COMPUTER PAPERS,INCORPORATED

COPI

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It was thirty years ago when I was introduced to the first" Volcker Plan" which was a reaction to the difficult economic circumstances then facing our nation.Volcker's escalation of interest rates"broke the back"of then rampant inflation.The more personal result,however,was to transform an otherwise profitable(albeit heavily leveraged) printing manufacturing enterprise to one on the verge of bankruptcy.It escalated the company's interest rates to as high as 24% and its interest cost to more than $125,000 annually when its sales were only slightly more than $1,500,000.The latest Volcker plan is aimed directly at the banking industry and seeks to add controls to those in the banking industry who most small businessmen know to be"either at your feet or at your throat".

The company did not go bankrupt. I sold it, together with some of its debt and I stayed on for another year.But my personal debt stayed with me,was exchanged for other debt,and was funded over the years with personal earnings.Should I have taken bankruptcy at that time? A case could be made for that but I decided against that option.

What led me to leave my career at Frye Copysystems and become as the headline from the attached Des Moines Register article suggests"The $50,000 a year dropout"? For those who "do the math" it was the equivalent in todays dollars of $500,000/year.What made me do it?

For some time I had aspired to being a member of YPO(Young President's Organization) but as I approached forty years(YPO's cutoff age)I saw my prospects fading.Also for some time I had expected to be made president of Frye.As is so often the case,politics,especially those resulting from the serial acquisitions of Frye(more later about that) were a hurdle despite my credentials:

1)During my eight years as Frye VP of Marketing,annual sales had grown from $8,000,000 to $37,000,000.

2)Almost single handedly I had created Frye's international market ,a growing and quite profitable segment of Frye sales.

3)I had put in place a creative pricing policy which not only enhanced profits but increased our already dominant market share.

4)I played a key role in acquiring the rights and expertise for Frye's carbonless paper--Impact Paper,the product which was the basis for COPI's beginnings.

I made known my ambitions to the various and succeeding Frye owners who when they argued that my income exceeded that of the Frye president I told them that when Babe Ruth heard that he made more
than President Hoover he replied(paraphrased)"but I am hitting better too."

Frye was sold on several occasions ,first for $3 million,then $6 million,then $8 million and the last before I left :$20 million.As a major contributor to company success my "head did not spin" as the Register article suggests. I became resentful because of my lack of participation,was denied stock options, and formed the opinion that salary alone was no way to create wealth.Ownership was the key.

it would be redundant to describe the business venture model already detailed in the various magazine exhibits . I was closely involved in the development of Frye's carbonless Impact Paper(the registered trade name).A product with unique properties:it could be the base paper for creating business forms with as many as fifteen copies.An expensive end product,its costs were composed mostly of the base raw material.If we specialized we would achieve a competitive advantage in developing expertise in the use of this material as well as a procurement advantage by purchasing for inventory instead of costly "for the job" buying.

We thought we would be able to produce forms for the major business forms producers who would chose to have us produce this product for them.We were only modestly successful with this logic.

We did not begin the venture to rely on local business to support it.We were,however,reasonably expecting no less than 10% and,hopefully,as much as 20% of our volume to come from the Iowa market.I don't think it was ever more than 5%.

One expectation was especially disappointing,even provocative.Our major bank(Iowa's largest) to which we paid substantial interest--hundreds of thousands of $$$-denied us the opportunity to produce any of their business forms.It was the bank president's contention that we had not achieved a quality level to justify our becoming a supplier.We were offered the "opportunity" to bid on their stock continuous forms,a product for which we were literally ill equipped and he knew it.We were a custom business forms producer;we wanted to supply the bank with,for example,their overdraft notices.No explanation was ever given for this man's posture but I am convinced that it was result of his politically competitive"relationship" with his predecessor who was a close friend of mine(and whose son and I were classmates at Amherst College and still friends)and who arranged our original loan at the bank.

