

the WALL

BY THE END OF 1996, JOHN MCMANUS, COFOUNDER WITH HIS WIFE, GLORIA, OF Magellan's, a seven-year-old travel-gear catalog company, had reached the point where he could take no more. Magellan's was successful, mind you, was even then on its way to a third appearance on the *Inc. 500*—but McManus felt bled dry. Something had to give. And he figured he had only three choices: stop growing the company, hire a professional manager to take over, or sell.

All he knew for sure was that things couldn't go on the way they always had at Magellan's. It just wasn't worth it any longer, despite the fact that Magellan's was profitable and enjoyed a loyal following of customers who returned again and again for the company's electrical converters, passport wallets, water purifiers, and travel pillows.

"When employees call in sick, you're where the buck stops," says McManus. "You're where the buck stops with everything. It's this gradual, slow dawning

that things are not as fun as they were. And that the investment in having your own company is not paying off as you thought it would. Yet you feel the huge pressure of keeping this 'child' growing, because you feel you don't have any other option."

But now he would look at his three options whether he believed they were smart or not. After all, he and Gloria were physically stretched to the limit: Gloria, age 53, was running the catalog call center, the distribution operation, and the company's one retail outlet; John, age 55, was in charge of sourcing

products, merchandising, and virtually everything else. "It seemed like more than any person could possibly handle," says Gloria. So McManus, the CEO, considered option number one, grounding sales—only to recognize that Magellan's wouldn't survive if he did. The travel-goods industry was moving forward, and he wanted to be on that train, not be run over by it.

"I've got all these opportunities," McManus remembers telling his good friend Bob Manning, a fellow entrepreneur and an experienced CEO of other people's companies, "but I can't take advantage of them. I spend all my time hiring people." It was Manning who'd helped McManus devise the original plan for Magellan's, and McManus returned to him often for guidance. "Bob," said McManus in the midst of a New York City restaurant conversation that he

PHOTOGRAPHS: MICHAEL GRECO

Even if you really love your company, the day may come when it feels like a trap. But there is a way out—as John and Gloria McManus learned

BY SUSAN GRECO

calls *My Dinner with André*, "what am I going to do?"

Manning felt sorry for his friends. "The company was running fine, but the amount of energy required was too much for John and Gloria. Working 20 hours a day, seven days a week is no life. It was killing them to do it."

Well, there was option number two: going the professional-manager route. To the McManuses, it sure sounded wonderful. Hire someone to take over the day-to-day headaches? Yes. The worse the McManuses felt, the better the alternative looked. The choices had been narrowed to hiring someone or selling out—"and I thought that if we could only get help," says Gloria, "John would stop thinking about selling." The couple finally hired an executive in spring 1997. The honeymoon lasted a few days. Then they regretted their decision. Now almost halfway into 1997, and down to the final option, John McManus contemplated door number three: Take the money and run.

"We were ready to jump ship," McManus admits. Selling out seemed like the only way the couple could get their life back. But several advisers—McManus's lawyer and Manning included—warned him against it. They told him how arduous negotiations would be. Worse, they said he wouldn't get a good price for a business still so heavily dependent on its owners.

And that's when McManus lost it. "Fine," he thought. "If I can't sell this company for what I want," he told Manning, "then I'll take what I can get."

It was his last, desperate recourse, and the darkest moment he'd known in his eight years building Magellan's. Nothing had come close to feeling so painful. Not the time McManus fell ill with pneumonia in 1990 and Gloria brought him orders to inspect "while I lay on my deathbed." Not even the Friday before Easter in 1995, dubbed the "Good Friday Meltdown," when the network crashed and hundreds of orders had to be reconstructed by hand. Nothing was as bad as this defeated bailout.

But then it got worse. McManus realized that not even "taking what I can get" would rescue him and his wife. The way Magellan's was managed, any sale—even at a distressed price—would in all likelihood depend on his and Gloria's continued heavy involvement. So even the option of selling out wouldn't solve anything.

And if selling out wasn't a real choice after all, then what was? It was as if John and Gloria McManus had hit the wall and finally—desperately—run to what they'd always believed was the emergency exit, the sellout, the escape route they could count on, only to find that the exit was locked.

It's There. You Will Hit It.

