3

The School of Hard Knocks

Craig had seen the writing on the wall, and its message was too clear to ignore. The predictions he had made to Bill Hunt were coming true at an alarming rate. A whole new breed of “big-box retailers” had sprung up. They operated like the warehouse clubs but specialized in—and endeavored to dominate—a single category. The Home Depots, Circuit Cities, and Office Depots had arrived and conquered.

The bad news was that the overall buying base was shrinking, making the commissions Craig had become accustomed to earning, over $2 million a year by this time, harder to maintain. The number of buying offices in California had decreased from twenty-five or so to only a handful.

The discounters, so hot a decade before, were dropping like flies. FedMart was gone. Zody’s, gone. Akron, Gemco, The Treasury, Two Guys, Builder’s Emporium, Fedco, Ole’s, all dead or dying. Darwin would have felt vindicated: commerce red in tooth and claw.

Against this backdrop of shrinking markets, Craig formed a new strategy. It had been a long time since he had earned lunch money beating his head against the wall, and he didn’t particularly want to go back there. It had been a while since he had been a pivotal player in Price Club’s rise. Years had passed since he had bought his father’s business and started The Winn Company. His rep firm was now a giant with annual sales exceeding $100 million. The Winn Company, it could be safely said, was not his father’s Oldsmobile. Nevertheless, Craig cringed at the thought of it turning back into an economy model, like Cinderella’s pumpkin.

So it was that Craig, on a crisp October day in 1986, visited the palatial offices of the Price Club. They were no longer in the big Quonset hut on Morena Blvd. They had moved up the street into something that reminded him of an oversized self-storage unit. He met with a senior buyer, Alan Nellis, and his boss, Yale Conrad, now the Merchandise Manager.

Craig asked an intriguing question. “What’s the dumbest industry?”

“The dumbest industry?” Alan tried out the words for size.

Craig clarified his question. “What industry has potential but is poorly managed—weak products, poor marketing, lousy values?”

Nellis didn’t hesitate. It had been his own personal toothache for years. “Lighting.”

“Lighting,” Craig echoed. “What’s wrong with lighting?”

“Everything,” they answered in unison. “Poor quality, ugly designs, disastrous marketing….”

“We’d like to sell something better,” Conrad said, “but we can’t find it.”

“That bad?”

“Come on, I’ll show you,” Alan responded as he stood up. The three drove to the warehouse. Craig was shown three lamps—a table, a floor, and a banker’s lamp. Beneath them was a pallet of corrugated cartons. Each had a pitifully small photograph and such helpful sales copy as, “Table Lamp; Made in Taiwan; Model #12548.”

Craig looked more closely. “How long have these been here?”

“About a month. Why?”

“Take a look at the brass plating. It’s already starting to tarnish.”

“See what I mean? It’s pathetic! Think you can help us?”

Yale gave Craig a sideways look. “Going into the lamp business?”

“Why not? Any fool should be able to compete against this sorry lot.”

Craig had sold thousands of things, but he had never sold a lamp. He didn’t know the first thing about lighting. But life is for learning.

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THE CHINA AIRLINES Boeing 747 touched down with a jolt at Taiwan’s International Airport outside Taipei. Katharine Winn felt the baby kick again. Sitting in her cramped economy seat, she looked over and smiled wearily at her husband. “I know you like to save money, Craig, but flying economy overseas is ridiculous.”

Craig had to agree. It had been a month since he had formed his new lighting company. He called it Dynasty, figuring it would be better to grow into a name than worry about outgrowing one. This was his maiden voyage into brand dynamics.

The Winn Company was still very much alive, but Craig had now become a supplier as well, if not yet an actual manufacturer. The plan was simple. Find out what lighting products sold best. Find someone who could build these products. Design and manufacture them to a higher standard. Package and display them in a compelling way. Then price them so that their superior value would be readily apparent.

Craig had done his homework. The models he would produce first were considered commodities, models for which sales were certain. Conventional wisdom said that if you could sell these for a nickel less than your competition, you’d own the market. Dynasty’s strategy was to buck the trend: make the lamps fifty percent better and charge twenty percent more. The reason he was here, 9,000 miles from home, was because Taiwan was the world’s best source for decorative lamps.

As the jumbo jet rolled to a stop, Katharine had a bit of trouble getting onto her swollen feet, never mind how badly she wanted to. Craig stood, leaned over, and took his wife by the hand. When she got to her feet, he didn’t let go but looked at her for a long moment. “Thanks for coming, Katie. Having you here is important.”

“I know. Don’t worry. It’ll be fun.” Little did she know the fun would include a dinner of bulgy-eyed fish heads, snake, and dog.

Taiwanese businessmen were pragmatists. They had learned long ago that when buyers came from America with their pockets full of money, they usually expected more than product demonstrations, plant tours, and contract negotiations. Most expected to be lavishly entertained. Five-star dining, free-flowing liquor, expensive cigars, and the occasional prostitute were all considered part of doing business. If a buyer wanted to spend his evenings in nightclubs populated with beautiful women in various states of undress, who were these practical businessmen to pass moral judgments? Fulfilling these wishes only increased the buyers’ indebtedness, greasing the wheels of commerce. Where was the harm in that?

Craig wasn’t about to negotiate with anyone on that basis. Having Katharine present at the initial meetings went a long way toward setting the tone. He made it clear that any such “favors” would quickly end their business relationship.

