

**WHY PEACE IS
BULLISH FOR
ARMS MERCHANTS**

**WHERE THE
NEW JOBS ARE
COMING FROM**

**RICHARD BERNSTEIN,
CONTRARIAN
PAR EXCELLENCE**

OCTOBER 3, 1988

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Forbes

**THE RICHEST
ENTERTAINERS**

**ELVIS PRESLEY
DIED IN 1977.
GUESS HOW MUCH
HE WILL EARN
THIS YEAR?**



ROBERT
GROSSMAN



Where are the economy's needed new jobs coming from? Not from government, but from the wonderful and often strange workings of an entrepreneurial economy.

How Gus Blythe smelled opportunity

By Dyan Machan

GUS BLYTHE, 28, may not be the next Steve Jobs, but like Jobs he found and exploited a market niche that bigger companies had neglected. Gus Blythe is the Steve Jobs of dirty shoes.

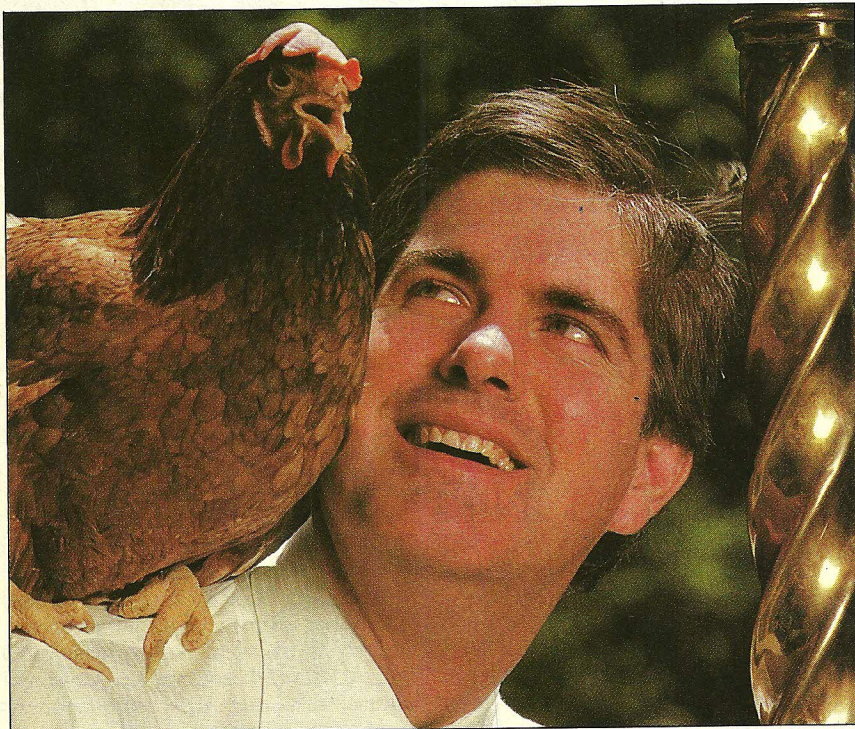
In 1981 Blythe was attending California Polytechnic and earning spending money working in a sporting goods store when he—literally—smelled a business opportunity. "I was constantly being asked by customers how they could keep their athletic shoes clean," Blythe says.

Blythe wasn't much interested in

the courses he was taking to earn an agricultural degree, so he convinced his father, a wealthy California rancher, to allow him to tap his trust fund, set up to finance his education. Why not educate himself by doing, instead of by studying? Let him use the money to start a business. Opportunity? "There are over a billion athletic shoes in this country. Somebody's got to keep them clean."

With the help of a friend, Blythe found a chemist to formulate a cleaning fluid, and that was the start of SecondWind, of Paso Robles, Calif., in 1982. Since then Blythe says he has sold more than 2 million plastic bot-

Michael Carroll



*Randall Wise of Animalens
Making chickens see red.*

les of the stuff for about \$4 each.

Besides satisfying Gus Blythe's itch to get out of school and into action, his thriving little business has created ten new jobs—in sales, warehousing and administration. This makes Blythe a small but not atypical example of the unleashed entrepreneurial forces that have in the past six years created at least 12.9 million jobs. Most of those jobs came from small companies. Many of these companies are bigger than Blythe's, but many are not. Companies with fewer than 20 employees are expected to create 35% of all new jobs next year.