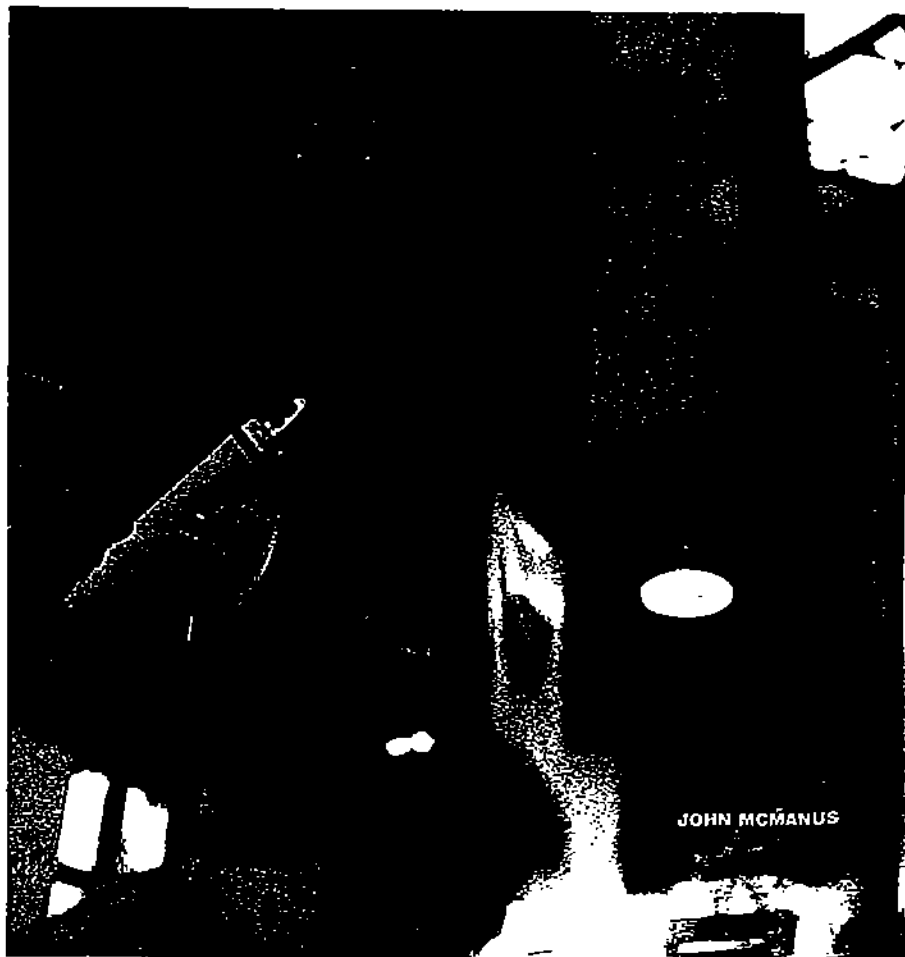
FOUNDERS DON'T IMAGINE THE WALL before they hit it. The term is so vague that it's almost incomprehensible. Mention it to veteran entrepreneurs, however, and they know immediately what you mean—the way parents understand things their friends without kids can't. The wall may be that moment when your old tactics suddenly stop working, or when you can't lug your company to that "next level" it needs to reach, or when the problems and frustrations and burdens of leadership suddenly feel too heavy to carry for even one more day. Sometimes the wall is that moment

when you simply run out of gas.

That John and Gloria McManus hit the wall shows, for one thing, how hard it is to avoid. By the time they launched Magellan's, in 1989, they were already unusually experienced, thoughtful, deliberate businesspeople. They'd forged their strategy after years in the travel business (they had met and gotten married while at Pan Am), and they had seasoned advisers like Manning to turn to. By the time the couple hit the wall full force—both physically and professionally—their company had already turned an important corner. Magellan's was consistently cash positive by 1993 and profitable every year but one thereafter.

What's more, the McManuses, being more self-conscious than most about the company-building process, saw the wall coming. Despite the increasingly overwhelming "grind" of daily demands, McManus wrenched his head above water and sought insight, advice, and solutions

'THE AMOUNT OF ENERGY REQUIRED WAS TOO MUCH FOR JOHN AND GLORIA,' SAYS MANNING. 'WORKING 20 HOURS A DAY, SEVEN DAYS A WEEK IS NO LIFE.'



JOHN MCMANUS

anywhere he thought he might find them. (As we'll see, that search led him to two of the country's wisest analysts of the entrepreneurial experience.) But the McManuses hit the wall anyway. And it would not be until they questioned their own most basic assumptions about "the way Magellan's was managed"—the company's dependence on them, the heroic-leader model they'd brought into the company from day one—that they would have a shot at doing what few founders can when the wall confronts them: getting through it.

They'd been trying to get through it—or maybe skirt it entirely—since 1995, a year that was in many ways the best of times and the worst of times. "Growth was fierce," recalls McManus, which meant he and Gloria were putting in more hours than ever. From 5 in the morning to 9 at night. All-nighters. By June 1995, the end of the company's fiscal year, sales had risen 60%, to \$3.6 million. There were 40 employees by then, up from 16 in 1993. Gloria was exhausted but hopeful. "We were stretched to the limit, but I felt there was no end to what we could do."

