Dr. John's Spinbrush

February 27, 2006 William T. Sena

I got a call in 1998 from John Osher to let me know about the new enterprise he was forming and the product he and his team had created; they were going to make and market a disposable electric toothbrush which would sell for under $5. Impossible, I thought, but what an idea! John was raising capital and went back to the investor group in and around CAP Toys, most of whom backed the new company, which he called "Dr. John's Spinbrush." Coming out of all of the experiences of the past decade, CAP Toys, Russ Berrie, Hasbro, and the like, John had put together a team of entrepreneurial guys with special talents ranging from design and graphics on into sales and marketing. He raised a couple of million dollars, part his own capital, and part from the investor group.

"Dr. John's" was a start-up, an invention, and **a** single product company. Exactly the wrong kind of venture investment. The one you should never make! But they moved forward, in spite of the "wrongs" and "nevers" and did design and develop a disposable toothbrush product, not really disposable as the batteries could be replaced, but nonetheless at under $5 it was competitive with the ordinary manual toothbrush and quite unique. The product was manufactured in China. The company had but 8 to 10 employees, thus it was lean and hungry. As things evolved in the packaging and marketing of the "Spinbrush," a number of really innovative ideas were put forth and in some cases patented. The most interesting of these was the "try me" button on the bubble pack which enabled the consumer to "push the button" to both hear and see the brush head rotate thereby enforcing or substantiating the reliability of the product and its attractiveness.

"Dr. John's SpinBrush" was introduced to the retail marketplace in early 2000. It took hold. Wal-Mart put it on an end cap near the cash register. Other retailers began to take on the product. It sold well. In fact, by the summer of 2000, the Spinbrush was the largest selling SKU in Wal-Mart's health and beauty aids department, doing something like $20 to $25 million on an annual basis and growing rapidly.

In the fall of 2000, John Osher got the bright idea to communicate with Procter & Gamble to put a small tube of Crest toothpaste in the Dr. John's Spinbrush package to enhance sales. He met with P&G management and introduced the SpinBrush and all of its marketing concepts. Several weeks later, mid-November of 2000, John called to let me know that Procter & Gamble wanted to meet with us. Our group met for dinner the night before. John felt that Procter & Gamble was legitimately interested in the Spinbrush because they were losing ground to others, particularly Colgate, in the toothpaste and oral care sector. As we ended our dinner meeting, John told the other four of us; Larry, Rick, Ed, and me, that we were not to say anything about the company or express much in the way of opinion in our meeting with the Procter & Gamble people the next day. He would handle all of it. We were to be supportive of his opinions, but not offer any facts or figures. This suited us just fine as most of us, with the exception of Larry, didn't have much other than enthusiasm to offer.

At 9:30 the next day, our group, led by John, met with four young executives, two men and two women, from Procter & Gamble's Health and Beauty Aids/Oral Care Division. We had coffee, some pastries, and exchange commentaries about the Spinbrush. John unveiled the latest versions that he and Larry had created, new prototypes, a brush with a replaceable head and other sorts of improvements and then further discussed how sales were going and how enthusiastic Wal-Mart was about each of the embellishments to the Spinbrush.

We then got serious. The lead man from Procter & Gamble told us that they had taken the product to senior management who in turn had taken it to the Board of Directors, but their policy was to not license Crest or permit anyone to use the name of any of their products in any promotions which Procter & Gamble did not own or control. We were initially downcast, although had some feeling about what might come next. The Procter & Gamble fellow then said that they were very interested in acquiring Spinbrush, our whole company, the whole concept. He went on further to say that their Board had authorized them to go up to something like $75 million with a 5-year earn out for an additional $75 million. Some of us were stunned with this and ecstatic. John Osher, however, sitting at the head of the table, slapped his hand down and said, "I'm not the least bit interested in selling my company for that little. Its prospects are great and I don't want to go any further in this discussion if that's all you can offer." In addition, John said, "I'm not interested in working under any agreement for five years. That's altogether too long and not necessary." At the time I thought, "John, this is a home run, let's negotiate these terms and make a deal." The Procter & Gamble guys were quite taken back but not daunted. John assessed them correctly, they wanted the product and probably badly needed it.

By the way, it was a strange sort of meeting as there were no investment bankers, accountants, or attorneys involved. It was a pretty simple situation of us, primarily John, negotiating with them, line managers at Procter & Gamble. We talked all morning long, went back and forth about sales projections, discussed the various ramifications of what they meant by their earn-out, and occasionally broke from the meeting to go to another conference room for private discussion.