Pessimists argue that too many manufacturing jobs have fled to cheaper labor markets overseas and that the newer jobs are represented by the "help wanted" ads at the shopping mall and local hamburger stand for minimum-wage jobs. "We are," they argue mindlessly, "becoming a nation of hamburger-flippers." False.

Fact is that at least half of the new jobs in the service economy are for managers and professionals. (Those "help wanted" notices at the hamburger joint signal something else—a scarcity of able and willing teenagers.) Of the new jobs, only 12% are low-paying, like fast-food workers and janitors. Low-wage jobs have actually been declining precipitously—resulting in hard-core unemployment among the unskilled and uneducated, but not in the economy at large.

Why, then, the propaganda about hamburger-flipping? Because it's hard to keep track of the small, mostly private, jobmakers. Massive steel plant closings are big news. Multiple openings of small businesses are not.

Service work covers a bewildering variety. Take Randall Wise, of Wellesley, Mass., who's trying to build a business making contact lenses for chickens, or Karen Kimbrough, in New York, creating makeup for accident victims.

Or Gerald Goldhaber, who has made a tidy business as an expert on consumer warning labels. Goldhaber, 44, associate professor of the State University of New York-Buffalo communication department, has written a dozen books on communications theory. He had a thriving market research consulting business when he was asked to design a product warning label. More than just typing up some cautionary words, this involves some research to find out what consumers know—and what they don't know, because it is what they don't know that can lead to lawsuits.

In 1985 his Goldhaber Research Associates was studying where to place a



Joseph Frohnhoefer, founder of Sea Tow International

With the Coast Guard chasing drug smugglers, somebody had to tow stranded boats.

warning for toxic shock syndrome on boxes of Playtex tampons. That earned his outfit \$75,000 for about six months of effort, but here's the clever part: There was a built-in annuity. When Playtex was sued a few years later, who was their expert witness? Goldhaber, of course. Now that he's an expert in the field, Goldhaber can earn as much as \$3,000 to \$3,500 a day. Last year the company cleared \$900,000 in pretax income on revenues of \$2 million. Goldhaber employs 50, none at minimum wage.

Joseph Frohnhoefer was a high school shop teacher and part-time marine policeman in 1983, when the Coast Guard cut back on towing stranded pleasure boats to concentrate on running down drug smugglers. Frohnhoefer took his savings and started Sea Tow International in Southold, N.Y. For a \$95 to \$150 service contract, depending on boat size, customers get unlimited tows for a year. Frohnhoefer gets 12.5% a year from each of his 25 licensees.

Frohnhoefer has plenty of competition. Instead of referring a call for help to Sea Tow, the Coast Guard now issues an all-points bulletin, creating



The founder of Esteem by Karen Kimbrough (left)

"Everyone wants to look like Christie Brinkley."

John Livzey/Dot

Sunglass Huts of America's Sanford Ziff
Selling \$300 shades in 200 malls.

Bill Wax



a free-for-all for fishermen with a boat and a tow rope. If no one responds in ten minutes, the Coast Guard will do the run. Will Frohnhoefer's business sink? "Sometimes I wish I could be an employee," he sighs, but adds with resolve, "I don't quit." He's not in the black yet, but the business is growing. It currently employs six people direct-

ly, and licensees employ another 150. "We want to be the AAA of the water," Frohnhoefer says.