But what he did not do, the Taiwanese soon learned, was not nearly as unusual as what he did. As Craig visited factories, he asked them to "sell" him on their capabilities in the same way he routinely sold others on the merits of the products and companies he represented. They had never experienced anything quite like this.

Craig asked them how they could improve their products. They discussed materials and talked about manufacturing techniques. They analyzed features and benefits with an eye toward making a product that was significantly better. The Taiwanese, having become accustomed to hearing only one question—"What's your price?"—were thrilled.

Craig too got something unexpected out of the relationships he formed here (and it wasn't the same unexpected thing his competitors often got, for which penicillin usually did the trick). The Taiwanese had a reputation for being astute, resourceful, and hard working, but he also found them trustworthy. A handshake with a Taiwan businessperson was as good as a hundred-page contract.

Winn was not a trained designer, yet Dynasty's line would be marked by innovation, even though some of it was to be based on well-established forms. You don't have to reinvent the wheel to make a better tire. Craig adopted a technique that would serve him for years. He told the lamp makers what he wanted, often enhancing his explanations with photos from totally unrelated products to visually communicate what he was trying to achieve. The designer would then produce a loose sketch. Once done, Craig would pick the elements he thought held promise.

Looking at a sketch of a banker's lamp, he would say, "Let's make the post an inch longer. Change it from black to green marble. Ask your glassmaker to adjust the shade's color so when the light is off, it matches the dark veining. When it's on, try to match the color of the highlights. Now, while we're at it, marble is cheap, right? Let's make the column fatter."

The designer would make the corrections, and then they would go through the process again. React and rework. Craig kept making changes until he was happy with what he saw.

This process, of course, drove some designers nuts. Prima donnas didn't last, but talented professionals with balanced attitudes (i.e., thick skins) became the hands of Craig Winn, the designer. It wasn't that he wouldn't listen to advice. He would, and did, and sometimes changed his direction based upon it. But it was clear that the final call was his. By this process, he came to own over a hundred design patents.

Craig formed many long-standing relationships this way (including one with me, years later). It started with lighting designs but soon spread to packaging, advertising, corporate graphics, and a host of other disciplines. The common thread, it seemed to me, was that he had excellent taste, good judgment, and unerring design instincts. He knew what would sell.

The product designed, the next order of business was packaging, which in the lighting industry was universally excrementitious. Craig raised the bar so high, no competitor was able to compete.

Dynasty's cartons were magnificent. They attracted attention with sophisticated graphics, lavish environmental photographs, and well-crafted copy. There was always plenty of white space. Product information was well organized and motivating. Everything was graphically coordinated across the entire product line. The competition could only whine lamely, "Dynasty gives great box."

Under Winn, Dynasty broke every rule in the book, including the one that said, "Go slow." In the first few months following the "dumb industry" discussion with Alan Nellis, Dynasty sold $2 million worth of lamps. In their first full year, Dynasty did a stunning $16 million. The second year, $32 million. Third year, $64 million. Fourth year, $100 million. Pity about that fourth year. They had a nice pattern going.

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BETWEEN THE WINN Company and Dynasty, Craig stayed busy. Although the markets had shifted, his dire prediction about his own commissions dropping had failed to materialize (hey, nobody's perfect). Now, in the summer of '89, he was still making a couple million dollars a year from his work at The Winn Company. He was also drawing a CEO's salary from his wildly successful lighting firm. His mother-in-law was starting to accept him.

During the third year of Dynasty's life, the company prepared to go public. It was a dance Craig would perform twice more before hanging up his shoes. He was almost relieved when his underwriters, Morgan Stanley and Salomon Brothers, said it would not be proper for the CEO of a public company to earn millions working for another company. The solution? The Winn Company would be gifted to Dynasty.

It made perfect sense. The two companies had a symbiotic, if not incestuous, relationship anyway. The Winn Company represented Dynasty in California, and was responsible for the majority of its sales. The merger of Dynasty and Winn was facilitated by Dwight Stewart, who had been Dynasty's financial backer from the beginning. An astute businessman and able manager, he had made his first fortune the really old-fashioned way. He inherited the Carnation Company from his father, later selling it to Nestlé, netting nearly a billion dollars.

Craig had met Stewart through a Kappa Sigma fraternity brother at USC. During lunch, he explained Dynasty's philosophy and its marketing strategy. Dwight, quick to recognize the potential, became an instant investor, writing Craig a check, right there and then, for one million dollars. The check, Craig noticed, had little sailboats on it. You've got to admire that kind of style.

What started as a handshake had grown into a major commitment for Stewart, and his investments were paying off handsomely. Within a year of that auspicious first meeting, Dwight had pledged $15 million, which had allowed Dynasty to buy inventory and build its manufacturing plants. He now owned forty percent of the firm, which, following the IPO, would be worth $400 million. So in order for Dynasty to go public, Dwight agreed to reimburse Craig for his proportionate share of The Winn Company gift.

To be fair, Winn asked the bankers at Morgan Stanley to set the price. They calculated that Dwight's forty percent share of The Winn Company, once public, would be worth $7 million. Then, to make absolutely sure Dwight was getting a fair shake, Craig cut their estimate in half. Dwight paid Craig $3.5 million over the next three years.

