
January 2008

What It Means to Be an Entrepreneur - Discussion Following the Remarks of A. Malachi Mixon, III

Discussion

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Recommended Citation

Discussion, *What It Means to Be an Entrepreneur - Discussion Following the Remarks of A. Malachi Mixon, III*, 33 Can.-U.S. L.J. 90 (2007)

Available at: <https://scholarlycommons.law.case.edu/cuslj/vol33/iss1/15>

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DISCUSSION FOLLOWING THE REMARKS OF A. MALACHI
MIXON, III

MR. HERMAN: Well, how about that? Mal, thanks for a wonderful description of what it means to be an entrepreneur, how you succeed, the kinds of motivations and luck, I guess, that comes into play. Let's have some questions now.

I think we had a lot of interesting comments from Mr. Mixon. The first on the list is the honorable Henry King.

DR. KING: Well, thank you.

Mal, what I wanted to find out is, when you invest in companies, do you have any standard data equity ratio that you always target so that the entrepreneurs have some stake in the enterprise themselves?

MR. MIXON: I am going to answer that question with two parts. My debt to equity ratio is determined by how much I can borrow. Royal Appliance actually was an asset-based loan. You have income-based loans and asset-based loans.⁴⁷ Banks that are interested are willing to lend about 35 percent on the inventory, about 85 percent on the receivables, and that number came up to a little more than \$4 million.⁴⁸

And the bank said, "Mal, you got to put something in it." So the answer is: I like to leverage as much as I can, put as little equity in as I can because that's the risk portion. If you grow the company and succeed, all that profit goes to you.

Now, the second thing is, I don't really care about ratios. If I am backing an entrepreneur, I don't care how much he puts in but I do care relative to what he has. If somebody is willing to put in all \$20,000 of his net worth and take a second mortgage, then he becomes a believer in my eyes.

I had a guy come to my house one night, and he is worth several million dollars. And he had decided he had to start a publication called "MBA." I didn't think there was a market for the publication. I don't see MBA's as a target market. He wanted me to invest in it, and I said, "How much are you putting in?" He told me \$50,000, and I said, "Get out of here. If all you are going to put in is \$50,000, given your net worth, I am not interested."

So what's really important is: Is the entrepreneur really committed? So that would be my answers to this. By the way, MBA made one publication, which was a beautiful publication; turned out they gave all the advertisers

⁴⁷ Allen N. Berger & Gregory F. Udell, *Small Business Credit Availability and Relationship Lending: The Importance of Bank Organizational Structure*, *ECON. J.* 1, 22 (2002), available at <https://www.federalreserve.gov/Pubs/FEDS/2001/200136/200136pap.pdf>.

⁴⁸ See generally Hilary Rosenberg, *Mining the Balance Sheet*, *CFO MAG.*, May 2001, at 106, available at <http://www.dushkin.com/text-data/articles/29435/body.pdf>.

free space in the first publication, and that's the only one ever published. They lost so much they never published the second edition.

But when you are investing with someone, when you are going to back someone, what's important is: Are they committed? Otherwise forget it. It is not going to work.

MR. HERMAN: Mal, we have these reading materials and the people can have a look at what's in this book, because there is some very good reference documentation. In the tab for the discussion that Mal has been leading us on, there is an interesting survey, and I wanted to get his comments.

There was a discussion by Transetter, and they research entrepreneurs to find out what are the factors most critical to business success for fast growth private companies, and I wanted Mal's reaction to this. If you look at the last page of that survey in that tab, it shows the most critical factor in a new fast growing company is retaining key workers.⁴⁹ The second most important factor is hiring qualified workers. And in terms of the ranking of those two items, they rank well above, well above all of the other factors that go into business success.⁵⁰ I wondered what your comments were.

MR. MIXON: I wouldn't agree with that. I think far and away the most important principle is the customer and understanding what the customer really wants and providing what the customer wants. When I bought Invacare, I spent the first 30 days out in the field interviewing – actually, Invacare made a standard folding wheelchair – and I went out, and first of all, they would tell me how screwed up Invacare was.