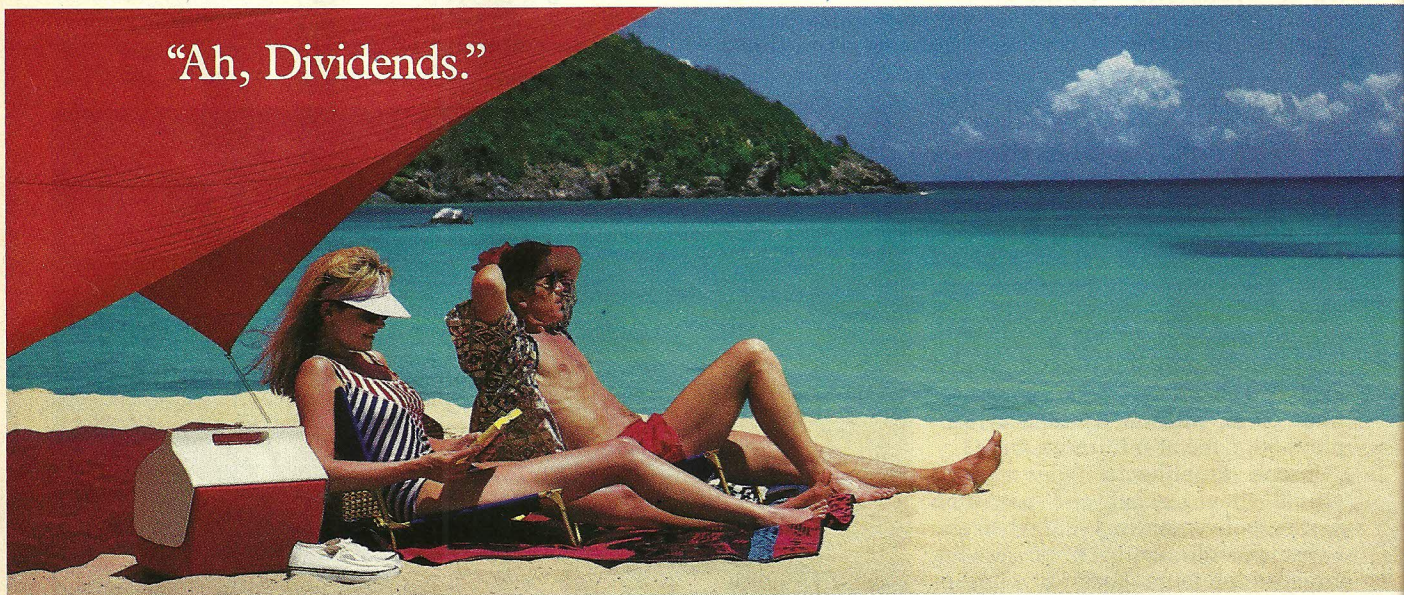
In the late 1970s Stanley Rhodes was in the natural-food wholesaling and retailing business. He noticed that some natural-food purveyors were regularly buying peanuts rejected by the big food processors like

Skippy or Jif for containing aflatoxin, a toxic mold. "It was 'organic' in name only," says Rhodes. Consumers, Rhodes decided, "had no way to identify what was organic or not."

A chemist by training, Rhodes, 46, used all his \$300,000 in savings to start NutriClean, in Oakland, Calif. The company tests a grower's produce for harmful chemicals. If it's clean, the grocer can advertise the product as NutriClean certified. "It's a sort of Good Housekeeping seal of approval," says its founder. Eight supermarket chains pay \$100,000 a year or more for the service: The business employs 12 people. Low-paid menials? Hardly. Rhodes says his biggest problem is hiring enough entomologists, food technicians, chemists and marketing types to keep up with his demand.

When Randall Wise, 40, started his first company, Graphic Communications, he says, "Everything was on the line. The house, the car. I bet everything except the kid's education." Then came the payoff. In 1986 he sold the software company for a reported \$12 million to Lotus Development Corp. and went to work for Lotus. But Wise decided he was more comfortable as employer than as employee. Leaving behind \$200,000 in stock op-

"Ah, Dividends."



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tions, he quit Lotus to start making contact lenses for chickens. The concept is not as crazy as it seems: Chickens have a gruesome habit of pecking one another to death, and 25% of the birds regularly die this way unless preventive measures are taken. Place red lenses on their eyes, and the fatality rate slips to 5% to 7%. Another strange benefit: Chickens with red lenses are less active and eat less. Wise figures Animalens, his Wellesley company, can shave a farmer's feedbill by 5%. Wise's new company employs six people.

Karen Kimbrough, 46, first started thinking about a special line of makeup for accident victims while working for Clinique. She noticed that women who had undergone reconstructive surgery or face-lifts were desperate for products that would cover bruises and make them look good. "Even with a serious disease, you still want to look like Christie Brinkley," she says.

At first Kimbrough was afraid to go out on her own: "I was born in a small town in Louisiana and had no female role models. It was hard for me to visualize myself running a company." A friend helped her write a business plan, and another's contacts led to startup funds from Worms America.

Corporate Child Care's Marguerite Sallee
Turnkey child care centers.

