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Thompson, Patrick Oral History Interview: Carl Frost Center Oral History Project

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Oral History Interview
Patrick Thompson

Conducted and transcribed by:
Ryan Harvey

May 25, 1994
9:00 a.m.

RH- I need you to state your name, date of birth, and the company you presently work for.

PT- My name is Patrick Thompson. I was born on [date removed], 1940. I work for Transmatic.

RH- Could you describe a little bit about your educational background?

PT- Yes, I grew up in the Chicago area, graduated from St. Patrick's high school, went on to graduate from undergraduate school at Bellarmine College, and while I was there I took courses at Northwestern in Chicago during the summer, Wright Junior College and the University of Chicago. After I graduated from undergraduate school, while I was working in Chicago, I attended Depaul University working on an MBA, until such time that I started this business. I didn't finish the MBA. I moved here to Holland, Michigan. When I was about forty years old I picked up a masters degree in political science from the University of Michigan. I took a year off, and went back to school. That's my formal education.

RH- Could you say a little bit more about how you started the business?

PT- I worked for a company in the same industry in Niles, Illinois; the name of the company was Drawn Metal Products. I worked there when I was in high school, basically doing some maintenance work one summer. Then, I went back to work for them after I graduated from college, in 1962. I stayed until 1968, about 6 years. The company was sold to Microdot, a conglomerate on the New York Stock Exchange at the time, by the individual who owned it at the time, his name was Joe Zapf. I decided that I did not want to stay on, and with the new owners, they were our largest customer. They really just took us over, quite frankly. At that time, I left, at the end of 1967, and I started Transmatic in March of 1968.

RH- How did you raise the capital to start the business?

PT- I basically, I sold my house. I had accumulated some savings. I borrowed money from my father, and from my father-in-law. I started this business on probably about twelve-thousand dollars of equity capital. That small amount of borrowed money from my parents and my wife's parents, and I don't recall, but I think that was about another ten-thousand dollars.

RH- What were some of the most difficult experiences in the first years?

PT- Our beginning years, were very... we got off to a very

humble start. We had fifty-one thousand dollars in sales the first year. We made six-hundred ninety-nine dollars in profit. I went eighteen months without a pay check. When I finally was able to pay myself out of the business, I was making a hundred dollars a week. It took me six years to get back to what I was making prior to when I left Drawn Metal Products. It took me six years to get my salary back up to where it was. I also went five or six years without a vacation. We were working twelve hour days, sometimes seven days a week. It was just a necessity. Business did begin to grow in the early seventies. Growth brought a different set of problems. We didn't have enough capital. We almost went bankrupt because we over extended ourselves. It was a heroic experience, to say the least, to get a business into a financially stable position. I don't think that was really accomplished until the end of the 1970's. We started in 1968 and I'd say it took ten years to get that company financially stable. Those were difficult years.

RH- Are you incorporated now?

PT- We were incorporated when we first started. It was a corporation, a Michigan corporation.

RH- What exactly does Transmatic make?

PT- Transmatic is primarily built around one metal forming

production process that's known as transfer press stamping. We make small metal component parts, in high volumes, for the automotive industry, lock hardware, and plumbing industries, power tools, some electronics. It's a well diversified customer base, with a number of other industries. About half of our business is automotive, probably 20% is lock hardware or builders hardware, which includes some plumbing work too, then maybe, 10% in power tools. We're a high volume producer. It's basically a high skilled, capital intensive business, that has long training cycles for it's employees, highly skilled tool and dye makers, die setters, die designers. We have a substantial investment in capital for each employee that we have on the staff.

RH- How would you describe your management style?

PT- I believe our management style is primarily participative. We try to do things in a participative manner. We're broken up in to work teams. We allow decisions to be made at the lowest possible level of the organization, where ever there is competency to make those decisions.

RH- Our you a Scanlon Plan company?

PT- Yes, we are.

RH- When did you first become aware of the Scanlon Plan?

PT- It was about 1973. A man by the name of Dick Arthur, who was working at Donnelly Corporation, brought it to my attention. In 1974, I went to a Scanlon Plan Associates annual conference and met Dr. Carl Frost. He assigned a student to work with our company, Bill Greenwood. We began about a year or two year process of exploring the Scanlon principles as a way to run our business. In 1975, we formally adopted the Scanlon principles as a management process, and a management system to run this company.