And I said, "Well, if they were a good company, I could not have afforded to buy it." Then they started describing the principal competitor and how they hated my competitor, Everest & Jennings. They are since bankrupt but had about 80% market share when I started.⁵¹

The Everest & Jennings chairs were institutional, heavy, ugly-looking wheelchairs.⁵² I soon learned that people with disabilities were angry because, in those days, they had no access to society.⁵³

MR. HERMAN: No ramps.

MR. MIXON: Right. So we were fighting legislatively to change it. And we now make one out of titanium aluminum that weighs 13 pounds.⁵⁴

⁴⁹ Trendsetter Barometer, Entrepreneur.com 4 (2007), available at <http://www.entrepreneur.com/misc/trendchart.pdf>.

⁵⁰ *Id.*

⁵¹ See generally Press Release, Graham-Field Health Products, Everest and Jennings International LTD. to be Acquired by Graham-Field Health Products, Inc. (Jun. 19, 1996), available at <http://www.secinfo.com/d1112.93.d.htm>; see History of Wheelchairs and Power Add-On Units, http://scholar.lib.vt.edu/theses/available/etd-12898-174432/unrestricted/literature_review.pdf (last visited Nov. 4, 2007).

⁵² See generally History of Wheelchairs, *supra* note 51.

⁵³ *Id.*

MR. HERMAN: This is new technology.

MR. MIXON: This is all new. We introduced the first microprocessor computer in the motorized wheelchair market.⁵⁵ You're all familiar with Christopher Reeve. He was a C-1, which is the highest level of spinal injury, and he used our chairs.⁵⁶ But every company I buy, I want to talk to the customer, and I guarantee you, if every one of you went with me, I will come back with a list of stuff you need to change about the product and the service.

When I entered this business of customized wheelchairs, it took six weeks to deliver it,⁵⁷ and today we deliver in five days. We invented one-stop shopping, which is we brought under the umbrella all these home-care products.⁵⁸ So when you go home today, you make one phone call to Invacare. Customers are what we are in business for, not ourselves. Profits are a result of achieving excellence.⁵⁹

Every one of us has a choice: When you choose a wife, a car or house, you compare. Your job is to make sure that the customer's choice is what you have to offer.

MR. HERMAN: But that meant –

MR. MIXON: But give me a second. If you don't have a customer and you don't have a product, sure, you want to have good people, and you have to have good people and you want to be a good recruiter. We treat our people very, very well. They are paid well and treated well. We have no assigned parking places.

We eat in the same lunchroom; have casual dress and direct access to management. We don't care if you went to college, whether you have an MBA, doesn't matter. It is what you do, and that's the way the people feel, and that's more important to most people than whether they make an extra \$5,000.

MR. HERMAN: When you took over Invacare and saw the need to respond to the customer's needs, you have to develop a new product essentially or change.

⁵⁴ Invacare A4 Titanium Ultralightweight Active Performance Rigid, http://www.invacare.com/doc_files/P2002_104_TITANIUM_T4.pdf (last visited Oct. 13, 2007).

⁵⁵ See Invacare Corporation, *supra* note 13 (Invacare was the first firm to produce a motorized wheelchair with computerized controls).

⁵⁶ See, e.g., Kim Palmer, *Recharging Invacare*, SMART BUS. CLEV., Oct. 2003, available at http://www.sbnonline.com/National/Article/124/5413/Recharging_Invacare.aspx.

⁵⁷ See generally *id.*

⁵⁸ *Id.*

⁵⁹ Cf. Werner J. Reinartz & V. Kumar, *The Impact of Customer Relationship Characteristics on Profitable Lifetime Duration* 5 (Insead R & D, Working Paper 2001/108/MKT), available at <http://www.caplix.com/pdf/Profitable%20Customer%20Relationships.pdf>.

