

ohn Michael Kohler, above, founded Kohler Co. in 1873. He was a civic leader and supporter of the arts, in addition to being a successful businessman, and led the company until his death in 1900. He was succeeded as president by his son, Robert J. Kohler, right, who led the company until 1905.

he Kohlers of Kohler, Wisconsin, one of the great business families in America, have prospered for a century and a quarter despite — or perhaps because of — the differing personalities and management styles of their company's leaders over the years. If there is one thing you can say about the Kohlers, it is that each generation has marched to the beat of a different drummer. To be a Wisconsin Kohler is to be a rugged individualist. Selfreliance and independent thinking, occasionally even to the point of eccentricity, have always been encouraged within the family. Maybe that is one reason why Kohler Co., founded in 1873, has succeeded so consistently for so long. Given the imaginativeness of its leaders, Kohler Co. has never wanted for original ideas.

Kohler Co. is a diversified enterprise participating in four business fields: kitchen and bath, including plumbing fixtures, faucets and cabinetry; power systems, including electrical generators, small engines and generator rental services; interiors, including furniture, accessories and tile; and hospitality and real estate.

To many consumers, it is best known for one of those businesses, plumbing products, and for having single-handedly changed the look of the bathroom. Indeed, Kohler Co.'s success in continuously reinventing the bathroom is a prime

example of the company's creativity from generation to generation of family leadership.

Until the turn of the twentieth century, Kohler Co. was a small regional supplier of quality plumbing products, a mere speck on the competitive scene in comparison to Standard Sanitary Manufacturing Company (a predecessor of today's American Standard Companies Inc.) and Crane Co., which dominated the industry. Then matters began to change. At that time, bathtubs and other plumbing products were considered to be boring utilitarian necessities. The majority of American homes still had outhouses, and indoor plumbing fixtures were rudimentary. However, Walter J. Kohler, a son of company founder John Michael Kohler, championed a new idea — that plumbing products could be beautiful as well as practical. With that notion, he launched a plumbing products revolution.

Under Walter's leadership, Kohler Co. introduced stylish new products, beginning with its elegant Windsor line in 1908. In the 1920s, it devel-

oped pastel and jet black toilets and other fixtures, defying the industry convention that plumbing products came only in white. Kohler's jet black products were so unusual, even spectacular, for their time that they were featured in a 1929 show on





Nother of John
Michael's sons, Walter J.
Kohler, ran the company from
1905 to 1940. The inclusion of
Kohler plumbing products in
a 1929 Metropolitan Museum
of Art exhibition, below left,
was an important endorsement of the company's design
leadership. Above, Kohler
entered the electrical
generator business in 1920
with the development of the
Kohler Automatic Power
& Light.



industrial design at New York's Metropolitan Museum of Art.

Kohler Co. innovated in other fields as well, such as its development in 1920 of the world's first engine-powered electrical generator, the Kohler Automatic Power & Light. Unique for its era, the unit started automatically when an electrical appliance or light was turned on. "This 1,500-watt unit brought electricity to rural America for the first time without the use of 32-volt batteries," Construction Equipment



as Kohler Co. president by another of John Michael's sons, Herbert V. Kohler Sr., who was CEO from 1940 to 1968. During his watch, the company began producing small engines, manufactured precision controls, built its first plant outside the state of Wisconsin and launched The Bold Look of Kohler theme.

remarks. Beginning with that pioneering generator, Kohler has become a major force in the power systems industry.

Kohler Co. withstood the Great Depression of the 1930s, converted to military production during World War II and resumed its innovation and growth after the war. In 1948, it opened a factory to manufacture small engines. Today the company supplies engines to customers such as Sears Roebuck, John Deere and Toro to power their garden tractors and other equipment. Kohler entered both the generator and engine businesses through internal development, drawing on the engineering, manufacturing and marketing skills of its

people, a far tougher road than diversifying through acquisition.

In plumbing products, the next great creative burst occurred in the 1960s, when the company — now headed by Walter's brother, Herbert V. Kohler Sr. — unveiled the industry's first products in "accent" colors. These colors were richer and more vibrant than the pastels of the 1920s, and they offered an array of new design possibilities.