RH- Was Carl Frost involved in a direct way with your company, or was it just his student?

PT- Carl Frost was primarily indirectly involved. His student Bill Greenwood worked with us very closely. Under the mentorship of Carl Frost, I should say.

RH- What exactly, do you feel, the Scanlon Plan is to your Company?

PT- The Scanlon Plan is a management process. It's driven by four principles: identity, participation, equity, and competence. Those principals help us form a philosophy that we run the business by, and I would say it has help us develop a very unique culture within our business. As I previously mentioned, we are participatively managed. In fact, in 1973 and 74, when we were

looking into the process, I think participative management was kind of unique at that time. Everything was authoritative or autocratic, but participation was beginning to get some attention in the business press. I thought the Scanlon Plan Associates were forerunners in introducing it to business here in Western Michigan.

RH- Could you describe a little bit how a bonus system works?

PT- The Scanlon Plan really started out as an incentive system by Joe Scanlon who worked for a steel company back in the Depression, coming up with an idea on how to save money. When he presented it to management, he said if they could save money on labor, he wanted to split the savings, and pay out part of savings, in the form of the bonus, with the employees who remained with the organization. At Transmatic, when we joined the Scanlon Plan Associates, we looked at some of the bonus systems that were in effect at the time. They were mostly bonus systems that were built off the original idea of Joe Scanlon. They were labor saving systems. We, in turn, decided to put in a full blow profit sharing system, because we're a high skill company, and because labor was not a very high cost, manufacturing labor usually less than 20% of our total cost of our product. It didn't seem to us to make sense to cut cost of labor, so we put into effect, we were the first ones to put it into effect, a profit sharing formula that split profit, above

12%, evenly with our employees. Anything above 12%, pre-tax profit based on sales, we split with our employees. We thought the first 12% profit was required for the company to have a satisfactory return on its investments, for its investors, and to provide capital for growth so we could buy equipment and have working capital. After 12%, we thought that we were achieving an outstanding return, and we decided we could share half of the excess with our employees. That's how we started out. Then we found out that we were considered to be mavericks. You know, anybody that shared profit at the rate of 50% of what they were making above 12% was considered to be very unique back in the early 70's.

RH- Was there any resistance to implementing the plan in the beginning?

PT- I don't believe there was. I think we took about a year, maybe more, to study the plan, study the Scanlon Plan with our employees. Our first effort to put in the Scanlon Plan, by the way, I might add, really failed because we didn't spend anytime at all. We just looked at it as being an incentive system. We put it in like a bonus system, and like most bonus systems, the first time you don't pay a bonus, that usually ends it. That happen about 1973 or 74. Then we worked hard at studying the incentive system of the Scanlon Plan and developing the profit sharing plan that we came up with. We spent a year having

meetings with our employees, working together, developing it jointly. I recall that we took a vote, asking the employees if they were in favor of the Scanlon Plan. That vote came back 100% positive. I would say that give us an indication that there was really no resistance to the plan.

RH- About how many employees do you have?

PT- At this time?

RH- Yes.

PT- I believe we have about one hundred and eighty-five employees.

RH- So has the Scanlon Plan meant to your company as far as productivity and profits? Have you seen any increases since it was implemented?

PT- It's very difficult to correlate what the Scanlon Plan means in terms of profitability. However, I believe that it has helped us succeed. It has helped us accumulate ideas, from all of the people that work here. It has helped us reduce our cost and increase the value of the products we produce for our customers. I think it helped us form a very loyal and solid employee base.

We've had very little turn-over here for years. Part of it is attributable to the fact that our employees seem to like working under our management system, and I'm sure some of it is the fact that we paid out bonuses. Up to this year I believe we've paid out, since 1974 to 1993, over 1.8 million dollars in cash bonus's.

RH- Does the Scanlon Plan address product quality at all?

PT- I think the Scanlon Plan indirectly effects everything, as we see it. We would view some of the principles like identity, identity being a principle. There's a constant need to train employees in everything they need to do the job right, and we must share, management must share information with everybody, so that, employees can participate. In that sense, that includes quality. Employees need to know how process control works in a manufacturing environment. We work hard to try them in the skills that they need, so that they can use statistical process control as a tool to improve the quality of our products.

