax profits rose ninefold. In 1986 sales rose 60% to $420 million and operating profit increased a staggering 72% to $100 million. But by this time the Indian market had begun to really heat up with the entry of more than 30 new competitors including the