

Herbert V Kohler, Jr, Executive Chairman of Kohler Co speaks with Margie Goldsmith

Living on the

Kohler Co. is one of the oldest and largest privately held companies in America with a wide portfolio of products, ranging from kitchens and bathrooms to engines and generators, premier furniture, five star hotels and golf courses. Its Executive Chairman, Herb Kohler, doesn't believe in wasting time. In one month, the 76-year-old, who has been with Kohler for 53 years, might fly on one of its jets to France where Kohler Co. owns a power systems company or to England where it owns a shower business or to Indonesia for its furniture or to Morocco, China, Mexico or Texas where it owns potteries. He might fly to the Dominican Republic to talk about the future with Pete Dye who has designed all of Kohler's US golf courses or to St Andrews, Scotland, where Kohler owns the Old Course Hotel and Hamilton Grand and might stay to play some golf before flying back to his home in Kohler, Wisconsin, the garden village with the same name as his grandfather who founded Kohler Co.

When he's not working, this busy chairman relaxes by challenging himself on the golf course, breeding Morgan show horses, whitewater rafting, battling Atlantic salmon, and driving four-in-hand carriages. The more intense the activity, the more Kohler likes it. Laura Kohler, one of his daughters has said, "My father challenged us to take risks and push ourselves; his theme growing up was, 'You're going to know the value of the dollar - there are no free rides.'"

He sent all three of his children to Outward Bound to experience the physical and mental challenge of the wilderness, but did not encourage them to go into the business. "I didn't even talk about the company unless they specifically asked questions," he says. "I thought it was more important for them to pursue their dreams and discover their own talents." But each of the three in due course received an offer because Herb Kohler felt they had the potential to be

good leaders. Says daughter Laura, "He didn't care what we did as long as it was focused on achievement. He believes we are in our positions because we can do the job, not because our last name is Kohler."

The family business dates back to 1873, when John Michael Kohler, a young Austrian, received a half interest in a rural Wisconsin foundry and machine shop as a wedding present from his father-in-law, making cast-iron farm implements. A breakthrough came in 1883 when Kohler heated his horse trough/hog scalding to 1700°F, sprinkled on some enamel powder he had invented, and said in his one page catalogue, "when furnished with four legs will serve as a bathtub." That was the company's entry into the plumbing business. In 1900, Robert J. Kohler took over after his father died. When he in turn died in 1905, Walter J Kohler ran the company for the next 35 years. In 1941, Herbert V Kohler, Sr ran the company until 1968, growing Kohler to a \$100 million a year company. When he died, Herbert V Kohler, Jr became the Vice President of Operations, and four years later, at just 33 years old, was elected Chairman of the Board and Chief Executive Officer. Today, Kohler Co. sells \$6 billion a year.

Since Herb Kohler has been with the company, he has received over 200 design and utility patents for plumbing products. With Kohler at the helm, the company has grown over 43 years at an average compound rate in book value of 10.2% per year compared to the S&P 500 of 7.7% per year. Kohler Co has become a world leader in the manufacture of kitchen and bath products, upscale interiors, small engines and large power systems, hospitality and golf. Under his leadership, the company converted a dormitory built for immigrants working in the original iron foundry into a five-diamond five-star resort hotel. He also created four Pete Dye-designed courses in Wisconsin and two of the world's highest-rated resort hotels - in Wisconsin and St

Andrews, Scotland. Over a 22-year period (1998 through 2020), the company will host seven Major championships on its Wisconsin courses, including two of the US Women's Open, three of the PGA Championship and the Ryder Cup. Every year, the Old Course Hotel in St Andrews is the host hotel for the Dunhill Championship and every fifth year, the British Open.

The Kohler offspring consider their father larger than life and it's easy to see why. In 2002, Herb Kohler was named National Entrepreneur of the Year in Manufacturing. He served as Chairman of the Board of Trustees of Choate Rosemary Hall in Wallingford, Connecticut from 2005 to 2010. In 2006, he received the Legend in Leadership Award from the Chief Executive Leadership Institute of the Yale School of Management. And he has been inducted into the US Business Hall of Fame as a "legend of business". We caught up with him during a break in his hectic schedule.