RH- Are the employees in a Union right now?

PT- We've never had a Union vote. I know we have been contacted by the International Association of Machinists, and perhaps other unions have made contact with employees within our company, but to the best of my knowledge, there has been no desire to join a

union, and there has never been a vote taken on that subject here at Transmatic.

RH- Do you think the Scanlon Plan works better because there isn't a union, or would it work better with a union?

PT- I don't think the union would have an effect. It's been a long time since I worked in a union environment, myself. I have done that in the past. I worked for two unions, as a worker. I don't believe it really matters whether you have a union, or you don't have a union. I don't think it will effect it either way.

RH- What were the reasons behind you deciding to locate the business in Holland?

PT- I used to travel to Western Michigan on a regular basis. I would stay at a hotel here called Point West. I did some business with a company called High Q Electric, which was in business years ago. I got to know the people, and when it came time to start my own business I realized that I could locate the business anywhere. I am primarily a Mid-westerner. I wanted to locate in the Mid-west. I was born and raised in Chicago. I didn't particularly want to live in Chicago, but I didn't want to be that far away either. Holland, Michigan was a very attractive place. We considered Conosa, Wisconsin; Madison, Indian; Grand Haven, Michigan; and Holland, Michigan as potential

plant sites. We did a study on it. We got down to the fact that Holland was a college town with Hope College. It was located on Lake Michigan, which gave us a lot of recreational opportunities. It was midway. It was located equa-distant between Detroit and Chicago, so we were serving two major markets form this location. In retrospect, it just, we had a good work force. We're a high skill company. We rely on our work force. We have to have a high skill labor force. The people are loyal. You can train them, and in many cases it takes us years to train them. The people will stay with you after you've made and investment in them. They are educable. They have a good value system. In fact, a very unique value system, I think, in this area. We recognized all of those factors before we made our final decision to locate here, and we've never regretted the fact that we located the business in Holland, Michigan.

RH- So do you think the work ethic, that is so often is claimed to be found in West Michigan, has helped?

PT- The work ethic here is definitely above average. It's a good work ethic, but it's more than the work ethic. I think that people are honest, loyal. It's almost all the boy-scout traits that you look at. A lot of people will focus just on the work ethic. I would tell you that we have people in plants in North Carolina and Arizona that may have a stronger work ethic, but what's really unique about the work force in this area is the

total value system, when you look at everything. Are the people basically honest? Not do they just work hard. Are they intelligent? Are they loyal? There's a whole group of other characteristics other than the work ethic. The work ethic is excellent, but it's the whole, what I describe as the value system of the people in this area. I include a number of different values in that. That really make this work force unique.

RH- You mentioned the workers in North Carolina. Do you have other plants now? Have you expanded?

PT- We, in 1980, set up a production satellite operation in Sanford, North Carolina. It's grown considerably over the years. In 1992, we set up a operation in Tempi, Arizona, that primarily does work in Mexico. 80% of everything the produce out there is shipped south of the border, to Mexico.

RH- If you could give some advice to a young entrepreneur what would it be?

PT- Yes. Well, there's a lot of things you could tell them. First of all, you got to want to be in these businesses. It's got to be a driving force. It's got to be ambition, and you have to keep you eye on the goal at all times. When you start out a business, especially a capital intensive business like this, the

first goal of all entrepreneurs, I believe, is survival. Everybody wants to be a millionaire, everybody wants to be a success, but they really need to do is build a foundation, and make sure that they can survive those early years. I've heard statistics where half of all businesses fail within two years and 80% of them are gone within five years. It's not easy starting business in this competitive environment, but it's not impossible. We need more entrepreneurs in our society because there constantly coming up with up with new ways of doing things. New products and new services that provide all of us with better standards of living.

RH- Well, I think we'll wrap it up with a final question. If you could give a mission statement for your company, what would your mission statement be?

PT- I'm going to provide you with a copy of a corporate mandate that's a page long of fine print. Maybe you can draw it out of there. Our mission is very complex. Our mission is to serve a multiple constituency that includes our customers, our employees, our investors, and the communities in which we operate businesses; also our industry and our suppliers. For me to wrap that up in a few words would probably not be appropriate. I'll supply you with a couple of copy's of that, and you can read it.

RH- Well, I think that's about it. Thank you for your time.