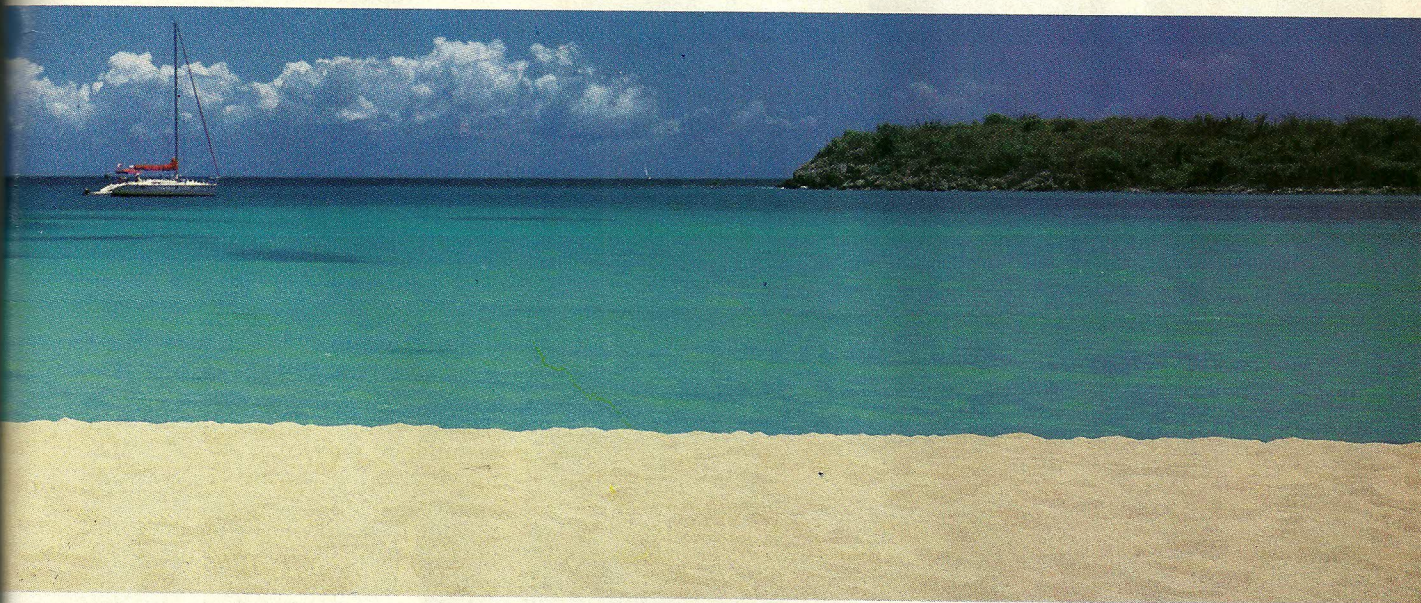


Rich Mays

The result is a 21-product cosmetics line, Esteem by Karen Kimbrough, that is on sale in six hospital pharmacies. With five employees, Kimbrough is out beating the bushes for \$2 million to \$3 million from venture capitalists for that big marketing push.

Donald Beaver Jr., 36, of Bellwood, Pa., got his inspiration from the un-

likely combination of his wife's nylon stockings and kitty litter. He left college to run janitorial services with contracts to clean offices and local plants in central Pennsylvania. He hated cleaning grease spills, common in most factories. That dirty job entailed tossing kitty litter on the spill, letting it absorb the muck, then



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sweeping it up. To be more efficient, he started stuffing the litter into his wife's old nylon stockings and using that to sponge up the mess. After running out of stockings, he switched to athletic socks he bought at the Salvation Army. "Can you believe it? I mean, it's so simple. For a long time, even I couldn't see it," says Beaver.

He called his homemade devices Pig, for Partners in Grime. In 1986 he started selling Pigs to factories. Now he's given up cleaning and runs Tipton, Pa.'s New Pig Corp., which sold \$7.9 million worth of Pigs last year and is getting close to making a profit. That's about on track, says Beaver, who knows that few new businesses turn an immediate profit. Meanwhile, his company employs 139 people.

Gregory Hind, 42, a California athlete, and his friend Guy Wells, a teacher, built a flourishing business marketing earguards for water polo caps. Hind, who competed in the Pan American games in 1968, broke his own eardrum playing water polo.