The Morgan Stanley-led IPO almost derailed, however. When it came time to set a value by comparing it to other public firms, Dynasty's nearest "comp" was a jewelry company named JanBell, but they were in trouble. Their largest customers, Price and Costco, both dropped them just prior to Dynasty's IPO. JanBell's stock price plummeted, dragging the estimated value of Dynasty's stock down with it. What JanBell's fortunes had to do with Dynasty's worth was never made quite clear. Nevertheless, Craig found himself with his back against the wall. He appealed directly to Sol Price, who saved the day by offering to buy shares in Dynasty's IPO. The road show started in San Diego, with a supportive Sol Price in attendance.

A month or so later, at the ritzy Pierre Hotel just off New York's Central Park, Craig gave his first investor's speech. Sandwiched between a credit card processor and a restaurant chain at a Morgan Stanley Emerging Growth Conference, he delivered what he felt was a conservative talk. About two-thirds of the way through his twenty-minute speech, two thirds of the nearly 500 institutional investors got up and left the room. Craig was dismayed, convinced that he had painted too pessimistic a picture of Dynasty's short-term outlook. Rattled, he finished his speech and left the ballroom.

As he began to apologize to Morgan's analyst for his poor performance, the small group surrounding him burst into laughter. It seems the investors had raced out of the meeting in order to buy his stock. Dynasty's share price had risen from $11 to $18 in less than an hour. Winn's net worth had jumped nearly $50 million.

Sadly, it wouldn't last. Saddam Hussein invaded Kuwait a few weeks later. The price of oil shot up, and the value of Nasdaq stocks, including Dynasty's, fell just as quickly. Craig never understood the correlation between desert megalomaniacs and solid brass table lamps.

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THEY MET on a golf course, the first tee of the Mauna Lani on the Big Island of Hawaii. A good-looking stranger came up to Craig and Katharine and asked if he could join them. Rex Scatena proceeded to birdie two of the first three holes as they walked the green fairways that cut incongruously through the jagged black lava flows of the Kona Coast.

The tall Italian gentleman turned out to be an attorney with a personality, something Craig had never before encountered. Rex, as it transpired, was the founder of the largest environmental law firm in California, a position he was slowly growing to hate. He was getting rich but felt like he was losing his soul. Good news, bad news.

On Mauna Lani's back nine, the conversation revealed that the Winn and Scatena kids had become inseparable pals during the last few days at the resort's kids' club, Camp Mauna Lani. Craig and Katharine had heard nothing from Ryan and Blake but "Billy this" and "Billy that" for two solid days. Billy Scatena, it turned out.

Rex's firm had offices in San Francisco and in San Pedro, the port city serving Los Angeles, which was not far from Craig's home in Palos Verdes. So on his first trip south after their Hawaiian vacation, he called Craig and set up a lunch date.

In Hawaii, Craig had downplayed the size of his firm. But now, as Rex approached the nearly half-million square foot Dynasty factory, warehouse, and office complex, there was no hiding it; the place was gargantuan. Entering through massive bronze doors, Rex was greeted by a receptionist who introduced him to Jenny, Craig's administrative assistant.

As they entered Craig's office, he grinned, jumped up, and shook hands with his new friend. Craig offered Rex a seat, but Jenny interrupted. "Excuse me, Craig. I've just completed the written recap of our meeting with Sears. I've asked Rex—Rex Lundquist," she said for Mr. Scatena's benefit—"to do an artist's rendering of the department. Sears has given us their entire lighting department!"

"Wow!" Rex exclaimed. "This is some joint you're running. Got time to give me a tour before we go to lunch?"

"Sure." Craig beamed like a proud parent who's just been asked to show off pictures of his children. "Step right this way."

The two friends walked down a maze of intersecting corridors, all bustling with activity. The place was so big, the hallways were all named. They had street signs to help newcomers find their way around. Craig explained that while the offices looked grand, they were the deal of a lifetime. "It's hard to believe, Rex, but the landlord fixed up these offices for us on his nickel. He's only charging us thirty cents a square foot."

Rex stopped in his tracks. "We pay almost ten times that, and I thought we were getting a good deal. You want to negotiate my next lease?"

As they walked past other offices, people jumped out to give the boss an update. The excitement was infectious.

"Just got the directive to do the Sears' rendering," Rex Lundquist informed the boss. "We're on it!"

"Rex, meet Rex. Rex Lundquist is VP of marketing."

"This is a great job—like getting a paid education," Lundquist gushed. "We call this place Dynasty U."

A tornado with thinning red hair dashed down the hall with a triumphant smile. "We got it, Craig! We got the deal!" he almost shouted. "Home Depot said 'Yes,' a hundred lamps in most every store."

"Congratulations! Bentley, meet my friend Rex. I hired Bentley when I began The Winn Company. I think he 'bleeds orange'—that's Home Depot's slang for vendors they really love—you know, orange logo, orange racks. It's their company color."

"Yep," he said proudly. "Craig and I go way back, grew up on the same street. I followed him to SC, but I joined a better fraternity."

Craig liked working with his friends, especially old friends, Rex observed. It was a defense mechanism. Craig knew that his ethics radar, his ability to detect personality disorders in others, was particularly weak. That made it possible for one of his greatest strengths to work against him. He had an uncanny ability to see the best in people, coupled with a inability to recognize their flaws until it was too late. He elevated and empowered those around him, taught them, led them by example, and put many on a pedestal. Unfortunately, his insistent praise attracted those most in need of praise, the insecure, that most dangerous of corporate viruses. Around old friends, Craig could let his guard down.

