

ESCAPING A PRICE WAR • ON-LINE SERVICES • IS JAPAN CHANGING

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FORTUNE



THE NEW DEAL

**The compact between
companies and their workers
is changing radically.**

**Here are
today's rules.**



AMERICAN STANDARD

PROPHET OF ZERO WORKING CAPITAL

EMMANUEL KAMPOURIS, the Egyptian-born CEO of American Standard, studies the Bible not just for moral lessons, but for management guidance too. His idol is the redoubtable Nehemiah, who in 445 B.C. rallied a small group of Israelites to rebuild the wall around Jerusalem in just 52 days. "It's an example of excellent leadership and smart management," marvels Kampouris. Inspired by the Old Testament, Kampouris is performing an epic feat of his own. In the past five years he has overcome the double scourge of huge debt and depressed markets to steer his company, a diversified manufacturer, from near ruin to robust health.

Kampouris's strategy is a model for managers in mature industries. He has succeeded by relentlessly reducing American Standard's appetite for working capital, especially that tied up in inventories. His ability to run a company with annual revenues of \$4.2 billion on a shoestring has won the admiration of Jack Welch, the thrifty boss of General Electric. To study how Kampouris does it, Welch is dispatching GE teams to three of American Standard's U.S. plants.

American Standard's travails began in 1989 when tool manufacturer Black & Decker launched a hostile takeover bid. To rebuff the attack, Kelso & Co., a New York investment firm, engineered a leveraged buyout. Today Kelso owns 73% of American Standard, while employees hold the rest. The deal swamped American Standard with \$3.1 billion in junk-bond and costly bank debt. Cash flow barely covered the interest and amortization payments of \$325 million a year. Recalls Kampouris, a longtime company employee:

"We could not have survived a lengthy recession. And even in good times, we couldn't invest much in the business."

By planning for the worst, Kampouris saved the company. In the early 1990s markets soured in all three of American Standard's businesses: plumbing supplies, air conditioners, and brakes for trucks and buses. The U.S. construction slump hobbled sales of bathroom fixtures and air conditioners, while the recession in Europe—American Standard's largest automotive market—slammed production of brakes. Faced with static sales and huge interest payments, Kampouris reached for a pot of gold: American Standard's \$735 million in working capital.

He set the Nehemiah-like goal of reducing it to zero by 1996. That's an amazing target; U.S. companies, on average, use more than 15 cents in working capital from

each \$1 of sales. To get to zero, a company must push inventories so low they can be financed without borrowing. The idea is to deliver goods—and to bill customers—more rapidly, then use the customers' money to pay for minimal stocks, without speeding up payments to suppliers.

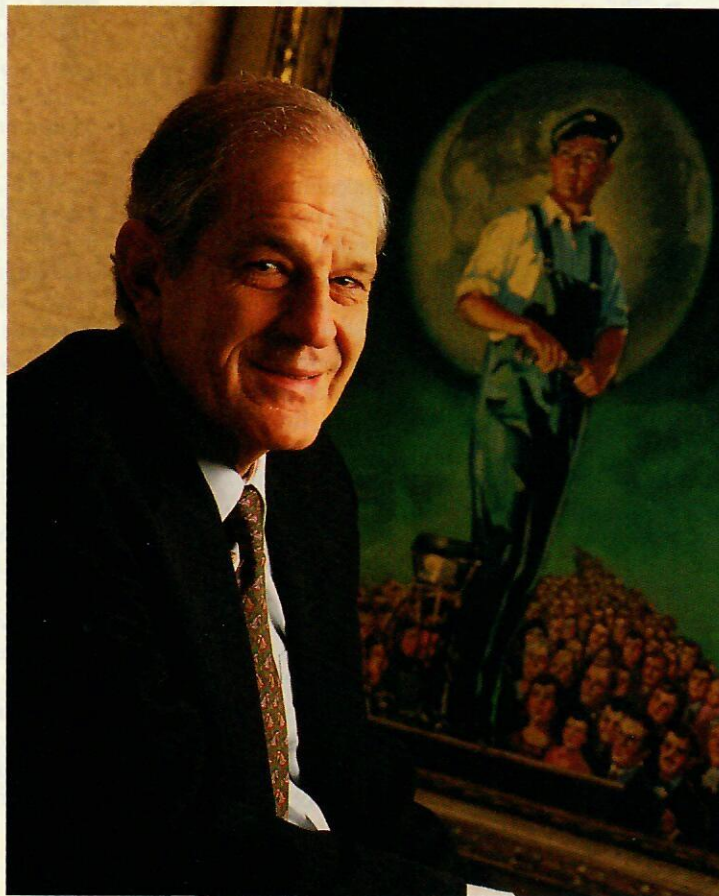
At American Standard, Kampouris introduced a lean manufacturing system called demand flow technology. Under demand flow, plants manufacture products as customers order them. Suppliers deliver straight to the assembly line, reducing stocks of parts, and plants ship the products as soon as they're completed, thus cutting the inventory of finished goods.