The concept of accent colors originated with three Kohler executives in the advertising and public relations department — Charles Pagnucco, Alfred Ellrodt and Armond "Bud" Grube. They took their idea to Herbert Sr., who quickly gave his blessing. Not being color experts themselves, the three executives approached an editor of House & Garden magazine who helped them select five stylish colors to which distinctive names were assigned: Antique Red, Blueberry, Citron, Expresso and Jade.

The new products were introduced at the National Home Builders Show and at regional meetings of home builders and Kohler distributors. With appropriate hoopla, a large satin bed sheet was pulled aside to reveal five lavatories (the industry term for bathroom sinks), each a different color, unadorned on the stage. Audiences went wild. In San Francisco, the entire crowd of Kohler

distributors rose to its feet and cheered. Speaking of the response, Bud Grube said, "They were salespeople and they were excited. They had waited a long time for something new in the plumbing industry."

More important still, the new products were an immediate hit with consumers, capturing an emergent public taste for upscale household design. The company kept the color pot boiling, offering fresh colors virtually every year beginning in 1965.

However, it was not just the accent colors that were new. It was also the style and functionality of the products. Starting with the renewed growth of the plumbing market after World War II and continuing to this day, hundreds of new products bathtubs, whirlpools, toilets, urinals, bidets, lavatories, kitchen sinks, faucets - flowed from Kohler Co.'s factories, featuring beautiful designs as well as the latest technological advances, such as toilets that used less water and innovative whirlpool baths.

Some people, though, had trouble talking about toilets and other bathroom accouterments, or they poked fun at those who did. When Kohler advertised its products on The Tonight Show, Johnny Carson, the show's host, referred to them coyly as "Kohler conveniences." And when Kohler advertised its luxurious new bathtubs for two, picturing a man and woman bathing together in a relaxed and thoroughly wholesome manner, some consumers saw sexual innuendo and

he industry's first "accent" color plumbing products were introduced during Herbert Sr.'s tenure under The Bold Look of Kohler tag line. Pictured is the Lady Vanity lavatory, designed for use as a shampoo center/baby bath.



wrote letters of protest to the company — and still do. Unfazed, Kohler Co. stuck to its advertising approach.

In 1967, Kohler's advertising team dreamed up the tag line, The Bold Look of Kohler, for its accent-color plumbing products. Today, The Bold Look of Kohler is one of the memorable advertising slogans in America and remains the company's signature, underscoring the originality, quality and elegance of Kohler products.

Propelled by its leadership in new products for the bathroom and kitchen — and led now by yet another Kohler, Herbert Sr.'s son, Herbert V. Kohler Jr. — Kohler Co. soon caught up with and, in the 1970s, breezed right by its two larger competitors, establishing a lead in the plumbing products industry it has never relinquished.

Kohler is today "the undisputed king of the American bathroom," in the words of Forbes magazine, and the industry's design and innovation leader. Its relentless rise to the top of the industry is one of the great business success stories of our time.

The bathroom has come a long way from those first Kohler Windsor products in 1908. No longer viewed as a mere humdrum necessity, the bathroom has evolved into a center of design and luxury in the home. Today's state-of-the-art bathrooms have amenities such as whirlpools, body sprays, dual lavatories, decorative

tile and cabinetry. Homeowners talk about their bathrooms and show them off to friends and neighbors. Each year, Kohler Co. introduces a profusion of new products that are innovative, functional and beautiful. A recent catalog of Kohler products for the bath and powder room ran 140 pages and contained nearly 500 full-color photographs of bathtubs, lavatories, toilets and other products, and an entirely separate catalog of Kohler faucets ran 90

The bathroom has changed forever. And it all began early in the twentieth century with Kohler.

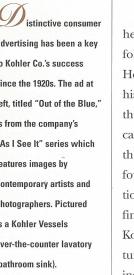
KOHLER

Taking Independent Thinking to New Heights

Kohler Co.'s innovation in plumbing products, generators, engines and other fields has been made possible by the long-term stability of its management and the willingness of its leaders to explore new opportunities and take risks. As the company celebrates its 130th anniversary, direct descendants of the founder still own and manage the business and still live in Kohler, Wisconsin.