Rex and Craig made their way to Richard Gerhardt's office. He was another of Craig's old friends. Dick had been the buyer Craig respected most during the waning days of FedMart and the rise of Price Club. Gerhardt had been offered the most senior merchandising job at the now multi-billion-dollar firm. Rather than taking the promotion, he had asked Craig for a job at Dynasty.

The Price Club, in Dick's view, was no longer any fun. The entrepreneurs were now mostly gone, including their charismatic ringleader, Sol Price. Still chairman of the board, Sol no longer held a managerial position. He focused on building outside partnerships, much like Winn would do a decade later. So for Dick, what was once a crusade was now just another job—a big job to be sure, but definitely not an adventure. Richard yearned for excitement, and Craig delivered. Gerhardt's knowledge of the things that made the Price Club work—buying, inventory control, and systems—made him perfect for Dynasty.

Down the hall, the CFO was awash in a sea of paper. Although Mary looked as unkempt as her office, she was an amazing talent. She was a Fortune 500-caliber controller. Unfortunately, Mary was ahead of her time. Her gender had previously precluded her from rising to the level of her competence.

"How do we look, Mary?"

"Great!" she said. "The Street's going to love this quarter."

"Well, don't let us disturb you. I wanted Rex to meet our team."

"Make sure he meets Susan. She just finished the system upgrade."

The giant raised-floor computer complex was state of the art. Susan was immersed in a discussion with her team. So Craig explained, "This was our first IBM AS400, Rex. Susan and her team just installed this smaller version, which is actually bigger where it counts, giving us greater redundancy and scalability. The process of integrating bills-of-materials with sales, reporting, distribution, and finance is daunting. She and Mary have done a great job. Our system conversion was completed on time and under budget."

Craig led his friend past engineering, customer care, and the company's outlet store. He opened the steel door to the factory and warehouse. It seemed to go on forever. It was over five football fields long and a hundred yards wide—nearly half a million square feet. As they entered, Scott Chrisman greeted them with a wave. Scott was attired with his usual sartorial serendipity: shorts, Hawaiian shirt, and flip-flops.

"Hey Craig!" Scott shouted above the roar of pneumatic tools and the chatter of conveyer belts. "Come over here. You've gotta see this!"

It was all Rex could do to absorb the scene. He couldn't imagine how this chap he had met in Hawaii could be responsible for all of this. It was an unending sea of equipment, people, and products. There were conveyer belts and assembly lines running everywhere.

"Scott, meet Rex," Craig hollered over the din of the production lines. "Scott is the guy that makes this place go. If it makes noise or eats gas, he can make it purr."

"We bought all of this used, for pennies on the dollar. The forklifts, conveyer belts, warehouse racks, pretty much everything. This is what I wanted to show you," Scott shouted as he walked over to the new expandable foam packaging station he had built. "Got the guns and system in a barter deal. Let me show you how it works."

He asked the assembly worker to stand aside as he took the controls. In his element, Scott was already an expert. He picked up a DynaStone lamp that had been cast in Dynasty's Maquiladora factory in Mexico and carefully placed it into a beautiful blue and white South Coast carton.

Without any wasted motion, almost like an orchestra conductor, he fired the guns and filled the empty spaces with expansive foam. After placing the custom shade his team had produced on top, he sealed the carton. Then, without warning, he lifted the box three feet off the ground and dropped it flat on its bottom. Thud. Then he dropped it again, but this time on its side. Then a third time, on a corner.

Scott explained, still shouting above the noise, “Three drops from three feet on the bottom, side, and corner. It’s the new UPS drop test. Sears’ catalog operation will require it in a couple of weeks. I thought I’d jump the gun, so to speak, be ready for ’em.”

As he opened the carton, Craig was sure all they’d see was dust. The firm’s South Coast contemporary hydrostone lamps were stronger than the competitions’, but passing this drop test was too much to ask.

Seeing the worried look on Craig’s face, Scott intoned, “Oh, ye of little faith,” and opened the carton with a dramatic flourish, extracting one DynaStone lamp, unscathed. “Voila!”

Scott beamed with the knowledge that he had once again exorcised his demons—the voices inside that whispered so convincingly that without a college education, he was not good enough to hang with the suits. Craig didn’t care. He would rather have one Scott Chrisman than ten experienced managers. Scott was a builder; he got things done. “You’re the greatest,” Craig said in unfeigned admiration.

On the way out of the factory, Rex asked, “Is everybody here like Chrisman? He’s a piece o’ work.” They started up the stairs.

“I wish. Scott is one in a million. He was unemployed when I found him, or more correctly, when he found me. He said he’d been discharged from the police department for busting the Chief’s maid for cocaine possession. To hear him tell the story is a riot. Then Scott earned a living as a professional water-skier, but falling at over a hundred miles an hour smarts.” Craig paused. “So Scott used his charm to enter a somewhat less painful career. He started working for beautiful rich women. To say he was a gigolo would be overstating it. He didn’t get paid, but it did give him a pretty interesting lifestyle.”

“Wow,” Rex observed eloquently.

“Yeah. He’s quite a guy. He taught me how to fly. He can mix with princes and paupers, priests and prostitutes. Everybody loves him. Well, everybody except the suits, our professional managers, but that’s a long story.”