DEMAND FLOW has revitalized the factory in Lexington, Kentucky, that manufactures cool- and hot-air blowers for commercial buildings. In 1990 the plant churned out huge volumes of single components in long production runs. Metal frames, fans, and other parts covered ten acres of blacktop. It took an average of 15 days to assemble a machine. Today, small workstations produce a unit's components when it is ordered. The parts can be made and assembled in no more than two days. In three years inventories at the Lexington plant have dropped from \$9 million to \$5.5 million, despite a 40% rise in output.

Overall, American Standard has pared its inventories more than 50%, to \$326 million, since 1990. As a result, working capital now absorbs just 5 cents from each \$1 of sales. By saving interest payments on supplies, the company has increased its cash flow by \$60 million a year. Its renewed financial vigor has charmed creditors. In 1992 and 1993 it refinanced \$1.5 billion in loans and junk bonds at far lower interest rates, generating another \$40 million in extra cash flow. Kampouris is using the \$100 million gained to expand his businesses. American Standard is investing heavily in China, where it is now the largest foreign producer of toilets and faucets. And in a new joint venture with Rockwell, it is selling its advanced antilock brakes to Mack Truck.

With sales and earnings growing in all three of his businesses,

Kampouris performed a cash-flow miracle to save American Standard.



BRIAN COATS

CORPORATE PERFORMANCE

Kampouris is planning a public stock offering within the next year. But the good times haven't slowed his crusade for zero working capital. He's even hounding the head of the office supply room at headquarters to go

lean on pencils and paper clips. "Once we get the system down," he says, "we could double the size of the business without adding any working capital." For this corporate Nehe-miah, nothing is impossible. — Shawn Tully

COLEMAN

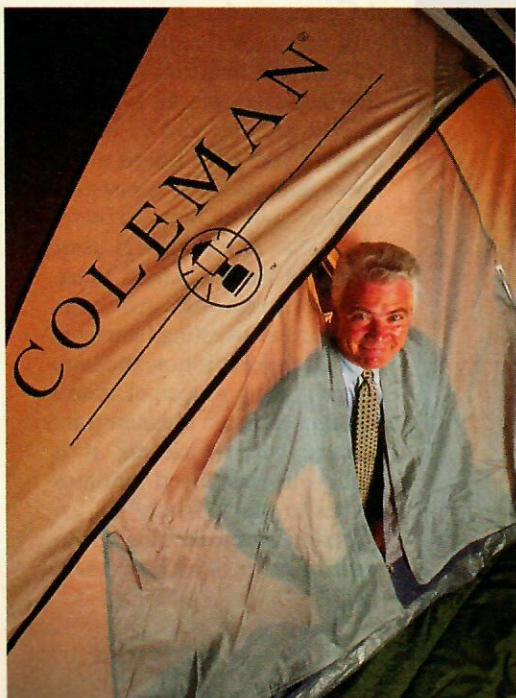
GROWING TO MATCH ITS BRAND NAME



FOR MILLIONS of Americans, camping season begins when they dig through their basements and garages and unpack their Coleman gear. The Wichita-based manufacturer is practically synonymous with lanterns (an 88% share of the U.S. market) and camping stoves (84% share), and is a major presence in the market for tents and coolers. Under new CEO Michael Hammes, 52, the company is fanning the flames of its brand strength to bring U.S. handymen and foreign campers under the Coleman tent. "Coleman's brand name," says Hammes, "is bigger than the company."