It was a relatively pleasant day, certainly warmer than the normal November in Cincinnati. We ordered lunch brought in which we ate on the deck outside of our fifth floor conference room. There was a sense at lunch that we could work with one another and negotiate as "willing buyer, willing seller." However, we were quite far apart and had to find ways to massage both the numbers and the concepts about which both sides were talking.

After lunch we were able to bring the earn out period down to three years and have it based upon sales alone, not profitability or margins. This in effect meant that Procter & Gamble would not debit us for any expenses which they had or advertising support which might go into the product. We, on the other hand, were able to demonstrate that current sales were higher than they thought and apt to be better than they had been projecting.

By mid-afternoon, we had made several passes at putting numbers down on paper. We scurried down to the fourth floor conference room, the P&G guys stayed on the fifth floor. They even went back to their office to gather some information and to bring laptops back to our office to work on data and projections. I dare say that they also had discussions with senior management to get some guidance, but it appeared probable that they "could make a deal." John negotiated masterfully. Being in and around the process was exhilarating to the others of us and we attempted to add ideas or suggestions to John whenever possible.

By day's end, we had a handshake deal. Procter & Gamble would pay us $150 million in cash for "Dr. John's Spinbrush" and enter into a 3-year earn out agreement based upon sales. They felt that the earn out agreement could produce another $150 million, maybe even more. All was, of course, subject to due diligence and approval by senior management and the Board of Directors of the Procter & Gamble Company. However, the P&G guys were relatively confident that the deal would be accepted and we, on the other hand, felt comfortable with the handshake.

Needless to say we were ecstatic. John went back to my office and got on the telephone to call his family and let other shareholders know of the goings-on. While he was pleased with the tentative deal and enthusiastic about the accomplishment, he was also confident in its conclusion as an entrepreneur who knew what he was doing rather than "just being lucky."

During the last few months of 2000 and into early 2001, things came together swiftly. The due diligence on Procter & Gamble's part had occasional questions, some even seeming to be problems, but such were rapidly overcome as John and Larry, in concert with our China partner and manufacturer, solved some of the "big company problems" dealing with an "entrepreneurial endeavor." The deal changed slightly as P&G, for their own reasons, elected to make the cash payment in two tranches, $75 million in January and $75 million in July. We anxiously awaited the first check; it was wired into each shareholder's respective account on schedule. A done deal!

The deal was not done, however, as far as John, Larry, and their team was concerned. The product, the Spinbrush, deserved to be great and to fulfill all of the promise which they and their new parent partner, Procter & Gamble, had invested in it. The Dr. John's guys moved into P&G and began to work with their Crest Oral Care team to change from Dr. John's Spinbrush to the Crest Spinbrush and to launch a nationwide marketing blitz to foil what was to become the inevitable competition from other players, be they toothbrush, oral or dental care, or household product companies. The inevitable clash of cultures evolved. The big "Procter & Gamble way" versus the swift, fast "Osher way". From the top, Procter & Gamble's Chief Executive, A.G. Lafley, much support was given for the swift strike entrepreneurial kind of tactic espoused by the Osher group.

As the year of 2001 evolved, some of the new policies of A.G. Lafley were beginning to take hold at Procter & Gamble and Crest Spinbrush was top among them. After a slow start amid the transition during the first quarter of 2001, sales began to pick up as P&G advertising, marketing techniques, and nationwide distribution unfolded.

Stock market goings-on in 2001 and 2002, and scandals in both the accountancy profession and the corporate board room, along with a miserable market environment, caused concern among all companies, managers, and investors. The manner in which this played into the enhancement of Dr. John's Spinbrush is fairly interesting. Sales of the Spinbrush were doing well. In fact, as the P&G and Crest power kicked in, demand soared.

One of the questions about which corporate boards became concerned was "contingent liabilities," what kinds of opened-ended costs or expenses "might we have out there." Since the earn out on SpinBrush was based solely on sales, the better the product did the more money Procter & Gamble owed to Dr. John's shareholders. Thus, in mid-2002, Procter & Gamble terminated or negotiated out of their 3-year earn out with Dr. John's and paid approximately $350 million to former owners. It turned out in reality to be a $500 million deal! Not a home run, but a grand slam home run in the bottom of the 9th of a World Series tied 3 to 3.

As we sat there in the swimming pool, no the Jacuzzi, with its warm bubbly water creating sound that competed with the television set in front of us, John turned and asked, "I've heard that oil could go to $100 or even $150 a barrel, probably makes sense to start Conserve again."