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Beatrice Foods

WILLIAM G. KARNES

by

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This is the story of William G. Karnes and his years of leadership at Chicago-based Beatrice Foods. An important part of the story consists of Karnes' ability to prevent success from spoiling him and the company. When he assumed the presidency of Beatrice in 1952, Karnes inherited a very well managed company. Karnes' predecessor, Clinton Haskell, left him with an organization, balance sheet, corporate management style and work ethic which had been highly successful in the competitive dairy business. When he retired in 1977, Karnes handed his successor, Wallace Rasmussen, a company with the same management style and strengths. Despite the fact that Beatrice had shown tremendous growth and change in the intervening 25 years, Bill Karnes never lost sight of the fact that the success at Beatrice was built upon the management system inherited from Haskell.

But if there was continuity under Karnes, there was also change. By 1952 Beatrice and the dairy industry in which it operated were beginning to enter a period of slow growth and change which would make it difficult for Beatrice to maintain its growth and profit objectives. Recognizing the signs, Karnes and his small top management team developed a new growth strategy which succeeded in raising the company's rates of growth of sales, earnings and earnings per share. As a result, during Karnes' 25 years of leadership, Beatrice averaged an annual rate of growth of sales of 13 percent, an average annual rate of growth of profit of 15 percent, and an average annual rate of growth of earnings per share of 7 percent. This strategy was a classic example of the concepts of strategic planning which became fashionable in the late 1960's. Indeed Beatrice literally illustrates the strategic planning concept of a "cash cow." The cash flow generated by the Beatrice dairy business was used to invest in other businesses with greater growth potential.

What makes the growth at Beatrice so impressive is not only its magnitude, but also its stability. Year after year Beatrice set new records for sales and profit. And Karnes used this phenomenon to full advantage in motivating the entire organization. For example in his 1972 speech to the Beatrice manufacturing divisions Karnes said:[1]

INTRODUCTION

> *Our company completed another record year . . . it was the 24th consecutive year that our sales, net earnings and earnings per common share of stock were up . . . Only four other companies traded on the New York Stock Exchange can match (this) record . . . of growth . . . We started this year with the strongest balance sheet in our 78 year history. Last year we were up-graded to Triple A ratings by both Moody's and Standard and Poor's. . . Only eight other industrial companies in the U.S. enjoy this high rating.*

The history that follows is divided into six sections. Section two reviews the history of the company prior to 1952, pointing out the valuable contributions of Karnes' predecessors in creating the organization with which Karnes and his team were to achieve such success. Section three briefly describes Karnes' rise to the presidency at Beatrice. Section four discusses the new growth strategy adopted by Karnes and his management team shortly after he assumed the presidency. The fifth section describes the evolution of the new strategy between 1952 and 1964. Section six discusses the modification of the growth strategy in 1964 and 1965 when it was decided that continued achievement of growth targets would require expansion outside of the food industry. The evolution of the modified strategy is then considered. Finally, section seven offers concluding observations regarding the factors behind the accomplishments of Beatrice Foods.

THE HISTORY OF BEATRICE FOODS PRIOR TO 1952

William Karnes was the fourth president in the history of Beatrice. The first was company founder George Haskell. He was followed by William Ferguson who was succeeded by Clinton Haskell.

George Haskell (1894-1919) and William Ferguson (1919-1928)

The company that is now Beatrice Foods had its beginning in Nebraska in 1894.[2] That was the year that 29 year old George E. Haskell lost his job when his employer, the Fremont Butter and Egg Company, went bankrupt. Haskell decided to establish his own butter and egg business and formed a partnership with William M. Bosworth who had worked at the Beatrice, Nebraska branch of the Fremont Butter and Egg Company. Haskell and Bosworth bought the bankrupt Fremont Butter and Egg Company and leased the Beatrice Creamery Company which had also gone out of business. In addition they opened a branch in Lincoln, Nebraska.

Initially they purchased farm butter, eggs and poultry from local farmers for resale. But by the end of their first year they had begun to buy milk from the farmers and use it to make creamery butter which they then sold to grocery stores, restaurants and jobbers. In their second year of operation they devised a program for providing their farm suppliers with hand cream separators so that the cream could be separated on the farm.

In 1898 the company was incorporated in the state of Nebraska as The Beatrice Creamery Company with a capitalization of $100,000. At that time all churning operations were consolidated in Lincoln, Nebraska. A year later Bosworth resigned from the company and opened a new business in Beatrice, Nebraska.

In 1902 the growth of Beatrice made it necessary to increase the capitalization to $500,000. By that time the company had entered the cold storage business, renting unused space in its butter cold storage facilities to the general public. The company's profit in 1902 was $158,706.

In 1904 Beatrice signed a licensing agreement with the Continental Creamery Company of Topeka, Kansas. The agreement allowed Beatrice to use a patented, "Inner Seal" carton to package butter. The agreement also gave Beatrice the right to use the trade name "Meadow Gold" which Continental had registered in 1901. In 1905 Beatrice acquired Continental Creamery.

Continental had experimented with the advertising of Meadow Gold butter in Kansas City (1901), Pittsburgh (1902), and St. Louis (1904). "These campaigns established the value of a trademarked package in creating consumer demand".[3] After acquiring Continental, Beatrice continued this practice, expanding the advertising to Chicago (1906) and other cities. By

1912 Beatrice, "had achieved wide enough distribution and acceptance to justify advertising in national magazines" [4, 5]. Company profit that year was $425,201, and the product line had been expanded to include ice and ice cream.

In 1919 G.E. Haskell died of cancer at the age of 55. He left behind a growing company which had learned how to make a profit in the butter business through effective marketing, efficient operations and tight financial controls. It was a company which emphasized the constant quest for improvement. As Haskell once put it, "Be interested in progressive work. Many improvements are being made in systems and methods and it is well to investigate them and adopt the best things in all systems that you can find".[6] And Beatrice was an organization whose leaders believed that the real strength of the company was its employees. As G.E. Haskell once said to his nephew, Clinton Haskell, manager of the Topeka plant, "Try and interest the whole work force in cooperation; gain their confidence; treat them cordially and be interested in their welfare the same as we are in yours; give them the same courteous, careful consideration that you would like to have given to you. [7]

Haskell's successor was William Ferguson. Under his leadership Beatrice continued to grow and demonstrate the strength of its management system. One particular example of the company's management excellence occurred during the period 1920-1922 when Beatrice managed to avoid inventory losses which engulfed a wide spectrum of American industry. (Even mighty Sears, Roebuck was caught with excessive inventories and was saved only when Sears' president, Julius Rosenwald, dipped into his private fortune to provide the cash needed to keep Sears solvent.)

It was also during Ferguson's leadership years that Beatrice opened its first milk plant. The year was 1923 and the place was Denver, Colorado.[8]

On March 31, 1928 Ferguson assumed the position of chairman of the board of directors (a post he held until 1935) and Clinton E. Haskell was elected president of Beatrice. Haskell was a nephew of G.E. Haskell and had distinguished himself running various field operations including the Topeka, Kansas, creamery.

The company that Haskell took over was still primarily in the butter business, but it did manufacture some ice cream and milk. Haskell, "outlined a program of diversification with the objective of developing milk and ice cream sales".[9] The results were quick and impressive:[10]

> *In 1929, the company had only four milk plants. By 1932, Beatrice had milk plants in thirty-two cities. In 1928, the company had sold less than one million gallons of milk. By 1932, volume had grown to twenty-seven million gallons.*
>
> *Sales of ice cream grew proportionately, rising from less than one-half million gallons in 1927 to 9.5 million gallons in 1931.*

Mergers played a role in this growth, as would be the case in the later post World War II era. Haskell believed in acquiring small, privately owned companies that could be "turned around" with the Beatrice management approach. Haskell's successor, William Karnes, would continue this use of acquisitions, but without the emphasis on turnaround situations.[11]

As production and sales grew, so did the company's profits. Earnings before taxes rose from $2,144.991 in 1929 to $3,825,038 in 1931. But by 1933 the effects of the Great Depression had overtaken Beatrice and earnings had fallen to $574,909. It was not until 1943 that the company's earnings returned to the record high level set in 1931. Nevertheless, the ability of Beatrice to make a profit throughout the Great Depression represents an outstanding accomplishment and stands as testimony to the strength of the company's management system, particularly its financial controls.