Hammes isn't the first to recognize the brand's potential. Billionaire investor Ronald Perelman began circling in the late 1980s, and his holding company, MacAndrews & Forbes, bought Coleman in a \$545 million leveraged buyout in 1989. Perelman took the company public again in 1992, but

Hammes: bringing noncampers into Coleman's tent



JASON FLEMING (2)

his firm still owns 82.5% of the stock, and Perelman and three MacAndrews & Forbes executives sit on Coleman's board. These heavyweights say they concern themselves only with long-term strategy. The day-to-day decisions fall to Hammes.

An occasional outdoorsman himself ("I'm trying to become a fly-fisherman, but I don't know if I'll ever make it"), Hammes joined the company last October, after running Black & Decker's worldwide tool division. He has had little time since to work on his fly casting as he tries to spread Coleman's name beyond the campground.

Coleman's recent approach to the hardware market got going in late 1992 when the company reacquired Coleman Powermate from MacAndrews & Forbes. (Coleman previously owned the company from 1986 to early 1992.) Powermate's products include a line of gasoline-powered electrical generators and high-pressure washers used for heavy-duty cleaning jobs such as cars and gutters. In April of this year Hammes further extended Coleman's hardware reach by purchasing Sanborn, a Minnesota producer of air compressors used to drive power tools ranging from paint sprayers to nail drivers. The opportunity, he explains, is that none of the competitors in these categories carry a brand name remotely as well known as Coleman. Hammes argues that his firm's reputation for rugged, reliable products will click with tradesmen and backyard handymen, even if they haven't pitched a tent for years.

Last year Sanborn generated \$75 million in sales; added to Coleman Powermate's \$98 million in 1993 (a 7% increase over the prior year), that means Coleman's hardware products account for roughly a quarter of total annual sales. But Hammes has even bigger plans. He is using Coleman's brand-name clout with Wal-Mart and other retailers to

COLEMAN Wichita



Despite glowing earnings since Coleman's return to the public market, the stock has been a lackluster performer. Ronald Perelman controls 82.5% of the shares.

SALES (latest four quarters) **\$598.7 million**
Change from year earlier Up 10.8%

NET PROFIT **\$36.5 million**
Up 20.8%

RETURN ON EQUITY **15.2%**

TOTAL RETURN TO INVESTORS **2.0%**
2/26/92-4/29/94 (annual rate)

PRICE/EARNINGS MULTIPLE **20.7**

DIVIDEND YIELD **None**

expand the floor space dedicated to Powermate and Sanborn products. "We are putting together the most powerful big-ticket hardware company in North America," he says.

Hammes is also redesigning Coleman's approach to foreign markets, where its presence is still largely limited to camping goods. Sales to foreign campers topped \$121 million last year, or 21% of total revenues, but the business is uneven, particularly in Europe. The major problem is that Europeans have never warmed to Coleman's propane appliances, preferring those running on butane gas.

TO REMEDY the situation, the company once again bought its way into a more promising product line. Purchases of a British and an Italian camping equipment maker late last year allowed Coleman to put its name on 100 butane products, with sales of \$30 million. Another 45 new butane stoves and lanterns will hit the shelves this year.

Coleman's largest shareholder declares himself well pleased with the company's progress. "I love this company," Perelman says. "I'm not planning to sell a share." Some analysts, however, don't believe it. They speculate that tax-loss carryforwards that MacAndrews & Forbes incurred in the 1989 LBO and in other acquisitions will expire in 1995 or 1996, at which point Perelman may sell down to a minority position. Perelman calls tax benefits "irrelevant" to his intentions toward the stock.

However many shareholders Coleman has in the next few years, Hammes says the company's strategy won't change. Expect him to continue trying to squeeze value out of the Coleman brand. And expect to see that name and its signature lantern logo on a lot more products this year. — John Linn

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