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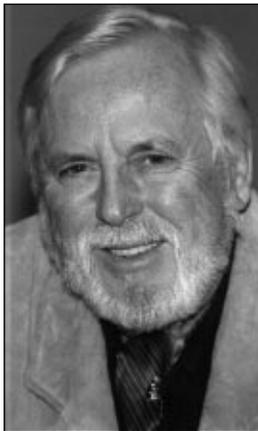
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"The Entrepreneur in America: An Endangered Species"

Edward Lowe (1920-1995)

Founder, Edward Lowe Industries

Edward Lowe's career as an entrepreneur spanned a busy and challenging lifetime. After graduating from high school and completing four years of service in the U.S. Navy, he joined his father in the family coal and sawdust business. In 1947, Ed set off on his own, marketing an innovative product he invented and developed—Kitty Litter®—



literally creating the entire cat-box filler industry in the process. This marked the beginning of Edward Lowe Industries, Inc., which would eventually grow into a multinational company, producing and marketing products for many diverse industries (including a second successful cat-box filler known as Tidy Cat®). With a number of patents to his credit, Mr. Lowe's entrepreneurial spirit never dwindled, and he continued to create

innovative products and provide unique services to other entrepreneurs.

In 1985, Ed and his wife Darlene established the Edward Lowe Foundation in an effort to inform, educate, and represent entrepreneurs and small business owners. The Edward Lowe Conference Center at the Foundation's sprawling complex in southwestern Michigan offers distinctive facilities at which entrepreneurs, service organizations, and non-profit groups can meet to share ideas and information. The Foundation actively supports educational programs, maintains extensive informa-

tion services (including a World Wide Web site on the Internet) and provides a voice for small business among our nation's policymakers.

In 1993, the Foundation also sponsored several "Free Enterprise Briefings," bringing together small business owners from throughout the Midwest to discuss specific challenges, or "brick walls," that affect small businesses and hamper their ability to grow and succeed. In the spring of 1994, Ed Lowe personally delivered the results of these briefings to President Clinton during a private meeting at the White House.

The Foundation is also sponsoring two of Hillsdale College's award-winning Shavano Institute for National Leadership seminars on January 29-30, 1996 at the Hyatt Regency Hotel in Sarasota, Florida and on May 20-21, 1996 at the Drake Hotel in Chicago, Illinois.

An accomplished author, Mr. Lowe's published works included a guide to basic business survival skills entitled *Hail Entrepreneur!*; an autobiography, *The Man Who Discovered the Golden Cat*; and a collection of original poetry, *Reflections in the Mill Pond*. ♣

This special edition of Hillsdale College's monthly speech digest, Imprimis, presents the views of one of America's most successful entrepreneurs, Edward Lowe (1920-1995), on the challenges that confront over 18 million small business owners and on the future of our country, which depends on entrepreneurs and the free enterprise system. These were Mr. Lowe's final public remarks before his untimely passing in October 1995.

America is literally built upon the backs of the small businessperson and that is the way it has been throughout our more than 200 years. Paul Revere, one of our greatest heroes, for example, was a noted silversmith working out of a small shop behind his home. Abraham Lincoln, before he threw his hat into the political ring, was a self-educated, small town lawyer. The list goes on and on.

Even today's giant corporations—companies like Apple Computer and Motorola come to mind—once started as small businesses, nothing more than entrepreneurial gleams in the eyes of their founders. It is doubtful that even a visionary like Bill Gates actually imagined that someday the company he began in a garage would become Microsoft, and he perhaps the richest man in the nation.

It is impossible to separate the history of the United States and the unprecedented economic growth that ultimately formed the industrial giant we know today from the history of the entrepreneurs who fueled that growth. Small businesses and economic growth are necessarily and indelibly wed. But while the entrepreneur's vital link to our past is quite self-evident, his or her role in our future has become clouded.