Keeping the faith was tougher for John McManus, who was overwhelmed trying to write and produce the catalog, hire people, pay the bills, run interference with the bank, meet with dozens of vendors, and settle employee issues. In 1995 the owners borrowed money to move out of the space they were in—a Quonset hut, a barrackslike structure made of metal. A certain black humor had set in. There was a quiz game they used to play, says McManus. "The question was, How many leaks does this building have? The correct answer was 10." One day a rat severed the network connection.

"That was the first time I thought about selling the company," says McManus. "It probably would've been worth \$250,000 at that point. Gloria's response snapped me out of it." The McManuses convinced themselves things would get better when they got more help and moved out of the rat shack.

So in 1995, in one of the couple's earliest conscious attempts to change how they ran the company, McManus hired his first manager, for finance—someone to ostensibly free him from the burden of managing cash flow. That year he also brought in several catalog consultants to help him redesign the

catalog. Gloria, for her part, hired her first manager to run the call center, the heart of Magellan's.

None of the fixes worked. The McManuses followed the advice of one catalog consultant, and sales took a quick drop. Gloria's call-center manager was gone in a matter of months. The finance manager bumbled his way through for several more years, never rising above the level of supervised check writer. "It was a matter of not knowing how to manage the managers. So there was no relief for me," McManus says.

The couple tried to give more responsibility to staffers who'd been around. But when they left the office for even a few days, all hell seemed to break loose. "It seemed further proof that we should never leave," says McManus. All the McManuses' experiences seemed to demonstrate that the survival of Magellan's depended on their personal attention.

So they had no time to enjoy Santa Barbara's serene mountains or shining sea. Memories of weekends spent sailing

were as deeply buried as the sea urchins McManus used to harvest as a commercial diver. "On an enjoyment scale of 1 to 10, we were at about 1," says McManus.

This Is Your Life (And You're Not Gonna Like It)

IN THE SUMMER OF 1996, IN THE SEA OF office mail a package arrived, as unexpected as a message in a bottle and as astonishing as a baby floating among the bulrushes. It was a book called *Corporate Lifecycles*, by Ichak Adizes, a consultant who also teaches at UCLA's graduate school of management. When McManus sat down to read it one day, he was shocked to find that the book described his life.

In what's widely recognized as groundbreaking research, Ichak Adizes makes the case that companies go through nearly universal stages not unlike human development. In telling detail, he describes the experience of leaving "infancy" and the "go-go" years and entering "adolescence." In a company's "infancy,"

'GROWTH WAS FIERCE,' RECALLS JOHN MCMANUS, WHICH MEANT THAT HE AND GLORIA WERE PUTTING IN MORE HOURS THAN EVER, FROM 5 A.M. TO 9 P.M.

Adizes writes, "it is normal that the founder is working long hours, does not delegate and makes all the decisions."

Isn't that the truth, said McManus. He read on.

During the "go-go" years, writes Adizes, "we have now reached a stage where the idea is working, the company has overcome negative cash flow and sales are up." The company is flourishing. "Sometimes he [the founder] feels he is invincible. As a result, Go-Gos usually will get into trouble by going in too many directions at the same time." Uh-oh. McManus could relate to that.

At the next stage, a "rebirth" takes place, more painful and more protracted than the original birth of the company. "The organization is being reborn apart from its founder—an emotional birth." Ah, adolescence. But many companies don't survive the preteen years, Adizes warns, because their owners fall into "the founder's trap." The founder is frustrated because he or she wants to pursue the company's abundant opportunities but can't, because it's impossible to get out from under daily chores since there are no systems and controls in place to make delegation possible. What ensues is a painful period of giving up some control and grabbing it back.

McManus was stunned to find himself in the pages. "It was like Adizes was reading my palm," he says. He copied passages from the book and sent them off to all his advisers. "Isn't that us?" he asked, as if sharing the results of an unbelievable session with a fortune teller. He felt inspired to take action. But what kind? In *Corporate Lifecycles*, Adizes advises hiring an "administrator"—an executive to establish systems and procedures, someone not like the impetuous founder. "The founder," says Adizes, "must pass the baton to the administrator at the right time...when the company is doing well."

Magellan's was doing well, but the going still wasn't easy. The process of searching for a top professional manager seemed daunting. McManus called his personnel agency and got it on the project. To his surprise, the agency got back to him fairly quickly with a candidate who on paper seemed ideal; he even had experience at companies both large and small.

But the McManuses dragged their feet. This was a big move. McManus wondered if they couldn't make it a little

longer without bringing on a high-level executive. Neither of them had given any thought to the equity question, much less to whether they'd have to pay this administrator more than they paid themselves. (Yes, they would.)

Finally, in early 1997, with the no-growth option dismissed and with things getting worse, not better, the McManuses interviewed and hired the recruiter's top choice. Bill Wilmer joined in March 1997. Wilmer was hired to take over many administrative duties. One of his first assignments was to help staff up the call center and create a formal training program. But he was also charged with putting together a strategic plan that would encompass establishing new policies and procedures, salary schedules, compensation committees, employee reviews, and more. Wilmer, by his own account, took to his job with relish.

