

May 6th, 1983

Speech at ServiceMaster's 1983 Shareholder's Meeting

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SERVICEMASTER INDUSTRIES INC.
1983 ANNUAL SHAREHOLDERS MEETING

MAY 6, 1983

C. W. POLLARD

1982 WAS A YEAR OF ACHIEVING MAJOR MILESTONES. THIRTY-FIVE YEARS BEFORE, KEN HANSEN AND BOB WENGER JOINED MARION WADE TO BE THE FOUNDING INCORPORATORS OF THIS COMPANY. FIFTEEN YEARS LATER, IN 1962, SERVICEMASTER BECAME A PUBLIC COMPANY. DURING THAT SAME YEAR, KEN WESSNER WAS CHARGED WITH THE RESPONSIBILITY OF STARTING OUR HEALTH CARE BUSINESS. IT WAS ON SEPTEMBER 1, 1962 THAT WE SERVED OUR FIRST HOSPITAL, AND IN 1982 WE CELEBRATED OUR ^{twentieth} ~~TWENTY-FIFTH~~ ANNIVERSARY OF SERVICE TO THAT HOSPITAL.

NOW THE COMMON THREAD OF STRENGTH CHARACTERISTIC OF THESE LEADERS OF SERVICEMASTER CAN BE DESCRIBED IN ONE SIMPLE WORD, COMMITMENT; A COMMITMENT THAT REQUIRES THE BEST ONE COULD GIVE TO ANY CAUSE, THE GIVING OF ONE SELF. IT IS THIS GIVING OF ONE SELF TO HIS WORK, HIS SERVICE, AND HIS MINISTRY TO OTHERS THAT IS THE EXAMPLE OF A GOD-GIVEN PRINCIPLE AT WORK WITHIN OUR BUSINESS. IT IS THAT ESSENTIAL SUPPLY-SIDE OF OUR BUSINESS THAT HAS THE EFFECT OF CREATING ITS OWN DEMAND.

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1982 ALSO WAS A YEAR OF CONTINUED GROWTH FOR SERVICEMASTER, WITH OPERATING REVENUES GROWING AT 18.5%, NET INCOME AT 22.0%, AND EARNINGS PER SHARE AT 23.0%. OUR RETURN ON EQUITY INCREASED FOR THE NINTH CONSECUTIVE YEAR AND REACHED A NEW HIGH OF 39.7%. OUR AVERAGE INCREMENTAL INVESTMENT IN OPERATING ASSETS CONTINUED TO BE LESS THAN 35.0% OF NET INCOME; THUS, SUSTAINING AND SUPPORTING OUR DIVIDEND PAYMENTS WHICH GREW TO \$14.7 MILLION IN 1982.

OUR FRANCHISE OPERATIONS GREW TO OVER 2,700 LICENSEES WORLD-WIDE AND CONSUMER LEVEL REVENUE INCREASED TO \$154 MILLION WITH THE

CONTRACT SERVICES PORTION OF OUR BUSINESS INCREASING BY 21.0%.

especially encouraged by the growth of our franchise distribution. Five years ago we had only 14 distributors, generating 4 million dollars or more in fees. This year we had 20 distributors, generating 15 million dollars or more in fees.

IT WAS A GOOD YEAR, EVEN THOUGH THE HOSPITAL INDUSTRY EXPERIENCED

INCREASED PRESSURES ON OPERATING COSTS AND ALSO WAS SUBJECTED TO

NEW LEGISLATION DEALING WITH THIRD PARTY REIMBURSEMENT. THIS NEW

LEGISLATION, COMMONLY REFERRED TO AS TEFRA, WAS ENACTED IN SEPTEMBER,

1982, AND WAS RECENTLY AMENDED IN MARCH OF 1983. IN THE LONG-RUN,

Supplemented by a new provision enacted in March of 1983

IT SHOULD PROVIDE A FRAMEWORK FOR MORE EFFICIENT HEALTH CARE OPERATIONS.