We live in a very different time today, a time of big government and big business. While politicians at all levels, from the local city hall to the White House, sing the praises of the small businessperson, the decisions they make and the laws they pass often show a real lack of understanding of the needs of small business. All too frequently the actions taken by these policymakers cripple a company's ability to grow and succeed. Government has become so onerous, so pervasive in our daily business lives, that many entrepreneurs simply crumble under the weight, while an untold number of would-be entrepreneurs undoubtedly avoid altogether making the dive into the challenging waters of entrepreneurship.

All of this is even more troubling considering the important role small business plays in our nation's economic evolution. Consider this: nearly 100 percent of the net new job growth in this country is created by small business. The mass media can get excited about the union of Disney and ABC or Upjohn and Pharmacia AB of Switzerland, but these star-studded mergers between multibillion-dollar corporations simply do not create many new jobs. In fact, they are much more likely to *eliminate* jobs.

Layoffs, downsizings, corporate re-engineering or reorganizing—whatever term is currently in vogue among the management gurus—

corporate America is cutting jobs, putting tens of thousands of people into unemployment lines and leaving the small business community to pick up the slack. And those set adrift by corporate downsizing more and more often find themselves joining the ranks of small business.

The Brick Walls

The old adage of taking "two steps forward and one step back" certainly applies to building a successful business. With the thousands of little things that can frustrate the growth of a small business, the entrepreneur often feels as though he or she is accomplishing nothing but sliding backwards. Frankly, I don't know how successful I would have been in business if I had to clear the same hurdles today's entrepreneurs have to face.

Don't get me wrong—building a successful business has always required a good dose of hard work, determination, ingenuity, sweat (and maybe just a little luck), and it always will. It's just that there are so many more barriers in place today, the "brick walls" on the road to success are so much higher, and the complexity of government-imposed rules and regulations has become so much more demanding that the mere survival of small business has become the exception rather than the rule.

In December of 1992, I participated in then President-elect Clinton's Economic Summit in Little Rock, Arkansas. "Mixed emotions" best expresses how I felt after the conference. I was encouraged by the new administration's claim that it was willing to seek economic advice from leading business executives and economists, but I was also frustrated and disappointed by the obvious lack of small business representation. Listening to the so-called "experts" tell me what they thought they knew about small and entrepreneurial businesses was scary. Unfortunately, I was reminded that government bureaucrats believe that a corporation with 500 employees is a "small business" and that the struggles of an organization with 200 people on the payroll are the same as an operation with 10 people or less.

After I calmed down, I decided to offer entrepreneurs an opportunity to voice their opinions and air their concerns to the government—to give incoming President Clinton and the bureaucrats, who are not entrepreneurs and probably have never worked for a small business, a "slice of reality sandwich." For six months following the conference, the Edward Lowe Foundation sponsored, organized, and

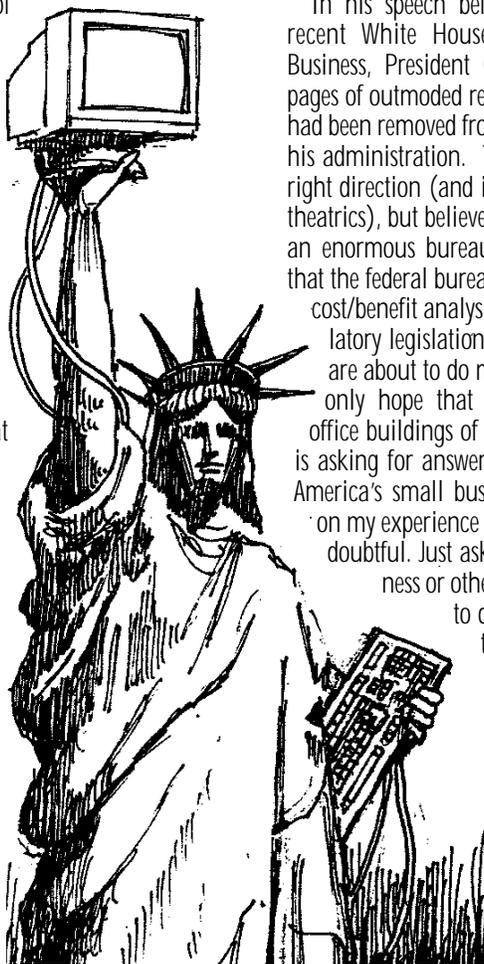
conducted a series of meetings, which we dubbed "Free Enterprise Briefings," bringing together small business owners from six Midwestern cities. After much, often heated, discussion and debate, the participants in these briefings boiled down their frustrations into five general challenges, or "brick walls," that prevent small businesses from growing and succeeding—regulations, taxes, lack of access to credit and capital, lack of access to information and spiraling health care costs.