There were numerous other accomplishments under Clinton Haskell's leadership. In 1931 Beatrice became the first dairy company to adopt continuous freezing of ice cream.[12] In 1936 Beatrice established a research and new product department which was to become an important source of new products in the future.[13] In the same year Beatrice established a quality control laboratory following a recommendation of the consulting firm of Arthur D. Little.[14] Nine years later Beatrice initiated a company-wide sanitation program that was one of Haskell's proudest accomplishments. As he explained it in the 1951 Annual Report:[15]

> *(Our) program of sanitation control . . . was unique in the dairy and food industries, and other companies are following the pattern Beatrice has established in this field. The program is founded upon scientifically proved sanitation procedures which are part of the constant training of both new and old employees. Score sheets have been developed by which we measure the housekeeping and sanitation proficiency of individual employees, departments and the entire plant. Impartial inspectors and scoring are provided by outstanding authorities in the dairy industry, chiefly staff members of dairy technology departments of state universities. Each plant is*

required to score a minimum of 90% and plants that maintain all their scores above 95% are awarded the "superior Sanitation Award" plaque. The competitive spirit among individual employees, departments and plants has done much to emphasize our traditional sanitation code and effectively enlist the human element in its enforcement.

The sanitation program was managed by a young executive named William Karnes. Karnes' success with this program must have been one of the factors causing Haskell to consider Karnes as a successor in the presidency.

Another major development during the Haskell years was the acquisition of La Choy Food Products in 1943. Located in Ohio, La Choy manufactured a line of canned Chinese foods. La Choy had come to the attention of Beatrice Foods board member George Gardella who in turn recommended the acquisition to the Beatrice Board. The La Choy acquisition was a prelude to the wave of acquisitions that was to begin in the mid-1950's.

>But throughout the leadership years of Clinton Haskell, Beatrice was basically a dairy products company. For example, the company's sales of over $190 million in 1950 broke down as follows:[16]

Fluid milk and ice cream	30%
Butter	25%
Ice cream	17%
Poultry and eggs	7%
Other manufactured dairy products	5%
Specialty foods	16%

Haskell was wise to concentrate on dairy products, for that was the business Beatrice knew best and there was substantial growth to be achieved within the dairy industry. Beatrice took full advantage of the opportunities and sales volume grew from $4,711,000 in 1943 to $9,260,000 in 1951.

This growth record was accomplished by the use of a management style that included six prominent features:

1. A goal of being competitive
2. A decentralized organization that gave the plant manager responsibility and held him accountable for results
3. An emphasis on product quality
4. An emphasis on production efficiency
5. An emphasis on tight financial controls
6. An emphasis on aggressive selling

Haskell openly discussed these matters with his managers in a series of letters sent to the field in the late 1940's. A few of his comments are worth quoting for the insight they provided into the Beatrice management style. Most of this style was continued by Haskell's successor, William Karnes.

On the matter of being competitive, Haskell wrote to his plant managers:[17]

Unless the dairy industry - and unless we in particular, get busy and go after our share of the national food dollar, others will take it from us. The food business is a highly competitive business. Soft drinks compete with milk. Jam and peanut butter compete with butter. Various relishes and spreads compete with cheese. . . Aggressive competition in these fields can blast big holes in our sales . . . (Therefore) we must rid ourselves of the "come-and-get-it-while-it-lasts attitude." We must make an organized effective appeal for our share of the food dollar.

And on another occasion Haskell wrote:[18]

> *We frequently hear plant managers say that their sales are no worse than the company's total average sales, or they were a little better than the company's total average sales. This is merely being satisfied with mediocrity . . . If we want to do a good job in this company, being average will not do the job! It will wind up with our being just an "average" company, and it will take more than that to beat competition . . . Let's all try to be better than average . . .*

In delegating responsibility and demanding accountability of the plant managers, Haskell and his management team did not seek to create an authoritarian climate within the plant. Quite the contrary, Haskell constantly urged his managers to develop a team spirit within the plant and to use positive motivating techniques. This was formalized in his manager's letter of December 5, 1945. The letter began by saying:[19]

> *I am very pleased to say that there seems to be a general awakening among managers concerning the importance of relationships between management and employees. I have recently received several requests for a guide or code of conduct for supervisors, foremen, sales managers and managers in their relationships with employees under their supervision.*

The letter went on to say that Haskell had developed a list of "Do's and Don'ts" using recommendations from several company committees. The list which was included in the letter (and is reproduced as Tables I and II - following) contained such rules as:

1. Ask, Don't Order!
2. Give full credit for a job well done.
3. Know how to correct people . . . (but) don't carry a grudge.
4. Don't be afraid to give a man responsibility.

The letter ended with the observation, "The code of conduct is a simple statement of common sense. I'm sure there isn't anything in it that you haven't agreed with all along. Yet, like the Ten Commandments, we've got to do more than agree with them. We've got to live them"[20]

On the issue of quality and cleanliness, Haskell told his managers:[21]

Let's CLEAN UP our plants, our machines, our trucks. Let's stress sanitation . . . for only a clean plant can produce quality foods . . . A Beatrice plant should be the spotless kitchen that invites patronage and our trucks should reflect that cleanliness. Let's clamp down with a new high standard of sanitary and quality supervision which is so important in the manufacture of ice cream, fluid milk, butter and other products.

A 1946 letter to the managers illustrates the company's aggressive approach to selling. Haskell wrote:[22]

I have been looking over some surveys recently, and find there are several general conclusions which may apply to many of us.

For example, here is how one of our plants compares with its principal competitor in the method of getting business . . . Forty-five percent of our new customers came to us as a result of the customer calling on us, while our competitor got only 4 percent of his new customers this easy and pleasant way.

TABLE I
THE CODE OF CONDUCT FOR ALL EMPLOYEES SUGGESTED BY C.E. HASKELL

1.	DON'T ASSUME THE "BIG SHOT" ATTITUDE. Let the quality of your work and service be your spokesman
2.	DON'T MAKE PROMISES TOO EASILY. When you make promises, keep them. If you can't keep them, don't make them.
3.	DON'T BE AFRAID TO GIVE A MAN RESPONSIBILITY. . . if you have picked the right man and are sure he understands what you want. Most people like responsibility . . . if you show the proper amount of interest in a man and the work he is doing.
4.	LIVE UP TO THE RULES. Do not ask other people to do things you would not do yourself. Set the example you want folks to follow.
5.	DON'T PLAY FAVORITES. Be fair. Be impartial.
6.	ASK. DON'T ORDER. People like to be requested . . . not requisitioned.
7.	DON'T IGNORE YOUR PEOPLE. Don't tear them down. Build them up. Their work is important to the organization.

8.	MEN DO NOT LIVE BY BREAD ALONE. Give full credit for a job well done. Do not take credit for suggestions, ideas, or sales made by subordinates.
9.	TAKE A POSITIVE ATTITUDE TOWARD PROBLEMS. Look for reasons why things can be done rather than for reasons why they cannot. Do not run to higher authority with your problems. Propose a solution and ask for a decision.
10.	KNOW HOW TO CORRECT PEOPLE. Bawl out a worker if necessary, but do it privately and not in front of others. Maintain discipline, but keep criticism constructive . . . You can't get results by handling all people the same. Allow for differences in temper. Don't carry a grudge . . . when a situation is cleared up . . . forgive and forget.
11.	SHUN COMPANY GOSSIP. Let facts speak for themselves.

SOURCE: C.E. Haskell, Letter to Managers, December 5, 1945.

TABLE II THE CODE OF CONDUCT FOR MANAGERS SUGGESTED BY C.E. HASKELL	
1.	DEFINE CLEARLY for all supervisors, foremen and employees, their authority, their responsibility and their privileges. Explain to them and have them explain to their employees why things are done that way.
2.	MANAGERS SHOULD TALK OVER with supervisors and foremen policies which affect employees and production.
3.	ENCOURAGE EMPLOYEES . . . to participate in company affairs.
4.	DON'T LET COMPANY DECISIONS AND PLANS REACH SUPERVISORS, FOREMEN AND EMPLOYEES THROUGH THE GRAPEVINE. Keep supervisors and foremen promptly and fully informed of new policies . . . and plans, thereby maintaining their prestige and status.
5.	DON'T OVERLOOK QUALIFIED SUPERVISORY EMPLOYEES in filling higher management positions . . . Don't fail to recommend promotions to the general office. That way builds company morale.
6.	DON'T REVERSE THE SUPERVISOR'S DECISION WITHOUT first giving him an opportunity to make the necessary reversal himself thus maintaining his status with those whom he supervises. Don't by-pass your supervisors either in making a decision or transmitting instructions.