Craig and Rex climbed the last flight of elegantly curved stairs and entered a series of giant showrooms, each displaying beautiful and innovative lamps and lighting fixtures. It was overwhelming.

“I don’t know what to say.” Rex, the master linguist, was out of words. It was a Kodak moment, the formation of a mutual admiration society. From now on, their destinies would be inextricably joined.

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THE FALCON 20 was a beautiful bird, a spacious powder-blue corporate jet that looked like a mini-Air Force One. But it wasn’t there for looks—judging by the way the Dynasty team used it. Part freight truck, part taxicab, Pullman sleeping car, and time machine, it wasn’t a luxury. Dynasty shared ownership of the half-million dollar jet with Williams-Sonoma, whose founder, Howard Lester, was a member of Dynasty’s board and a friend of Dwight Stewart.

Most people would have assumed that it was glamorous flying around the country in a private jet. Craig knew it was just a tool. The Falcon was needed for quick access to

Dynasty customers like Sears in Chicago, Home Depot in Atlanta, Kmart in Michigan, and WalMart and Sam's in Nowhere, Arkansas.

During Dynasty's rise, the company became the predominant supplier of lighting to Sears, winning their Vendor of the Year Award. Dynasty dominated the lighting departments of chains like Home Depot, Lowe's, Home Club, Sam's, and, of course, Price Club. By using the airplane like a carpenter uses a hammer, Craig personally generated the vast majority of Dynasty's revenue. The cost of owning the Falcon, compared to what it would have cost to generate those sales elsewhere, was insignificant.

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WHILE SOME IDEAS are dogs, other ideas are cats. They have nine lives. For Craig, the idea of mastering seasonal product categories started way back at The Winn Company as a tabby cat. By the time it had grown up at Dynasty, the idea had become a Bengal tiger.

If a hot spell hits, the sales of fans can suddenly go through the roof. When this happens, the buyer calls the average supplier and arranges for a rush shipment, and more fans magically arrive—two weeks later. Craig recognized that the weatherman was not always that patient. A week after placing the order, the buyer might need umbrellas instead. So The Winn Company worked with Patton's Bill Hunt to engineer a system of warehouses and express freight companies (before they became popular). They did it again at Dynasty. When a buyer called, they got restocked the same day.

The secret ingredient of this system was trust, a commodity that could not be bought, only earned. The Price Club, for example, came to trust Winn to deliver when they needed him to. Winn in turn trusted Price to use the service they had made available at such great expense and risk. Amazingly, all of this—business worth tens of millions—was done over the phone and across the desk on handshakes. There were seldom any contracts, formal agreements, or even written purchase orders. It just happened.

Fast forward a few years. The Price Club's Yale Conrad spotted what he thought would be the hottest item for the upcoming holiday season: sequential Christmas lights. They produced an effect not unlike the moving lights of a theater marquee. Yale was sure they would sell, and he was seldom wrong.

He wanted someone he trusted to supply the new light sets. And who had time and again proved himself worthy? Why, Craig Winn, of course, especially now that Dynasty had so many manufacturing contacts here and abroad.

Dynasty jumped at the opportunity but didn't stop there. In typical Winn fashion, he saw not only the trees before him but the entire forest. Here was another industry, like lighting, that was under-performing. Dynasty got Conrad his sequential lights and then went on to build an entire division around lighted holiday décor, called Holiday Classics.

Soon, Holiday Classics became one of the nation's largest suppliers of seasonal goods. It wasn't hard to see why. Dynasty's new line did everything better. Over time, it grew into something wonderful.

Other people sold light sets. Holiday Classics offered (among other things) "Dancing Lights," featuring, as the catalog described them, "Innovative and ruggedly dependable super-bright lights. If any bulb burns out, or is even removed, all of the other bulbs will continue to light. Features a timed memory chip for automatic rotation of dozens of light show sequences, plus slow fade, wave, pulse, chasing, and random twinkle. Lifetime warranty….” And you didn’t even need an advanced degree in astrophysics to plug them in.

Other people had Christmas wreaths. Holiday Classics offered (among other things) a “22-inch decorated Colorado spruce wreath, featuring 10 electric candles with flickering bulbs and 35 mini-lights, highlighted with natural pine cones, berries and holly.”

Other people had…actually, nobody had anything like the Story-Telling Santa, a cuddly, hand-stitched version of the jolly old guy, designed to sit on a child’s lap and “read” stories from the book he was holding. His mouth moved and his eyes blinked as he read the original “The Night Before Christmas” poem by Clement Moore. We’re talkin’ cute here.

The Price Club was the first to buy Holiday Classics designs. But it didn’t take long for others to become interested, especially other warehouse clubs—especially Sam’s, WalMart’s Price Club clone.

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ANOTHER SHORT NIGHT had passed as the Falcon 20 flew toward the Arkansas sunrise, robbing Winn of badly needed sleep. With him was Dynasty exec Mark Wong, President of the firm’s overseas operations. Mark was a dashing Hong Kong businessman, impeccably attired in a custom suit. He was another of the insecure characters in Craig’s life. He wondered where they all came from.

At breakfast, Craig sipped his coffee and wondered if all the hassle was worth it. No doubt it was just fatigue playing with his head. Sleep deprivation can make things seem worse than they really are. But it wasn’t the travel that was starting to get to him. He could deal with that. It was the concessions Sam’s Club was demanding.

