Small Business in America: Two Case Studies

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"That scholars know far too little about the history of small enterprise is a truism," observed Ralph Hidy in 1970 [7, p. 494]. This situation continues today. James Soltow's fine study of New England metal fabricators and machinery makers, which Hidy pointed to as an example of what could be accomplished in this field, remains one of the few efforts by historians to examine small business in the United States [10]. This neglect is understandable. Small businesses rarely preserve the types of records historians need. Moreover, they may appear less glamorous as subjects for investigation than big businesses. Business historians, like their colleagues in other branches of history, have demonstrated a penchant for studying the perceived "doers and shakers" of the world. A Carnegie stands out; a small businessman seems inconspicuous by comparison.

This relative neglect of small business is lamentable. Small business is worthy of study for its own sake. As Hidy noted nine years ago, "from colonial times to the present, the little businessman has carried out basic functions in American society" [7, p. 494]. In 1970, small businesses, as defined by the Small Business Administration, accounted for about 37 percent of our nation's GNP and employed roughly 40 percent of its workforce [12]. Then, too, by comparing the special characteristics of the evolution of small business with those of big business, scholars can gain a more complete understanding of the overall development of America's business system. Finally, public and governmental interest in small business is rising, and scholarly studies could well have an impact upon policymaking in this field.[1]

This paper, and the longer works upon which it is based, represent attempts to begin filling this void. This essay examines two small businesses, the Buckeye Steel Castings Company and Wakefield Seafoods. Many questions might be asked about the history of these firms, but this paper focuses upon their early growth and the factors that led to their success.

Buckeye Steel developed as a manufacturer of iron and steel castings in Columbus, Ohio, during the late 19th and early 20th centuries.[2] Beginning as a producer of malleable iron goods in

1881, Buckeye hovered on the brink of failure for about a decade. In its early years, Buckeye turned out a wide variety of malleable iron products and sold most of them in central Ohio. In doing so, Buckeye encountered fierce competition from other firms around the state. Columbus alone possessed 23 foundries in 1887 [4, p. 75]. Lacking any specialty items, Buckeye had a hard time carving out markets, and by the late 1880s the company was losing several thousand dollars each year. Like most new companies, Buckeye began operations on a shoestring, and these continued losses nearly forced it into insolvency. The firm's stockholders were soon desperately borrowing money from friends and relatives simply to keep their company afloat. New capital was sorely needed [2].

Buckeye's president, Wilbur Goodspeed, solved these problems in the 1890s. Central in importance for Buckeye's future was the automatic coupler for railroad cars, a device which was just beginning to replace the older and more dangerous linch-and-pin couplers. Goodspeed was among those to see the potential of couplers. In 1889 or 1890 Buckeye produced its first automatic coupler and found a ready market for it [11]. Still, Buckeye remained short of capital and in need of larger markets. Solutions to these twin difficulties soon appeared.

In late 1892 Goodspeed concluded negotiations with Frank Rockefeller and Thomas Goodwillie for aid in selling Buckeye's couplers. Frank was John D. Rockefeller's brother and an executive with the Standard Oil Company. Goodwillie headed Standard's refined oil department in Cleveland. In return for substantial gifts of Buckeye common stock, Rockefeller and Goodwillie promised to use their influence to get railroads to buy exclusively from Buckeye. As the legal agreement stated,

> Rockefeller and Goodwillie hereby agree to use their best endeavor to secure the introduction and use upon railroads of the said couplers of the said corporation and in all ways to advance the interest of said corporation. [9]

Precisely how Goodspeed attracted the interest of these men is unclear, but it was probably through his friendship with Goodwillie. Both Goodspeed and Goodwillie belonged to the Cleveland Gatling Gun Battery, a military and social organization set up in 1878 in the wake of the nationwide railroad strikes of the previous year [5]. The federal government gave a further boost to Buckeye's fortunes, when the Congress passed legislation requiring all railroad cars used in interstate commerce to adopt automatic couplers by 1899 [8].

From this point on, Buckeye's prosperity was never in doubt. Even in the depression of the mid-1890s, the firm returned large profits for its owners. Rockefeller and Goodwillie succeeded in opening new markets for Buckeye's couplers. They also brought in new investment capital, putting large amounts of their own funds into Buckeye and convincing some of their friends to do likewise.

Very briefly to bring the Buckeye story up-to-date: Buckeye continued making cast-iron couplers throughout the 1890s but, as trains became longer and heavier, the company switched to the stronger cast-steel couplers in the early 20th century. In the process, Buckeye became a medium-sized firm with sales of $10 million and assets of $7 million in 1917. Steel couplers and other railroad car parts remained, except for the war years, Buckeye's major products well into the 1960s. Little growth occurred. As late as 1962, Buckeye's sales stood at $14 million and its assets at $10 million. During the past 10 years, however, Buckeye's management has aggressively entered new fields -- plastics, precision metal parts, and microcommunications. In this expansion they have reshaped the nature of their firm. Today Buckeye is a multidivisional, diversified company with annual sales of $125 million and assets of $62 million [1 and 3]. It ranks 911 on *Fortune*'s list of America's top 1,000 industrials [6, p. 188].