SOURCE: C.E. Haskell, Letter to Managers, December 5, 1945

On the other hand . . . when it comes to going after business, our competitor obtained forty-three percent of his new customers through selling effort, while we obtained only seventeen percent of our new customers that way.

When you consider also that the competitor added one and one-half times as many new customers as we did in the last year, we must come to the conclusion that there is much to be said for good, old-fashioned salesmanship. Good will is a tremendous asset, but it must be backed up with good effort. How much of your business comes to you . . . and how much are you going after?

WILLIAM KARNES' RISE TO THE TOP

In 1952 Clinton Haskell died. His successor was William Karnes, a law school graduate who had joined the company in 1936 and through hard work and a bit of good luck quickly rose to the top management ranks at Beatrice.

Karnes was born in Chicago on March 24, 1911; he graduated from Thornton Township High School; and after completing a degree in finance and banking at the University of Illinois in Urbana, he borrowed the money needed to attend law school at Northwestern University.

Karnes' father was a real estate broker, at first in Chicago and later in Flossmore. "The Senior Karnes . . . and his young son spent much time together fishing, hiking and just talking. The father talked about the things that made for success in life - good character, determination and stick-to-itiveness. Billy admired and respected his father and listened to his advice.[23] The character and motivation learned as a child were to become one of the keys to Karnes' later success at Beatrice.

Another key to his success was Virginia Kelly. Karnes met her as a boy while vacationing at Lake Winona near Warsaw, Indiana. The friendship blossomed into a long courtship and they were finally married. In later years Virginia was to serve not only as a wife but also as Bill Karnes' only close friend. That friendship made it possible for him to devote himself totally to the advancement of Beatrice.[24]

Following graduation from Northwestern University Law School in 1933, Bill Karnes made the most important decision of his business career. He had a choice of two job offers, one with an old, established Chicago law firm; the other as a law clerk at Beatrice, a company where top executives were always drawn from the ranks of operating men. Karnes chose Beatrice and went to work as a law clerk earning $110 per month. Three years later he was named director of the company's new Employee Relations Department which was set up to help plant managers deal with labor issues.

In his new capacity, Bill Karnes went to work on the problem of unions. His long time associate John Hazelton suggests that Karnes was responsible for talking top management at Beatrice into trying to live with labor unions. Hazelton was the manager of the Beatrice plant in Muncie, Indiana when he first met Karnes. As he recalls that meeting:[25]

> *We had this union negotiation. I knew what a union was but never had any experience with them. I had a superintendent who didn't like unions and he got us into a strike without much negotiation. So I was forced to call the general manager in Chicago and he sent Bill Karnes down to help me negotiate a contract.*
>
> *Karnes was coming in on the train and I went to the depot to meet him. He came in (carrying) a paper suitcase with a leather handle. It was raining and all he had left was the handle. I said (to him) "I thought I was going to get a Philadelphia lawyer and here they sent me a Boy Scout." (When I retired Karnes came in to the retirement party dressed as a Boy Scout.) (But) with Karnes' help we successfully negotiated the contract.*

Karnes applied his skills at union negotiations at other locations and, in the process set in motion a major change at Beatrice Foods. As Hazelton put it:[26]

> *I give Karnes a lot of credit. He changed the thinking of Beatrice. Their policy used to be to fight the unions . . . (but) Karnes was smart enough to see what was coming and sold our supervisors on the idea that we had to deal with labor. That permeated all through the company and after that we didn't have much trouble with the union.*

The success which Bill Karnes achieved in dealing with personnel issues and the visibility which the job gave him led to a promotion to the position of assistant to the president in 1943. In this capacity he handled a variety of assignments including that of organizing the new sanitation program in 1945. In each and every assignment he demonstrated not only his ability to carry out assignments effectively but also his ability to get along with and motivate people. His performance was further rewarded by his election to the board of directors in 1947.

By 1951 it was clear that Clinton Haskell was grooming Karnes to succeed him as president. Many factors led Haskell to the choice, but persons familiar with developments in those days cite Karnes' attitude toward people as the critical factor. As Wallace Rasmussen put it many years later, "Haskell was impressed by Bill's attitude toward people . . . Bill had the ability to get along with the many different types of people you have in this company".[27]

THE NEW GROWTH STRATEGY

Bill Karnes assumed the presidency of Beatrice Foods shortly before the dairy industry began to be shaken by major environmental developments. Karnes and his board of directors sensed the coming changes and they began to analyze possible new strategies to deal with change. As Karnes recalled those early days of his presidency:[28]

> *In 1952 we cold see that the dairy business was going to be slow growing . . . The margins were (already) low and we were seeing further erosion - - - We started to look for products that had more growth and margins.*

The result of that "long hard look" was the adoption of a new set of corporate sales and profit goals and the development of a strategy to achieve the new goals.

The new goals included the establishment of a higher rate of return on investment and targets for rates of growth of sales, earnings and earnings per share. It was the feeling of Karnes and his associates that these higher rates would be needed to offset a mild, long run inflation which they anticipated. The target growth rate for sales, earnings and earnings per share was set at six to seven percent per year.[29]

The strategy for achieving these new goals was to take the cash flow generated by the dairy business and invest the money in other food businesses with higher profit margins. The dairy business, as Karnes often pointed out, "is a tremendous cash producer . . .".[30] But dairy processing was also a relatively low profit margin business. Hence, by setting profit goals higher than those Beatrice had been experiencing, Karnes and his team forced the company to look for profit growth outside of the dairy industry.

There were, of course, other reasons for looking outside of the dairy business. The industry was in the mature phase of its development cycle and could not be expected to grow nearly as fast as other segments of the economy. In addition, the federal government was known to be contemplating using the anti-trust laws to forbid the four largest dairy companies from acquiring any other dairy firms. If and when this occurred, Beatrice would have its growth opportunities curtailed within the dairy industry. The new strategy did call for a geographical expansion of the Beatrice dairy business. As explained years later by Karnes, "We looked at the dairy business and found that population growth was in the South- east, deep South and Southwest. So we started moving our dairy business into these areas."[31]

It should be noted that this strategy was later discovered independently by the Boston Consulting Group and promoted by them under the name of Strategic Planning. One of the key concepts of strategic planning is that of, "milking the cash cow." This refers to the process of taking the cash flow from those parts of the business with slow growth but strong market position and reinvesting that cash in new businesses with the potential for rapid growth. Thus, the new Beatrice strategy might be called "the original cash cow strategy."

The process of investing in new, higher growth food industries was to consist of a two step approach. First, a successful small company in such an industry would be acquired. Second, the management of the newly acquired company would expand its sales, using investment funds provided by Beatrice. Thus, growth was to occur through both external and internal sources.

> Karnes and his associates worked out a simple set of criteria for making the new acquisitions. The basic criteria were:[32]

1. The company should have a least five years of sales and profit increases.
2. The profit rate and rate of growth of sales of the acquired company should be above the average for all industries.
3. The deal should not dilute earnings per share at Beatrice.
4. The company should produce a specialty product, not a commodity.
5. The company should have good first line and second line management.
6. The company should not be engaged in "head-on competition" with major powerhouses like Campbell Soup or Kellogg.[33]

Additional considerations that made a merger candidate attractive were (1) being located in a medium size or small town, and (2) not having a union. Both considerations were thought to contribute to lower operating costs.

EVOLUTION OF THE NEW STRATEGY: 1952-1965

The new strategy was methodically implemented during the following decade. As implementation took place, the company began to change in a variety of ways as indicated below.

Acquisitions

The early acquisitions were within the dairy industry and were designed to strengthen the position of Beatrice as a national distributor of dairy products. As, indicated by Table 3, the first acquisition, in 1953, was a dairy company serving western markets, that Beatrice wished to enter. Similar acquisitions were made in 1954 and 1955, strengthening or extending the market position of Beatrice in West Virginia, and Wisconsin. Additional dairy mergers were made in 1956 and 1957. But in 1956 the Federal Trade Commission initiated an anti-trust proceeding against the four largest dairy companies - National Dairy Products (Kraft), Borden, Beatrice, and Foremost. The FTC sought to prevent further acquisitions by any of the four largest companies. The action was to drag on until 1967, when Beatrice agreed to cease acquisition in the dairy industry for a period of years.