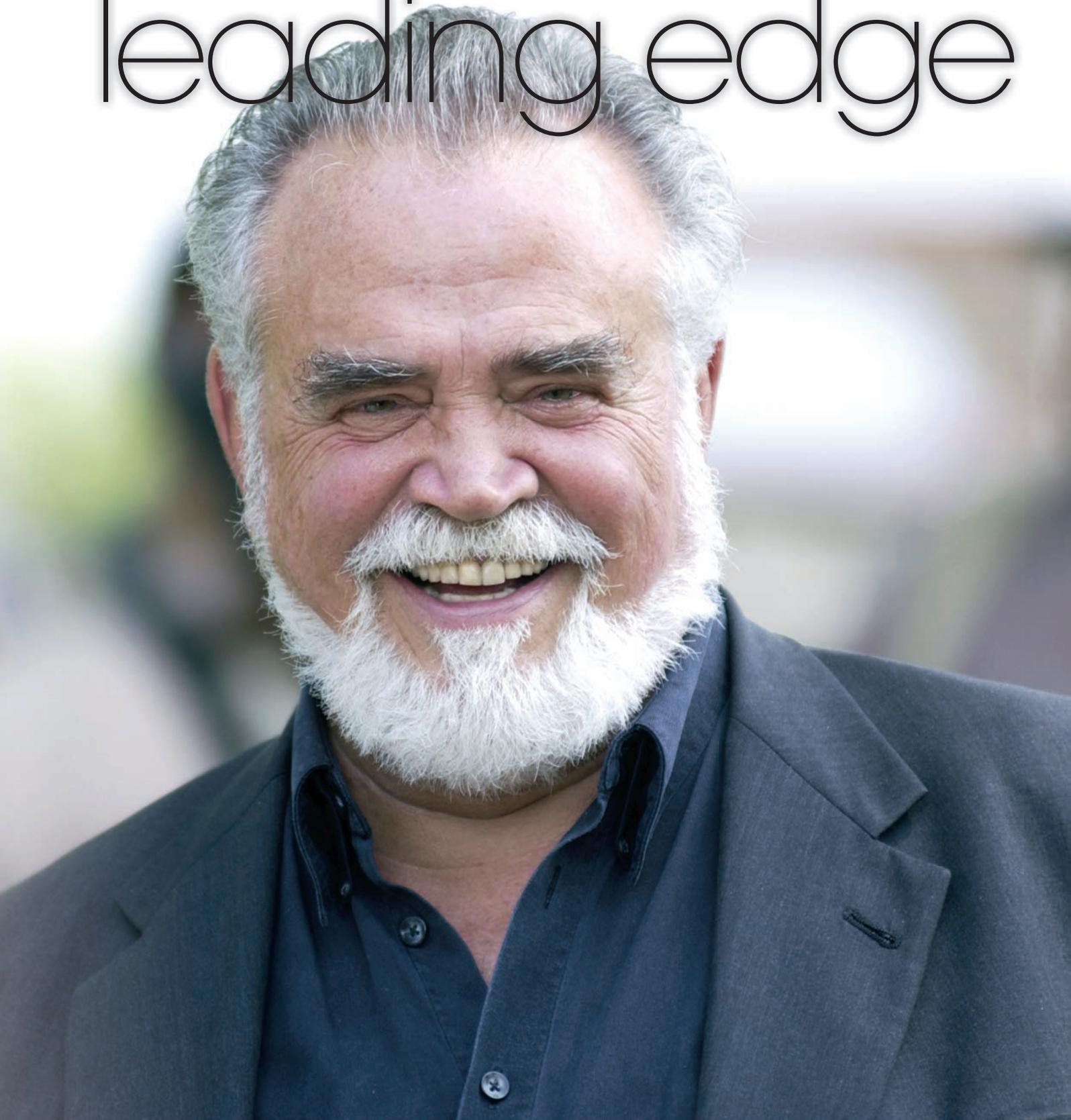
Q: What was it like being a Kohler growing up? Did your father raise you to take over the company?