In most respects, Wakefield Seafoods differed from Buckeye Steel. Its founders set up the company to operate on one of the United States's last geographic frontiers, Alaska, rather than in a well-established region such as Ohio. Moreover, they sought to enter the food-processing and wholesaling business rather than a basic productive industry such as iron and steel. Finally, 66 years separated the founding of the two companies. Yet, because they were both small businesses, Buckeye and Wakefield faced similar problems which their officers tried to solve in similar ways.[3]

Lowell Wakefield, whose family had long been engaged in Alaska's herring and salmon fisheries, spearheaded the formation of Wakefield Seafoods in 1945. Set up to catch, process, and sell king crabs and bottomfish from Alaska's Bering Sea, the company was capitalized at $450,000. Most of this money came from a Reconstruction Finance Corporation Loan of $270,000. The rest was derived from stock subscriptions which Wakefield secured from former friends and business associates. All investing in Wakefield expected that the company would be returning large profits within just two or three years of its formation. They built a ship, the *Deep Sea*, and sent it north from their company's base in Seattle to Alaska in quest of crabs and fish [16].

The results of Wakefield Seafood's first three years of operations were little short of disastrous. Far from returning the anticipated profits, the company failed to cover its operating expenses, much less to begin repaying the RFC loan. In fact, the firm was quickly slipping into bankruptcy. By 1948 the company faced liabilities of $430,000 with assets, consisting of an unsold inventory of crabmeat, of only $140,000. Cash on hand dwindled to a paltry $14 [15].

Manifold problems had brought the company to this sorry state of affairs. The *Deep Sea* was revolutionary in design. Unlike earlier ships, it combined the different functions of catching, processing, and freezing fish and crabs on board a single vessel. Initial difficulties hindered every phase of the ship's operations, and problems also developed in opening a market for the crabmeat which was then a brand new product. Still more serious was the inability of the firm's officers to find bottomfish. It had been anticipated that bottomfish would compose most of the company's catches, but much to the surprise of those connected with the company, king crabs became virtually their only product. The firm could ill afford these snags in its operations. Financed, like Buckeye, inadequately, it had few reserves to deal with unexpected problems.

Wakefield Seafoods began recovering from this low point in its fortunes in 1949. The company succeeded in arranging a charter agreement with a herring concern owned by Wakefield's father, which allowed the *Deep Sea* to travel north again. The vessel stumbled upon enormous quantities of crabs and caught twice as many as in 1947 or 1948. Later in the year, the company won a contract to survey the Bering Sea's fishery resources for the federal government, and this work brought sorely needed cash into its coffers [13].

This good fortune continued in later years. Crab catches remained high, operational problems were overcome, and markets were opened for the king crabmeat. By the close of 1952 the company was finally profitable and, in fact, stood poised upon the brink of the first of three expansion programs which, by the mid-1960s, would transform it into one of Alaska'a leading seafood concerns. Yet, even then Wakefield Seafoods remained a small business. When it finally sold out to Norton Simon in 1968, it had annual sales of only around $10 million [14].

No single factor ensured the success of either Buckeye Steel Castings or Wakefield Seafoods. The very fact that they survived and ultimately prospered makes them atypical small businesses. Most fail. Even with the formation of the Small Business Administration in the 1950s to help, in theory at least, beginning firms get ahead, some 60 percent of the business casualties in that decade were of firms less than five years old [10, p. 6]. Several factors, each reinforcing the others, accounted for the success of Buckeye and Wakefield; and it is worth noting that these same elements were among those singled out by Soltow in his study of small businesses.

The management of both Buckeye and Wakefield were quick to embrace technologic innovations. Buckeye's officers were among the first to produce automatic couplers; and when they built a steel foundry in the early 1900s, they designed it along the most advanced lines that scientific management could provide. By the same token, Wakefield's officers developed new fishing methods based upon radar and loran and designed mechanical shakers to remove crab meat from the shell as ways of eliminating their firm's production bottlenecks. Yet, as Lowell Wakefield later recalled in my interview with him on 22 June 1974, these innovations were "important not so much in keeping the company alive, as in making it possible to make a proft once we had turned the corner."

More significant were the personalities of the presidents of each company. They possessed a toughness, an ability (to borrow Soltow's terminology) to "persist" in hard times. Goodspeed came to Columbus to take over the faltering Buckeye operations, because he had invested money in the company which he could not afford to lose. Wakefield also invested heavily in his company, and his personality seemed to give the firm staying power. He appeared to be everywhere at once, directing the firm's Miami sales work via radio-telephone, even as he skippered the *Deep Sea* in the frozen North.

