

# It's Time To Stop Trivialising Chainsaw Capitalism

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By Richard Miniter

Al Dunlap's business methods antagonise unions and the press. But, as Richard Miniter points out, 'Chainsaw' has dramatically rescued failing companies.

If my competition were drowning, I would stick a garden hose in his mouth and turn the water on." Ray Kroc, the legendary marketer who bought a California hamburger stand and turned it into a global business called McDonald's, was not a nice guy.

While the quote may be apocryphal, it has been repeated to me by the manager of a tool-and-die plant outside of Chicago, by a slick-haired executive at a sheet metal fabricator in Bonn, Germany, and, most recently, by a plastic bottle manufacturer in Saigon, Vietnam.

These rough-and-tumble businessmen have two things in common: a talent for making money in low-margin industries and an unwillingness to flinch from the hard decisions.

Journalists and professors usually don't like guys like this. Instead, they prefer smooth, sun-tanned lads who are riding the wave of the latest management fad, such as "emotional intelligence". The idea that business is like professional sport you either perform or sit on the bench repulses these sensitive types.

So it is no surprise that the scribblers don't like Al Dunlap, whom Stephen Long, in these pages, called "a ruthless cost-cutter who tyrannised workforces and sacked thousands in the pursuit of short-term profit".

Businessweek's John A. Byrne, author of the book *Chainsaw: The Notorious Career Of Al Dunlap In The Era Of Profit-At-Any-Price*, whines about Dunlap's "brutal pressure" on managers to make Sunbeam profitable again.

Dunlap's success in turning around failing businesses in declining industries is an inconvenient fact, so Byrne and Long focus on allegations that Dunlap mistreated his wife. These allegations are hard to prove, were culled from court filings in a divorce case in which the wife has a financial interest in maximizing the size of her abuse, and, even if true, are entirely beside the point.

The question is: can businessmen learn anything from "Chainsaw" Dunlap's methods?

Consider the evidence. Scott Paper lost some \$US277 million (\$425 million) in 1993 alone while the stock sank. Spread across the globe, Scott's divisions warred with one another like medieval princes. A bloated corporate staff spent more than \$US30 million per year on consultants and millions more on cars, jets, club memberships and other corporate perks while splashing the company ledgers with red ink.

Like Soviet commissars, factory managers knew exactly how many tonnes of paper they produced each year, but muttered: "I'll have to get back to you" when asked how much money Scott made per tonne. In surveys, customers called Scott's products "antiquated" and "boring".

On his first visit to Scott's sprawling three-building corporate headquarters near Philadelphia, Al Dunlap ran his hand along its marble-lined walls. It was a palace built for a declining empire. It had to go. Dunlap later sold it for some \$US39 million and moved the corporate headquarters to Boca Raton, Florida, where Scott saved another \$US6 million per year in maintenance and climate-control costs. "In my experience, the success of a company is inversely proportional to the size and opulence of the headquarters," he wrote.

Selling the Scott palace was just the start. Dunlap knew that Scott needed shock therapy, and that administering the bitter medicine wasn't going to make him very popular.

Within two years, Dunlap all but eliminated Scott's more than \$US2.5 billion debt. The stock price zoomed up some 200 per cent over the same period. Scott's valuation surged from \$US2.5 billion in 1993 to \$US9 billion in 1995.

The stock rose an average of \$US10 million per day for each of the roughly 600 days Dunlap ran Scott. It was one of the most dramatic turnarounds in business history. Once Scott was profitable and valuable, Dunlap sold it to Kimberly-Clark, thereby creating the second-largest consumer products companies in the United States. Scott, the ailing giant, was revived and merged to form a world-class competitor that would add jobs and profits in the coming years.

How did Dunlap do it?

He brought focus and energy to the executive suite, cut costs, and trimmed overhead. He set out to cut corporate bloat with his characteristically direct manner.

On day one, Dunlap told the 11-member executive committee that ran Scott: "I don't want the status quo." He meant it. He eliminated just about 70 per cent of upper management jobs.

Although most of the cuts were at the top of the organisational chart, few excess jobs at any level were spared as Dunlap trimmed more than 11,200 jobs from the payroll a total reduction of 35 per cent.

Another 6,000 jobs were transferred to the payrolls of other companies when Dunlap sold non-core businesses, such as the coated-paper division (for \$US1.6 billion) and a Mobile, Alabama power plant (for \$US350 million). The 20,000 remaining jobs were secure in a reinvigorated company that began to grow for the first time in seven years.

At Sunbeam, Dunlap was sacked before he could complete the turn-around. Still, during his brief tenure, costs fell, new products were introduced, sales soared, and the stock price climbed nearly every quarter.

Dunlap's critics can't match his results, so they offer phony compassion instead. Rather than make headlines by dismissing thousands of redundant workers, they make a series of small cuts that never seem to end.

Meanwhile, morale sinks as workers wonder if they will be next and the company never finds its way out of the quagmire. Others fret that business should focus less on profits, more on people. What they really mean is that executives should worry more about middle-aged managers who fear change than widowed stockholders who fear a falling share price.

Isn't it better to fire the manager than to disappoint the stockholder? The social cost of siding with the manager is too great: bloated companies that refuse to innovate and, ultimately, can't survive.

Dunlap's laser-like focus on shareholder value is responsible for his stunning series of turn-arounds: Scott Parer, Lily-Tulip, Crown-Zellerbach, Australian National Industries, and others.

Sure, Dunlap's methods make enemies with unions and the press. But the shareholders cheer.

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Extracts from John A. Byrne's Chainsaw: The Notorious Career of Al Dunlap in the Era of Profit-at-Any-Price will appear in the AFR on Saturday and Monday.

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