The company is headed today by Herbert Jr., a grandson of founder John Michael Kohler. Demanding and incredibly energetic, Herb

> istinctive consumer advertising has been a key to Kohler Co.'s success since the 1920s. The ad at left, titled "Out of the Blue," is from the company's "As I See It" series which features images by contemporary artists and photographers. Pictured is a Kohler Vessels over-the-counter lavatory (bathroom sink).

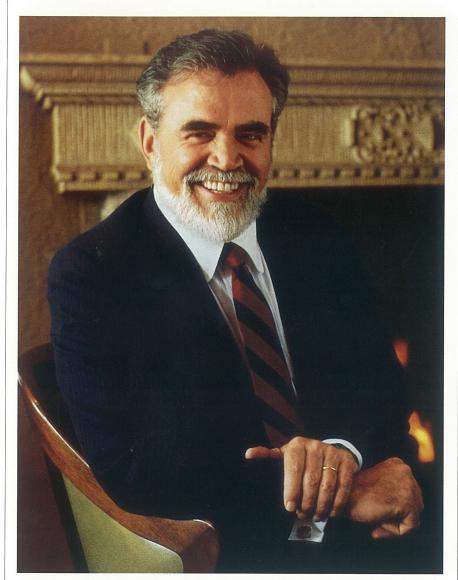


Kohler is a bigger-than-life character who has been described as "the most controversial and charismatic personality" in the plumbing products industry. He has embraced the Kohler family legacy while pursuing a singular vision of what the company can become.

True to the family tradition of innovation, Herb has led Kohler Co. in entirely new directions, such as developing and operating golf courses and manufacturing furniture. In explaining the company's product and service diversity, he says, "Fundamentally, we are in the business of creating and marketing living environments."

Herb was just 33 years old when he took the reins as CEO in 1972, following the death of his father, Herbert Sr., four years earlier. One of his first major decisions was to build the world's largest and most efficient cast-iron molding line, replacing the company's antiquated coke-fired foundry with modern electric-induction melting technology. To help finance this and other investments, Kohler Co. sold \$8 million of debentures, the first and only public offering of securities in its history. (Having an outstanding issue of public securities forced Kohler Co. to disclose its financial results, which Herb did not like in the least. The debentures were repaid in 1978, and since that time Kohler Co. has returned to keeping its financial results private.)

Not long after Kohler Co. began



Kohler Jr., pictured in 1989. a grandson of founder John Michael Kohler, assumed leadership of the company in 1972 at age 33. He has expanded the company's plumbing products business in the U.S. and overseas, and has broadened operations to

include furniture manufactur ing and the creation of a worldclass resort in Kohler Village. He continues as CEO today. Upper right, Kohler Co. invested in modern cast-iron manufacturing capacity in the 1970s when many other manufacturers were phasing out of the material.

building its new foundry, a senior executive of American Standard gave a speech proclaiming that the use of cast iron for plumbing products was obsolete. He predicted that cast iron would be replaced by acrylics

and other new materials. "And here I was staking a good part of our company's future on cast iron," Herb recalls. "It put me on the edge of my seat."

As it turned out, Herb Kohler was right and American Standard was wrong. With its high quality and exceptional durability, cast iron remains a staple of the plumbing products market. The key is to process the material as efficiently as possible. Kohler Co. is able to manufacture cast-iron bathtubs, kitchen sinks and lavatories less expensively than any of its competitors thanks to in-line casting technology and the electric-melt facility installed in the 1970s, as well as to more recent investments in robotics. It also makes products from acrylics, fiberglass-reinforced plastic, sheet-molded compound fiberglass and other materials. "There are great synthetics, and ceramics are a wonderful material. and we make many products in these materials," Herb points out. "However, cast iron continues to be a

16

core material for this company."

That investment in modern castiron production technology helped define Herb Kohler's management style — think boldly and invest for the long term. Herb says one reason he is able to do this is Kohler Co.'s generational approach to investing. "As a family-owned business," he asserts, "we can invest to create lasting value rather than to please the financial analyst who wants a quick payoff."