To hear the McManuses tell it, though, he spent most of his time planning, even planning how to plan. "It felt like everything he did was on a scale for IBM," says Gloria. "Everything took too long. I couldn't cope with it."

John McManus felt so dumb. "How could I have hired someone so wrong for Magellan's?" he asked himself over and over. "This was the first time we'd done planning in eight years, and enough people hated it to think about leaving."

The cultural divide between the just-do-it style of running a company and Wilmer's careful, professional method seemed too wide to bridge. Yes, life with

an administrator was everything Adizes described. The clashes in style, the quick distrust. But it was one thing to read about it. Now, to his horror, McManus was living it. Once again there seemed no way out of the endless hours and the final responsibility for everything.

Says McManus, "With Bill, I felt I didn't have any hope of getting my life back."

Heroes Die Young

BUT THE MCMANUSES' BLINDING PAIN had the effect of making their hearing more acute. At a conference in May 1997, when the couple heard entrepreneurial counselor Lanny Goodman describe another way to think about growing their company, they were on the edge of their seats. Though whipped and desperate, they were still seeking solutions, and Goodman suggested a perspective-altering premise: think about yourself and your personal needs first, and your company's demands second. Goodman even promised a kind of miracle: think about yourself first, he said, and you will actually serve your company better, too. Quit trying to be a hero, he said. No one cares.

Two months later, in July, the McManuses went to Albuquerque, where Goodman met with them privately in his office for two days and listened—until, late on day two, he began offering prescriptions.

He said, "I want you to announce to the company, 'We're cutting back to 50

ICHAK ADIZES: ADVICE FOR SCALING THE WALL



Find a good mentor now. Owning a company "is like having a baby—you need a grandmother to talk to." Whatever you do... "Don't hire a second-in-command when you're feeling down or desperate."

Adizes is best known for... *Corporate Lifecycles*, the 1988 book—recently revised—that bravely sought to explain "how and why corporations grow and die and what to do about it." What *The Organization Man* did for corporate executives in the 1950s, *Corporate Lifecycles* does for today's entrepreneurs. Adizes not only understands your pain but also explains the underlying "sociological" causes. What's normal behavior for a company at one stage of development, he writes, is destructive at the next.

PHOTOGRAPH: YOLDI TARNER

hours a week.' And I want you to tell your controller, 'We will now be paying ourselves a higher salary.'"

"How can you say that?" they cried.

He said it again.

They were shocked. What cut the deepest? The idea of working so much less—or paying themselves so much more? Neither concept fit their image of what owners did—or abstained from—in the name of building a company. They just couldn't imagine it.

But Goodman could. As he listened to John and Gloria McManus make their confession, he knew something had to change radically.

Their confession went something like this: "For nearly eight years now," the husband and wife explained, "we've worked 80 hours a week. Sometimes 20 hours a day." They were a little embarrassed, hesitant. They stopped and started. "We haven't taken a real vacation since 1989," they said. Slowly, the details came out. "We can't sleep, we're so tired. We wake up at 3 in the morning thinking about work. It's what we think about in the shower. We started this business to enjoy some of life's fruits that were rotting on the vine, and here we are, working 80 hours."

"It was obvious," Goodman recalls, "these were sweet, kind, loving people—and it shows in their catalog and in their customer service." However, he says, it was equally apparent they had paid a hefty personal price. "So many entrepreneurs end up working for their companies instead of having the company work for them. And John and Gloria were no exception."

Gloria, whose hazel eyes are usually lit up with a smile, fought back tears as she confided in Goodman that summer day. She talked about simple needs—wanting to feel healthy again, maybe play a game of tennis now and then. Reflecting on the long hours she had put in at the company, sometimes even staying overnight, she noted, "Growing up on a farm in Canada prepared me well for this. We grew our own food, and I learned to get by on nothing." But her parents, still on the farm, weren't so young anymore, and she desperately wanted to be closer. "I can't even get away to visit them."

Things had worked out to be so different from what she and John had imagined. "In the company's first year," recalled Gloria, "when it seemed we'd be successful, I had dreams for the future."

Along the way, those dreams got deferred—along with any semblance of a life outside the company.

John McManus was hurting as much as his wife was, and even more so, because he'd tried so hard to stay strong for both of them. With shock and disbelief, he described how his dream business had morphed into a nightmare. "Running this company," he said slowly, "has become such a grind." And it had happened so quietly. "You're so consumed with the start-up experience, you don't think about business or life plans," says McManus. "In the back of your mind you're thinking about why you're leaving your current job, and you don't go beyond that for a while."