Beatrice made its first acquisition outside of the dairy industry in 1956, the year of the FTC complaint. The D.L. Clark Co., makers of popular candy products was the lucky new member of the Beatrice family. Having entered the candy business, Beatrice then expanded in this area acquiring the

Thomas D. Richardson Company (after dinner mints) in 1957 and the M.J. Holloway Company in 1960.

Also in 1957 Beatrice made the first of several acquisitions in the pickle industry when Bond Pickle was purchased. During 1958, three more pickle companies were acquired.

It was in 1958 that Beatrice also entered the yogurt industry with the acquisition of Dannon Yogurt. Dannon, at that time, had a high quality product with sales restricted to the New York market. As a member of the Beatrice family Dannon would eventually become a nation-wide giant in the yogurt business.

In 1959 Beatrice made its first new ventures into the two distinct areas of snack foods and ethnic foods. The entry into the snack food business was accomplished with the purchase of Tasty Foods, makers of potato chips. In the next few years Beatrice then acquired a manufacturer of a toasted corn snack (Adams Corp.), a manufacturer of shoestring potatoes (Pik Nik Co.), and a packer of nuts (Fisher Nut Co.).

Beatrice had manufactured ethnic foods since 1943 when La Choy was acquired. In 1959 Beatrice expanded in this type of product area with the acquisition of two Mexican food companies, Gebhardt's, and Rosarita Mexican Foods. In a related acquisition, Beatrice purchased Cal-Compack Foods, packers of paprika, chile and peppers, in 1962.

A major development occurred in 1961 when Beatrice made its first foreign acquisition, Lactoproductos La Loma, a Mexican dairy firm. The decision to establish manufacturing facilities in foreign countries was the result of strong urging by Joe Metzger, founder of Dannon Yogurt.

TABLE 3
Major Acquisitions by Beatrice: 1953-1964

Year Acquired	Name of Acquired Company	Liine of Business of Acquired Co.
1953	Creameries of America	Milk/dairy products (CA, ID, other western states)
1954	Greenbriar (6/1/55)	Milk/milk by-products (WV)
1955	Russell CreameryMilk distribution Louis Sherry	(WI) Ice Cream
1956	Eskay Dairy Company Claricsburg Dairy Co. Home Dairy of WV	Fluid milk (IN) Dairy products (WV) Dairy products

1957	Tro-Fe Dairy Products Assoc. Dairy Prod. Thos D. Richardson Bond Pickle Mario Food Products	Milk (AL) Milk (AZ) After dinner mints Pickles Imports Spanish olives & olive oil
1958	Dannon Milk Squire Dingee Lutz & Schramm Brown Miller Shedd Bartush	Yogurt Pickles, jellies Pickles, jellies Pickles Margarine, salad dressing Peanut butter
1959	Tasty Foods Gebhardt's	Potato Chips Mexican Food
1960	Mitchell Syrup M.S. Holloway Rosarita Mexican Foods Adams Corp.	Preserves & jellies Candy Mexican food "Korn Kurls"/other snack foods
1961	Foreign Operations 1. Lacto products La Loma 2. Burma (constr. By Beatrice) Liberty Cherry & Fruit Pik Nik Co.	Dairy products (Mexico) Dairy products Maraschino cherry Shoestring potatoes
1962	Fisher Nut Co. Cal-Compack Foods	Paprika, chile & peppers
1963	Burney Brothers	Baking
1964	Regal Bloomfield Southland Sugarine Tayt Aunt Nellies Stahl Finish	Animal feed protein supplements Food service equipment Pecans Sweeteners Potato chips Chemical coatings

SOURCE: Annual Reports of Beatrice Foods, various years

In 1964 the acquisition program expanded into non-food areas with the acquisition of an animal feed company (Regal), a chemical coatings company (Stahl Finish) and a food service equipment company (Bloomfield). This marked the beginning of a major change in the Beatrice acquisition strategy as discussed in Section Six following.

Internal Growth

It would be a mistake to attribute the growth of Beatrice entirely or even largely to the new acquisitions. A key part of the strategy was to acquire regional companies in fast growing industries and then encourage those companies to expand to national distribution. And the existing dairy business was expected to grow as much as its industry environment would allow.

This emphasis on internal growth can be seen in various annual reports for these years. For example, the 1956 annual report notes investments in expansion and improvements at the Colorado Springs, Denver and Tulsa, Oklahoma plants. The report further cites new dairy plants being constructed in Ottumwa, Iowa and Topeka, Kansas (the location where Clinton Haskell received his experience), and new distribution plants being constructed in Charleston, West Virginia and Kankakee, Illinois. The 1958 report tells of investment in the Bond Pickle plant, increasing its capacity and efficiency. And the 1961 report indicates that investments were being made to substantially expand the plants of five recent acquisitions: Gebhardt's Tasty Foods, Bond Pickle, Shed-Bartush, Brown-Miller. The report went on to say:[34]

> We constantly are modernizing and improving the facilities o four grocery products companies, adding automated equipment and adopting other practices to augment production capacity and offset increased expenses.

Investment in plant and equipment was only one of the tools used by Beatrice to promote internal growth. Other factors, in the words of the 1961 annual report, "...include: (1) extended advertising and sales promotion programs; (2) intensive quality control and product improvement, (3) development and introduction of new products, and (4) innovations in packaging and labeling in tempo with the ever changing tastes of consumers."[35]

Encounters with the Federal Trade Commission

As the new Beatrice strategy unfolded, the company became increasingly involved in defending itself against government anti-trust actions. In several cases, Beatrice successfully proved the accusations of the Federal Trade Commission to be untrue and won the cases in court. In 1954 the FTC issued a complaint against Beatrice alleging illegal practices in the sale of ice cream. In 1963 the FTC dismissed that case, finding the charges to be without substance. In 1965 the FTC charged Beatrice with a violation of the Robinson-Patman Act, claiming that Beatrice had illegally used price discrimination in the sale of milk. But Beatrice was eventually found to have legally acted "in good faith."

In 1956 the government began the legal action against Beatrice and three other large dairy companies that was to end in a government victory. As reported by Beatrice management in the 1957 annual report:[36]

> The Federal Trade Commission issued another complaint on October 16, 1956, alleging violation of the anti-merger section of the Clayton Act and the unfair competition provisions of the Federal Trade Commission Act, with reference to the acquisitions which your company was made since 1951 in the dairy field . . . Your company believes that its dairy acquisitions have been beneficial to all groups concerned and in the public interest. Therefore we are contesting the charges in defense of the legality of the transactions.

As typically happens in anti-trust cases, the dispute dragged on for eleven years. In 1967 the issue was still being litigated in the courts. But by that time Beatrice decided that the costs of continued defense would outweigh any eventual gains and the company agreed to terminate the litigation by signing a consent decree. Beatrice agreed to refrain from further dairy acquisitions for ten years without prior approval by the FTC. And Beatrice agreed to divest itself of certain dairy plants other than the plants involved in the original FTC complaint.

Organizational Change

Throughout the expansion years of 1951-1965 Beatrice continued to use the decentralized management approach inherited from Clinton Haskell. Indeed, until 1958 the top management team consisted basically of Karnes as president and John Hazelton as vice president. Hazelton handled the operating aspects of top management while Karnes devoted his attention to policy, acquisition and finance.

In 1957 the first significant organizational change occurred when a divisional structure was created. A grocery products division was established and George A. Gardella was named vice president of the division. In addition, the dairy business was grouped into two regions, each to be managed by a regional vice president: the Western Regional Vice President and the Central Regional Vice President.

> The 1962 annual report noted the following operational situations:
> Supervising operations is a management group of fifty key men, all of whom have advanced through the ranks.
> Operations of Beatrice Foods are divided into two general categories: Dairy Products, and Grocery Products. Chief Operating Officer for both divisions is the Executive Vice President.

The report went on to list four regional vice presidents who managed the dairy operations – the Western Regional Vice President; the Central Regional Vice President; the Southwestern Regional Vice President; and the Eastern Regional Vice President.