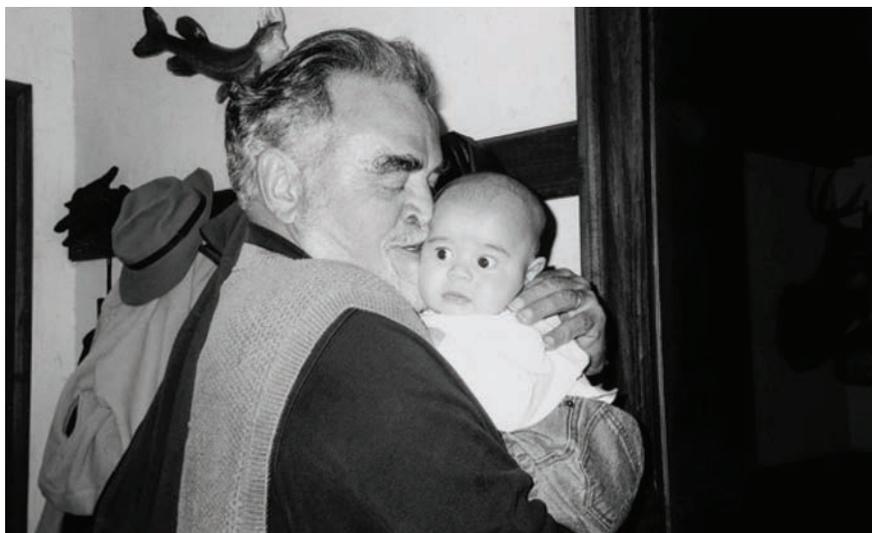
A: Yes, he tried to, but that caused me to rebel.

Q: What did you do to rebel?

A: For a period of time I didn't talk to him very much. I set off to do my own thing and understand my limits. I went off to Switzerland to the University of Zurich and studied physics and advanced math in high German (there's nothing like physics and math to make the mind more analytical). It was probably the hardest thing I've ever done in my life because I had to listen to lectures and study in German in two very difficult subjects. When I returned to the US I went to a small college in Illinois and majored in theatre and wrote poetry. I fell in love with one of the students and we married shortly after she graduated magna cum laude. We went off to Yale and I got my degree in business administration, went

leading edge





to work for a company in the East, and one day my father found me, called me up and asked me if I wouldn't come to the company, and I said, "You think I've spent the last three years wanting to come back to the company?" I said, "Father, I'm sorry, I can't do that." Three days later I called him back and said, "There is a condition under which I would come back, and that is if you promise not to protect me in any respect, that you stay away from me regarding the work I've been given and the discipline I receive. Let me make my own mistakes and suffer the consequence." And darned if he didn't make that promise. So I went back to Kohler."

Q: What was the scariest thing about it?

A: It wasn't scary because I'd worked there many of my summers, each in a different division.

Q: What year did you go back and what was your title?

A: I went back as an R&D technician in 1966.

Q: How did you work your way up to the top?

A: I became a general supervisor of warehouse packing and shipping, and then a manager of factory systems.

In 1968 the president of the company, aged 56, and my father, chairman of the company, aged 76, passed away the same week. Three senior executives remained. Two days after the second funeral, the treasurer became president,

the labour attorney became Chairman and Chief Executive, and I became Vice President of Operations. That was perhaps the scariest time because the man to whom I had been reporting now reported to me, and I had to paddle like hell or sink. Fortunately I was able to stay afloat and I started to make my mark. When the chairman decided to retire in 1972, I was elected Chairman and Chief Executive and the rest is history.

Q: What were some of the new products you implemented?

A: Every product category, whether engines or generators or plumbing products, every category needed some degree of upgrading. I determined that it was important to try and be number one in every category that we engaged in. So



as we upgraded each category - be it faucets or toilets or bath tubs, etcetera, we always tried to do something that no one else had ever done. And in the process, we created a pretty spectacular line of products and came up with some weird things like a product called 'The Environment'.

Q: What was it?

A: The Environment was like a big bookcase inset into the wall - except it wasn't a bookcase. Behind the wall was a bathtub. On the top of the bathtub I placed a number of boards with cushions which you could remove if you wanted to take a bath or a shower. Most of the time however you used The Environment by lying down on the cushioned surface, and next to you, as you were lying down, was an electronic control board. You could choose whether you wanted rain, steam, dry heat, or Chinook winds to dry you off. You could pick any of these elements and then put in the amount of time you wanted for each, and set them off in the sequence selected. You just lay there and let it happen.

One of the more amusing and embarrassing moments in my life took place when *People* magazine decided to put a picture of me in its Inventor section lying in The Environment with nothing more than a small towel draped over my midsection, and there I was, rather exposed for the world to see.