If the McManuses' predicament didn't surprise Goodman, he was moved by the heroic proportions of their sacrifice. By the time they sought out Goodman's guidance, they had grown their catalog to nearly \$8 million, fast enough to have made the *Inc.* 500 two years in a row. (They went on to make the list a third time, later that year.) More to the point, they'd accomplished their speedy growth with no previous catalog-industry experience, and with no management help.

"There are few entrepreneurs whose companies are at \$8 million who are still working 80 hours a week," observes Goodman wryly. But that was just the half of it. "What I discovered in the course of those two days is that they were working 80 hours and they were paying themselves one-third the market rate." In oth-

er words, they were working the equivalent of four jobs and paying themselves for one. "You're actually distorting your financials," Goodman told them. "Your profits are inflated."

Far worse, though, was the psychic penalty of running the company as they were. "When you work that hard you wake up one day and say, 'What am I doing this for? I'm not making any money, and I'm not enjoying life.'" When you reach that point, Goodman warns, you've entered a danger zone as serious as any competitive threat. Only you don't know it. "Your relationship with the company is at risk. That's when people say, 'I should just sell this thing.'"

Trouble is, the McManuses couldn't. Or at least they couldn't sell for a price remotely reflective of the time and energy they'd invested. As so many entrepreneurs do, they'd built an organization so reliant on themselves that it had little equity apart from them. Plus, says Goodman, there's more than the financial equation to consider. "To lose your relationship with the company—this company of players who've thrown their destinies together for something meaningful—no amount of money can make up for that," says Goodman.

The McManuses talked about what mattered most in their lives—doing work they loved, traveling, giving back to their community. "And one of the most important conclusions we reached," says McManus, "is that our company is absolutely compatible with what we both want." If

LANNY GOODMAN: ADVICE FOR SCALING THE WALL



Don't suddenly "empower" your staff to make decisions. "That's chaos. They have to have the skills and the experience." Whatever you do... "Know that other people have been through this. When you feel like you're hitting the wall, it's a very lonely time." Goodman is best known for... The four "simple" questions he poses to entrepreneurs: What do I need and want out of life? How can my company help me accomplish that? What would such a company look like? And how do we get it to look like that? Those questions drive the process that Goodman—who's owned several small businesses himself—leads his CEO clients through, a process that's intentionally self-centered, often spiritual, and amazingly concrete.

PHOTOGRAPH: KENT BASRER

only they could change the things about Magellan's that were painful.

In one practical exercise, they sketched out an organizational chart that would make their lives easier. Who on staff might be ready to step up? Whom did they still need to hire? Goodman talked up what he calls the "self-managing management team," which makes it possible for owners to step out of the day-to-day running of the company entirely and serve "on a much higher level as coach."

McManus liked the idea of a self-directed team, even if he didn't know exactly what that meant or how he'd get there. The idea of getting others to help him manage the company seemed the way to work through the wall. He was convinced that hiring the right number-two person—maybe more like a "one-A" person—was crucial. Goodman didn't exactly agree—he's not a fan of the idea of hiring a chief operating officer, though he concedes it's the right move for some people. But, really, that was dickering. There are numerous schools

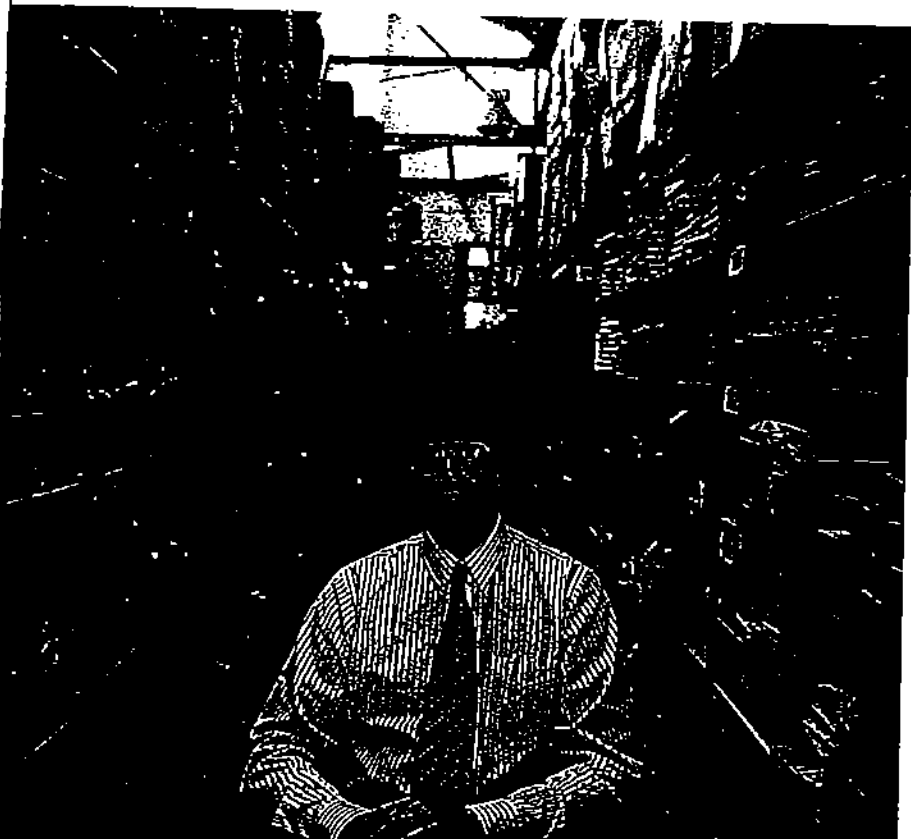
of thought on how to effectively share decision making. What Goodman proposes is just one. "There's no room for dogma here," he says firmly. What was significant was that as McManus weighed his options in Albuquerque he knew this: He was ready to share the running of the company. Whatever that looked like. He'd finally reached a turning point.