Foreign Operations

The 1958 acquisition of Dannon Milk had the unanticipated effect of leading Beatrice into the international arena. Dannon's founding family, the Metzgers, had come to the United States from Europe and they were convinced that Beatrice could compete successfully abroad. Founder Joe Metzger began urging Bill Karnes to invest abroad and Joe's son, Juan, took Karnes on a trip to Europe to look over opportunities. Karnes became convinced. Years later he would explain the expansion of Beatrice abroad with the observation, "Joe and his son, Juan, took us by the hands and led us around the world".[37]

Karnes' survey of opportunities abroad led him to the conclusion that, "We could probably grow faster overseas than in the United States . . . We didn't have the intense competition overseas that we had at home . . . (and) we thought we could contribute expertise and introduce new products such as cottage cheese and fruit juice".[38]

The first sign of the foreign expansion appeared in the 1961 annual report which told stockholders, "Construction of Beatrice Foods (Burma) LTD's new plant to produce sweetened condensed milk for the Burmese people is scheduled to begin in Rangoon of this year. Since the close of the fiscal year, your company has acquired an interest in Lactoproductos La Lama, S.A., located in a suburb of Mexico City. This company is a leading producer of dairy specialties".[39] The 1962 annual report said:[40]

> In the last two years, Beatrice has truly become a world-wide company. We now have operations in Canada, Mexico, Belgium, Switzerland, Malaya, Venezuela, and Puerto Rico.

The 1967 annual report listed operations in twenty-five foreign counties (see Table 4). And in 1971, Karnes told an audience of financial analysts in Houston, Texas:[41]

> We started what is now the International Division with one plant in 1961. Today, just ten years later, we operate or have major interests in 107 plants and branches with 8,500 employees in 26 countries outside the United States. In addition, we have 22 major sales offices in key inter- national market and franchise agreements in 15 countries.
>
> Sales of the International Division for the last fiscal year were almost $200 million, including joint ventures . . . (This) increase, of course, includes a liberal sprinkling of acquisitions. However, the increases also include a very healthy rate of internal growth.

By 1977, sales abroad were $1.1 billion. By that time, Beatrice was operating in twenty-eight foreign countries. The underlying strategy of the foreign expansion was once explained by Karnes as follows:[42]

> Our thrust abroad is almost entirely on establishing manufacturing and distribution facilities in countries outside of the United States by acquisition rather than by starting from scratch. We feel it takes too long a time to produce good profits and a good return on invested capital by starting from scratch.
>
> In every case (in making foreign acquisitions) we follow three basic guidelines:
>
> First–We are interested only in leading companies with exceptionally favorable growth potential and with excellent management which will stay.
>
> Second–We want local management to participate in ownership.
>
> Third–We confine our expansion to fields in which we have experience and “know-how.”

Management

The growth of Beatrice from 1952 to 1966 was managed with the techniques that Clinton Haskell had taught Karnes. Responsibility for acquisitions and long range planning was handled by Karnes and responsibility for operations was assigned to executive vice president Hazelton. But the two men conferred regularly and would cross lines of responsibility frequently. As Hazelton recalls their operating style:[43]

> He bought them and I ran them! . . . We ran it like a big country store . . . He did a lot of different things and so did I. We (occasionally) would get in one another's way, but we had a common understanding . . . We worked hand in glove. It was a wonderful arrangement.

One aspect of operations in which Karnes engaged was the regular contacting of managers with a word of cheer, a request for information or a word of advice. Karnes personally knew all of his plant managers (over 400 persons) and made it a point to contact each one several times each month. Typically, those contacts would leave the manager feeling good about himself and the company. As Hazelton once put it:[44]

> We had a high degree of loyalty from the people. They really worked their hearts out for the company, because they were treated with a lot of respect and they had a lot of respect for Mr. Karnes. He was good to all of them.
> Or as one-time plant manager and later president of the company, Wallace Rasmussen, put it:[45]
> Beatrice executives had a way of making you feel you could do anything. They would say, "Go do this!" and they.

TABLE 4
Foreign Operations of Beatrice Foods - 1967

Australia: Red Tulip Investments Proprietary Limited, Melbourne Belgium: Cie Lacsoons, S.A., Rotselaar Canada: Bloomfield Industries Canada Limited, Rexdale The Liberty Cherry Company of Canada, Limited, Toronto Melnor Manufacturing Ltd. and related companies, Brantford Stahl Finish Limited, Montreal United Finish Co. (Canada) Ltd., Cobourg G-H Quality Food Products Ltd., Montreal Colombia: Fabrica De Dulces Gran Columbia, S.A., & related companies, Bogota Jack's Snacks de Colombia, S.A., Bogota	England: Beatrice Foods (U.K.) Limited, London Stahl Chemicals (G.B.) Ltd. Loughborough Germany: O.K. Kaugummi E.A. Walter Schumann, K.G. & related companies, Hamburg Ireland: Tayto Limited, Dublin Italy: Beatrice & Motta, S.p.A., Milan Jamaica: Cremo Limited, Kingston Malaya: Beatrice Foods Sdn. Berhad, Kuala Lumpur Premier Milk (Malaya) Sdn. Berhad, Kuala Lumpur Mexico: Lactoproductors La Loma, S.A. Tlalnepantla
The Netherlands: Stahl Chemical Industries N.V., Waalwijk Norway: Eric's Swiss Products, Inc., Guaynabo Mantecados Payco, Inc., Hato Rey Republic of Singapore: Premier Milk (Singapore) Ltd., Singapore Spain: Sociedad Anonima Industrial de Productos Auxiliares (S.A.I.P.A.), Barcelona Stahl Iberica, S.A., Parets	Beatrice Scandinavia A/S., Oslo Peru: Productos Chipy S.A., Lima Puerto Rico: Switzerland: Foods and Services A.G., Lausanne New York, NY: BESCO (Beatrice Export Company) Beatrice Far East Dairy Plants: Chitose, Japan Itazuke, Japan Misawa, Japan

	Yokohama, Japan Naha, Okinawa Cam Rahn Bay, South Vietnam Qui Nhon, South Vietnam Countries in which companies were operating under license from Beatrice Foods Co. Brazil Canada Germany Greece Mexico The Netherlands Venezuela

SOURCE: 69th Annual Report, Chicago, Beatrice Foods Co., 1967

> *wouldn't question your method. They would leave you alone, thus showing their faith in you. That lets you operate in a world of your own and you can act as an entrepreneur.*

Rasmussen's emphasis on the Karnes-Hazelton technique of letting each profit center manager develop his own methods was reiterated by Hazelton when he said:[46]

> *We found out you can't run all plants from Chicago . . . (so) it was up to each manager to develop his own organization.*

There were, of course, standards to be met. And when a manager wasn't meeting the standards, he might expect a call from Karnes. Accounts receivable was a case in point. Karnes inherited Haskell's concern in this area, and in the early days of Karnes' presidency, if he thought a plant's receivables were too high, "He would call the plant and say, 'Hey! Get your accounts receivable in line'." [47]

The standards were constantly being upgraded, not by means of memos from the home office, but by means of a monthly report on the operations of each plant which was sent to each plant manager. As Hazelton recalls, "We sent reports out every month and every fellow knew where he stood on his manufacturing costs (and profits). This had been done before Karnes became president, but it was expanded after Karnes and I got into the picture".[48]

Financial Results

> The financial results of Karnes' first thirteen years as the head of Beatrice were impressive. Between 1953 and 1966:
>
> 1. Net sales rose from $235 million to $796 million.
> 2. Net income rose from $4 million to $24.6 million.
> 3. Earnings per share rose from 27¢ to 73¢.
> 4. Pre-tax income as a percent of sales rose from 3.5% to 6.0%, and
> 5. Return on invested capital rose from 9% to 14%.

The last two figures eloquently attest to the success of Karnes' renewed emphasis on profit.

A REVISION OF THE GROWTH STRATEGY
1965 - 1977

Prior to 1964, the growth of Beatrice had been confined to the food industry. In 1964 the first step outside of the food industry was taken with the acquisition of Bloomfield Industries, a manufacturer of food service equipment. That experience worked out to the satisfaction of the company and encouraged Beatrice to acquire more non-food companies.