Hind-Wells, a San Luis Obispo company, didn't stop with making and selling earguards. "I mean, how many water polo players do you know?" asks Hinds. The company moved to swimming goggles and bathing suits.

In 1979 sales were \$2.3 million. Wells wanted to do more contract work, but Hind, the son of Harry Hind, founder of contact lens solution maker Barnes-Hind, wanted to expand the line. Hind bought out Wells with \$20,000 of his own money. On his own and into hock, Hind had to hit on something fast. A few years earlier a local runner had approached him and Wells, asking for something sleeker than baggy old sweatpants to run in. Hind fashioned the first pairs of nylon running tights and sold them locally. Then track star Willie Gault wore Hind's tights in a *Sports Illustrated* photograph, and the product took off. With earnings of \$2.5 million on \$21.3 million last year, Hind's next challenge is maintaining market share and coming up with the next big

seller to keep his 400 employees busy when the fad cools off.

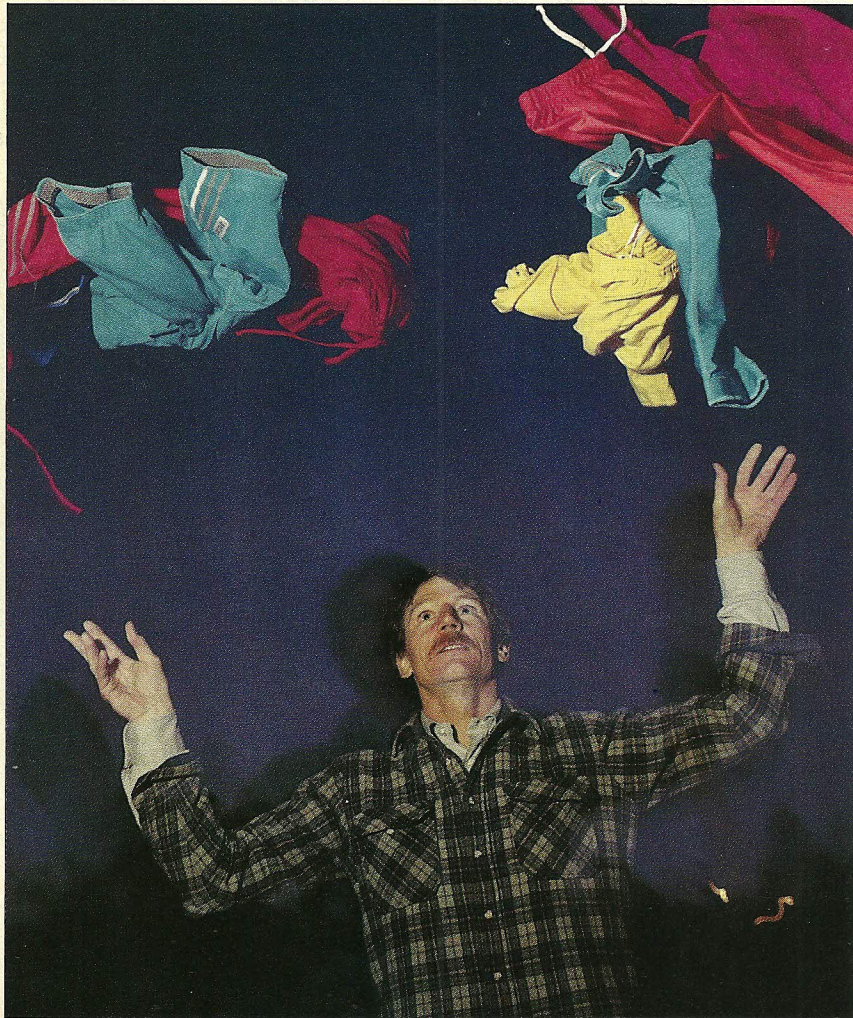
These are not isolated episodes in the Great American Sitcom. They may seem offbeat, or extreme, but that's the way the new economy is: incredibly complex, making goods and services that previously did not exist and that no group of central planners, no matter how smart, could possibly engineer. In this thriving, brawling, ever changing service economy, people are also doing the more conventional things. Opening restaurants, publishing magazines, providing new services in important areas like child care, information services, convenience foods and even eye care.

