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Bouncing Back

Allan F. Lichter
Millennium Graphics

As on previous occasions, the editors of the New England Journal of Entrepreneurship have sought to interview local small businessowners as well as entrepreneurs who have national reputations. One such small business operator is Allan Lichter, coowner of Millennium Graphics in Bridgeport, Connecticut. Mr. Lichter's story is certainly unique to him and to his partner, but readers may resonate with portions of this story as to how challenging it can be to surmount the ups and downs of the business cycle.

NEJE: How long have you and your partner owned Millennium Graphics?

Lichter: Twenty-two years. We started in 1980 by purchasing an existing printing business. The business had three employees and achieved only \$150,000 in annual sales at its peak. By contrast, in our best year, 1997, the company grossed more than \$6 million.

NEJE: Congratulations!

Lichter: Thanks. It's been a challenging experience for my partner and myself since we decided to leave our common employer, a large commercial printing operation in New Haven, Connecticut, to borrow money on our homes—it was a second mortgage for both of us—and to go off on our own.

NEJE: You seem to have prospered. Your operation now has more than 30 employees and everyone seems to be busy.

Lichter: For the moment, we are busy and we are thankful for that. However, our business is very sensitive to business cycles and we are worried about a possible "double-dip recession" in 2003. We simply have to continue to work hard everyday to maintain current business and develop new business.

NEJE: So it appears we need context for your remarks. Why such wary comments?

Lichter: Part of it is the economy. Our current customers are buying less and new clients are more difficult to acquire. Part of it is also due to customers leaving Connecticut for lower wage or lower tax states. And a piece of why we are in a challenging financial environment is due to a former company employee who embezzled hundreds of thousands of dollars from us.

NEJE: Whoa! You just said a mouthful. Let's start with the economy. Many economists have been saying the country is starting to climb out of a recession that has lasted longer than had been forecasted.

Lichter: That speaks only to the national economy, not what's happening locally. And locally, every one of our customers has cut back spending to the bone to stay profitable. One of the biggest areas in which they have cut expenses is consumer promotion. Not just local advertising, which admittedly has been especially hard hit, but sales promotion and collateral materials as well. That means us. Printers depend on that type of activity. Thank goodness for our specialty label business—it has offered Millennium Graphics a stable and fairly secure source of revenue. It's also a growing segment of the printing industry.

NEJE: When did you get into the label business?

Lichter: Actually, that was the first business we were in because we inherited it from the former owner. We have taken labels into new areas, but that was how we drew our first paychecks—from printing labels.

NEJE: How do you and your partner sort out who does what?

Lichter: My partner concentrates on production and finance. I focus on sales and marketing. We make a really good team. He has his area of expertise and I have mine. We get along well professionally because we don't get into each other's way and we don't second-guess each other. Actually, that's why I picked him as my business partner.

When I thought about going into my own business back in the late 1970s, I wanted someone who could supplement my skills, not duplicate them. What's the sense of having a partner who only knows what I already know well? Ours is a business that needs both an "inside" production person and an "outside" salesperson. So when I finally made the decision to become my own boss, I only considered partnering with someone who was strong in areas where I considered myself weak.

NEJE: Was it hard to convince your current partner to leave a safe job with secure income coming in every week?

Lichter: No, not at all. He was ready. I asked him if he wanted to work for someone else all his life or start making money for himself with a "sky's-the-limit" attitude. We were both ambitious and we were ready to make a commitment to working long hours.

NEJE: But from what you said a few moments ago, do you feel all the hard work has paid off for you and your partner?

Lichter: Absolutely! We've had an amazing run and it's been reflected in our lifestyles. It's been only the last four to five years that the business has become so uncertain in terms of long-range outcomes.

Consider this. Once we took over the business, we were able to double annual revenue virtually every year for five or six years running. We identified business areas that were growing rapidly within the Fairfield County, Connecticut, area and built our business plan to take advantage of their success. One example is the chemical industry. Our entrée was label printing which opened doors into commercial offset printing. Once that got going, we bought press after press to handle the volume.

At first, all we could afford were tired, secondhand presses. Then, as our business grew and we made terrific connections with local banks, we were able to borrow money against the business by opening up strong lines of credit, and purchase new, more efficient machinery.

By the mid- to late-1980s, we continued to grow the business substantially but the base was too large to double it every year so we had to be content with strong double-digit, not triple-digit, growth. That's still a tremendous achievement and we're proud of it. For some 17 years, we beat every previous year's sales.