Q: In 1978, everyone disagreed with you about turning The American Club, which was then a former immigrant dormitory, into



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a hotel. You said: "If we become experts in the service business, it will have a positive impact on the manufacturing business." What did you mean by that, and did it?

A: I was hoping to show the people who worked across the street in manufacturing, a living example of what five-star five-diamond service was all about.

Q: Who was living across the street?

A: All the people who made the products: the engines, the generators, the bath tubs, the toilets – all those people who worked very hard every day, but never saw the customer. I wanted to show those people and the people who worked in sales and marketing a living ongoing example of five-diamond service. I was finally able to persuade the board of directors of which I was Chairman, and who had turned me down twice before, to turn the remnants of this building into a boutique resort hotel, The American Club. It continues to be a great example of five-star five-diamond services.

Q: Why did you decide to build golf courses?

A: The clientele of The American Club kept asking for them. They thanked us for taking them to a public course a half hour away, a private

course 20 minutes away; but they kept saying, you have this boutique resort hotel and acreage around the village: why in the world aren't you building your own golf course? I know nothing about golf, but was given a pile of suggestion slips, so finally one day I went to see my vice president of business development who happened to be a 3 handicap, and said, "I think I've got to do something about this – as a young CEO, I can't let these people go without an adequate response." So we figured out a way, found an architect and off we went.

Q: Of all the Kohler products under your realm which one are you the most passionate about?

A: Have you ever had children? Which one do you like best?

Q: Okay, I understand, never mind. One of your daughters said you lead by example and you wouldn't expect anyone to do anything you wouldn't be willing to do yourself. How would you describe your management style?

A: I'll let my wife answer that one.

Herb Kohler's wife, Natalie Black Kohler, replies: He is demanding, tough, fair, generous

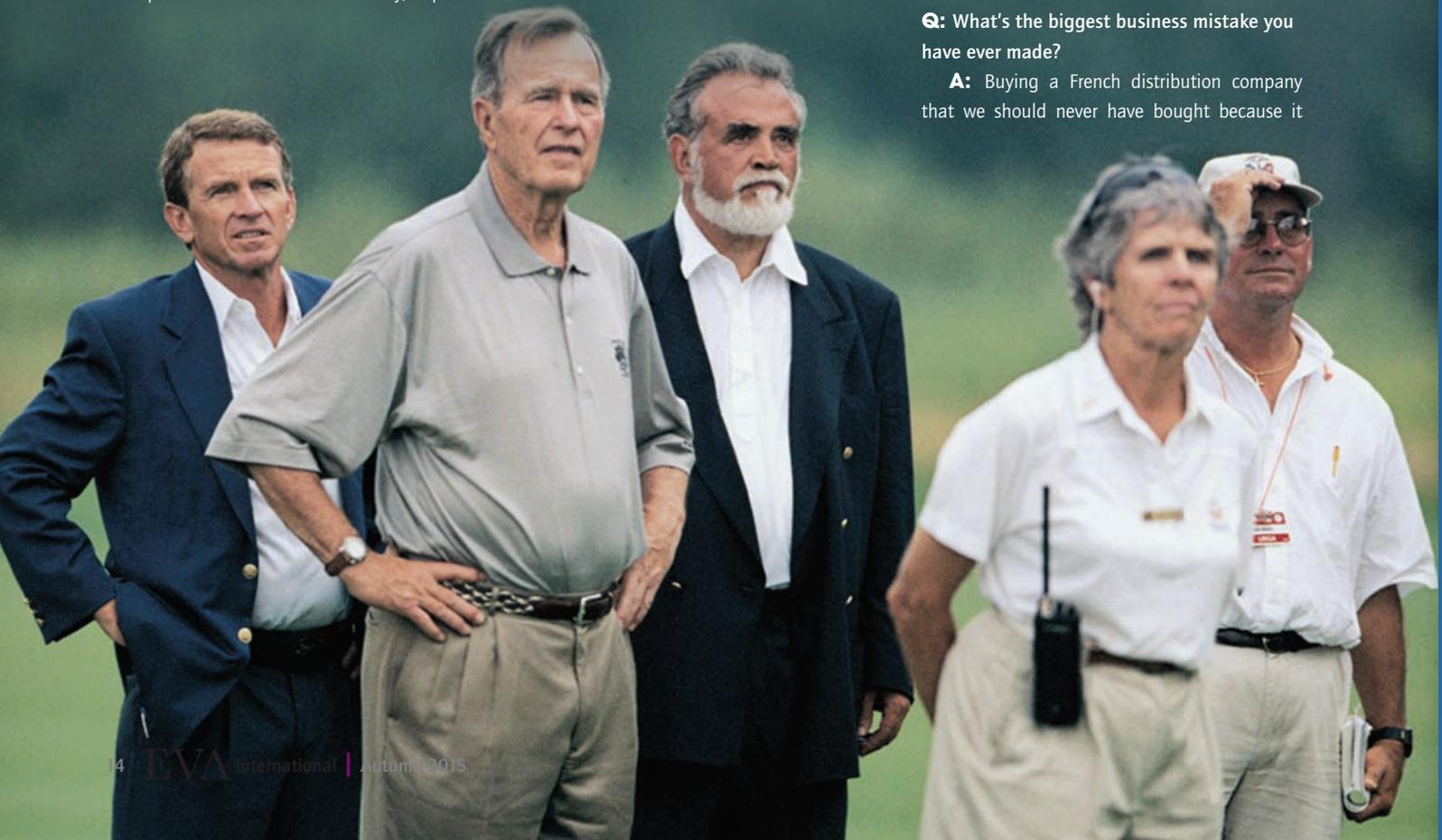
to a fault – he'll get upset with some people, but it's not personal; it's out of frustration, and after that, he is generous and loving to those same people that he just yelled at and they were worried about losing their job. The loyalty that he generates is really quite remarkable; the people who have worked with him have worked for him for many years. I worked for him for 32 years, which is not the easiest path when you're also married and all you want to do is go home and complain to your husband about your boss. He's charismatic, which is why people follow him. He is a true leader with all the good qualities and all the bad, and because the good far outweighs the bad, his leadership style mirrors the man he is.