THUS, PROVIDING ADDED INCENTIVES TO USE SERVICEMASTER MANAGEMENT

PROGRAMS. IN THE SHORT-RUN, IT HAS ADDED SOME CONFUSION AND INDECISION

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IN THE MARKETPLACE AS HOSPITALS SEEK TO UNDERSTAND THE APPLICATION OF THE LAW INCLUDING THE NEW MEASUREMENT TOOL OF DIAGNOSTIC RELATED GROUPS ^{DRG'S} AND THE DETERMINATION OF A REFERENCE BASE FOR FUTURE REIMBURSEMENT CEILING LIMITATIONS.

OUR CONTINUED EMPHASIS ON IMPROVED PRODUCTIVITY PROVIDES THE NEEDED ANSWERS.

PROGRAMS SUCH AS OUR NEW KINETIC SANITIZING SYSTEM, "KINSAN," RESULTS IN A REDUCTION IN LABOR COSTS BY AS MUCH AS 30%, WHILE AT THE SAME TIME IMPROVING THE QUALITY AND APPEARANCE OF HARD SURFACE AREAS. ~~THE~~ KINSAN IS A PRODUCT OF FOUR YEARS OF APPLIED RESEARCH AND DEVELOPMENT GENERATED BY OUR OWN TEAM OF MICROBIOLOGISTS, CHEMISTS, AND PROCESS ENGINEERS AND HAS JUST BEEN INTRODUCED TO OUR HEALTH CARE CUSTOMERS WITHIN THE LAST THREE MONTHS.

IN OUR PLANT OPERATION AND MAINTENANCE PROGRAM, WE CONTINUE TO PRODUCE SIGNIFICANT SAVINGS IN ENERGY CONSUMPTION WITH THE CUMMULATIVE DOLLAR VALUE OF THESE SAVINGS EXCEEDING \$14 MILLION DOLLARS.

ONE OF THE CHANGES OCCURRING IN THE HEALTH CARE FIELD IS THE

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CONSOLIDATION AND COMBINATION OF INDIVIDUAL UNITS AND THE GROWTH OF HOSPITAL SYSTEMS. OVER THE PAST TWO YEARS, UNDER THE ABLE LEADERSHIP OF OUR SENIOR VICE PRESIDENT ED MORGAN, SERVICEMASTER HAS INITIATED A PROGRAM DESIGNED TO SELL AND SERVE HOSPITAL SYSTEMS. WE ARE NOW SERVING A NUMBER OF HOSPITAL SYSTEMS, AND I AM PLEASED TO ANNOUNCE THAT SERVICEMASTER AND VOLUNTARY HOSPITALS OF AMERICA ^{is} NOW HAVE AN AGREEMENT IN PRINCIPLE TO PROVIDE OUR SERVICES TO MEMBER HOSPITALS. WE EXPECT THE FINAL AGREEMENT TO BE SIGNED WITHIN THE NEXT THIRTY DAYS. VHA IS ONE OF THE LARGEST VOLUNTARY HOSPITAL SYSTEMS IN ^{the country} ~~AMERICA~~, WITH MEMBERSHIP AND ASSOCIATES INVOLVING MORE THAN FIFTY NOT-FOR-PROFIT HEALTH CARE CORPORATIONS REPRESENTING 160 LICENSED HOSPITALS WITH OVER 45,000 BEDS.

THESE ARE JUST A FEW OF THE EXAMPLES OF OUR RESPONSE TO THE CHANGE OCCURRING IN THE HEALTH CARE MARKETPLACE AND IS CONFIRMATION OF OUR CONTINUED CONFIDENCE OF STRONG GROWTH POTENTIAL FOR THE FUTURE.