But the experience of success was not the only reason for an expansion into non-food products. There was also a recognition that the environment was changing. As Karnes was to put it, many years later, "In 1965 we took a look (at our environment) . . . We were living in an inflationary trend . . . We saw that whereas we used to have a target of six to seven percent growth per year to maintain earnings, now with inflation, if we got less than ten percent we were in trouble. The target wasn't to be the biggest. It was survival in the face of inflation. We felt that any company only in the food business would have trouble maintaining margins and in addition, with inflation would have lower margins".[49]

Acquisitions and Internal Growth

The new growth strategy followed the basic guidelines used prior to 1965 and the new acquisitions were expected to show substantial internal growth after they became part of Beatrice. Indeed, internal growth accounted for a major share of the growth of company sales and profit. In 1973, for example, internal growth was responsible for 70 percent of the company's sales gains, in spite of the fact that the company made over 20 acquisitions that year.[50]

As indicated by Table 5, the acquisitions covered a wide variety of products. As former Beatrice executive William Mitchell pointed out, the earliest mergers were food related in the sense that the customers were basically the same persons buying Beatrice food products. For example Bloomfield manufactured the Silex coffee maker used by institutions that sold food. And Taylor's freezers were sold to customers such as McDonald's that also bought food products such as cheese from Beatrice.[51]

But there were mergers in entirely new areas. Beatrice entered the business of manufacturing chemical coatings for metal, wood, and paper with the acquisition of Stahl Finish in 1966. The 1967 purchase of The Stiffel Company put Beatrice in the business of making fine lamps. In 1968 Beatrice entered the business of electric hand dryers (World Dryer), gas lamps (Charmglow), picture frames (Indiana Molding and Frame), draperies (Max Kahn Curtain Corporation), wardrobe racks (Vogel-Peterson), travel trailers (Airstream), and several other product lines. Among particularly significant acquisitions in later years were John Sexton, the institutional food distributor (1969); Peter Eckrich and Sons, the specialty meat processor (1972); and Samsonite, the luggage maker (1974).

> Karnes selected the targets and patiently pursued them until the owners were ready to sell. Then negotiations began in earnest.
>
> Karnes once summarized his approach to negotiating mergers at a seminar on corporate mergers. His main points were:[52]

1. "Once we have determined that there is a mutual interest in joining forces . . . we hold one or two meetings where we just get to know each other. We chat about each others' philosophy; how we intend to operate the business – whether they think they can get along with us . . . and we with them . . . :
2. "Then we move on to price. . . We don't ask the seller what he wants for the business. We make the first offer . . ."
3. "Your initial price should (not) be your final price. It should be a fair price . . . and one which you can negotiate upward, if necessary . . ."
4. "We have used both oral and written proposals. But I think that I prefer a written proposal."

Karnes also pointed out in his 1968 speech on mergers, “We feel that each proposed merger is an individual situation. We believe that no two companies are exactly alike . . . That no two managements are alike. We are dealing with people. And people are what we really are seeking to add to our company. This goes back to one of our basic philosophies in mergers. That is, that we want the management to stay. No marriage can succeed if the other party isn’t willing to live and work in the house”.[53]

Karnes’ associate, Harry Niemic, once described the Karnes negotiating technique by observing:[54]

Karnes created an atmosphere wherein people felt secure in merging with Beatrice. Most of our acquisitions were privately owned. . . most of the (owners) had built these businesses. They had their lives wrapped up in the business. Most large corporations are awesome to such entrepreneurs. Karnes gave them confidence and comfort.

TABLE 5
Selected Acquisitions by Beatrice Foods: 1966-1976

Fiscal Year	Acquired Company	Line of Business of Acquired Company
1966	Inland Underground Facilities	Public Cold Storage Warehouse
1966	Stahl Finish	Chemical Coatings for leather, synthetics, metal, wood paper and textiles
1966	Polyvinyl Chemicals	Chemical ingredients for floor polishes, paints, other
1966	The Sttiffel Co.	Quality lamps for home and office
1966	Vigortone	Minerals and vitamins for animal feeding
1966	Colorado By-Products	Processing animal by-products
1968	Mother's Cookie Co.	Cookies
1968	south Georgia Pecan Co.	Processing pecans
1968	J. Warren Bowman	Snack foods
1968	World Dryer Corp.	Electric hand dryers
1968	Charmglow Products, Inc.	Gas lamps/barbeques
1968	Max Kahn Curtain Corp.	Ready-made draperies

1968	Vogel-Peterson Co.	Wardrobe rakes and checkroom equipment
1968	Indiana Molding and Frame Co.	Picture frames
1968	Airstream, Inc.	Travel trailers
1968	Imperial Oil & Grease Co.	Metallic lubricants
1968	The Farboil Co.	Specialty coating and paints
1968	San Angelo By-Products, Inc.	Handling hides, rendering inedible fats, manufacturing animal protiens
1969	John Sexton	Institutional foods
1972	Peter Ekrich and Sons Canada Dry of Louisville KY Royal Crown Cola, Los Angeles County Line Cheese Pfister and Vogel Striker Aluminum Yachts	Specialty meats Soft drink bottling Soft drink bottling Cheese Upper shoe leathers Yachts
1973	Samsonite Corp. Southwestern Investment co.	Luggage Financing consumer goods
1974	Dri-Paint Foils	Chrome products/foil
1975	Martha White Foods	Cake mixes

* With 1969 report, mergers no longer reported.

____

SOURCES: Annual Reports, various years, and Moody's Industrial Manual, various years.

Results

The revised strategy contributed to a continuation of the impressive financial performance at Beatrice Foods between the 1966 and 1976 fiscal years:[55]

1. Net sales increased from $796 million to $4,691 million.
2. Net income rose from $24.6 million to $153.1 million.
3. Earnings per share rose from 73¢ to $1.86.
4. Pre-tax income as a percentage of sales rose from 6.0% to 6.4%.
5. Return on invested capital rose from 14% to 16%.

As indicated by Table 6, food and related services continued to provide a majority of the sales and earnings dollars. But manufactured and chemical products accounted for a respectable twenty-five percent of sales and a critical thirty-eight percent of operating earnings. By 1976 the manufacturing and chemical products accounted for almost as much sales revenue as the dairy and soft drink divisions. And, of course, non-dairy food related business accounted for far more sales dollars than the dairy business.

But the dairy division also continued to prosper. As Executive Vice President Brown Cannon said in 1971:[56]

> *One of the really great strength of Beatrice Foods is the steady growth of the sales and earnings of our Dairy Division . . . Production and distribution of Meadow Gold dairy products is more national in scope than that of any other dairy company. Meadow Gold operates in forty-five of the forty-eight continental states and Hawaii. In all, we have eighty-two modern and highly automated plants and 190 branches. It should be noted, too, that almost all of our operations are in the smaller cities and in the suburban areas of the larger cities . . .*
>
> *Dairy products have been the foundation of Beatrice's growth. . . and continue so today. The major reason for this is that the dairy business is almost a straight cash business. Thus, it has been able to provide cash flow and profitable sales for the diversification of Beatrice.*
>
> *New products have made major contributions to the growth of dairy sales and earnings. Our research has pioneered in the development of the dehydration of dairy nutrients, solids and fats from milk for use in products such as cake, cookie and biscuit mixes. Tody, it supplies hundreds of ingredients and flavorings to many good processors.*

TABLE 6
BEATRICE FOODS - SALES AND EARNINGS BY PRODUCT LINE, 1974-1978

Year Ended on Last Day in February

Product Line	1974	1975	1976	1977	1978
NET SALES: (In thousands)					
Food/Related Services:					
Dairy/soft drinks	$1,067,297	$1,247,529	$1,408,719	$1,531,194	$1,789,797
Grocery	552,643	686,765	726,565	703,562	707,623
Food Dist/Warehsg	456,593	569,297	629,923	458,878	548,878
Specialty Meats	368,726	364,764	429,026	458,878	548,483
Confectionery/Snacks	246,071	341,525	328,643	371,177	393,487
Agri-Products	244,500	207,120	208,156	269,536	307,934
	2,935,830	3,417,000	3,731,032	4,040,424	4,574,453
Manufactured/Chemical Products:					
Institution/Industrial	322,400	391,933	375,660	466,980	571,449
Travel/Recreational	265,984	302,453	358,924	415,641	437,507
Housing/Home Environ	357,225	366,108	377,477	430,457	502,794
Chem/Allied Products	136,242	159,501	164,929	195,424	227,685
	1,081,851	1,219,995	1,276,990	1,508,502	1,739,435
Total Net Sales	**$4,017,681**	**$4,636,995**	**$5,008,022**	**$5,548,926**	**$6,313,888**
OPERATING EARNINGS:					
Food/Related Services					
Dairy/soft drinks	$ 53,140	62,075	77,183	84,244	98,013
Grocery	29,194	37,765	52,129	48,717	47,839
Food Dist/Warehsg	23,332	35,282	29,805	34,120	39,261

Specialty Meats	17,396	22,924	28,467	34,644	44,297
Confectionery/Snacks	13,477	22,132	28,003	41,335	41,921
Agri-Products	25,519	18,588	17,615	22,337	21,264
	162,058	198,766	233,202	265,397	292,595
Manufactured/Chemical Products:					
Institution/Industrial	$ 51,924	61,414	60,769	76,346	93,367
Travel/Recreational	24,688	24,163	35,114	38,297	37,231
Housing/Home Environ	38,712	35,532	32,383	38,974	47,919
Chem/Allied Products	19,662	23,310	17,280	23,069	29,173
	134,986	144,419	145,546	176,686	207,690
Total Operating Earnings	297,044	343,185	378,748	442,083	500,285
Less:					
Non-operating expenses (net)*	$ 12,250	16,077	19,177	25,291	24,594
Interest expense	22,132	32,107	34,482	32,443	38,053
Income taxes	123,271	141,682	157,543	188,050	216,100
Net Earnings	**$ 139,391**	**153,319**	**167,546**	**195,669**	**221,538**

* Comprises unallocated corporate expenses, minority interests and other charges, less equity in net earnings of Southwestern Investment Company and its subsidiaries and other income.