Regulations

In the early days of the Kitty Litter® business, I would literally haul a trailer full of the stuff from cat show to cat show and pet store to pet store, offering free samples and negotiating for a free booth or increased shelf space. If I had to do this today, I can only imagine the obstacles with which I would have to contend: EPA inspec-

tions of my trailer; special permits for transporting cat litter over state lines from the Interstate Commerce Commission or the Federal Highway Administration; OSHA restrictions on the number of stops I can make each week; and so on.

The government too often piles regulations on top of regulations, creating a confusing, difficult, and unproductive business environment. Many small businesses in particular are stifled trying to comply with regulations that make no distinction between large and small enterprises. Many of our Free Enterprise Briefing entrepreneurs said that just decoding the language of the regulations and filing the required paperwork demanded a full-time effort from a person who did not exist in their organization and whom they surely could never afford to hire!



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In his speech before the delegates of the recent White House Conference on Small Business, President Clinton displayed 16,000 pages of outmoded regulations that he claimed had been removed from the federal code during his administration. This may be a step in the right direction (and it certainly made for great theatrics), but believe me, this is only the tip of an enormous bureaucratic iceberg. I'm told that the federal bureaucrats are now instituting cost/benefit analysis as they create new regulatory legislation to be sure that what they are about to do makes good sense. We can only hope that somewhere in the giant office buildings of our government someone is asking for answers to these questions from America's small business community. Based on my experience in Washington, D.C., I am doubtful. Just ask anyone—in small business or otherwise—who has ever had to deal with a federal regulatory agency.

Taxes

As the Kitty Litter® business began to take firm root, I often found it necessary to sink some of the company's profits back into the business, to expand our production facilities, create new packaging, hire new employees and the like. While it is important to keep investing in your company, it is equally important to keep yourself and your employees financially solvent. In the same vein, however,

it is no less important that companies today be rewarded for retaining and reinvesting profits. It is critical that government create an atmosphere conducive to investment and nurturing of business growth.

But our policymakers continue to make policies that accomplish precisely the opposite, and nothing illustrates this notion better than our current taxation system. There are so many different kinds of taxes levied on small business owners that they could probably fill a phone book—sales taxes, business taxes, personal income taxes, payroll taxes, FICA—the list goes on and on. High taxes undermine the ability of small business to expand and create jobs, thereby stifling growth in the economy.

Again, it is obvious to any entrepreneur that government does not understand the life-or-death need of small business to be rewarded for its profitability rather than penalized. We must remind the taxers that only negative benefits accrue from taxing small business to death—corporate mortality or the fatal wounding of the incentive to succeed.

Access to Capital

Finding the necessary financing to give a newborn business its legs can be one of the most frustrating, humbling experiences a small business owner ever has to face. In 1947, the first year of Kitty Litter[®], I relied on borrowed trucks, generous creditors, and loaned storage space in friends' warehouses. As the business began to grow and the debts began to pile up, I had to become increasingly creative in paying bills and cutting expenses. I would, for instance, send letters to some of my more overdue creditors promising full payment and asking for a little patience, enclosing a \$20 check to show my sincerity. As hard as it may be to believe, this approach actually worked more often than not.