First it had been exclusive products, so shoppers wouldn’t find the same things in other stores. Dynasty had complied. They wanted point-of-purchase signs for their stores. Okay. Then, an end-of-season return program so they wouldn’t be stuck with unsold goods. All these extras cost money, but jumping through hoops was what Dynasty did best. That’s how they had earned the lion’s share of Sam’s business, starting with $2 million the first year, then climbing to $15 million. The third year, 1992, was to be the biggest yet—$25 million.

The meeting started promptly at eight o’clock. As Sam’s senior buyer, Clay Steward, greeted them, Craig passed out copies of the revised program. It had grown to nearly one hundred pages of detailed documentation. He said, “Just so we’re all on the same page, let’s recap our progress. This lists the product mix you’ve agreed to buy, your revised quantities, and your updated delivery schedules. Your changes are underlined. The last three pages detail the shipping parameters you’ve asked us to follow.” Craig wanted to say “demanded” rather than “asked,” but since Sam’s was now his biggest customer, it would have been bad form.

Craig had always thought it seemed a little odd that WalMart, with all of its “Buy-America” hype, ran the biggest buying offices in the Far East. But today, that was neither here nor there. “As you know, the factories in China can’t wait any longer to buy raw materials and begin retooling their production lines. Manufacturing must start soon if we are to meet your delivery schedules."

"We understand all of that," Clay said.

"This program requires transferable international letters of credit because you want an end-of-season return program," Craig confirmed.

"That's right. We expect WalMart's import division to issue them any day now. But in the meantime, we need to make some changes…."

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"CLAY, TALK TO me." Craig was in his office at the Dynasty plant, on the phone with Steward for the fourth time that week. "It's the third week in May, and I still don't have the letters of credit."

"I know, Craig," Clay replied. "I apologize. I know it'll happen. I just don't know when. I keep pushing WalMart for an answer."

"We're in trouble, Clay." There was a hint of desperation in Craig's voice. "If the factories didn't get started, you would've missed Christmas. We had to fund the raw materials and tooling ourselves."

"You did?"

"Yes, but that doesn't mean we should have. We've used our lighting division's credit lines to fund your program. It got us going, but it won't last. We've got to get your transferable international letters of credit, or we're as good as dead." Craig prayed he was exaggerating.

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"I've got some good news, Craig."

"What have you got for me, Clay?"

"I've got the letters of credit. Sorry it took 'til June."

"Transferable international letters of credit, right?"

"Well, ummm…no. They issued domestic LCs."

There was a long pause as Craig tried to regain his composure. It was a losing battle. "You're killing me, Clay. Domestic LCs aren't acceptable, and you know it! They can't be used to fund overseas production, and they're not part of international agreements. They don't automatically transfer payment when your products leave port. Are you starting to see the problem here, Clay?"

"Well, I…."

"Transferable international LCs," Craig continued with increasing frustration, "fund upon shipment. You take possession in Hong Kong, inspect the goods, choose the freight lines, pay the ocean freight, clear the goods when they arrive, pay the import duty, and truck the containers to your nearest distribution center. Read the program. That's what it says, and that's what you agreed to do in exchange for your end-of-season return privilege. We've confirmed it countless times in writing."

"Sorry, Winn. That's the best I can do." And then, remembering he was the buyer, he added, "Take it or leave it."

Craig took it. What else could he do? It was June already. Warehouses in China were filled with festive holiday village displays and lighted wreaths, high-tech sequential Christmas lights, and snow globes, all funded with the rob-Peter-to-pay-Paul method. Craig and company scrambled to make the best of a bad situation. After all, it couldn't get any worse.

But it did. Bank of America hated the deal even more than Craig did. In order to secure the necessary lines of credit, Winn had to put up his home as collateral. Then it got even worse. The domestic letters of credit enabled Sam's to continue changing the program to their benefit—and Dynasty's harm. Sam's required them to pay the ocean freight and import duty. They wanted all their products stored in American warehouses, palletized to their specifications, and the cartons side-marked with their labels, all at Dynasty's expense. This was a far cry from delivering shipping containers to an Asian port. Then Sam's delayed the arrivals. The list went on.

Every time Sam's added more restrictions, it delayed payment. These delays destroyed Dynasty's ability to fund its lighting inventory. Dynasty's asset-based line of credit with Bank of America was stretched beyond the breaking point. Soon the best-selling lamps were out of stock. No inventory, no shipments, no accounts receivable. No accounts receivable meant no advances on the asset-based line. No advances meant no inventory could be made or purchased. No inventory meant no sales. No sales meant no accounts receivables. It was an irreversible death spiral.

As lighting shipments became more erratic, bad things began happening. Dynasty's customers, notably Sears, Home Depot, Home Club, Lowes, Kmart, and even the Price Club, had to have something else to sell. So when Dynasty failed to deliver, they switched suppliers. Sensing Dynasty's troubles, they even started withholding payments from the firm, further starving it of cash.

Sam's and WalMart had dealt Dynasty a $25-million-dollar blow, a blow from which it could not recover. The giant retailer had strangled the golden goose. They hadn't meant to. It had been an accident. They had only meant to squeeze her for every last egg. Dynasty had been a good thing for Sam's. But their corporate creed had demanded that every advantage be taken, every opportunity be exploited, every ounce of clout be exercised. Never consider the consequences. And never, ever acknowledge the word "enough." Sears may have become famous for using their size to abuse their suppliers, but WalMart, it seemed to Craig, had perfected the art.