No decision was bolder (or more outlandish to some at the time) than the renovation of The American Club, in the heart of Kohler Village 50 miles north of Milwaukee, into a luxury resort hotel. The structure was built by Kohler Co. in 1918 to provide clean rooms, hearty meals and recreational facilities for single male employees, including immigrant employees, until they could afford homes of their own. By the late 1970s, it had long since outlived its original purpose and was being used as a village inn, badly in need of repair. Many Kohler Co. executives thought the time had come to tear the building down. But Herb is never one to destroy anything associated with the Kohler legacy. He says he feels "essentially an obligation" to preserve and build upon the accomplishments of his predecessors. He therefore decided to restore the historic facility and turn it into an upscale inn the village could be proud of. The fact that The American Club stands directly across the street from an 8,000-employee

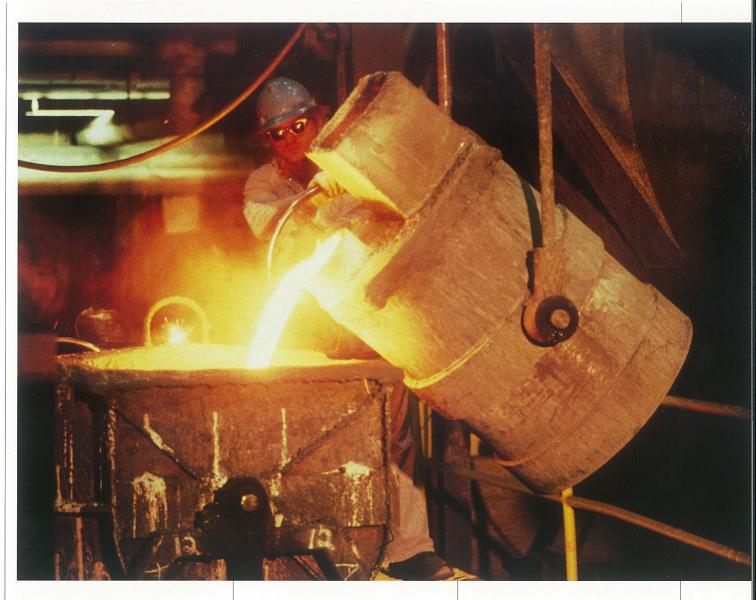
Kohler Co. factory did not concern him in the least, especially since he had visited Michigan's Dearborn Inn, near a Ford Motor Company manufacturing complex, and saw how well that worked. Setting out to create a charming inn, he exceeded even his own expectations. Opened in 1981, the 125-room hostelry was successful from the start. Soon, Kohler Co. began expanding the facility, adding more rooms and developing it into a superb resort hotel.

Five years after its opening, through persistence and attention to detail, the remodeled facility achieved Five Diamond status, the highest rating of the American Automobile Association. Today, a decade and a half later, The American Club remains the only resort hotel in the Midwest to carry that top AAA ranking.

Jeffrey P. Cheney, Kohler Co.'s senior vice president-finance, puts the matter in perspective as follows: "When bankers visit me in Kohler, they love to stay at The American Club. And when they rave about it, as they often do, I respond by asking whether they would have loaned Herb Kohler the money for its renovation. Without hesitation they say, 'No.' And I say, 'That's the point. None of us would have given it to him." Cheney adds that opening a luxury hotel in a small community, across the street from a cast-iron foundry, "is almost the definition of folly in some people's minds, yet it works beyond anyone's wildest dreams."

With The American Club as an anchor, Kohler Co. proceeded to develop an entire hospitality business, opening other upscale facilities in the village. These include Sports Core (a health and racquet club) and River Wildlife (an 800-acre outdoor recreational area and wildlife preserve). The biggest draw of all, however, is golf. Since the late 1980s, Kohler Co. has built four 18-hole championship courses, all designed by Pete Dye, the renowned golf course architect. The River Course and Meadow Valleys Course at Blackwolf Run are situated in Kohler Village, while the Straits Course and Irish Course at Whistling Straits are perched along two miles of prime Lake Michigan shoreline northeast of the village.