See Note 12 of Notes to Consolidated Financial Statements of Beatrice Foods Co. and Subsidiaries for additional information relating to the operations of Beatrice by industry segments and geographic locations.

SOURCE: Form 10-K Annual Report - 1978. Chicago: Beatrice Foods Company, p. 1

Our research and development also have expanded steadily over the years in the development of new consumer products . . . We now distribute more than 600 items across this country and around the world. Last year, our Dairy Division introduced 20 new products. Now, more than eight new products, *flavorings and other ingredients are in various states of development.*

Not all of the Beatrice acquisitions worked out well. One that did not was Hart Ski Manufacturing Company. Hart was the second largest American manufacturer of Alpine skis when its founders sold the company to Beatrice in 1968. But within a few years major changes occurred in the ski industry and Hart's managers were unable to adjust to the changes. "Hart started losing money; professional managers sent in by the parent company couldn't get the mess under control. Eventually Beatrice grew resistive with its acquisition and sold it back to small entrepreneurs including a son of one of the founders".[57]

There were others too. In fact, as Executive Vice President Harry Niemic pointed out, "There is never a time when everything is going well. We always have problem areas. But because we have a breadth of product lines, the company as a whole continues to do very well".[58]

Organizational and Management Changes

The rapid growth of Beatrice made continued organizational changes inevitable. A warehouse division had been created in 1965. The 1966 annual report noted the creation of three new divisions–the Agricultural By-Products Division, The Chemical and Manufacturing Division, and The International Division.

> The 1968 annual report revealed the realignment of the company into seven divisions:
>
> 1. The Dairy Division
> 2. The Public Warehouse Division
> 3. The Grocery Division
> 4. The Confectionery Division
> 5. The Chemical Specialities and Manufactured Products Division
> 6. The Agri-Products Division, and
> 7. The International Division.

Four years later the growth of sales in manufactured products, chemicals, and the Sexton food distribution business as well as the acquisition of Peter Eckrich, led to another realignment. The dairy, confectionery, grocery, warehouse, agri-products and international divisions were retained in the organizational structure. But manufacturing and chemicals were split into separate division - The Manufactured Products Division and The Chemical Division. In addition a Sexton Division was created to handle the John Sexton Company activities and the Peter Eckrich Division was established to handle the newly acquired meat specialty business.

All of the organizational change was designed to preserve the basic Beatrice management philosophy of decentralized decision-making. As explained in the 1973 annual report:[59]

> *Our system requires a complete management team at each individual company. We call them profit centers and we have 385 of these profit centers in the United States and 28 other nations around the world. . .*
>
> *The general manager of each profit center is the captain. He must select and develop his key people . . . managers in marketing, production and administration . . . then mold and motivate them to operate as a team. He is the chief executive of his profit center in virtually every phase of operations . . . He also has the responsibility for developing his successor when he moves forward in Beatrice's management organization.*
>
> *The next echelon in this decentralized system of management is the group manager. Each of the company's divisions is organized into groups on the basis of similarity of product, marketing or manufacturing technology. Almost without exception, a group manager is a profit center manager who has been assigned supervision of from two to twelve plants. Sales of these groups generally range in total from $20 million to more than $150 million annually.*
>
> *The group manager is the liaison between the profit center manager and the division president. He is selected for his abilities to lead, motivate, and to inspire and for his proved profit-making abilities.*
>
> *All fifty of these group managers are located in the field where they are better able to adjust to rapid changes in operations and market conditions.*
>
> *A primary function of the group manager is to help the*

management teams of the profit centers he supervises to increase their growth, to cope skillfully with the constant challenge of change, to try new concepts, new methods, new products and new markets. . . to dream with them and support them. The group manager also is a "troubleshooter." If a profit center develops problems, he is immediately available to advise and assist the profit center team. Also available to them are the services of the corporate administrative, marketing, legal and technical staffs.

The group managers in turn are guided by the division presidents. All of the division presidents . . . are located in the field . . . where the action and decision-making are. They are responsible to the four senior officers of the company.

The four senior officers of the company in 1973 were Karnes (Chairman of the Board of Directors and Chief Executive Officer), Don L. Grantham, (President and Chief Operating Officer), Paul T. Kessler, Jr. (Executive Vice President) and Harry Niemic (Executive Vice President).

Perhaps the most colorful description of the Beatrice Management style as it appeared at the end of Karnes' years of leadership is that presented by Linda Grant Martin in her 1976 story. Referring to what she called "the dairyman's mentality," she said:[60]

All but two of its present top executives grew up in (the dairy) business. And anyone who knows how to run a dairy successfully is used to working hard for a miniscule return. Beatrice has increased sales and profits in its dairy operations for thirty-seven straight years. In order to achieve that kind of record, the company has had to enforce severe cost controls and a work ethos that appears downright fanatical to non-dairy executions. . . When Beatrice imposes the dairy-management mentality on the higher margin chemical and manufacturing companies it takes over, it can often wring three or four percentage points out of costs.

Ms. Martin goes on to observe that:[61]

> *While Beatrice is tough and unsentimental . . . about getting rid of losers, it is generous to the winners. Every manager receives a bonus in addition to his salary. The bonus is a proportion of net income - 2 percent of profit center income would be typical. . .*

And she notes that:[62]

> *The Beatrice central office might be viewed as a 'benevolent central bank' that collects money from all over the enterprise and redistributes it where it will earn the highest payoff. The control over capital expenditures is rigorous. If a profit center wishes to spend over $2,500 it must fill out a (request) . . . Lots of these requests are rejected by headquarters.*

In determining what a profit center will pay for the money it does get, Beatrice devised a system that motivated managers to keep fixed assets and inventories to a minimum. As explained by Ms. Martin:[63]

> *The company has an ingenious way of steering money to profit centers that are most efficient. In determining what interest rate to charge an operation that wants to expand capacity, Beatrice begins by computing the increase in that operation's fixed assets since the 1972-73 base year. Then it computes the increase in current assets (basically inventories and receivables). The profit center that wants to borrow money pays an interest charge representing 2.5 percent of the increase in fixed assets and 9 percent of the increase in current assets. All of which means, of course, that the most efficient operations . . . pay the least for their money.*

Clearly, the Beatrice management style, while remaining true to the heritage of the Haskell years, was becoming more sophisticated and more formalized. Karnes was aware of the danger of becoming overly sophisticated and too formalized. He fought this tendency in many ways. One was by deliberately keeping the central office staff as small in size as possible. Another was Karnes' avoidance of some standardized management methods. As Harry Niemic once explained:[64]

> *He didn't espouse a method such as work by objectives. He would give a man responsibility and let him do it. He didn't really get in and ask for details*

Niemic went on to say that Karnes did not even use formal long range planning. Yet when Niemic, himself, felt the need to try such planning for the profit centers under his direction, Karnes said "Go ahead and do it your way if you get results".[65]

CONCLUSION - HOW DID BEATRICE DO IT?

Bill Karnes and chief operating office Don L. Grantham retired from active management at Beatrice on June 30, 1976. They handed over their responsibilities to new chairman William G. Mitchell and new president and chief executive officer Wallace N. Rasmussen. Karnes could look back on a remarkable 25 year record of growth and change. The reasons for that record have been amply documented in the preceding pages. The Beatrice success story can be explained largely by three key elements - A Strategy, A System, and A. Leader.

