

Not a Fool, Not a Saint

by Thomas Teal

Malden Mills owner Aaron Feuerstein was both ridiculed and canonized when he kept his 1,000 employees on the payroll after a fire burned down his factory last Christmas. But now he's proving that treat workers well is just plain good business.

At a European trade show in Brussels during the first week of September, Malden Mills of Lawrence, Massachusetts introduced a broad new line of high-end upholstery fabrics. Buyers snapped up the sleek material, derived from the company's hugely successful line of Polartec and Polarfleece apparel knits. A victory, certainly. And one more step in an uphill comeback by a factory that suffered one of the biggest industrial fires in New England history less than a year ago, a factory whose owner achieved heroic stature by keeping more than 1,000 jobless employees at full pay for several months after the blaze.

Yet Aaron Feuerstein, owner, president, and CEO of Malden Mills, has good reason to feel unappreciated. It's true that his work force adores him, that almost every newspaper, TV station, and business magazine in the U.S. has sung his praises, that Bill Clinton invited him to Washington for the State of the Union address, and that columnists, unions, and religious leaders all across the country have declared him a saint. But much of this celebrity is based on the misleading premise that this 70-year-old acted selflessly, against his own best interest, which is another way of saying that he acted the way a saint might act: irrationally.

In fact, it seems pretty clear that some people call Feuerstein a saint because they don't quite have the courage to call him a fool. They don't think he should be rebuilding his mill, at least not in Lawrence. They think he should have pocketed the insurance proceeds, closed the business, and walked away. Or else they think he should have grabbed the chance to move the company to some state or country with lower labor costs.

Some commentators have even accused him of risking the very survival of his business with a lot of grandstanding magnanimity that served no purpose by self-advertisement. There's a suggestion that real businessmen are tougher than Feuerstein, that responsible owners never pay any employee a dime more than they have to, and that no factory owner could possibly have done what Feuerstein has done unless he'd been touched by God or just touched, period. These people, for instance, argue that Feuerstein certainly could have skipped the grand gesture of paying out some \$15 million in wages and benefits to already overpaid workers when they no longer had a place to work. One business school professor has suggested pointedly that not everyone should look to him as a model.

Most of this carping is nonsense. But in a way, so is much of the praise. Why in the world should it be a sign of divinely inspired nuttiness to treat a work force as if it was an asset, to cultivate the loyalty of employees who hold the key to recovery and success, to take risks for the sake of a large future income stream, even to seek positive publicity? These are the things Aaron Feuerstein has done, and most people stand in amazement as if they were witnessing a miracle or a traffic accident.

I was one of them until I discovered that Feuerstein is at heart a hard-nosed businessman. He has some minor eccentricities—a weakness for little bursts of Shakespeare, a tendency to

wander off into far corners of the room as he thinks and talks—and his Old Testament intensity and biblical pronouncement can be slightly intimidating, despite his warmth. The two hours I spent with him, however, convinced me that he is a tough-minded as he is righteous, a man entirely up to the job of running a factory for profit.

Take downsizing. Would anyone have guessed that Feuerstein was a devotee? At one point, as he was warming to an attack on the unconscionable Al Dunlap (the man who dismantled Scott Paper and fired a third of its work force), I interrupted to suggest that maybe Scott Paper was overstaffed, and Feuerstein surprised me: "If one-third of the people in that company were wastefully employed, then Dunlap did the right thing." And then the new patron saint of working Americans surprised me some more. "Legitimate downsizing as the result of technological advances or as a result of good industrial engineering? Absolutely. I'm in favor of it. And we do it here all day long... We try to do it in such a way as to minimize human suffering, but the downsizing must be done." Under the benevolent, angular exterior lurks a businessman—a businessman who understands labor. The trick, he told me, is to keep growing fast enough to give new jobs to the people technology displaces, to weed out unnecessary jobs "without crushing the spirit of the work force." If all you're after is cutting costs, if you "just have a scheme to cut people—that sort of thing is resented by labor, and you're never forgiven." Feuerstein has a union shop, has long invested heavily in technology that eliminates jobs, and has never had a strike—not exactly the hallmarks of a fool.