Golf has been both a commercial and critical success for Kohler Co., punctuated by a rising chorus of media accolades. In 1999, GOLF Magazine rated the River Course at Blackwolf Run one of the nation's top three public/resort courses, joining an elite triad that also includes Pebble Beach and Pinehurst No. 2. Subsequently, a GOLF Magazine senior editor called the Straits Course at Whistling Straits "the best new golf course I have seen in the last 10 years." In 2000, the low-handicap readers of Golf Digest voted Sheboygan County in Wisconsin the seventh best golf destination in the world, lauding the county's "two five-star courses at Blackwolf Run and the magnificent two-year-old Whistling Straits." In



2001, Forbes and The Robb Report named Blackwolf Run and Whistling Straits, together with The American Club, the nation's best golf resort. The chorus grew even louder in 2002 when Golf Odyssey labeled Blackwolf Run and Whistling Straits "the best 72 holes in the world."

Not a single hole of golf existed in Kohler Village prior to 1988. Yet, in direct competition with the other ohler Co.'s 25,000
employees around the world
are dedicated to a higher
level of gracious living in
kitchen and bath products,
furniture, engines, power
systems and hospitality.
Above, molten iron is transferred between crucibles.

16,000 public, private and resort golf courses in North America, Kohler Co. has ascended rapidly to the highest echelons of this demanding field of enterprise.

An absolute dedication to a single level of quality and leading-edge design has been a winning formula in golf, just as it has been in plumbing products, furniture and other Kohler Co. businesses.



ohler Co. entered
the plumbing products
business in 1883. Today
its Kitchen & Bath Group is a
world leader in innovation,
quality, technology and
design. The PRO CookCenter,
above, includes the
CookSink in which to boil,
steam and poach food and
then drain the water with
the turn of a dial, eliminating
the need to tote hot water
from stove to sink.

Kohler Co. Today: Four Core Businesses

Kohler Co.'s four business groups encompass an array of premier brands:

Kitchen & Bath — Kohler, Sterling, Kallista, Jacob Delafon, Neomediam, Mira, Hytec, Englefield and Karat in plumbing products, and Canac, Robern and Sanijura in cabinetry.

Global Power — The Kohler brand in electrical generators, transfer switches and switchgear, generator rental services and small engines.

Interiors — Baker, Milling Road,
McGuire and Dapha in fine furniture
and accessories, and Ann Sacks in tile,
stone and plumbing complements.

Hospitality & Real Estate — The American Club resort hotel and The Inn on Woodlake, the Blackwolf Run and Whistling Straits golf venues, Kohler Waters Spa, Riverbend and other resort facilities in the village.

While some people have a hard time seeing a connection among these diverse products and services, there is a method to Herb's madness. By bringing together leading-edge plumbing fixtures, cabinetry, tile and furniture under one corporate roof, the Kohlers have emerged as "probably the most influential family in the world of interiors," in the view of *House & Garden* magazine.

The company's design presence extends also to power systems. Kohler residential standby generators and the Kohler engines that power lawn and garden tractors are not only attractive in appearance, but also perform quietly and efficiently, contributing to consumers' quality of life.