"They realized they didn't have to sacrifice themselves at the altar of this company," says Goodman. Maybe there was another way through the wall after all. Maybe you just had to learn what it means to own a company without having to be its hero.

Help! (Really, I Mean It)

WHEN MCMANUS RETURNED TO SANTA Barbara last July, he took some of Goodman's advice. He quietly told some of the staff that the company would put out one catalog fewer in the year ahead so that he and Gloria could cut back their hours. And he called up his old confidant, Bob Manning.

'I SAW A MANAGEMENT TEAM STARTING TO COME TOGETHER,' MANNING SAYS, BUT HE ALSO SAW THAT HIS FRIENDS WERE HEADED FOR A PHYSICAL BREAKDOWN.



BOB MANNING

"Hey, Bob," McManus sang out. "How'd you like to be on our board?" McManus had been trying to coax Manning to his company for years. Manning had always gently said no. He had a great job in upstate New York, helping a couple very much like the McManuses to grow their company from \$1 million to \$10 million; however, now that that company was in the drawn-out process of being sold, Manning, its CEO, was feeling restless. Was Magellan's the right move? Was it ready for someone like him? Manning couldn't say with certainty.

But he agreed to serve on the Magellan's board. He also agreed to attend the company's first-ever strategic-planning session later that year, in mid-September, when 10 of the 70 Magellan's employees would journey 40 miles north for an off-site meeting in the wine country around Zaca Lake. There, Manning detected something new.

"I saw a management team starting to come together," he says. "There was a nucleus of management potential. I saw hard-core evidence that John and Gloria were serious" about their intentions to change how they headed the company. But Manning also saw hard-core evidence that his friends were on the edge of a physical breakdown. "I saw the exhaustion on their faces."

And the frustration. The strategic-planning session, organized by Wilmer, was like so many others in corporate America. An outside facilitator presided while members of each department talked about what they'd need to reach this or that goal. "But what about my and Gloria's needs?" McManus shouted inside. "This is so shallow!"

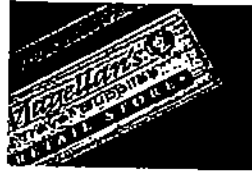
Suddenly, there on the lake, McManus grasped what Goodman had been trying to tell him back in July. Strategic planning is just an exercise in number crunching, and pretty futile at that, if you haven't considered what you need and want first. Several of the managers at Magellan's seemed to grasp as much—at the top of their list of departmental goals they'd scribbled, "Time for John and Gloria." But McManus knew there was more to it than that. And he knew what he wanted. He wanted a peer who could run Magellan's professionally, someone he could learn from, someone he and Gloria could trust—a real COO; maybe almost a CEO. He wanted Manning.

Not that he said so immediately. When the sale of the company Manning

was running finally closed, on December 1, 1997, he and McManus talked casually. "Hey, congratulations," McManus said. "Yeah," said Manning, "it's finally done." Still, no offers were made. The idea of starting "formal talks" seemed silly to these old friends. They spoke a few more times before either popped the question: "So, are you interested?" "So, do you still want me out there?"

They actively debated whether a COO—or any one person—should run a company. By then McManus was harboring serious doubts about the wisdom of simply handing over certain functions to an operations chief, despite the "early tip-off" he had gotten from reading *Corporate Lifecycles*. "The administrator Adizes writes about," McManus says, "stops far short of what you need." Manning, who is 49, reflects on his own experiences. The idea that you can divide a company into parts—"You take finance and administration, I'll take sales and marketing"—is "a myth," he says flatly. "You can't do it. At least not right away. We need to learn from each other."

