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## The Remote Control CEO

**Stephen McDonnell insists that he stays home four days a week because it's good management--not because it's fun. The performance of his company, Applegate Farms, seems to back him up.**

By Donna Fenn | Oct 1, 2005

Open the June 2004 issue of Organic Style and you will come away thinking you know why Stephen McDonnell likes working at home. A 10-page spread entitled "It's a Wonderful Life" features McDonnell, his wife, Jill Kearney, and their three daughters at their 200-year-old stone farmhouse in Bucks County, Pa., bought in 1994 and lovingly restored. There's a gigantic dairy barn that's been converted into a family play space with a new wood floor for in-line skating, a badminton net, a Ping-Pong table, a sound system, and a stage. Factor in the pool, a home gym/yoga studio, and a sunken hot tub surrounded by a vegetable garden, and it's tough to see how McDonnell ever tears himself away. But suggest this to him and he goes off on a rant. "I don't do this so I can be at home and have the perfect life," he says firmly. "I do it so the company can grow."

While most entrepreneurs dive into their ventures with a zealous passion for their product or service, few start out with a clear idea of what kind of company they want to build. But McDonnell did. From the outset, he wanted Applegate Farms, his Bridgewater, N.J., organic and natural meat company, to be the kind of business that could grow and thrive on its own steam, not on the power of his own adrenaline and charisma. And so he made a radical decision: Even in the company's infancy, he chose to limit his physical presence at headquarters to one day a week. He's continued to do this for 17 years now, and it seems to be working. Applegate has been profitable from the beginning. Revenue has been going up 30% a year. Productivity, measured by weekly sales per employee, goes up every year. Labor cost per pound of goods sold goes down every year. McDonnell figures that Applegate's 120 products, which can be found in such high-end grocery stores as Whole Foods, Wegmans, Wild Oats, and Trader Joe's, now provide 1.5 million servings a week.

All because he avoids going into the office? Well, yes. "I'm a controlling boss who has anxiety and I channel that anxiety," concedes McDonnell, who doesn't dispute that he can be "hot-blooded." The more he talks, the more it sounds as if he's protecting his company from his own tendency to micromanage. "Yes," he says. "That's exactly what it is."

### An Experiment in 21st-Century Leadership

Applegate Farms lives and dies by its information systems. Fifty-four employees are connected to 120 Lotus Notes databases that can give them just about every piece of company data they might need. Among other things, they keep track of 300 family farms, from Uruguay to northern Quebec, that raise animals for Applegate; 12 slaughterhouses; 18 processing plants; and 350 wholesale customers. As a result, even working mostly from home, McDonnell says, "At 5 p.m. on Friday, I know more about my business than most CEOs of much larger companies."

That's not an idle boast. Jay W. Vogt, a former Hampshire College classmate of McDonnell's who has been consulting for Applegate for the past four years, says the company's "data-driven architecture" could support a much bigger company than Applegate is today. "When I tell some of my clients what Applegate does," says Vogt, "they think I'm talking about an alien entity because some very large companies don't have what Applegate has." While Applegate's sales have doubled since 2001, its head count and infrastructure costs have remained strikingly low. And that's probably why it looks like a \$10 million company when, in fact, its revenue is more than \$35 million.

And yet, McDonnell clearly has work to do. His company is filled with young, homegrown employees; it has no board, no human resources manager, no codified employee policies; it has a compensation system that's loosely defined and highly subjective. In other words, it's a company that has grown but that hasn't quite grown up. McDonnell knows this, and he's determined to do something about it as he pursues his goal of \$100 million in annual revenue. But he's certain that one thing won't change: He'll still come into the office just one day a week.

Even people close to McDonnell think that will make his job harder. "Establishing a company culture from afar is very difficult," says Gary Hirshberg, who is president and CEO of organic yogurt-maker Stonyfield Farm and McDonnell's friend and adviser. "There's going to be some give and take between your own wants and desires and getting the business to the point where it really reflects the atmosphere that you would like to see on a day-to-day basis." McDonnell frets, for example, that his own obsession with meeting goals and then immediately moving on to the next project leaves his staff little time to enjoy and celebrate successes. He'd also like to see his employees lighten up a bit. "This company will find itself when it finds its sense of humor," he says. Toward that end, he brought a hot-dog costume into the office a couple of months ago, planning to put it on and traipse around. But he didn't; it just didn't feel right.

It doesn't help that there are few role models for what McDonnell has done. "More and more of my colleagues can be found in their home offices," says Hirshberg, "but I don't know anyone else who has worked this way from the very beginning." Neither does Jay Vogt or Stefanie Heiter, president of HeiterConnect, a training and consulting firm based in Townsend, Mass., that specializes in virtual work. "I know lots of seconds in command who work virtually because they travel so much," she says, "but I'd be hard-pressed to find a CEO who does this." And so McDonnell is on his own with what he calls his "experiment in 21st-century leadership."