In the end, it didn't really matter if Dynasty's imminent fall was the result of Sam's and WalMart negotiating hard or being abusive, or whether it was caused by incompetence or outright greed. It was now clear that the huge and innovative lighting and seasonal goods manufacturer was descending inexorably toward bankruptcy. Five hundred jobs on this continent, and thousands more overseas, were in jeopardy. One hundred million dollars in business would go to other suppliers—or simply evaporate. It had taken a thousand transactions to build it, but only one to bring it down.

Dynasty Classics was five years old. It was too young to die.

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The outcome was virtually certain, but Craig refused to accept defeat. He worked directly with every Dynasty supplier, trying to create an acceptable payment strategy. He pursued merger options with other lighting manufacturers. Talk led to more talk. Then Catalina Lighting said they were interested. They sent in the troops, called customers, visited the manufacturing plants, and dissected the inventory. They agreed to buy the company and wrote a purchase agreement. The price was $2.00 a share, about $40 million. Craig breathed a sigh of relief.

Then it happened. Weeks after the deal was publicly announced, on the very evening it was to be consummated, a Catalina executive walked into Craig's office and said, "We have a problem."

At the last possible moment, they rejected the inventory numbers and cut their offer from two dollars a share to twenty cents. The words sliced through Winn's soul like a frozen dagger. He knew that the inventory had already been discounted to a fraction of its actual value. Why the eleventh-hour reversal?

The answer, it transpired, lay at the feet of Erwin Daffney, one of Dynasty's Sales Managers. He had turned Benedict Arnold. In the wake of his treachery, 500 people lost their jobs. But who cares? Daffney got himself a shiny new one: SVP of Sales for Catalina Lighting.

Winn tried to sell the Holiday Classics division for the benefit of the company's shareholders, finding a willing buyer in a wealthy housewares entrepreneur. It was the perfect addition to his holiday lines and a worthy complement to his imported brands.

In order to protect the company's employees, Craig praised the President of his overseas operations, Mark Wong, when presenting the division. But when Winn told Wong his plans, which included leaving Mark in the driver's seat, Wong smelled an opportunity. He flew from Hong Kong to Boston to cut his own deal, hanging Dynasty's shareholders and employees out to dry.

Not everyone involved in Dynasty's restructuring proved to be a scoundrel. Craig, working with Scott Chrisman, approached Najat and Quiel Nalic of Lights of America. These creative Pakistani-born brothers were leaders in energy-efficient lighting. They wanted to buy Dynasty, hoping to merge its marketing savvy with their awesome technology. Noble and exciting goals, everyone agreed, but no deal ever materialized.

During Dynasty's final horrific months, Craig concluded that his managerial skills were inadequate. His self-confidence was in ruins. Winn beat himself up over being blindsided by WalMart, and he vowed that if he ever built another company, he would replace himself as CEO just as soon as the firm grew large enough to attract a professional. It was a resolution he would live to regret.

Working to find potential investors, Craig found a turnaround guy and stepped aside to give him the CEO title. This fellow blamed the company's troubles on "lack of focus." He boasted that under his control, Dynasty would be a new, more professional company that would grow profitably. "It is time," he said, "to pass the baton from the entrepreneurs to the professionals." Winn prayed he was right.

The turnaround guy ran Dynasty with all the finesse of Blackbeard the Pirate, giving Winn an unwanted opportunity to see the underbelly of corporate behavior. One of his first official acts as the new, "more professional" manager was to alter his employment forms, increasing his salary by $100,000.

Meanwhile, Craig was taking the opposite approach. He made payroll out of his own pocket—for hundreds of employees. It was a valiant, heroic, yet futile effort to keep the company he had built and loved from going under. In the process, Craig became Dynasty's largest creditor. The new CEO filed Chapter 11 only two weeks later.

Craig was brokenhearted as he saw Dynasty being devoured by its new management team and the lawyers representing them. Before all was lost, he sold Dynasty to Seattle Lighting via their venture partner, Hancock Park. The new owners replaced the first turnaround guy with one of their own. He turned out to be little better than his predecessor. Dynasty slowly dissolved as they fought over the furniture.

As all this was going on, Craig and fellow board member Rex Scatena were preparing a lawsuit against WalMart on behalf of Dynasty's shareholders. They recruited Skadden, Arps, the nation's leading litigation firm, to assist them. So compelling and so well documented was the case against the giant retailer that the law firm agreed to take the matter principally on a contingency basis. They would profit only if they won.

Unfortunately, on the very day they were to have filed the suit in Federal Court, Hancock Park's principle reneged on his commitment to assign the rights to Dynasty's shareholders. He reasoned that the new task lighting department Craig had designed and sold to WalMart would be discontinued if the shareholders sought recompense. As a result, the case, all three billion dollars of it, died on the courthouse steps. WalMart discontinued the task lighting section anyway. Everyone lost.

At least there were no class-action lawsuits in the wake of all that had happened to Dynasty. Craig blamed himself for making enough mistakes to last a lifetime, for being unable to extricate the firm from the death spiral his sale to Sam's had set in motion.