When I first started making the rounds of cat shows across the country, I implemented another cost-saving approach to market my new product. I would offer to provide free Kitty Litter[®] and trays and my services to clean up after the shows. In return, I would get free booth space in which to stack up bags of litter and sell it to the show's attendees. Needless to say, Kitty Litter's[®] odor-eating powers made it an instant success among these cat owners.

Today's small businessperson may not find

suppliers to be quite so generous with credit terms, making reasonable access to other capital sources all the more important. Unfortunately, many commercial banks, still reeling from the fallout of the late 1980s, have become notoriously tightfisted when it comes to small business loans. And many bankers, who would otherwise lend to small businesses, often

re-fuse because the government, intentionally or not, discourages them from doing so. For instance, certain environmental regulations require banks, in the event of a foreclosure, to pay for cleaning contaminated property used as collateral by a small business seeking a loan.

According to the National Association of Government Guaranteed Lenders (NAGGL), the default rate on federal Small Business Association (SBA) loans is as low or lower than most bank portfolio rates. So, why won't private sector banks tap into this vast market without the government's insurance? The answer lies partly within the arcane rules and regulations of government itself, but also within our nation's banking community. Small business is paying the price for the 1980s and the high

risk real estate loans that grabbed the headlines not too long ago. Small business *is* a good low-risk investment, and it is time bankers wake up to this fact and start lending to deserving companies.

Access to Information

We may live in the "Information Age" and be traveling rapidly down the "Information Superhighway," but do not think for a moment that we have licked the challenge of the accessi-

"Above all, entrepreneurs are risk-takers willing to endure hard times, ingratitude, and disappointment because these are often the costs of doing business. They are self-reliant rather than dependent on government because they know that, when it comes to producing a product or fulfilling a need, their efforts in the marketplace will get the best results. They maintain their faith in the system, because, from time to time, they have seen ideas leap from the drawing board to reality, and there is no more satisfying feeling."

bility of information. Even with an abundance of information what was and still is lacking for small business is *access to answers*.

Some of the biggest blunders I have made in business have occurred when I didn't have all the facts. On one occasion, a man from Benton Harbor, Michigan persuaded me to buy 600 parakeets. He somehow convinced me that this was a great opportunity, that parakeets were very easy to raise and highly commercial. I thought this was a great deal: after all I was in the business of pets. But shortly after I hired someone to raise the birds, they started dropping. Within six months, I found myself with 600 dead parakeets. The important fact, which the seller concealed from me, was that they all suffered from an incurable problem—old age. Because I didn't research the average life span of a parakeet or find out how old the parakeets were before I bought them, I wound up with one big mess.

The point is, affordable information and answers are vital to the budding entrepreneur. In fact, information is vital at all levels of business growth. In today's high tech world, however, all information is not always created and distributed equally. There is a growing rift between the information "haves" and the information "have nots." As technology speeds ahead, deep pocketed big businesses have access to a tremendous wealth of data that many small businesses don't even realize exist. Lacking any central clearinghouse, even "information-savvy" small businesses often find the existing information sources unaffordable and difficult to navigate.

There have been few strides made to open the Information Superhighway to the small businessperson (government's only real action so far has been to call for new laws that would further regulate and control the electronic flow of ideas), but many private sector organizations are just beginning to offer valuable information resources. The Edward Lowe Foundation, for example, has created a "home page" on the Internet (<http://www.lowe.org/>), offering small businesses access to a wealth of information critical to their continued success.

Health Care

Few subjects are as likely to spark a debate among small business owners as health care. In recent years, the Clinton administration has mounted a campaign to convince the public that it is the employer's responsibility to provide more and more benefits for workers—from day care and substance abuse treatment to psychological counseling and paid family leave. While it is commendable that many employers choose to offer these benefits, they should not be

required to do so by the government. Our nation's policymakers simply fail to recognize the disparate capacities and needs among small businesses of different types and sizes.

A broader but still affordable health care system is certainly needed, but government's ability to manage and control such a system effectively is doubtful. Further, many of the programs that have been proposed place huge burdens on small businesses while shortchanging consumer choice and individual responsibility. It is far wiser, I think, to create a climate which encourages small business to succeed so that employment rates and salaries would continue to increase. As a result, more and more working Americans could afford to purchase the health care benefits they deserve.