Q: What's the most important thing that you have learned about business?

A: Well, we were able to articulate a mission and some guiding principles, simple statements, and we stuck to them regardless of the circumstance, regardless of the product line, regardless of the economy, regardless of what foreign country we were operating in. We discovered that when we do that, when we are consistent, we are able to achieve great things within the field and that the economics follow.

Q: What's the biggest business mistake you have ever made?

A: Buying a French distribution company that we should never have bought because it



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competed with some of our customers. I wanted to use it to expand into Germany.

Q: And did you sell it?

A: For a lot less than we bought it.

Q: What's the smartest thing you ever did for Kohler?

A: Being very persistent about pursuing our mission and living up to our guiding principles; living on the leading edge of design and technology in product and process and maintaining a single level of quality in all product categories regardless of price point. We normally sell from the lower end of the mid-market to the high end of the mass market so we have this very broad range of price points because of differences in design detail, in functions and in materials. We try very hard never to have differences in quality. Maintaining this single level of quality across all these products and services – hotel rooms etcetera – combined with living on the leading edge, really establishes the reputation of Kohler. Doing that consistently is an important contribution.

Q: Did you ever consider turning this private company into a public one?

A: Heavens no! Not even for a second. The benefits of privately held companies are considerable. You don't have to screw your business around and change strategy initiatives on a quarterly basis. You always look to the long term. That's so important for a solid business. A business needs to be nurtured over the long term, not jerked around by the quarter.

Q: You've received some important awards including the Legend in Leadership Award



from Yale School of Management and being inducted into the US Business Hall of Fame as a "legend of business". How does it feel to be a legend of business?

A: I personally couldn't care less.

Q: Which of your many philanthropic endeavours are you most proud of?

A: I think on the one hand financially building the John Michael Kohler Arts Center from scratch which today is a leading institution in the field of American art, both visual and performing. Equally important is the Kohler Environmental Center I created in Wallingford, Connecticut as part of the Choate School. No other secondary school has anything like it. Up to 20 students live, eat, learn and discover in this facility on a 24-hour basis on 268 acres of land with lots of water and elevation changes. And they do all sorts of things on the leading edge of environmental technology with the sun and on the land

and in the laboratories. I have never found one of these kids that wasn't really enthused. They are always very excited about what they are doing. They are the people that will really talk sense about the environment. These kids are solid – it's wonderful to see.

Q: What is leadership to you?

A: Leadership is passion for an idea; in our case, for a mission. One of the most effective means in which you can move an organization is to get your people to be candid with each other. If you have an organization built on candour and you lead it with passion for an idea like a mission, you will have a very, very effective organization.