MR. MIXON: You have to change what you got because it changes – our product development cycle is now 14 months and it used to be two years. So we are trying to be faster in innovation. If you don't innovate and replace what you have, your competitor is going to eat your lunch.⁶⁰

Sometimes the pioneers are the ones that get the arrows in the back, because the second guy comes in with something that is better. So you have to keep innovating, and there may be patent lawyers in the audience, but I think patents slow down the process. They don't stop anything. J. B. Richey can design around any patent I have ever seen. We try to patent things. But it is innovation, being first to market, having the thing you want. Everybody always wants it to do something more: smaller, cheaper, or another color. We make 60 different colors in wheelchairs.⁶¹

MR. HERMAN: But did you find when you took over the business, you had the in-house expertise, or did you have to get new people in the process?

MR. MIXON: I took what I had, which was only 300 people. I have 6,200 now. I recruited; I didn't summarily fire everyone. I had a strange event on day one. My background is sales and marketing – I had just purchased the company, and the sales manager had been canned from J & J. He comes in my office and says, "I want a bonus for the previous year."

And I said, "That's somebody else's responsibility, not mine. I am not paying bonuses yet." This was January of the year but he comes in and says, "I am going to resign in December. I said, "December of this year, 12 months out?"

And he said, "Yeah."

And I said, "It is thoughtful of you, but I don't need you that long."

He said, "How long do you need me?"

I said, "What time is it? It is 2:00 pm. How about 4:00 pm?"

So I lost my VP of sales, whom I would have fired anyway.

Today we are doing around \$6 million in sales per salesperson vs. \$1 million in 1979. They are extremely well paid, and nobody can pirate them. I pay them more than anybody so my competitors can't pirate them. I want them to make even more.

DR. BARBER: I enjoyed the Robert Frost analogy at the end, but it made me wonder if you take the path less traveled with those – all those entrepreneurial types, it seems to me there must be another cross in the road,

⁶⁰ See e.g., Maria Vassalou & Kodjo Apedjinou, *Corporate Innovation and its Effects on Equity Returns* 3 (1st Annual UBC Finance Conference, 2003), available at <http://www2.gsb.columbia.edu/faculty/mvassalou/CI2.pdf>.

⁶¹ Cf. Invacare, http://www.invacare.com/doc_files/P1995_66_9000_XT.pdf (last visited Oct. 13, 2007) (Many different colors and frame options for wheelchairs are available from Invacare).

at least in Canada, and most of them would at that point take the path well traveled.

I wondered if you felt here in the United States that you have taken another step in a path less well traveled. The reason I ask this is because even amongst entrepreneurs in Canada, to talk the way you do about the customers does not happen. That's not a path that is taken.

MR. MIXON: Well, you know, I only know what I know and what has made me successful. And I can't say the entrepreneurial path is for everyone. If I talk about the entrepreneur, the next guy that takes over Eaton Corporation from Sandy Cutler, he is going to make a hell of a lot of money.

The guy that runs the corporation, they are making huge money. I am sure I would have been fired at least three times had I pursued that route in my career because I am just not a good organizational type. I think one in a hundred new businesses succeed in America.⁶² I don't know what the Canadian ratio is.

Bob, what is the Canadian ratio?

MR. HIXON: Seventy percent.⁶³

MR. MIXON: Seventy percent. That's a little off from my statistics, but I am glad I am under 30, but what is failing?

There is no such thing as failing. I know men and women who tried and didn't succeed the first time around. And I was 39, and I said to my wife – my wife was very supportive of me doing this – I said, “Honey, what's the worst thing that happens? I lose \$10,000. I know I can get a good paying job.”

DR. BARBER: And she has a house and car.

MR. MIXON: She still has it.

By the way, you have a great country in Canada. Invacare does very well there; number one market share in Canada.⁶⁴ As a matter of fact, Invacare is now number one market share in Europe, Canada, Australia and starting now just to market in the Far East.⁶⁵ We have factories now in China,⁶⁶ 40 factories around the world.⁶⁷ We market our products now to 80 countries.⁶⁸

⁶² PETER F. DRUCKER, *INNOVATION AND ENTREPRENEURSHIP 3* (Collins 2003).