A Strategy

The strategy, of course, was the reinvestment of the dairy business cash flow in higher margin, faster growing businesses. This technique was later discovered by the famed Boston Consulting Group and became a major management fad throughout corporate America in the nineteen-seventies.

A Management System

The Beatrice management system was also rooted in the dairy business. Although discussed at length in earlier sections of this monograph, a few additional descriptions of the system are appropriate here.

In 1976 Bill Karnes gave this explanation of the system:[66]

From the very beginning, the founders of our company adopted the practical philosophy that the best way to get a job done was to pick a good man or woman, give him the authority to do the job, offer him incentives and hold him responsible for accomplishing the job. To us that's the essence of decentralized management under our system.'

Karnes went on to add the following observation:[67]

'*Not long ago, one of our managers was asked why his plant was successful . . . why it continued to increase its sales and earnings, year after year.*

'That's easy', he replied, 'We work half-days . . . Six a.m. to Six p.m.'

Yes, many of them will work 12 hour days and more.

That logically leads to the question of how do you motivate management people to work 12-hour days week after week voluntarily with no extra pay for the extra hours they put in. Again, it's the decentralized system.

And then he added these examples:[68]

We had a frozen food operation in Chicago that had been losing money for many years. We had a man in St. Louis who had been in the food distribution business. He always made money . . . Always was profit conscious. But he never had sold frozen food. He knew nothing about it.

We brought him into Chicago and put him in charge of this operation. He made money every month from that day until he retired. We didn't do anything different to help him. He just had a good sense of profit and was a good manager of money . . .

As another example, we operated a dairy distribution branch in a small town in Virginia which had not made money for years. After trying a series of managers, we picked a young bookkeeper in the office and made him manager. He immediately began turning in profits.

When we needed a new manager at our Pittsburgh, Pennsylvania plant, we put him in charge even though he had never had any experience in running an ice cream operation. Until then this plant had been a problem. But he was successful again. Today, he is a vice president of our company.

Over the years . . . I have seen hundreds of examples such as these. We put a man in charge of a problem plant and he made money. That is why we have not closed many plants. If we could not make money with one man, we put someone else in to run it.

A Leader

Finally, to make the strategy and the system work, there was a leader - Bill Karnes. The role played by Karnes has been suggested throughout this monograph. He set the example for the organization. In the words of Harry Niemic:[69]

He was involved and worked hard. Yet you never felt that Bill Karnes personally got things better than you did. He toted that briefcase home, traveled, saw a stream of visitors. He didn't take any privileges (no chauffeur, etc.). He was carrying a bigger load than I was. You got captivated by that kind of atmosphere.

And he set the standards. One example as explained in Niemic's words:[70]

In 1971 or 1972, three of us were discussing our pessimistic outlook with Bill Karnes. Bill kept saying, 'We have to make it.' Finally he got up and said, 'Gentlemen, I will not take any down period.' Then he walked out. This was uncharacteristic of Bill, but it worked. The three of us knew we had to make it.

Bill Karnes paid a high price for the privilege of directing the growth of Beatrice. He had little time for a private life and, in the opinion of many observers, the only close friendship he was able to maintain was that with his wife Virginia. By paying that price he was able to author one of the truly outstanding success stories of his generation.

APPENDIX A

REFERENCES

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Divisions Management Conference, Tarpon Springs, Florida, April 7, 1979.
2. The information in these three paragraphs comes from: Beatrice Foods Company.
The Beatrice Foods Story, Chicago: April 1976, pp.1-2.
3. Haskell, C.H., Letter to Beatrice managers, September 12, 1947.
4. Haskell, C.H., Letter to Beatrice managers, September 12, 1947.
5. Between 1905 and 1907 Beatrice established new creameries in Oklahoma City,
Oklahoma; Chicago, Illinois and Pueblo, Colorado. During this time the company also
reincorporated in Iowa with increased capital of $3,000,000. The rapid growth of
company business in the East caused Beatrice to move its general offices to Chicago in
1913. On November 20, 1924 Beatrice Creamery Company was reincorporated as a
Delaware Corporation with headquarters in Chicago. On June 24, 1946 the name

Beatrice Foods Company was adopted. (See Beatrice Foods Co., The Beatrice Foods Story, Chicago: April 1976, p.2).
6. Haskell, G.E., letter to Clinton H. Haskell, April 2, 1917 (reprinted in Clinton H. Haskell, I Remember - An Informal Narrative of the Years 1888 to 1922 in the Personal, Family, and Business Life of Clinton H. Haskell. Chicago: Private Printing, 1929, p.35.
7. Ibid
8. Sixty-Eighth Annual Report. Chicago: Beatrice Foods Co., 1966, p.2.
9. Beatrice Foods Company, The Beatrice Story, Chicago: April 1976, p.3.
10. Ibid
11. Interview with William Mitchell, former Beatrice executive, Chicago, April 10, 1978.
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13. Ibid
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15. Fifty-first Annual Report, Chicago: Beatrice Foods Co., 1951, p. 21.
16. Forty-ninth Annual Report, Chicago: Beatrice Foods Co., 1950, p.4.
17. Haskell, C.E., letter to managers, October 1, 1946 (reprinted in Dear Manager Volume II. Chicago: Privately printed, 1948, p. 26).
18. Haskell, C.E., letter to manager, May 26, 1949 (reprinted in Dear Manager Chicago: Privately printed, 1949, p. 117).
19. Letter of December 5, 1945 (reprinted in Dear Manager Volume I, Chicago, Private printing, 1947, p. 41).
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23. Tracy, P.H., "Interesting People - William G. Karnes Tracings," Beck Vanilla Products, Winter, 1968-69, p. 22.
24. Once when asked to explain the keys to success, Karnes singled out two factors: (1) The ability to get people to work with you, and (2) An understanding wife. (Videotaped interview, Western Illinois University, November 11, 1977.)
25. Interview with John Hazelton in Wilmette, Illinois, December 12, 1978.
26. Ibid

27. Interview with Wallace Rasmussen in Chicago, June 20, 1978.
28. Videotaped interview given at Western Illinois University, May 12, 1977. Beatrice was particularly concerned with the trend toward selling milk through retail stores. This concern can be appreciated by considering the following data. In 1950, 47 percent of Beatrice fluid milk sales were made by retail route salesmen delivering to homes (Beatrice Foods, 53rd Annual Report. Chicago: Beatrice Foods Co., 1951, p. 9).
29. Karnes, William, speech at Western Illinois University, May 12, 1977.
30. Ibid
31. Videotaped interview with William Karnes, Western Illinois University, November 11, 1977.
32. The first five items on this list come from lectures given by William Karnes at Western Illinois University, May 12, 1977.
33. Martin, Linda Grant, "How Beatrice Foods sneaked up on $5 billion, Fortune, April 1976, p. 121. Karnes has referred to this article as one of the best written about Beatrice by an outsider.
34. Sixty-third Annual Report, Chicago: Beatrice Foods Co., 1961, p. 8.
35. Ibid
36. Fifty-ninth Annual Report, Chicago: Beatrice Foods Co., 1957.
37. Videotaped interview at Western Illinois University, November 11, 1977.
38. Videotaped interview at Western Illinois University, November 11, 1977.
39. Sixty-third Annual Report, Chicago: Beatrice Foods Co., 1961, p.9.
40. Sixty-fourth Annual Report, Chicago: Beatrice Foods Co., 1962, p. 12.
41. Karnes, William G., speech presented to the Houston Society of Financial Analysts, March 17, 1971.
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43. Interview with John Hazelton, Wilmette, Illinois, December 12, 1978.
44. Ibid
45. Interview with Wallace Rasmussen, Chicago, Illinois, June 30, 1978
46. Interview with John Hazelton, December 12, 1978.
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48. Interview with John Hazelton, December 12, 1978.
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56. Brown, Cannon, Speech before Houston Society of Financial Analysts, March 17, 1971.
57. Griffin, Dick, "The Happy Divorce That Saved Hart Ski," Fortune, December 18, 1978.
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63. Ibid, p. 126. Ms. Martin adds, "Furthermore, the interest charge to the profit center is reduced by a figure representing 9 percent of any increase in net income since the base period."
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68. Karnes, William G., Speech at Texas Banker's Association 92nd Annual Convention, El Paso, Texas, May 4, 1976.
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70. Ibid