Q: You seem to work 24/7. What do you do to relax?

A: I love what I do. If I can catch here and there a game of golf, raft a river, fish, hunt, or drive some horses (I can do many of these things in places I go to on business trips), I'm a happy man.

Q: Do you always travel by private jet?

A: I'd say 97% of the time.

Q: What was your first private aircraft experience?

A: It was in a Piper Navajo piloted by a man who was a minister – he always conducted Sunday services in the Village of Kohler. He was captain of our fleet and he flew the first flight of our company-owned aircraft. It was a flight to Nevada through the Rocky Mountains. We intended to land in Reno at 10:00 PM. Fortunately there was a full moon and a clear sky and we were able to wind our way through the Rockies flying



at about 12,000 feet, which is the highest we could go. A great number of these peaks were snowcapped high above us. It was a magnificent white-knuckle experience. It was something I never could forget.

Q: So the first plane you bought for the company was the Piper Navajo. And now what do you own?

A: Two Learjet 75s, a Global Express XRS, and a Gulfstream GIV-SP.

Q: What was your most recent purchase?

A: An upgrade of the two Learjets from the 45 to the 75.

Q: You bought the Global before that. Why did you choose the Global?

A: We wanted a great aircraft with long legs, and it was the longest legs you could buy at the time. We wanted a lot of space and good fuel economy and a good price.

Q: Do you have any plans to purchase any more jets and if so which would it be?

A: We're always upgrading, but there's no need for us to upgrade from what we have right now, at least in the near term. We're very comfortable with our Gulfstream, we love our Global and we like our Lears. Each has a different purpose and each does its job very well.

Q: How big is your aircraft staff?

A: One director, 10 pilots, two schedulers, and four maintenance technicians.

Q: How much thought do you give to catering on flights as opposed to leaving that to your director?

A: Usually my wife, if she's on the flight. In any case, we order from The American Club, our own hotel, so they know what we want, they know what we like; for the most part we're running without a stewardess, though occasionally we'll take one. It all works out very nicely — we're very well taken care of.

Q: Does an aircraft management company manage your aircraft?

A: No. We do all that.

Q: Do you ever put your planes out for charter?

A: No.

Q: How close an eye do you keep on expenses? Do you scrutinise the bills or do you take the view that if the maintenance and running charges fall within an expected range, that's fine?

A: We have a budget for each aircraft. The budget always covers all aspects of running that aircraft. And we have a long experience with most of these aircraft, so it's very, very seldom that we are surprised by anything that happens.



Q: Who does your aircraft maintenance?

A: Most maintenance is done in-house by our four technicians. Heavy maintenance and large scheduled inspections are completed by authorised service facilities. We request RFPs from various service facilities and choose one for each job based on cost, expertise, schedule, and location. Past vendors we have used include Jet Aviation (St Louis), Gulfstream (Appleton), Comlux (Indianapolis) and Flight Star (Champagne).

Q: Which FBOs and executive handling companies do you use around the world?

A: We are not exclusive to any particular FBO or handling company. We research cost, capabilities and reputation if there are multiple FBOs at a particular airport. FBO companies we have used are Signature, Landmark, Atlantic and TAC Air, to name just a few.

Q: When buying your own aircraft, which completion centre do you use?

A: Our past four new aircraft were completed in the aircraft OEM's facilities. Gulfstream-Appleton for our G-IV, Bombardier-Montreal for our Global Express, and Learjet-Wichita for our Lear 75s.

Q: What about your aircraft interiors, who chooses them? Does your wife choose them, or does the designer choose them?

A: We ask for a presentation of alternatives from the aircraft interior design department and then my wife and I design and select. Our Global has an interior like no other private aircraft.

Q: What makes it unique?

A: The Global has electronic chairs that enable eight passengers to sleep horizontally, each in their own private curtained or walled compartment. Each has their own personal wrap of bed linens and pillow. They can dine individually or in groups of four. We can make long trips comfortably, have confidential business meetings with two to eight people, get the work done and return rested, with or without an assistant.

Q: Why not just take off with your wife on one of your jets and go play? Why do you keep on working when you could be flying all day?

Because I love to work.

Q: What do you want your legacy to be?

He loved to discover and live on the leading edge. ■