

# Barbarians At The Gate Summary

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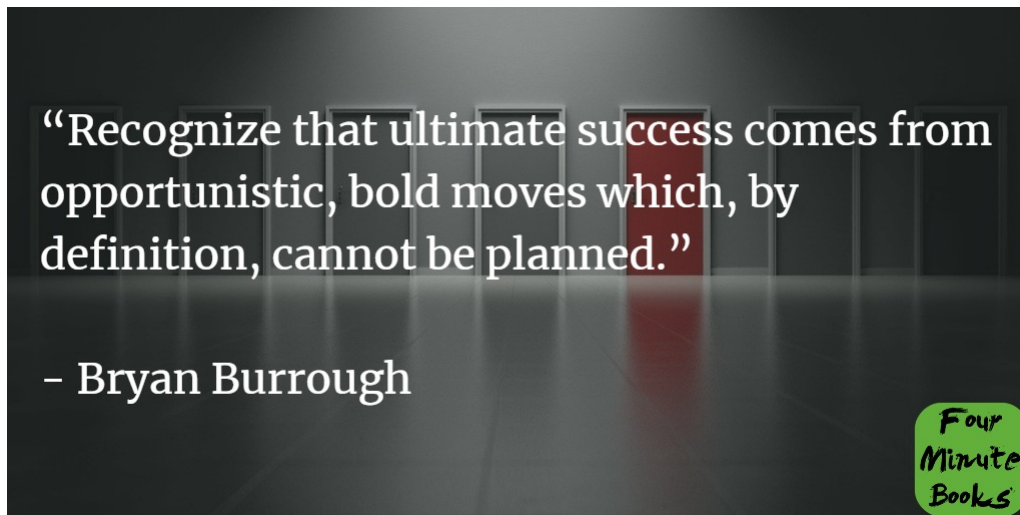


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**1-Sentence-Summary:** *Barbarians At The Gate* shows you how not to run a business and reveals the shocking greed of corporate America in the 1980s by telling the story of the leveraged buyout of RJR Nabisco.

**Read in:** 4 minutes

**Favorite quote from the author:**



Have you ever heard of the term yuppie? I had but wasn't really familiar with what it meant. It's a term that refers to people in the 1980s who were wealthy and flaunted it. They went to great lengths just to keep up their luxurious lifestyle and of course the appearance of such. Not my kind of people, but to each their own, right?

The epitome of what it meant to be a yuppie was the CEO of RJR Nabisco, Ross Johnson. You'll learn of his story in Bryan Burrough's *Barbarians at the Gate: The Fall of RJR Nabisco*. This book will also teach you all about what a leveraged buyout is and the sinister mechanisms behind it.

Here are the 3 most surprising lessons about corporate greed in America:

1. Leveraged buyouts (LBO's) began as a way for wealthy people to avoid taxes but quickly became a way for big businesses to buy out others and get richer.
2. Rich people, like Ross Johnson, could use LBO's to increase their wealth, but doing so hurt companies and the employees that worked for them.
3. Johnson continued a thriving career after losing the LBO deal for RJR Nabisco, but some people lost their fortunes in it.

Let's dive right in to take a closer look!

## Lesson 1: Wealthy people wanting to avoid taxes began leveraged buyouts, but big businesses can use them to get richer.

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So what is a leveraged buyout, or LBO, really? When the 1980s began the term had been around for a while already. But the events of this decade made it a synonym of corporate greed. Originally, though, it was a way for rich people to pass on their wealth without it being taxed excessively.

Business owners in the late 1960s were the first to begin taking advantage of LBO's. **Their intelligent lawyers were looking for ways to help these wealthy individuals dodge heavy estate taxes.**

There were a few options that these people had at the time. The first of which was to just give the company to their heir and take the tax hit. They could also give up control of the company by selling it, or go public and see where the market took it.

None of these options was really appealing. But one lawyer named Jerry Kohlberg figured out a solution.

Here's how it worked. If you were retiring, your lawyers could begin a shell company. They would get investors to borrow huge amounts of money so they could buy your company out. This meant that you could maintain your stake in the business and those who acquired the company would get it at a lower price than if they went into a bidding war.

If it sounds complicated, don't worry, just know that it's a way for rich people to avoid taxes and get richer, and it got worse throughout the 1980s. In one deal, a primary investor turned \$330,000 into \$66 million. Between 1979 and 1983 the number of LBO's increased 10 times!

## Lesson 2: Countless people are hurt in LBO's, but wealthy people like Ross Johnson, who use them to get wealthier, don't care.

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Let's jump back a few decades to the 1950s now. Ross Johnson is just getting started in the corporate world at the bottom of the corporate ladder. But over time he climbed upward until he began trying all sorts of business deals, including LBO's, to maintain his yuppie lifestyle.

The way he played the system made him a lot of money, which is just what Johnson's goal was. His primary motivation was the life of luxury, including travel, celebrities, and all sorts of thrills. His hobbies included dining at world-class restaurants, meeting famous people, and purchasing new properties.

**He would even retain celebrities on his payroll just so they could help him promote his company whenever he needed it.** Johnson was often found at celebrity golf tournaments, too.

All this was at the cost of making some really shameful business decisions, but he didn't care. He was known to eliminate whole departments of companies impulsively and not think of the people he was harming. Sending entire branches to other places just to get the upper hand was also a common practice of his.

These are common occurrences in leveraged buyouts, which left a wake of destruction and chaos wherever they happened. Ross Johnson learned from a manager to aggressively pursue change, continually moving things around for the sake of his own benefit alone. He cared far more about growing his own wealth than any of the people he worked with.

### Lesson 3: Many people made or broke their fortunes in the RJR Nabisco deal, but Johnson's failure in it only led to a continually thriving career.

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The most well-known deal that Ross was known to work with was that of RJR Nabisco. His antics throughout his career made many people dislike him, and his lack of concern for people was obvious to the board as the LBO came before them.

Johnson's outlook that everyone else was disposable ended up being the foundation of his downfall.

This deal even became the poster child of corporate greed, which didn't help his case. **The details of Johnson's selfishness in the proposed buyout were blown wide open in one *New York Times* article about it.**

A national torrent of criticism quickly followed. Not long afterward Johnson lost the bid to another company that promised to take care of the company and employee's needs first.

Everyone at RJR Nabisco was happy to see Johnson quickly ousted from the company. He left a legacy of corporate gluttony, and you might think his streak ended there but it wasn't quite over yet. These events only put Johnson into a sort of mini-retirement.

Using his skills from his salesman years, his career continued to thrive. He laughed at the whole LBO ordeal he'd just left while beginning a new consulting firm with a friend. They didn't need the money, but they had an enjoyable time sharing cheap guidance to acquaintances.

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## **Barbarians At The Gate Review**

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*Barbarians At The Gate* is an interesting story for sure. I'm a little bit frustrated with the entire idea of leveraged buyouts because it's primary purpose is to make rich people more money. The book is okay but I hope that we look at these sorts of greedy business deals as embarrassing things people used to do instead of thinking it's a good idea to still do them.

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## **Who would I recommend the Barbarians At The Gate summary to?**

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The 54-year-old businessman who wants to learn how not to run his company, the 27-year-old who is thinking about starting their own company, and anyone that is fed up with corporate greed.