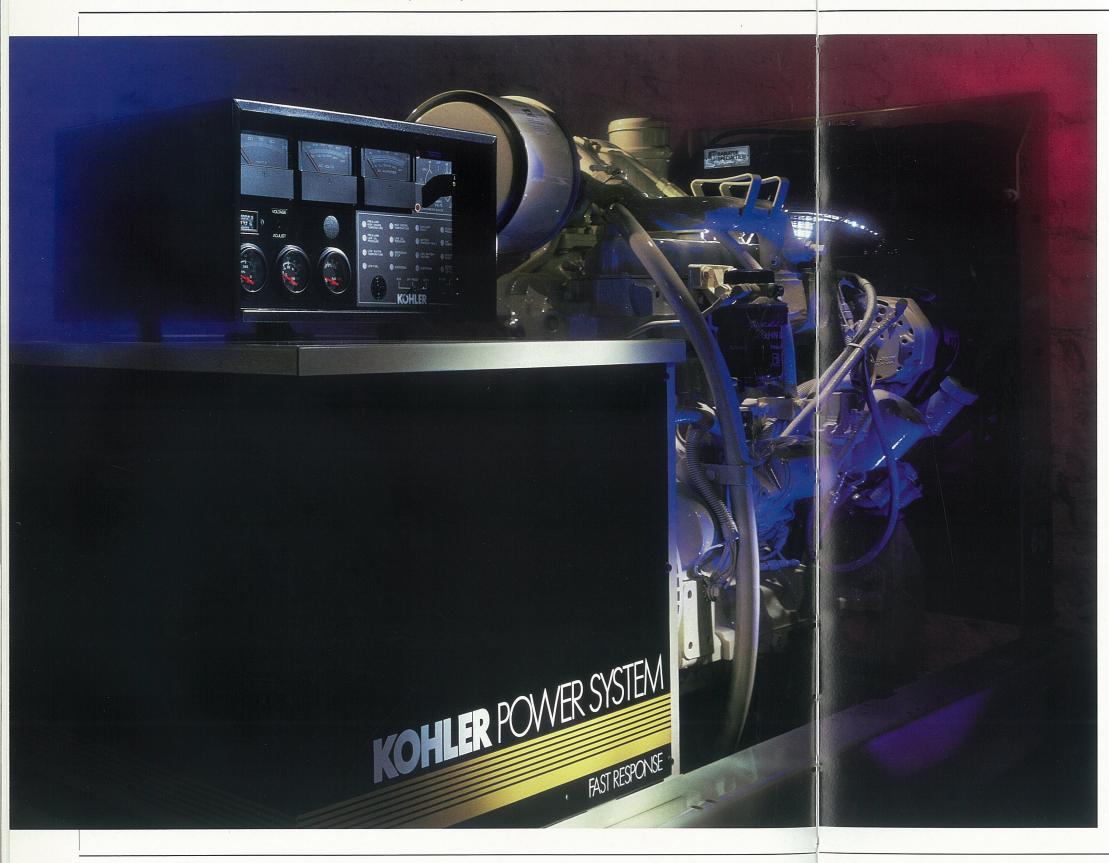
The company's design leadership is a vital asset, opening distribution channels and selling products. In fact, design originality is one of four characteristics that help define the company and unite its businesses.

Quality is another of these defining characteristics. "In most categories," Herb Kohler says, "we go from a price point for the lower middle income market all the way up to the very high end of the mass market and even somewhat into the custom market. But across these price points, all our products are made to a single high level of quality. We differentiate price through materials, functions and levels of detail, not through quality."

Technological innovation is another defining characteristic,



- A Sense of Higher Design -



he Global Power
Group traces its roots to
1920, when Kohler Co.
introduced the Kohler
Automatic generator.
Today, Kohler is a major
producer of electrical
generators, left, as well as
small engines, right. Its
engines are sold to other
manufacturers for use in
lawn mowers, garden
tractors and other
equipment.



exemplified by products such as state-of-the-art small engines and the WaterHaven Shower System, which can be customized to the preferences of each user.

Completing the list is service — from providing a high level of attention and care at The American Club to ensuring that product instructions are easy to understand and that all customer inquiries and complaints are handled promptly and courteously.

There are synergies across markets.

For instance, many of the kitchen and bath products made by Kohler Co.

and its operating units are specified by the same interior designers who select furniture from its Baker and McGuire subsidiaries. And the garden tractors powered by Kohler engines and the Kohler standby generators that operate around the home are purchased by the same consumers who buy Kohler plumbing products.

Most importantly, however, these four defining characteristics — design, quality, technology and service — are the threads that bind Kohler Co.'s businesses into a unified whole. Herb contends that, in combi-



nation, these characteristics lead to the creation of functional art. "The concept is true of our plumbing products, it's true of our furniture, it's true of our generators for the home," he says. "And it's the reason we can put a Five Diamond resort hotel across the street from a factory. If the factory looked and smelled like most factories, it wouldn't work."

Golf is perhaps the most surprising of Kohler Co.'s activities, since it seems so unrelated to the others. Yet, as Alice Edland, group vice president-hospitality and real estate, puts it, "The people who come here to play golf are among the same people who buy Kohler plumbing fixtures and other products. So golf is not only a good business in its own right. It also helps sell products by reinforcing the Kohler image of leadership, quality and the highest sense of design."