IN MY REPORT TO YOU LAST YEAR, I NOTED SEVERAL FIRST STEPS IN IMPLEMENTING OUR LONG-RANGE PLAN AND ESTABLISHING NEW BUSINESS BUILDING BLOCKS FOR THE FUTURE. THESE INCLUDED THE ACQUISITION

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OF OUR FOOD SERVICE BUSINESS, THE INITIATION OF OUR MANAGEMENT PROGRAMS TO THE EDUCATIONAL MARKET, THE INTRODUCTION OF OUR MANAGEMENT PROGRAMS TO THE INDUSTRIAL AND COMMERCIAL MARKETS, AND THE EXPANSION OF OUR HEALTH CARE BUSINESS TO THE INTERNATIONAL MARKET. A REPORT ON THE PROGRESS OF THESE NEW VENTURES IS IN ORDER.

OUR FOOD SERVICE MANAGEMENT PROGRAM HAS EXPERIENCED RAPID GROWTH WITH THE ADDITION OF NEW PERFORMANCE ORIENTED AGREEMENTS AND HAS GROWN FROM \$4.6 MILLION IN REVENUE AT THE BEGINNING OF 1982 TO A CURRENT LEVEL OF \$19.3 MILLION.

IN OUR EDUCATIONAL MARKET WE ENDED THE YEAR PROVIDING OUR MANAGEMENT SERVICES TO 66 FACILITIES WITH AN ANNUALIZED REVENUE OF \$42.5 MILLION. WE HAVE NOW EXPANDED THE MARKETING EFFORTS OF THIS PROGRAM TO TEN OF OUR GEOGRAPHICAL DIVISIONS.

THE EXPANSION OF OUR MANAGEMENT PROGRAMS TO MAJOR INDUSTRIAL FACILITIES HAS ALSO EXPERIENCED ACCELERATED GROWTH. IN THE FIRST SIXTEEN MONTHS OF THIS NEW BUSINESS WE HAVE ^{now} ~~RECEIVED~~ STARTED, OR HAVE COMMITMENTS TO START IN EXCESS OF \$23 MILLION OF ANNUALIZED REVENUE, WITH OUR

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MANAGEMENT PROGRAMS BEING DEVELOPED AND DELIVERED TO SOME OF THE
LARGEST MANUFACTURING AND INDUSTRIAL COMPANIES IN OUR COUNTRY.

THE EXPANSION OF OUR HEALTH CARE BUSINESS INTERNATIONALLY HAS ALSO
SEEN GOOD GROWTH. WE ARE NOW SERVING THREE PRESTIGIOUS HOSPITALS
IN TOKYO, JAPAN, TWO SUCH FACILITIES IN STOCKHOLM, SWEDEN, AND
THREE MAJOR HEALTH CARE FACILITIES IN ONTARIO, CANADA.

Best
THE ADDING OF NEW BUSINESS BUILDING BLOCKS DOES NOT STOP HERE, IT
CONTINUES. FOR THE PAST TEN MONTHS SERVICEMASTER HAS HAD UNDER
STUDY AND REVIEW THE DEVELOPMENT OF A HOME AND HEALTH CARE MANAGE-
MENT SERVICE TO BE OFFERED IN COOPERATION WITH HOSPITALS AND OTHER
HEALTH CARE FACILITIES. I AM PLEASED TO ANNOUNCE THAT ON WEDNESDAY
OF THIS PAST WEEK WE REACHED AGREEMENT WITH OUR FIRST HOSPITAL
FOR THE PROVIDING OF THIS SERVICE. THIS NEW BUSINESS OPPORTUNITY
WILL BE MARKETED UNDER THE NAME OF SERVICEMASTER HOME AND HEALTH
CARE SERVICES AND WILL BE LEAD BY BILL HARDY, WHO HAS OVER 12
YEARS OF EXPERIENCE IN THE HOME HEALTH CARE FIELD AND JOINED OUR
MANAGEMENT TEAM IN DECEMBER OF 1982.