For example, entrepreneurial individuals are paying a lot of attention to a dead-serious need in our society—day care for children of working couples. Marguerite Sallee, 42, runs Corporate Child Care in Nashville, offering turnkey child care centers for corporations that want to offer day care for their employees. The corporations pay \$100,000 to \$200,000 a year, depending on the number of children, the region and what the corporation provides, like space. Parents pay as little as \$60 a week.

Or take eye care, in a society that is both increasingly faddish and increasingly myopic. Sanford Ziff, a 63-year-old optometrist in Miami, owns 51% of Sunglass Huts of America. These shops offer nonprescription sport and high-fashion sunglasses that run from \$30 to \$300 a pair. Ziff now has shops in 200 shopping malls.

Alfred Berg, Laurence Roth and Jeffrey White founded Marchon Eyewear Inc. in Melville, N.Y. Their firm imports eyeglass frames and distributes them to opticians. But they do it well. They ship frames the same day a doctor orders them. Marchon's sales have grown from \$4 million in 1983 to \$44 million last year. Berg is driving a Jaguar, White a Ferrari, and Roth is planning to move into a \$2.2 million new house. Jobs created: 165 to date.

Carl Randall and David Shick are seeking to exploit a new food processing technique that extends the period that food can be kept safely under refrigeration. Their Sausalito, Calif.-based Culinary Brands sells freshly prepared foods that are sealed in airtight pouches, cooked under a vacuum and sent to restaurants. Extending refrigerated shelf life from days to weeks allows even fancy foods like seafood terrine and rack of lamb to be made in Sausalito and shipped to, say, a hotel in Boston that wouldn't have enough demand to keep a full-time chef employed.



Greg Hind, cofounder of Hind-Wells
Something sleeker than baggy old sweatpants.

In Portland, Me., Parker Poole III has set up a charge card service at gas stations that allows trucking fleets to get better control of their fuel, maintenance and clerical costs. His company, Wright Express, also supplies totally attendant-free gas stations with ATMs (automated teller machines) where the company credit cards can be used. Wright Express now has 20,000 vehicles using its credit cards. Jobs created: 40.

Eighty years ago, when the U.S. still supported 32 million farmers, it was hard for people to see that the factories springing up all over the landscape could possibly absorb the people no longer needed on the farms. What could these factories make? Who could afford to buy the products?

We hear the same refrain again. Then it was: How do we keep them down on the farm? Now it is: How do we keep them in steel mills and auto plants? If the young can't get work in the steel mills and auto factories, where then? Some of the answers are above. They will produce new goods and services that enrich our lives and enhance our productivity.

The federal government draws up standard industrial codes for every type of business in the nation. But nearly every five years it must drastically change the codes because so many new industries keep cropping up. This year codes had to be made to cover people like Gerald Goldhaber, the consumer labeling expert. Previously, Goldhaber would have been covered in a code called management and public relations. Because of growth in that area, in 1987 the government split the code into five: management services, management consulting services, public relations services, business consulting and commercial nonphysical research. The same thing happened to codes for software, health services and engineering and architectural firms. In its revision the government added 19 new codes just to cover the vast expansion in service industries.

But never mind government statistics. Flip through the Yellow Pages. In a major metropolitan area, you will find listings for dog psychologists, companies that do nothing but organize closets and drug rehabilitation centers for teenagers.

Do we really need all these new goods and services? Fashion sunglasses? Warning labels? People to organize our closets for us? Who is to say? Some folks—a good many—thought we didn't need the automobile. Jet travel—who needed to get to London in six hours? Computers—just toys.



Culinary Brands' Randall and Sbick

Extending refrigerated shelf life from days to weeks.



Parker Poole, president, Wright Express

ATMs for gas stations.

Until goods and services are produced and face the test of the marketplace, nobody knows whether or not we really "need" them. And as the society becomes postindustrial, it becomes more complex, more specialized—and more efficient. Adam Smith's famed example of the pin factory has become refined to a point where the old Scotsman himself would be bewildered by the degree of

specialization that exists today.

But does anybody doubt that modern life, for all its confusions and anxieties, is a lot more comfortable for the ordinary person than that of yesterday? That even the humblest employee of these new businesses has a better and more secure life than the menial worker of yesterday? Aren't we all really better off with warning labels? And with shoes that smell cleaner? ■