The company's hiring-and-firing philosophy topped Gloria's concerns, and



MANNING GAVE JOHN HIS BREAK-EVEN SALARY POINT. THE MCMANUSES GULPED.

she was blunt with Manning. "She told me, 'I don't want you to do anything that would endanger the loyal employees we have here.' She didn't beat around the bush." Gloria confirms their conversation. "There are some people here who are just sacred," she says. "That's all."

Compensation, when it came up in late December, was a matter of context. It was no secret that Manning, as a COO or CEO-for-hire, had always made much more than his friend the entrepreneur. But this time the base was far less important than the kicker. Manning wasn't looking for the 50% stake he'd enjoyed with his previous company, but he wanted his stock options to provide a sizable incentive. (Eventually, Manning and the McManuses would arrive at a vesting schedule that caps Manning's options at approximately 30% of the company's stock, to be earned as the company reach-

es certain revenue and profit levels.)

As for salary, the McManuses addressed that just a few weeks before Manning arrived. "I just told John my break-even point," Manning says. The McManuses gulped. Manning's basic expenses were much higher than those of the couple, who have no children and live simply by Santa Barbara standards. But Manning's resulting six-figure salary was actually below average for a COO's pay. (The average is approximately \$142,000 for a \$10-million company in Southern California.)

On Monday, February 2, 1998, with the final details of the comp package to be ironed out, Manning began his 2,500-mile cross-country commute from upstate New York to Southern California. He put off the house hunt for months. The new Magellan's executive even forgot to collect a paycheck his first two weeks. Perhaps not by accident. "I didn't

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feel like the deal was really closed until I got here," says Manning. "If it hadn't worked out, we would have hugged and gone back to being friends."

The Nonheroic Owners— Happy at Last?

SINCE FEBRUARY 2, MANNING'S LIST OF duties has grown steadily. First things first: he did an overhaul of accounting, which hadn't produced a real profit-and-loss statement in months, much to Manning's horror. And then there was marketing, which had gone unchecked. (Says Manning, "It seemed that every day I learned about another marketing deal we had.") But there was so much more to attack: administering the 401(k) plan; organizing the many pieces of an ongoing expansion; and systematizing the hiring-and-firing process.

"John knows how to hire people," Manning says, trying to explain the difference between most entrepreneurs and a good professional manager, "but he doesn't know how to set up a good system for hiring people. I'm growing a team that can eventually manage other managers." Exactly when a founder is

likely to max out his or her skills, he says, is not a simple function of the number of employees at a company, the sales volume, or how long the entrepreneur has been in business. "Some companies need help almost from the day they're started," Manning ventures. "John and Gloria lasted longer than most."

Now the crew at Magellan's is remarking how the company does nearly everything, as the founders end their habit of doing nearly everything. Is it working? "I see John and Gloria giving up control, and that surprises me," says Lynn Stan-eff, the corporate-sales manager who was the 10th employee hired at Magellan's. The process, she says, "started before Bob, but it starts and stops. To set this course in motion called for someone. Bob has saved us a huge amount of aggravation and mistakes."

Can Manning also help save John and Gloria from the "founder's trap" that Adizes wrote about and that McManus swore to avoid? It seems he already has. The couple gets out more now, taking extra time off when they go to trade shows, playing tennis. As McManus reads the first edition of a cruise catalog,

Gloria sees the two of them taking off in a sailboat, something they haven't done since 1988. They're next in line for a slip at the marina. Earlier this year, they finally worked up the courage to nearly double their salaries. Forty-hour weeks and weekends off? Not yet. "Gloria and I decided that for now the number of hours we work isn't as important as loving work again," says McManus.

The trio has happily concurred that what John and Gloria enjoy doing are the very things needed to grow the company, now at \$11 million in sales. "Gloria has always wanted to design a line of clothing. That'll keep her young, and it's also good for Magellan's," says Manning. "John is happy when he can get out in the industry. He loves talking about travel, and he's good at it. Every time he appears anywhere, in print, on TV, or on the radio, catalog orders go up."

But it's more than doing what they love that will keep the McManuses young at heart. They know they're building a company with real value, because no longer does everything depend on them. "We're building systems they can manage indirectly," says Manning. "An infrastructure



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the company can rest on so it doesn't rest on them anymore." And that's how any company owner gains real leverage.

No one here is going it alone. Not the McManuses. Not Manning. "Look, I feel like I've been in school here for three months," Manning said in early May. At the time, his desk was not five feet away from McManus's. "I learn every time someone asks John a question, because he shares it with me."

What a difference a year makes. In July of last year, the McManuses were lost souls who arrived on Lanny Goodman's doorstep. Today they're confident about the steps they've taken, even if the results are still unfolding. They feel sure that the best is yet to come. "I think this can be a \$100-million company in five years," says Manning. "With profits of 3% to 4%, you can live on that." The McManuses don't disagree. But without help, John McManus concedes, "I don't think I could have gotten another million."