The Entrepreneur: Key to the Future

The bottom line in all of this is that small business owners—the entrepreneurial pioneers who built this country—are still critical to both the American economy and to society in general. Just as entrepreneurs have played a vital role in the American past, they are also the key to the American future. Entrepreneurs provide inventions, products, services and *jobs* that enhance the quality of our lives and our national prosperity.

Perhaps most importantly, entrepreneurs pass on to the next generation the core values and stability that our society so desperately needs—a concept that must be recognized by our nation's policymakers. Entrepreneurs are hardworking and industrious, because they know they must produce something in order to sell it. They are frugal managers rather than spendthrifts, because they have to meet payroll and pay their bills every month. They are considerate and helpful toward others, because it is their habit to satisfy the wants and needs of customers. They prize quality because they know it determines value.

Above all, entrepreneurs are risk-takers willing to endure hard times, ingratitude, and disappointment because these are often the costs of doing business. They are self-reliant rather than dependent on government because they know that, when it comes to producing a product or fulfilling a need, their efforts in the marketplace will get the best results. They maintain their faith in the system, because, from time to time, they have seen ideas leap from the draw-

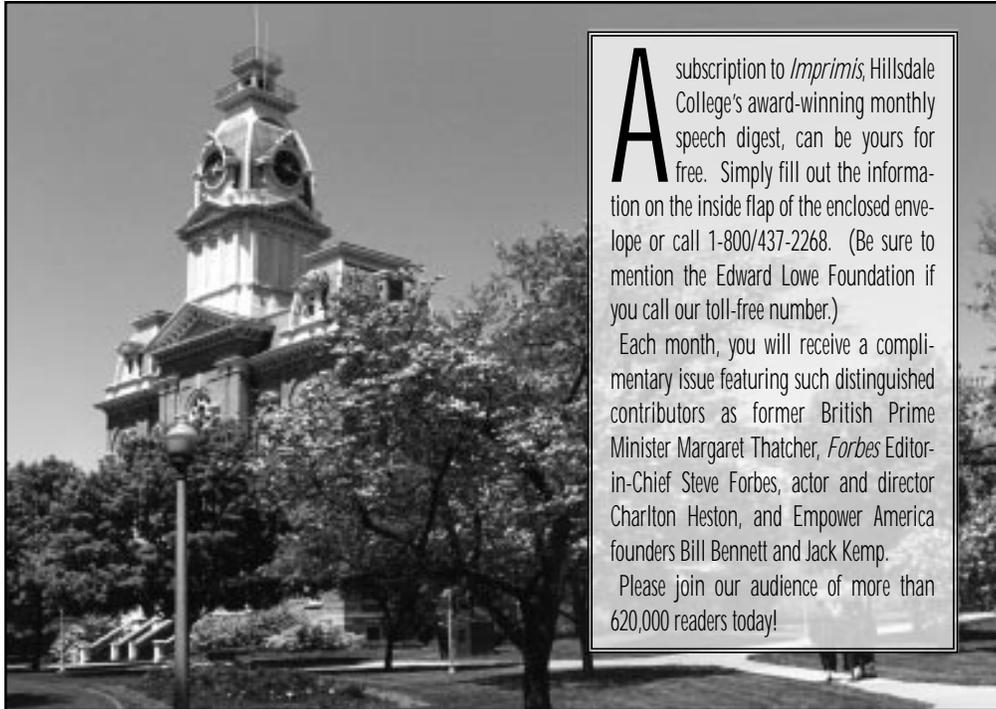
This 19th-century schoolhouse is one of the many facilities at the Edward Lowe Foundation Conference Center in Michigan



Lowe reminded us that "the best sources of information about private business are the successful entrepreneurs themselves."



For decades Edward and Darlene Lowe committed themselves as a team to helping entrepreneurs around the country.



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