NEJE: Then things started to get a little rocky.

Lichter: I guess our biggest mistake was becoming complacent and not seeing the storm clouds on the horizon. And then when it was raining on us, we continued to deny we had a problem. If we had reacted sooner, we might have avoided some of the serious problems that came "down the pike" later.

NEJE: We've discussed the slowing economy. You also mentioned losing business as companies pulled up stakes from Connecticut.

Lichter: Some of our biggest accounts left and that really hurt us. And the sad thing is, most times you don't see it coming and, for sure, there's nothing you can do about it. Our chemical customers left Fairfield County where we have our printing operation. A large shoe manufacturer, 9 West, moved to another state. We lost these accounts because purchasing managers want their printing suppliers to be close by. Waldenbooks also moved out of state and they were another big volume customer.

There's always a normal ebb and flow of businesses moving in and out of a geographic area, but there appear to be serious net losses for us here in southwestern Connecticut over the last few years. It may take some time for momentum to turn around in our favor.

We also made a mistake with the way we handled a local health care company.

NEJE: Is this another example of a company leaving the area?

Lichter: No, it's not, but it made things worse for us at a

time when we were already hurting from losing business due to relocations. For several years, we developed a strong relationship with three contacts in this rapidly rising organization that handled most of the print outsourcing for the firm. Two younger associates, more or less their assistants, stayed in the background and we didn't take the time to nurture the same relationship with them. We were too busy catering to the managers, the "top dogs," so to speak.

Then, during our peak year of 1997, one of the managers said he expected to start taking over the New York City portion of their printing needs due to some internal reorganization. He strongly encouraged us to buy a new, very expensive press to handle the anticipated business. It sounded like the manager knew what he was talking about and we trusted him. Business was continuing to come in, so why would we question his loyalty or his judgment?

NEJE: And things didn't go as expected?

Lichter: No, for several reasons. We went ahead and bought the press. Fortunately, the manufacturer of the printing press was willing to sell it to us and take on the mortgage. We didn't have to borrow much against the business to purchase it. But when it was all set up and ready to go, the expected print order volume from New York never materialized. The press languished but we had to keep sending in loan payments on it every month. It was crazy.

Within a few months, all three managers who had been our "best buddies" either had retired or were transferred to other departments as the health care company met some strong competitive headwinds and went through a contraction period. Some contraction! We went from doing about \$1.5 million in business down to just \$300,000 within two years. It was devastating.

Once the original contacts were gone, their assistants took over and their indifferent attitude reflected what might have been hurt feelings. In hindsight, we made the assumption the assistants would follow along doing business with us just like their managers. But other printing companies were soliciting the business, making an impression on the assistants that they mattered. We, apparently, were too blind to see our mistake in taking them for granted.

NEJE: Why didn't you just apologize for the oversight and try to get the business back by giving the assistants the attention they deserved all along?

Lichter: Well, there's more to the story. We were stretched to the limit in terms of our operation. Every press was busy. We were running two shifts and contemplating adding a third. My partner and I were overwhelmed and so was the whole organization. Customer service started to suffer. Every one of our clients wanted their printed materials "yesterday." It was "Get it to me right away!" "Do mine first!" "I need it *now!*" The pace was frantic. Business was booming everywhere. It was the "go-go '90s." Everything was possible. Everything.

Then clients started to notice the service issues. At first, they didn't say anything because they needed the materials so badly. At a certain point, though, the clients couldn't ignore the poor service we were providing. It was a tough lesson for us to learn. We never should have let our reputation for only producing the highest quality printing and offering the best service slip like we did.

It was devastating. We had always cared so much about quality and customer service in the beginning, but then we changed our priorities. We had moved our focus to quantity and just getting jobs out because every client demanded immediate attention. We should have turned jobs away, I suppose, but who wants to do that? Lose business to a competitor? It just wasn't in our company culture. Certainly, as a salesperson, it wasn't part of my make-up. I've always been very competitive and so turning away business was inconceivable.

NEJE: We've heard about the recession, about companies moving away, and your mistake with the health care organization. However, something tells me the embezzlement piece of this story is going to be pretty important.

Lichter: True. (Pause)

NEJE: Can you share this with us?

Lichter: Yes, I can, but it's all so very painful. This is bringing up some awful memories for me. It was a financially trying experience that nearly forced us into bankruptcy. From the highs of 1997 to the depths by 1999. It's been some roller-coaster ride!

NEJE: What happened exactly?