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the
~~NOW~~ AS WE HAVE SPOKEN TO THE REPORT OF 1982 AS A REPORT OF GROWTH AND CHANGE, ~~AND AS~~ WE HAVE CONSIDERED CHANGES IN THE HEALTH CARE MARKETPLACE AND THE OPPORTUNITIES PRESENTED, ~~AND AS~~ WE HAVE NOTED CHANGES IN OUR BUSINESS MIX AS WE HAVE INITIATED NEW SERVICES AND ENTERED NEW MARKETS, *In all of this document* ~~WE MUST ALSO~~ RECOGNIZE AND ACKNOWLEDGE THAT THESE CHANGES ARE ONLY POSSIBLE BECAUSE OF THE CONTINUED GROWTH AND DEVELOPMENT OF PEOPLE. BUT, GROWTH ALSO BRINGS CHANGE IN LEADERSHIP.

KEN, ON BEHALF OF ALL OF US AS PART OF THE SERVICEMASTER FAMILY, SHAREHOLDERS, LICENSEE, EMPLOYEES, MANAGERS, DIRECTORS, WE WANT TO THANK YOU FOR THE LEADERSHIP YOU HAVE GIVEN THIS COMPANY AS CHIEF EXECUTIVE OFFICER. WHEN YOU ASSUMED THAT RESPONSIBILITY IN 1975, SERVICEMASTER HAD COMBINED REVENUES OF \$141 MILLION, PROVIDING SERVICES THROUGH A NETWORK OF 1,569 LICENSEES AND 466 HEALTH CARE FACILITIES. AS YOU PASS THE BATON, OUR REVENUE HAS GROWN MORE THAN 4-1/2 TIMES, WE HAVE A NETWORK OF OVER 2,700 LICENSEES, WE ARE *handling each year* SERVING IN OVER 1,000 FACILITIES, WE HAVE ~~SEEN 4~~ STOCK SPLITS, AND THE VALUE OF SERVICEMASTER SHARES HAS GROWN FROM \$5.43 TO

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*And we know
how important we
are to the stock
holders - A remarkable
record!*

\$51.75. BUT, THE TRUE MEASUREMENT AND CONTRIBUTION OF YOUR LEADERSHIP GOES BEYOND THESE NUMBERS AND IS FOUND IN THE LIVES OF PEOPLE. LOOK AROUND YOU IN OUR ORGANIZATION. AT EVERY LEVEL YOU WILL FIND PEOPLE TOUCHED BY THE CARE, CONCERN, DISCIPLINE, DIRECTION, AND YES, LOVE FOUND IN THE LEADERSHIP AND MANAGEMENT STYLE OF KEN WESSNER. TO YOU, KEN, AND YOUR FAITHFUL BRIDE AND PARTNER, NORMA, WE THANK YOU.

SERVICEMASTER IS AN AGENT FOR CHANGE. IT IS A VEHICLE THAT PROVIDES FOR THE ALIGNMENT OF OUR PERSONAL VALUES WITH OUR ECONOMIC VALUES. NOW SOME HAVE DESCRIBED OUR CURRENT PERIOD IN HISTORY AS A TIME OF PARENTHESSES, A SORT OF HIATUS BETWEEN AN INDUSTRIAL ORGANIZED SOCIETY AND AN INFORMATION ORGANIZED SOCIETY. BUT FOR US IT IS A TIME OF OPPORTUNITY. FOR WE ARE PEOPLE WITH A PURPOSE, A PURPOSE IN OUR SERVICE BUSINESS THAT DOES NOT END WITH THE TASK BEING PERFORMED BUT EXTENDS TO THE PEOPLE PERFORMING THE TASK AND TO THE PEOPLE BEING SERVED.

IT IS WITH THIS VISION OF WHAT OUR WORK IS ALL ABOUT THAT INSPIRES ME TO A COMMITMENT TO GIVE MY BEST TO A CAUSE, TO GIVE MYSELF; AND

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IN SO DOING TO SEEK GOD'S HELP AND HIS STRENGTH FOR GUIDANCE. FOR
IT IS GOD WHO MUST SHOW US THE PATH WHERE WE SHOULD GO AND POINT
OUT THE ROAD FOR US TO WALK. ^{to} HIM BE THE ^{our} HONOR AND ~~THE GLORY~~.