

MONEY FROM THIN AIR

The Story of Craig McCaw, the visionary,
who invented the cell phone industry,
and his next billion-dollar idea

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1.

Craig McCaw's business career started with a traumatic personal event – the death of his father Elroy in August 1969. At that time, Craig McCaw was a 19-year old sophomore at Stanford University.

Elroy McCaw had been a passionate and erratic yet highly successful businessman. He built a broad business empire in the post Second World War era, in the broadcasting and real estate fields. Elroy had a fairly eccentric business approach, in which few details were ever committed to paper. Despite his unconventional management style, Elroy McCaw pulled off some highly impressive deals – including the purchase of a New York radio station for \$450,000 in 1953 which he sold for more than \$20 million only seven years later.

“According to family tradition, Elroy made an appearance, wholly by accident, inside the White House during a top secret briefing for President Kennedy on the Cuban missile crisis. Elroy was late for a meeting with General Curtis E. LeMay, who had been called away to an urgent meeting at the White House. LeMay's confused secretary thought Elroy was late for the top-secret meeting, and sent him on to the darkened briefing room. After sitting through a detailed briefing, it soon became clear to the FBI, Secret Service and Pentagon security officials Elroy was in the wrong place. He was detained for several hours while everything was clarified, and was later released to a friend who he cheerfully greeted, ‘Wait till I tell you what happened to me’.”

– O. Casey Corr

On the death of Elroy McCaw, it took about seven years for his wife Marion (who had also functioned as his bookkeeper) to sort through a tangle of oral promises, investments, contractual arrangements, collections and scheduled payments. Since the family didn't have any idea what the estate would be worth during that period, Craig and his brothers (Bruce, John and Keith) continued their education.

“The trauma surrounding the estate enormously affected Craig McCaw's evolving sense of himself as a businessman. It taught him the importance of carefully selecting people to trust, because no agreement, however lengthy, could anticipate everything or eliminate the dangers of dealing in bad faith. Finding good people, McCaw decided, was key to the type of company he wanted to run. He didn't want a traditional company where everyone waited for the boss to issue directives. He wanted employees who understood the company's overall goals and didn't need the boss around to do their job.”

– O. Casey Corr

Craig McCaw's educational experience was also affected profoundly by the fact he had dyslexia – which meant he was far more adept at listening and thinking creatively than at reading long and detailed written documents. Despite that, McCaw was able to graduate from Stanford University with a major in history and a reputation as a genuine “party animal” in the style made famous by the movie *Animal House*.

As a summer job while at university, Craig had actually been put to work by his father at a small cable TV operation in Centralia – about two hours drive from the family's home in Seattle. This company, Twin City Cablevision, had 4,200 customers and generated monthly revenues of just \$8,000. Craig worked summers doing everything, from selling subscriptions door-to-door through to helping the installers and assisting in the office.

With his father's death, Craig took over running Twin City Cablevision from his room at Stanford. It later turned out the company was not, in fact, owned by his father's estate but had been set up by Elroy McCaw to be owned by his sons. Elroy had just never bothered to tell anyone in the family the details. In fact, it wasn't until The Seattle Times Company made an offer to buy Twin City Cablevision for \$720,000 in 1970 that the actual ownership of the company was discovered. Craig managed to convince his brothers not to sell, and to leave their money in the company which he would take over as CEO.

“If you learn how to understand how to make something happen, you don't fear failure so much, because you can make it happen again. Some people never understand how to do it.”

– Bruce McCaw

Just before graduating from Stanford, Craig McCaw made his first acquisition – a cable system in Winlock, Washington with 204 subscribers. He arranged to pay \$50,000 with 25-percent down and the balance to be paid over the next eight years. Craig McCaw had made a start at building his own business empire, independent of what his father had achieved.

2.

On his graduation from Stanford in 1973, Craig McCaw set up office at Twin City Cablevision's corporate headquarters in Centralia – a converted gas station stripped of its pumps. He had a total staff of six people, three in the office and three field workers. McCaw was also younger (at 21-years old) than everyone who worked for him.

Craig McCaw soon repainted the vehicles, issued field staff with uniforms and started morning staff meetings at which employees were encouraged to act professionally. He also started delegating responsibilities intensively and deliberately, to decrease his involvement in routine matters.

Craig had, by this stage, married his college girlfriend, Wendy Petrak. She got involved in some of the business activities at first, but generally worked at creating a stable home environment. Craig's mother, on the other hand, became a close adviser, serving as Twin City's president and chairwoman.

Most people tended at this time to view the cable TV industry as a stagnant business, dominated by small mom-and-pop operations. Craig McCaw, by contrast, viewed the future of the industry ambitiously, and actively looked for ways to grow his business. He set a target to grow Twin City Cablevision from 4,200 to 10,000 subscribers. McCaw also thought he could run additional cable systems without adding any more staff.

McCaw attempted to buy a couple of small cable TV systems around California, only to be out negotiated by Gordon Rock, a Washington cable TV operator. Craig admired his success, and watched carefully how he was structuring acquisitions. Rock had come up with a strategy of leveraging his purchases by buying the new cable TV system's assets rather than the company that owned the assets. By doing that, capital gains taxes could be eliminated, since the new assets could be brought onto the books of the existing company at an exceptionally low rate. In turn, the absence of a tax liability meant the seller could sell at a lower price and still realize the same result.

“Losing to Rock proved to be a stroke of luck to McCaw – the first of several occasions where he picked someone's brain, absorbed the lessons and refined his own strategy as a result.”

– O. Casey Corr

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