### **Get Out of the Way**

Stephen McDonnell stumbled upon his company in 1987 when he was contemplating the next step in his career. He had been a management consultant and had spent time with his brother-in-law, Simon Pearce, at Pearce's glassware and pottery company in Quechee, VT. "He was having trouble managing growth," recalls McDonnell, "so I said, 'Let me see if I can turn it around.' I got addicted to small-business adrenaline." McDonnell asked Pearce to let him buy into the business, but Pearce was adamant about holding on to his equity. So McDonnell considered going to work for Hirshberg, another Hampshire College pal, and he also entertained the idea of going back into consulting.

But then an investment banker friend told him about a Flemington, N.J., company called Jugtown Mountain Smokehouse. It was owned by Hiram Ely, who had begun experimenting with nitrate-free meats back in the late '60s when the USDA was considering banning the preservative. While the smoked meat market was relatively stagnant, the company's lead product, nitrate-free bacon, had gained a little momentum in the marketplace. Ely was getting ready to retire and the tiny business, recalls McDonnell, "was six and a half feet underground." A self-described "granola head," McDonnell saw the potential to resurrect the distressed company by repositioning it as a purveyor of natural meats. "I didn't even ask anyone's advice because I knew they'd think I was crazy," says McDonnell.

He landed a loan for 130% of the business's value, which gave him a bit of operating cash at the outset. And while he admits to using "a small trust fund" for his living expenses the first few years, he's never had to put any of his own cash into the business. He did, however, sell 10% of the company to a private investor and friend for \$25,000 in 1987; 10 years later, he would buy it back for \$250,000. "I had to go into debt to do it," recalls McDonnell, "but it was the best investment I ever made."

McDonnell spent the first six months working at the business full time, even moving into his parents' guesthouse in nearby Peapack, N.J. He renamed the company Applegate Farms "because Jugtown sounded like we were distilling booze." But by 1988, he had bought a one-bedroom apartment in Manhattan's Turtle Bay neighborhood and was working exactly the way he does now. One day a week, he commuted to the company, which until last fall was situated in a rundown warehouse and filled with cast-off furniture. Back then, McDonnell was less concerned with how the company looked than with how it operated.

His experience as a process consultant who focused on operations and productivity had taught him some lessons. Most business problems, he had decided, not only were easily diagnosed but were effectively solved within specific work groups--and not by the CEO. His conclusion: If you want your business to run like a well-oiled machine, you need to give your employees constant access to relevant information and both the freedom and the responsibility to act upon that information. And then you need to get out of the way.

### **A Consultant to His Own Business**

Even before Applegate refined its databases 10 years ago, McDonnell was at home with a yellow pad and with his ear glued to the telephone, often heading upstairs at 7:20 a.m. and going flat out until 6 p.m. "In the beginning, I thought I'd get some help with the kids because he was working at home," recalls Jill Kearney. "But he stayed up there for eight hours, and he'd come downstairs at the end of the day and go in the yard

and grab the Weedwacker. He'd been dealing with the chaos of a growing company all day and he just couldn't immediately walk into chaos of another sort."

Things are a bit more relaxed now, although not by much. Fueled by a burgeoning demand for purer food, the company has grown quickly. It eschewed the use of nitrates and assured consumers that its livestock was raised on 100% vegetarian grain with no animal byproducts or growth hormones or antibiotics. The "organic" label would prove especially valuable after concern about mad-cow disease spiked.

McDonnell can no longer sit still at his desk for more than three hours at a stretch, and he often takes a break to work out at his home gym or to walk the family's English setter, Scout, around the meadow with his wife. But do not, repeat, do not, interrupt him while he's in his office working. He still starts the day early, getting up with the family and sometimes cooking eggs for the girls while Kearney makes their lunches. By 7:30 the kids are on the school bus and McDonnell, dressed in khakis and a faded T-shirt, pads barefoot up to his office on the third floor, where he settles into the same Herman Miller model chair that's behind every desk at Applegate's headquarters.

He docks his ThinkPad and logs on to the company network. First, he checks his e-mail, then he goes right to Applegate's Thoughts database, which he describes as a virtual water cooler. He scrolls through employee comments on everything from conversations with customers to industry rumors to personal notes on new babies or films. On a recent morning, he came across a picture of product manager John Gleichenhaus sprinting through the office wearing the hot-dog costume. "Touchdown!" he shouted to no one in particular.