Lichter: The events go back to 1996. Apparently our accounting clerk, who had been with us for five years, started to take accounts payable checks made out to other companies for supplies they shipped to us and began to deposit them in dummy accounts she had set up at her bank under a different name.

NEJE: How long did this go on?

Lichter: Roughly 18 months. You see, the employee was also in charge of accounts receivable as well as accounts payable, so she was able to juggle things around and make excuses to our suppliers and they went along with it. She would answer the phone and, we were told later, make things up like she had cancer or needed an operation of some type, or had to take time off for family problems, yadda, yadda, yadda. All this was kept hidden from us because she was so smooth.

When a supplier became threatening, she would pay part of the outstanding invoices with money orders and cool off the caller for a while. She had a knack for spreading around the money while siphoning off many thousands for her.

NEJE: And you and your partner missed it.

Lichter: Yes. Remember, I had my focus on sales and

marketing, and my partner kept his attention on production and, supposedly, finance. But we were so busy and things were so out of control. He was spending long hours concentrating on getting work out and had no time left for the more mundane tasks of checking up on receivables and payables. We both trusted this employee to handle the bookkeeping. It seemed to us that everything was going along just fine.

NEJE: Was your accountant suspicious?

Lichter: We have a terrific outside accountant and he felt absolutely awful when we discovered the embezzlement, but it wasn't his job to deposit the money coming in or paying the bills. Our accounting clerk would make up the daily balances and give him the information to prepare our monthly statements and she was able to fool all of us, including our CPA.

NEJE: How did you finally catch on?

Lichter: One day my partner just happened to pick up the phone first and a supplier who had been promised payment was on the line. He was livid about being "lied to." My partner remembered he had signed the check to cover the outstanding balance to this company only a few weeks ago and he became suspicious.

He asked the accounting clerk to go to the check archives to see if the cancelled check had come back from the bank. When he left to go back to the production department, the clerk cleared out her desk quickly and left the building in a huff, according to other office workers who saw this whole thing unfold.

When we realized she had left work without explanation, then found the cancelled check with a strange endorsement, we knew we had a very serious problem on our hands.

NEJE: How did your bank respond? Did they suspect some of their employees might have been involved in this scheme?

Lichter: Our accounting clerk apparently had built up a relationship with the local bank cashiers over a period of years. They knew her. They knew us. They should have been suspicious, I guess, but when they didn't hear about her accounts being a problem, they must have figured we somehow implicitly knew about and approved what she was doing.

However, bottom line is we went to the bank, explained what had happened, and one of their regional vice presidents got involved in a hurry. He told us how sorry he was about the whole incident and promised the bank would stand by us. They would make sure we would be able to continue in business and pay off all our creditors.

NEJE: And did they?

Lichter: No, the bank's management stalled and finally balked at repaying us for any of the funds taken out of our business. They backed down from their promises and we actually had to sue them to get some compensation for our

losses. What put salt in the wounds for us was the \$90,000 we had to spend on lawyers just to get the bank to sit down with us and admit some culpability.

NEJE: Were you made whole?

Lichter: I cannot divulge the settlement, but my partner and I were not satisfied with the outcome.

NEJE: How long did you struggle financially?

Lichter: Actually, less than two years. It's been a personal triumph for us. We had had stellar credit with all our creditors for nearly 20 years and you can't put a price on that. So after this whole thing blew up, we sent letters to all of our suppliers. Some were understanding and said they would back us. Others were not so kind. However, we carefully managed each account and we're now back on track.

We have downsized our office space, sent the large press which wasn't used to capacity back to the manufacturer and they were willing to work with us. We're down to one shift again and watching quality and customer service like hawks.

NEJE: Do you expect Millennium Graphics to be in business five years from now?

Lichter: I don't like to forecast so far into the future, but, yes, I believe we will be in business and I'd like to think we will be thriving once again. We've been through so much and my partner and I still feel we're vulnerable to outside forces over which we have no control. That's scary in some ways, but it's no different for any other small business operation.

NEJE: How do you keep up your morale? How do you come to work each day with the energy and focus to make it all work?

Lichter: What choice do I have? I'm not just going to walk away after devoting 22 years of my life to building this company. We have a business, a responsibility to our employees, our clients, our suppliers, and to our families. You don't simply walk away from a business that once stood so tall and say, "Aw shucks." We're here for today and I expect for many days to come. We've learned a lot, bounced back, and perhaps some day we'll be stronger and even more profitable than ever before. You've got to believe in things like that or why would anyone work so hard and take the risk of going into business for themselves?

—L.W.