Did the McManuses have to hit the wall to change? Manning, who in June moved his family into their new Santa Barbara home, has his own theory about that. He views Magellan's as his best and last assignment. "I don't think I could have joined any earlier," he has said several times. "I sensed before that they weren't ready to disengage. It's almost like they had to hit rock bottom."

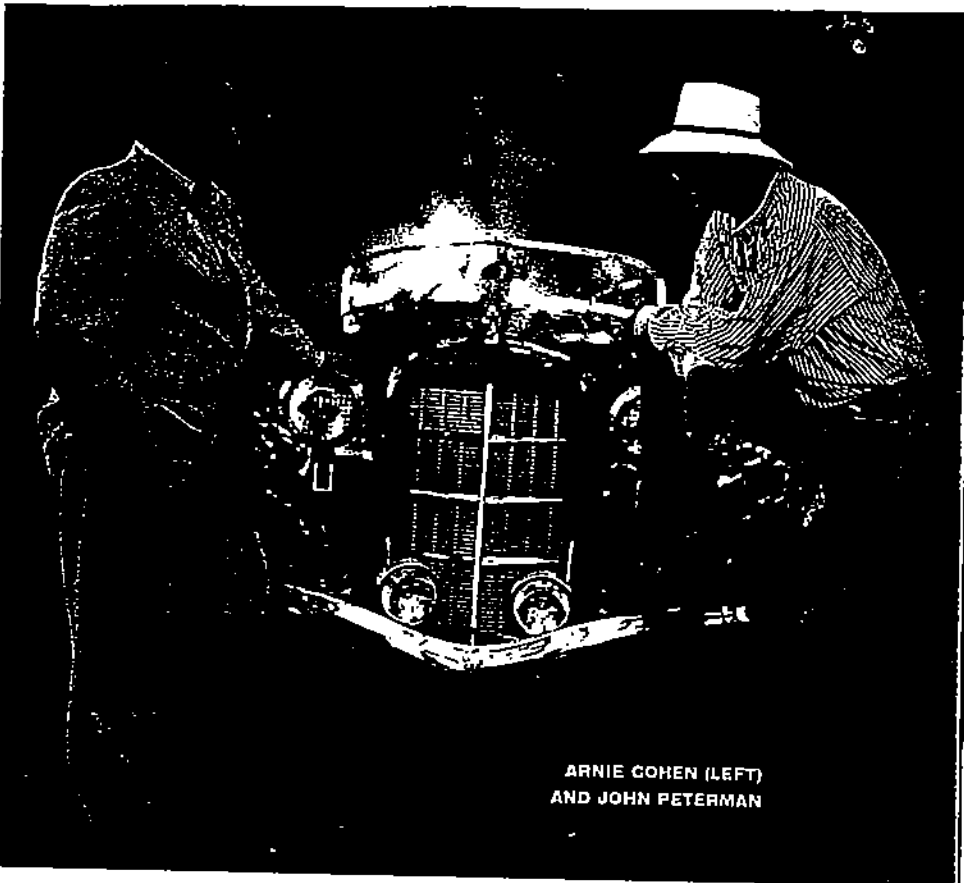
Looking back, McManus says he was haunted by this thought: "What a shame to leave the company with so little to show for it because you didn't set up the management." The time invested "bringing Bob up to speed," McManus reflects, will pay multiple dividends down the road—not just in terms of a great workplace for everyone and a shorter workweek for the McManuses, but in terms of building a company with substantial value in the marketplace as well. Ironically, as the McManuses convert their years of sweat equity into real equity, they don't see themselves selling the company anytime soon.

"Not anymore," says McManus. ■

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ARNIE COHEN (LEFT)
AND JOHN PETERMAN

the CHEMISTRY LESSON

Sometimes things don't go as planned. In the spring of 1996 former J. Crew executive and wanna-be company owner Arnie Cohen made an unsolicited bid to buy J. Peterman Co., the panache-drenched clothing cataloger, which was then enjoying growing notoriety—thanks to Seinfeld—but was suffering losses and flat sales. (Most Seinfeld viewers never even realized they were watching a parody of a real company.) Founder John Peterman turned Cohen down, but he liked their talks. So the two kept talking. For a year. (The "yearlong tryout," they call it.) And they clicked.

In mid-1997, Cohen officially joined the company he'd tried to buy—as chief operating officer to Peterman's chief executive. And today the 400-employee company is extending its brand by opening retail stores and issuing auxiliary catalogs, all part of a campaign to reach \$90 million in annual sales by the end of 1998. (Sales in 1997 were \$65 million.) If all goes well, Cohen is expected to succeed Peterman as CEO. (Continued)

PHOTOGRAPHS: IONY BAKER

Catalog-industry pro Arnie Cohen hoped to buy J. Peterman Co. when he visited its founder. Instead, Cohen ended up working for him