Applegate has 30 employees at headquarters, 18 in a warehouse and distribution center 45 minutes away in Quakertown, Pa., and a marketing manager and a sales manager who live in Andover, Mass., and Detroit, respectively. The Thoughts database is a way for them to stay connected. Last June, for instance, VP of marketing Laura Kuykendall, who comes down from Andover every four to six weeks, posted a note telling her colleagues about a freak accident at a baseball game: A foul ball had hit her in the face, leaving her nose and forehead bruised and swollen. Kuykendall received a raft of sympathetic responses, but her posting also ensured that when she came to the office, she wouldn't need to spend precious time telling the story over and over.

McDonnell rarely posts on Thoughts--"I'm too emotionally charged; I'd inhibit what people say"--but employees know he's trolling. "Last year, I got into a fight with someone on Thoughts," recalls Jennifer Evans, quality control team leader. "I guess I said some pretty inflammatory things because five minutes later I got a call from Steve." Gleichenhaus, who started working at Applegate 10 years ago in the warehouse, says, "I don't think there's anything that's happening at the company that he doesn't know about. We're always saying to ourselves, 'What would Steve ask?' You have a conversation with him in your head."

In fact, McDonnell has few real conversations during an average workday at home. He combs the Company Reports database, where he can look at sales per week sorted by customer and sales rep; he'll check out inventory history so that he knows, for example, which vendors have the most product sitting in their warehouses; and he reviews a database called The Source, which sorts every pound of product sold by the customer who bought it. A custom-designed database called Metrix requires employees to spend 10 to 15 minutes a week scoring themselves and their direct reports on a scale of 1 to 5 on just about every work process that they're responsible for. For instance, warehouse employees are scored on picking accuracy, sales staffers on actual sales compared with forecasts, and everyone is scored on use of the Lotus Notes calendar. Ones and twos are the lowest scores and they show up as red blocks; threes are yellow; and fours and fives are green. Every Tuesday morning, there's new Metrix data to look at and McDonnell reviews it so that by the time he arrives in the office on Wednesday, he has already e-mailed employees his comments and concerns. "If I see people scoring themselves or a manager scoring someone at a low level for several weeks and there's no improvement, that's a red flag," he says. Depending on the chain of command, he'll make a direct call to the slacker or ask a supervisor to follow up. "When I sit here," he says in his home office, "I'm like a consultant to my own business."

### **We're Going to Live With This Dog**

Everything changes on Wednesdays when McDonnell comes into the office and all of his interactions are face-to-face. He might start his day as a fly on the wall, watching 15 employees participate in what he calls "the huddle." Twice a day, key staff members involved in order fulfillment--from IT, logistics, quality control, the warehouse, inside and outside sales, accounting, purchasing, and customer service--gather for a 10- to 15-minute standup meeting. They sidle up to a long red counter against a wall decorated with antique farming tools. "We need push action on the organic smoked chicken," says Judy from inventory control in the warehouse. And national sales manager Stewart Sundholm, who is participating by phone from Detroit,

takes note. Sundholm says the huddles "create buzz and energy" and reduce the amount of e-mail he receives by 30%. "This has become a vital organizational tool," says McDonnell. "The purpose is not to solve problems but to get the human pulse on what's happening."

On a recent Wednesday, he goes from the huddle to a marketing/new product development meeting with senior staff. They gather in a conference room that is decorated with an offbeat combination of contemporary furniture and farm antiques found by McDonnell's wife. There are 21 tractor seats mounted on one wall, an old water pump on another. "Some of this stuff is really weird," says one employee.

McDonnell pulls out his reading glasses, and they begin talking about raw materials, vendors, and specific products, like Applegate's Sunday bacon, which the staff will taste test today. Applegate is also developing a new hot dog and he's unhappy with the progress. "We need this recipe fixed," he grouches. "We're going to live with this dog soon and it's not up to snuff." He's also concerned about the company's slice packs, which are designed so that consumers can tear them open along a perforated edge, then close them with a zip lock. But the customer service department has been hearing that the packages are difficult to open. "If a mom or dad can't open the pack, they're going to hate Applegate," he warns. "We've got to start putting those consumer issues first because there are a lot of ticked-off parents using scissors on our product." There's a brief discussion about an opportunity to sell to Costco, provided McDonnell can convince the retailer that farmers deserve a higher price for organic and antibiotic-free meats (the animals live longer and thus consume more resources) and that consumers will be willing to pay the price (organic products are becoming more mainstream every day).