However, many other companies run by managers just as determined as Wakefield and Goodspeed have failed, and there was more to the success of their companies than the character of their management. Bonds of personal friendship and business ties provided the corporations' officers with resources they repeatedly tapped to smooth over the rough spots in their companies' early years. The availability of such ties may well be the key to success in small business, even more than in big business. There is less margin for failure in small than in big business, and, when a small business begins to have problems, it needs help fast -- help that can often only be secured from close personal and business friends.

As has been typical of small business, intricate personal and family connections provided Buckeye with its initial financing. Moreover, those associated with Buckeye had business connections that helped their firm win markets for its couplers. Nearly all were connected with railroads in one way or another. S. P. Bush, Buckeye's president between 1908 and 1928, also served as a director of the Pennsylvania, the Hocking Valley, and the Norfolk & Western lines -- all of which were major Buckeye customers. The same type of story was repeated at Wakefields. The firm's original equity financing came from Lowell Wakefield's personal friends and business acquaintances, and it was they who assisted the firm's management in holding off RFC administrators and private creditors in the 1940s. Many of Wakefield's suppliers owned stock in the company, and some sat on its board of directors. Family ties proved crucial in securing the fishing charter in 1949, and they also helped Wakefield set up sales outlets for his products.

External factors also favored each firm. Both benefited from an hospitable social and political environment. Specifically, actions of the federal government aided the companies. The 1893 coupler legislation helped create a market for Buckeye products. Wakefield won governmental support in the form of the RFC loan, payments for survey charters, and tariffs on Japanese and Russian crab. Finally, both companies experienced good luck in their operations. This situation was particularly true of Wakefield Seafoods. Had not the *Deep Sea* stumbled upon huge concentrations of crabs in 1949, the firm would probably have folded. Despite friendships and business ties with those at Wakefield, creditors were by this time pushing Wakefield's management quite hard. The good fortune of a large catch was the turning point in the company's struggle for survival. Without this windfall, Wakefield later mused, "I don't know what we would have done."

NOTES

1. The *Wall Street Journal* has recently carried a series of articles on small business; see its issues for 4 November 1976, 4 January, 14, 21, 25, and 29 November, and 2 and 7 December 1977. As an example of more local interest see the Columbus *Dispatch*, 14 November 1976, 30 October, 20 and 27 November 1977, and 26 March 1978. The Alaska State Legislature is currently looking into ways to use some of its oil tax revenues to encourage the growth of small business in the state, and as part of this investigation its members are studying all available historic accounts of small businesses in Alaska.

2. This account of Buckeye's development is derived from my *Buckeye International: Past to Present, 1881-1978*, in preparation.

3. This account of Wakefield's evolution is based upon my *Pioneering a Modern Small Business: Wakefield Seafoods and the Alaska Frontier*, accepted for publication by the Johnson Associates Press as a monograph in the series *Industrial Development and the Social Fabric* edited by Glenn Porter and scheduled for publication in 1979.

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4. Columbus Board of Trade, *Annual Report*, 1887 (Columbus, Ohio, 1888).

5. "Constitution and By-Laws of the Cleveland Gatling Gun Battery, June 26, 1878," available at the Case Western Reserve Library.

6. *Fortune*, Vol. 97 (19 June 1978), pp. 170-96.

7. Ralph Hidy, "Business History: Present Status and Future Needs," *Business History Review*, Vol. 44 (Winter 1970), pp. 483-97.

8. Ari and Olive Hoogenboom, *A History of the ICC* (New York: Norton, 1976), p. 34.

9. "Memorandum of Agreement Made this 25th day of November, 1892 by and between Orland Smith, S. P. Peabody, R. M. Roland, James Timms and W. F. Goodspeed, parties of the first part, and Frank Rockefeller and Thomas Goodwillie, parties of the Second part."

10. James Soltow, "Origins of Small Business: Metal Fabricators and Machinery Makers in New England, 1890-1957," *Transactions of the American Philosophical Society*, Vol. 55 (December 1965), pp. 1-58.

11. Timms Automatic Car Coupler Company, *Journal, 1889-1892*.

12. US, Small Business Administration, *Annual Report, 1970* (Washington 1971), p. 25.

13. Lowell Wakefield to the stockholders of Wakefield Seafoods, 24 June 1949, in the Moss, Adams Papers, Moss, Adams, Inc., Seattle, Washington.

14. Wakefield Seafoods, "Annual Report, 1968," in the Philip Padelford Papers, manuscript division, University of Washington library.

15. ________, "Minutes of Meeting of Board of Directors, April 23, 1948," Moss, Adams Papers.

16. ________, "Minutes of Special Meeting of Board of Directors, September 15, 1946," Moss, Adams Papers.