As for the "quality argument" consider the following.We made a study which I recall showed that we were producing forms for as many as thirty of Fortune's 500 companies.Those sales were generated by our out-of-state business forms dealers.Some are still quite memorable and noteworthy:

We made all of the tickets for the Royal Viking Lines and the Holland America Lines.
We made the buy/sell confirmation forms for A.G.Becker and Bear Stearns investment banking firms.
We made quality control forms for Eastman Kodak and Xerox.
We made all of various forms-invoices,purchase orders,credit memos-for:Estee Lauder (Including Clinique),French's Mustard,Mott Foods,Maybelline,Coca-Cola Enterprises.
We made bicycle forms for Toys-R-Us.
We made the hunting licences for the State of Montana,a complicated form with a ribbon to tie around the deer's horns.

But our quality wasn't "good enough" to supply Iowa Des Moines National Bank!!

But what really created the insurmountable challenge that we could not overcome was not the absence of local sales volume(although that revenue would indeed have aided our company) but the formidable double digit interest rates which resulted from the first "Volcker Plan": 24% on mid-six figure business loans for a company with sales volume of $1,500,000.

Many have been the times when I have looked back at the reasons for making this venture and concluded that one reason was omitted:stupidity.Members of my family have sometimes assisted in that conclusion.I will have to take some solace in Teddy Roosevelt's comments which are well suited to entrepreneurs such as myself:

"It is not the critic who counts;not the man who points out how the strong man stumbles,or where the doer of deeds could have done them better.The credit belongs to the man who is actually in the arena,whose face is marred by dust and sweat and blood,who strives valiantly;who errs and comes short again and again;because there is not effort without error and shortcomings;but who does actually strive to do the deed;who knows the great enthusiasm,the great devotion,who spends himself in a worthy cause,who at the best knows in the end the triumph of high achievement and who at the worst,if he fails,at least he fails while daring greatly.So that his place shall never be with those cold and timid souls who know neither victory nor defeat" Thanks,Teddy.I needed that!!

After several years on the Board of Directors of Inter-State Assurance Company I watched them become the second company in the nation to market universal life insurance.With the debt load from COPI,I "grabbed this product"ran with it and became Inter-State's leading agent(among over 3000 agents)and three years later was made a member of the Million Dollar Round Table's Top-of-the-Table group which for several years included only a dozen Iowans(there now have been forty nine total).Note:with the prevalent debt load throughout our nation there is little credit given to its motivational aspects.

It is a little late for me to consider still another venture and the phrase"too late smart" would certainly apply here.But perhaps my grandchildren(or even children)or others may care to read this reflective commentary :
1)In a new venture,do not rely on debt financing.Save the use of debt for when the business is up and running--so called "mezzanine financing".Had we realized this we might have escaped the ravages of Volcker I.
2)Be careful about investing too heavily your own funds.To be sure other investors will justifiably insist that you have some "skin in the game."But do not over do it.You bring to the table knowledge and other skills and are entitled to a good piece of the action for that.Don't "bet the farm" because, remember ,if the company fails you have not only lost your finances but you are probably out of a job.
3)Stay clear of competing "ego trips." During the early years of COPI I became president of the National Business Forms Association and on the board of the International Business Forms Institute.Also I was president of the Des Moines Child Guidance Center during the most problematic year of its

history(I had to fire the Director).Founding a business leaves no room for these "side shows"
4)If the business calls for a manufactured product,take a good look at having some other company actually make the product for you.As I reflect on this experience, it seems to me that our primary competitive advantage was our product knowledge of the raw material and our bulk procurement.We could have purchased a substantial inventory for one or two suppliers and we would be the marketing agent.The investment, not to mention the risk ,would have been greatly diminished.
5)Make certain you hire the very best people available.While this is not always possible,I am afraid that too many of our employees learned on the job.
6)Do not be too elevated by the remarks of supposed "well wishers" a good number of which(including bankers) actually hope you "fall on your ass!"
7)Last, but by no means least, be certain that your spouse or significant other is "on board" and shares your hopes for success.Not only do you need this emotional support during the early years of development but if the venture fails that will not be last time you hear about it.The divorce rate among entrpreneurs is far above average.

THIS MAY BE MY LAST PIPA BILL STORY BUT IT IS ONE I FELT I HAD TO WRITE.

PIPA BILL