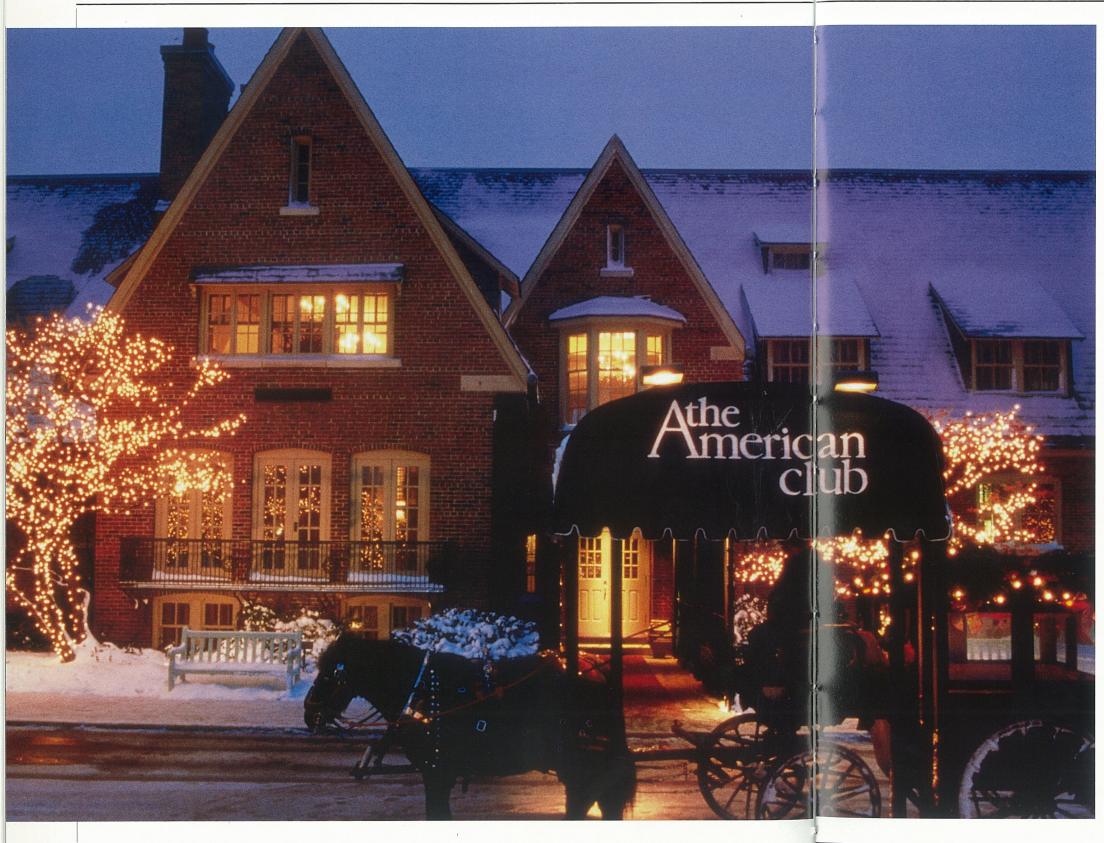
It doesn't hurt either that the guest rooms at The American Club display Kohler plumbing fixtures, cabinetry, tile and furniture in a striking setting. Each bathroom at The American Club is unique, and some guests even request a different room each night to try different fixtures. Just down the street from The American Club is the 36,000-squarefoot Kohler Design Center, which displays a panoply of the latest Kohler plumbing fixtures and furniture, as well as engines and generators for the consumer market. The Design Center is open to the public at no charge and attracts more than 140,000



consumers, designers, architects and builders each year. Kohler is also one of the few industrial companies in the United States that allows the public into its factory to see how its products are made. Two-and-one-half-hour walking tours are conducted each morning, Monday through Friday, by Kohler Co. retirees. The Wall Street Journal quoted one visitor who took the tour as proclaiming it "just blew me away." Even more unusual is the Arts/Industry residency program, conceived by Herb's sister, Ruth Kohler, who is director of the John Michael Kohler Arts Center in nearby Sheboygan. Artists selected for the program work in studios in the heart of the Kohler Co. factory. They can utilize the pottery, foundry and enamel shop to create whatever art they want and can call on employees for technical help, all without cost to

manufactures fine furniture, such as the mahogany serpentine chest, below, but is also a leading furniture distributor. Above is the Baker Tribeca retail store in New York City.







the artist. More than a dozen artists take part each year. Artists love the program because it allows them to create works they couldn't make in their own studios. Employees benefit, Herb believes, through the inspiration that their collaboration with the artists brings to their lives. And the program is one of the ways in which the company expresses its support of art. Such support contributes to the company's success, he says, by keeping it abreast of emerging artistic ideas that can ultimately influence product designs.