Through it all, he witnessed a disturbing pattern. He had seen insecure parasites descend upon his firm, wait for an opening, and attack at the first sign of weakness. He would, unfortunately, experience this pattern again, but next time the corporate maggots would do their work in the glaring light of the national media.

So Winn found himself, in a way, right back where he had been after he graduated from USC—unemployed, alone, asking God, "Why?" But life is for learning. Dynasty had been Craig's school of hard knocks. It had taught him many valuable things. But the tuition had been a killer.

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ALTHOUGH SOME TIME had passed since they'd last played together, nothing much had changed. Rex's drive sailed straight down the fairway. Craig's had once again found the sand trap.

"God's teaching me patience," he muttered to no one in particular.

"He sure isn't teaching you golf," Rex replied breezily.

"I'll tell you something. Building Dynasty taught me stuff you can't learn anyplace else."

"Scars build character. It's all about what a guy does when he's in life's sand trap. That's what counts. That's when you learn what he's made of. I'd follow you into hell."

"Thanks, but there are enough lawyers there already."

Laughing, Rex ignored the affront to his noble profession. "I know the Dynasty story as well as anyone. You built a hundred-million-dollar business from nothing. You got the rug pulled out from under you, but you stood tall. You know what? I'd leave my law practice in a heartbeat to work with you. If you were to tell me that bat farming was going to be the next new thing in pest control, I'd be right there."

"Thanks," he said as he hovered above the ball and wiggled his feet to test the sand and improve his stance. "I hope we can work together."

"So what did you learn?" Rex asked. He was always interested in Craig's state of mind. He had come to consider Winn one of his favorite spectator sports. You never knew what the guy would think of next.

"I learned the ins and outs of how a brand functions." Craig grunted as he completed his swing, blasting his ball out of the sand trap. It landed softly on the green, above the hole, thirty feet from the cup. "I've learned how distribution works, how orders are processed, how inventory is managed."

Rex hit his 9-iron ten feet from the pin. "Okay."

"Did you know, counselor, that WalMart orders by store each week, based upon what people bought the previous week?"

"Huh?" Little did Rex suspect that what he was hearing would change his life. The two walked on, laying their bags down next to the green.

"The average retail order," Craig explained, "is tiny. But the brand has to receive it, enter it, pick the goods from their racks, and ship it. Each small order requires a separate freight bill. It's inefficient to the max."

"There's more, I presume," Rex led the witness.

"Abuse, Rex. I learned a lot about being abused."

"Wonderful."

"No, really, the system encourages retailers to abuse brands. It wasn't just Dynasty. Every brand suffers. Retailers have too much clout."

"That's what killed Dynasty," Rex added, eyeing his putt.

"Retail's dumb. It's broken. The more you know about it, the more you realize how foolish retailers are. They depend on brands, yet they abuse them. Remember the question I asked the Price Club before I started Dynasty?"

"Yeah. You asked 'em to name the dumbest industry."

"Well, they gave me the wrong answer. Retail is the dumbest industry!"

"So what can be done?"

"Not a damn thing. If brands sell to consumers directly, retailers will drop them. Besides, brands don't want to be in the retail business. But I'll tell you what they do want."

"What's that?" Rex asked as he sank his ten-footer for birdie and hoisted his putter into the air like it was a sword.

"Nice putt, even though you hit out of turn."

"You were on a roll, pal. I didn't want to interrupt," Rex shot back, encouraging his friend to sink his thirty-footer.

Undaunted, Craig continued to talk as he lined up his downhill putt. "Brands want to sell on the basis of value, not price. They want to present their products directly to the ultimate buyer."

"They can't do that."

"Not now, but someday. Imagine an electronic conveyer belt between factories and consumers."

"Okay," Rex prodded, "who's going to build it?"

"A new kind of retailer."

"A retailer!" Rex couldn't believe his ears.

"What if a store were run more like a rep agency—like The Winn Company, bringing people and products together?"

"Sounds great, but it's impossible," Rex countered in typical lawyer fashion. "The consumer can't place orders directly with brands, and brands can't afford to demonstrate their products to every customer. You can't serve the masses, one on one, one at a time."

"Actually, that's a myth. With computers, it ought to be just as easy to sell and ship to a person as it is to sell and ship to a store."

Rex thought about this for a moment. "How's this hypothetical retailer supposed to present products to the masses?" He watched as Craig stroked his putt.

"I think I've found an answer for that—an answer for a lot of things," Craig said as his putt hit the back of the cup and disappeared.

"What's that?"

"It was a bird, just like yours."

"I know it was a birdie. Great putt. I meant, what's the answer?"

"Ever heard of the Internet?"

"Yeah. Never seen it, though. What's it like?"

"It's like the early days of television. There isn't much there, and what's there is awful. But I'm telling you, it's got potential."

"You're actually thinking about doing this, aren't you?" Rex said as the two ambled up to the fourth tee.

Craig tried, but he couldn't suppress a grin. "Maybe."

"Well, it's not like you don't have any motivation." Rex was grinning now himself. Insanity was apparently catching. "The Internet, huh? Sounds like a long shot to me."

"Long shot? This is a long shot." The fourth hole was a downhill 220-yard par three. Craig grabbed his two-iron. He took a long slow swing. The ball jumped off the slightly open clubface. It hit a hill to the right of the green, bounced twice, and then rolled onto the short grass, following the break toward the pin. Closer. Closer. Craig held his breath.