Over the next several hours, McDonnell will taste new products (thumbs-down for maple sausage, thumbs-up for Sunday bacon), discuss marketing materials, and meet with outside consultants who are helping Kearney find more artwork. His last and most unpleasant task is a meeting with his six-member customer service team. It's a department that McDonnell feels has not been getting the management attention it warrants. "It became," he says, "the silent ticking bomb." Recently, a number of employees have been coming to work late and McDonnell feels the team lacks discipline; the group's supervisor was fired the previous Friday. "What you do is the most critically important aspect of the company," he tells the half-dozen somber faces around the conference room table. "If what you do doesn't go down, everything else gets screwed up." And then he does something that's, well, a little odd. He apologizes. "We've never had a clear structure," he says. "We're hurting ourselves, we're so loose. We should have given you better boundaries, moved the department to a higher level of discipline. I appreciate your tolerance of us in not giving you a clear path." Then he cuts to the chase: From now on, there's a formal attendance and punctuality policy that will suspend employees with no pay for a day on the fourth offense and dismiss them on the fifth offense. He reads the policy aloud and asks if there are any questions. There are many. McDonnell does his best to convince the employees that he's not being unreasonable. It's hard not to wonder if it strikes any of them that the man who is laying down the law on attendance will walk out the door at 6 p.m. and not return for a week.

### **The Risk of Having to Be Charismatic**

Barely into their thirties, many of Applegate's employees grew up with the company. Most don't know what a traditional corporate job looks like, and maybe that's why it doesn't seem to faze them that their CEO and two of his top three managers work remotely. Sundholm started at Applegate in 1999 but moved to Detroit in 2002 so that he and his wife could be closer to her family. Kuykendall has never worked on-site. When she speaks on the phone with McDonnell, she keeps notes from their conversations. After they talk, she often e-mails him to make sure they're on the same page.

Chief of operations Rob O'Donnell, the third leg of McDonnell's management team, comes into the office every day. He's been with the company 11 years and he's developed a knack for taking McDonnell's abstract ideas and transforming them into database tools. He's a nuts-and-bolts operations guy who used to oversee just about every department until Kuykendall and Sundholm were hired. "I had a hard time giving up the idea that I was running everything, but the company's growth put a lot of pressure on me," he says. "For the longest time, most of us were in jobs that were over our heads. Now we've crossed the line and we need people who know what they're doing."

Part of the professionalization process has been a \$350,000 investment in the corporate offices. Up until last fall, his employees worked out of a building that many described as "a dungeon." But it dawned on McDonnell that while his brand had earned a certain cachet in the marketplace--clean, wholesome, trustworthy, natural--his employees were working in dismal conditions. "I realized that a good brand with a lousy internal projection is not successful," he says. And so he threw himself into an internal branding effort. He leased 9,000 square feet of space in a modern six-story office building and rebuilt it with 70 workstations, complete with rolling screens, canopies, and noise-reduction technology. Around the

periphery, he built rooms to reflect specific themes: one with a ship motif to remind employees that "we're all little boats on a big sea"; another with vivid kids' paintings of giant hot dogs and farm scenes; another with four headless, limbless mannequins dressed in farm clothing to represent "the people who bust their butts on the farm." There's also a meditation room, filled with large floor pillows and decorated with Buddhist wall hangings called *thankas*.

While employees seem grateful, they're still making sense of the changes. "There's a connection between the design and what the company does," says supply-chain manager Mark Wojciechowicz. "It's about the food, doing things right, and the environment." Still, the meditation room, for example, is a puzzle for some. "No one uses this room," says one employee.

For McDonnell, the new office is a physical manifestation of what he believes Applegate's culture should feel like. "The culture is everywhere," he says. "It's in the carpet, the desks, the walls. And if it's not, then it's only in the CEO internally and then it's a distraction. You run the risk of having to be charismatic."

Steve has some rough edges. He can be tough to be around. If he's at the company on some days he might do more harm than good.

My Job Has Vaporized no one would confuse McDonnell with Herb Kelleher. He's not a coach or an entertainer or a paternal presence. "Steve has some rough edges," says Vogt. "He can be tough to be around. If he's at the company on some days, he might do more harm than good, and he knows that. How may CEOs have that self-awareness?"

If McDonnell ever forgets his limitations, he can rely on his therapist and a wife who "kicks my ass when I need it" and a cadre of CEO pals to keep him on track. Last summer, for instance, he traveled to Boulder, Colo., to meet with Mo Siegel, founder of Celestial Seasonings; Mark Retzliff and Barney Feinblum, both formerly with Horizon Organic Dairy; and Anthony Zolezzi, co-founder of Pet Promise, a natural pet food company. He wanted to discuss his own evolution from founder to CEO. His friends told McDonnell to beef up his management team and to consider parting with some of his equity as an incentive to key employees. And they confirmed his instinct that Applegate has the potential to be a much bigger presence in the marketplace. But they were also a bit in awe--not one of them had managed to retain a controlling interest in their companies when they reached Applegate's size.

And so McDonnell is doing things often done by CEOs of companies half Applegate's size: professionalizing; putting in management systems; figuring out his own role. "The job that I've done for 18 years has vaporized," he says, as he paces around his home office, pausing to gaze out the window at the farmland beyond his property. The thought of his own obsolescence seems to make him wistful and excited at the same time: It's what he intended all along.

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