⁶³ See generally Moren Lévesque, *UW Researcher Studies Why Some Businesses Succeed, While Others Fail*, U. OF WATERLOO, Oct. 26, 2006, available at <http://newsrelease.uwaterloo.ca/news.php?id=4795>.

⁶⁴ See generally INVACARE CORPORATION 2005 ANNUAL REPORT ON FORM 10-K CONTENTS, <http://www.invacare.com/HQ/EDITORIAL/20060331/2005Form10K.pdf>.

⁶⁵ See generally *id.*

⁶⁶ See PUTTING IT ALL TOGETHER, SUMMARY ANNUAL REPORT 2004, available at <http://www.invacare.com/HQ/EDITORIAL/20050408/2004AnnualReport.pdf>

⁶⁷ See generally *id.*

⁶⁸ See generally *Our History*, *supra* note 7.

When I began, we sold only in the United States in 1980. We redefined our company as a world company, not just a U.S. company.

MR. HERMAN: Just can you tell me a little bit about China because it is something that we have addressed here at the Institute and what's the proper China strategy? It is a little bit off topic, but I thought we might address it.

MR. MIXON: I really pride Invacare on being the low-cost producer, and we are the highest profit company, and we put most of our U.S. competitors out of business, and suddenly we started seeing imports and knockoffs and copy cats from China at prices 25 percent below our prevailing prices.⁶⁹

So we have had to – and probably we are a little late doing it, late in moving more of our manufacturing to China – we are in a free world economy. I don't have time to debate all the rules and whether you are going to have protectionism, but survival is what it is about. We have a huge purchasing office in Hong Kong where we procure over \$200 million per year, and I have two factories in China.⁷⁰

Today about 20 percent of our cost of goods sold come from China, and within three years, 40 percent will come from China.⁷¹ The Chinese government is more cooperative and capitalistic than Americans. I am talking about all the red tape you go through trying to get permits, and it is very easy.

My companies are in plants and parks that are far more attractive than anything you will see in Cleveland, and my labor rates vary from \$30 in Germany to about \$15 in Ohio to about \$3 in Mexico down to \$0.50 in China. If you want to know how much you can save, take a payroll and subtract it. But I have had to give it up in pricing. It has not been for profit but survival to compete with the Chinese companies.⁷²

MR. CUNNINGHAM: Is any of your Chinese production coming back to the United States?

MR. MIXON: Oh, yes. It is all coming back to the States or to Europe. It is a worldwide production operation.⁷³

MR. CUNNINGHAM: What does that do as far as production in the United States in terms of jobs and things like that?

⁶⁹ Cf. Pete Engardio & Dexter Roberts, *The China Price*, BUS. WK., Dec. 6, 2004, available at http://personal.georgiasouthern.edu/~mmcdonal/the_china_price.doc (China forcing certain manufactures to compete with lower prices).

⁷⁰ Cf. Peter Krouse, *Opening Plant here is a Walk in the Park*, CLEV. PLAIN DEALER, Dec. 11, 2005, available at <http://chinasourcenetwork.com/Plain%20Dealer%20SIP%20article%2005.htm> (Invacare has manufacturing facilities in China).

⁷¹ *Id.*

⁷² Engardio & Roberts, *supra* note 69, at 1.

⁷³ *Id.* at 3.

MR. MIXON: We reduced it and will keep reducing it, and we announced that publicly.⁷⁴ But I am just telling you manufacturing is in serious trouble in this country if you have international competition.⁷⁵ If you don't, you know, that's fine. But that's the way it is, and we are in a world business today.

MR. HERMAN: Well, the hour is upon us as Henry has reminded me, visually and otherwise. I would like to thank Mal Mixon for an excellent presentation. So please join me in a hardy round of applause.

⁷⁴ Krouse, *supra* note 70.

⁷⁵ Engardio & Roberts, *supra* note 69, at 1-3.