What many visitors to Kohler,
Wisconsin, find especially surprising
is that all these facilities and activities
— including tennis, fishing, swimming,

Since the late 1970s, the **Hospitality & Real Estate** Group has developed Kohler Village into a premier resort with many activities and amenities, including golf. At left is The American Club hotel, flagship of the resort. Above is the par three 17th hole, Pinched Nerve, of the Straits Course. Forbes magazine and The Robb Report have described The American Club as the best golf resort in the U.S., while Golf Odyssey has lauded Kohler's four courses as "the best 72 holes in the world."

hiking, fine dining and the Kohler Waters Spa, in addition to golf, The American Club, the Design Center and factory tours — are located in a charming residential community, population 1,900, with winding treelined streets. The village has been described as "one of the prettiest towns in the United States" and "a garden at a factory gate." And that, too, is part of the Kohler heritage of functional art.

What Comes Next?

Kohler Co.'s earnings increased at a compound annual rate of 10.9% from 1970 through 2000, an excellent long-term growth record. However, building a larger, more profitable company is just one of Herb's obsessions. Ensuring that the company remains privately controlled is another. He believes the independence that comes with private ownership gives Kohler Co. a competitive advantage. "Because of private ownership," he states, "we can pursue strategic initiatives that public shareholders would not tolerate since the payoffs are not necessarily immediate. For example, if we were publicly owned, we could not have started our hospitality business. That was a 20-year investment, and the returns today are significant. But we went through a lengthy period of developing that business without an immediate profit."

During the 1960s and 1970s, a small percentage of Kohler Co.'s shares got into the hands of public investors due to sales and loan pledges by two of Herb's cousins. As these shares became more widely distributed, the number of Kohler Co. stockholders approached 500, the threshold at which the company would be publicly owned under federal securities laws. This concerned Herb. To deal with the situation, in 1978 the company executed a 1-for-20 reverse stock split, buying back the holdings of many outside investors who owned less than one full share after the split. In this way, the company pared its stockholder list to fewer than 200.

More recently, in 1998, Kohler Co. implemented a recapitalization plan that established separate voting and non-voting classes of stock. This action not only solidified the company's closely held status, but also provides an effective means to transfer control to future generations. Some stockholders who were required to sell or exchange their Kohler Co. shares challenged the price in court, but in April 2000 Kohler Co. and the dissenting stockholders reached a settlement. With the recap completed, Kohler's future as a private company is assured.

Speaking of the dilemma of many family-controlled enterprises, Jeff Cheney asserts, "There is often the generation that builds it, the generation that builds it bigger and the generation that spends it. This has not happened to Kohler. We don't seem to be getting close to the

generation that wants to spend it. They believe in the vision."

Herb's three children, Laura, Rachel and David, have all come into the business and hold senior management positions after having started their careers elsewhere. Even given the normal stresses and strains of working for their father, who expects a great deal of them, Laura, Rachel and David have all bought into the Kohler family heritage. They are bright, hard-working and unpretentious, which may say something about the merits of being raised in a small town like Kohler Village.

Herb, who was born in 1939, is still in the prime of his career. He loves his job as much as ever and continues to work long hours with no sense whatever of a nine-to-five day. Like his father, he drives colleagues batty with meetings that start whenever they happen to start and sometimes keep going into the early morning hours. "There's a saying that very few Kohlers have watches or calendars, if you get the drift," according to Walter Cleveland, Kohler Co.'s president from 1968 to 1974.

With annual revenues of approximately \$3 billion, Kohler Co. is one of the largest, oldest and most successful privately owned enterprises in America. Let's take a closer look at this unique company — how it started, how it got to be what it is today and, most importantly, where Herb Kohler, who is always springing surprises, plans to take it next.