Or take the insurance question. Feuerstein could certainly have closed the factory, sold the business, pocketed the proceeds, and spent the rest of his days in a hammock. But men in their 70s who still come to work every day for the sheer exhilaration of the job don't turn to hammocks in a crisis. His decision to rebuild seems to have been spontaneous and immediate, made more or less by the light of the flames and without much thought to the insurance proceeds. And still it was a rational decision. Factories are insured for their replacement cost, and if you don't replace them, you have to settle for the depreciated value of the lost building and machinery, in this case a lot of modern machinery and several antediluvian buildings. You can solve this equation without the higher math. An insurance payoff is likely to be much larger when it's taken as a contribution toward a state-of-the-art manufacturing facility, partly because it has the potential to produce income for your family for two or three generations to come. Last year's pre-fire, pre-tax profits was \$20 million on sales of \$400 million. Twenty million times two or three generations comes to an awful lot of money.

Or take self-advertisement. Feuerstein has not been shy with the media. Malden Mills has been featured everywhere from *People* to *Dateline* to the Lands' End Catalogue, and its all been free. What's more, if the insurance settlement should wind up in court—not wildly improbably—will it hurt Feuerstein's chances of winning that half the people in the country worship the ground he walks on? Do insurance companies care about their reputations? You bet.

As for the idea that he might relocate the company somewhere with lower wages, Feuerstein moved the company to Lawrence (from Malden, just outside Boston) in 1956, at a time when New England textile mills thought local labor too expensive and were streaming south like carpetbaggers. A great many of those companies failed anyway, despite the lower wages they spent so much money to find, and Feuerstein is sure he knows why: They gave too much attention to costs and not enough to quality. He responds with contempt to suggestions that Malden Mills should move offshore. (Labor in the South is no longer such a bargain.)

"Why would I go to Thailand to bring the cost lower when I might run the risk of losing the advantage I've got, which is superior quality?" In any case, he goes on, lower wages are a temporary advantage. Quality lasts. At least it *can* last if you focus hard on expertise and the freedom to innovate. But to do that, you have to focus hard on employees. When Feuerstein came to Lawrence, he wasn't looking for cheap labor but for skilled labor—capable, experienced, textile designers, engineers, and workers who could give him the edge he needed to compete more effectively.

It's here he has shown his real genius. Any idiot with a strong enough stomach can make quick money, sometimes a lot of it, by slashing costs and milking customers, employees, or a company's reputation. But clearly that's not the way to make a lot of money for a long time. The way to do that is to create so much value that your customers wouldn't dream of looking for another supplier. Indeed, the idea is to build a value creation *system* of superior products, service, teamwork, productivity, and cooperation with the buyer. Reduced to its essence, that means superior technology and superior employees. Reduced still further, as Aaron Feuerstein can tell you, it means superior employees. The correlation between loyal customers and loyal employees is no coincidence.

For Malden Mills, the first test and the breakthrough came in the early 1980s with the total collapse of the market for what was then a company mainstay—artificial furs. It was the R&D and production employees who saved the company over the next few years, using their superior expertise in synthetic fibers, napping, and finishing to create a series of lightweight, thermal, resilient, woollike fabrics under the brand names Polarfleece and Polartec. They look good, feel good, wick well, don't pill, and hold up to repeated washing. Moreover, they're all engineered to order. The retailer wants, say, a fabric for cyclists that's windproof and light but also soft, absorbent, and quick-drying. Malden's ability to satisfy such orders has made Polartec a favorite of upscale retailers like Lands'End, L.L. Bean, Patagonia, the North Face, Eddie Bauer, and a dozen more.

Best of all, these customers are loyal. Customer retention at Malden Mills runs roughly 95%, which is world class. Employee retention runs above 95% which is prodigious but can hardly come as a surprise to anyone familiar with Feuerstein's approach to personnel. As for productivity, from 1982 to 1995, revenues in constant dollars more than tripled while the work force barely doubled. Compare that with an overall productivity increase for the U.S. of a little better than 1% per year. Thanks to its employees, Malden Mills has risen from at least one five-alarm crisis in the past. No wonder Aaron Feuerstein loves those employees enough to risk \$15 million to keep them available and motivated and to help him rise from the literal ashes of last year's catastrophe. This isn't the work of a saint or a fool, it's the considered and historically successful policy of a genial manufacturing genius who might serve as a model for every man and woman in business.