The American Woolen Co.

By WILLIAM G. LEON

The American Woolen Company received Government orders totaling $81,214,116 during the twelve month period through June, 1941. Stockholders hope that profits will resemble the results of the last wartime boom, but realize that the $64,000,000 lost since the last one can never be recouped. Cautious investment counsellors, when asked for an opinion on Woolen stocks, ponder and respond, "Sell on strength."

This corporation with its 25 mills and 7,000 looms dwarfs its nearest competitor, Arlington Mills, and makes one-sixth of the woolens and worsteds in the U. S. Plenty can be made out of steady orders for khaki, but more can be lost when independents compete for the peace time men's clothing market.

Organization was accomplished in 1899 by Charles Ranlett Flint, known in his time as Father of Trusts. Mr. Flint's dominant idea was his philosophy of size. A large combine can do a large gross business and make a large net profit as long as profit margins remain constant. Perhaps the influence of Karl Marx suggested that a temporary sacrifice of profit margin would drive small capitals from the competitive field. Then the time would be ripe for grand scale exploitation.

Mr. Flint was able to interest Frederick Ayer of Washington Mills in this philosophy and built the amalgamation around that unit. Ayer had amassed a fortune in sarsaparilla, but found textiles a more respectable occupation for a Boston Brahmin.

William Madison Wood was named operating manager of the trust. Born Jacinto e Silva, son of a Portuguese sea cook, he became the Napoleon of the woolen business. He first worked for Andrew Pierce in the Wamsutta Mill. Later he operated a plant of his own where he gained the attention of Ayer, who made him operating manager at Washington Mills.

Operation of the combine began with eight mills. In the year prior to consolidation these eight units, operating independently, made an aggregate profit of $2,600,000. During the ensuing five years, as eighteen more mills were added to the group, $17,500,000 was earned. As expected, profits had grown. The five year average return was 73% above what the eight original independents had made. But, at the same time, there were over three times as many plants! Whereas eight independent mills had averaged $325,000 each, twenty-six made an average of $135,000 per mill over the five year period. The decline in earnings on a unit basis was 58%.

Maybe this decline was intended to discourage the independents who would not join the combine and cut prices in order to stay in business. If so, the sacrifice was costly. The first ten years realized an average net of only $3,400,000, a drop to $130,000 per mill. A recapitulation of profits from 1899 to 1913 reveals that profits fell to a yearly average of $2,800,000 or less than $110,000 for each unit.

After witnessing a decline in mill profits to where they were at one fifth of their pre-combination level, the would-be monopolists were faced with the loss of what little privilege they did enjoy. The whole industry had been under the protection of the Dingley Tariff of 1897. Foreign cloth was kept out by a duty of 33 cents per pound, plus 50% ad valorem. In 1913, the "free trading" democrats under Woodrow Wilson lowered the rate to where it was but 35% over market value and American Woolen showed its first deficit, $677,700. At the annual meeting stock-holders were warned that hard times were ahead as long as ruinous competition of foreign goods was permitted.

Princep could never have known what he was doing for American Woolen when he levelled his weapon at the Archduke in Sarajevo. But, William Wood knew that loss of the tariff no longer mattered. Wars are fought in woolen uniforms.

For 1915 profits soared to $5,160,000. 1916 improved to $8,120,000, and returns were back up to the rate enjoyed by the uncombined mills. Dividends were initiated on the common stock.

In 1917, the U. S. Government's orders to American Woolen totaled $100,000,000. This was two and one half times pre-war annual gross business. During 1918 sales of all materials reached $212,000,000, the all time record. Competing for the custom of individuals was no longer a problem and inventory profits were taken as wool prices skyrocketed. Net profit for three years through 1917 was $43,500,000 compared with $51,000,000 for 1899 to 1913.

The philosophy of size seemed finally, although belatedly, to be justified. Eleven new mills were added during the war years and still incoming orders could not be filled.

War's end provided another market for woolens. The doughboys needed civilian clothes again, and Europe was almost naked. Reconstruction loans of millions of dollars were granted to the destitute nations. Norman Armour was to feed Europe. William Wood resolved to clothe it and opened an export division.

By this time Wood was so flushed with success that he went into public utility operations acquiring the power plants in Maynard and Acton, Mass.

As Europe resumed production the post war deflation set in. 1921 brought inventory losses and loss of export sales. The foreign division was closed and Wood had all he could do to sell the domestic market. Fortunately the depression was short lived.

1923 saw the business cycle turn upward once more. The plants were well stocked with low cost raw wool. Aided by a 60% increase in the new woolen goods tariff a profit of $6,500,000 was gleaned. The return of prosperity set Wood on the rampage again and he acquired four more plants including the great Webster Mill. But his greatest adventure was still to come.

One Sunday morning Mrs. Wood heard a minister excoriate the absentee mill-owners for the shabby way in which they treated their workmen. Her husband, of very humble beginnings himself, lent a sympathetic ear as the sermon was retold. Between them they envisioned the model mill surrounded by garden cottages.

Shawsheen Village was built at a cost of $20,000,000. The new place was to be headquarters with a fine administration building. The company executives protested against being uprooted from their Boston homes, but to no avail. Wood ran a one man show. The new expansion was financed by $5,500,000 in bank loans and $10,000,000 of new preferred stock. The rest was drawn from surplus.

Mr. Wood was very optimistic on the outlook for 1924. General business conditions were good and he had increased his plant a good deal in the field he already dominated. But, now a new devil was to plague him, much worse than the ordinary pre-war price competition.

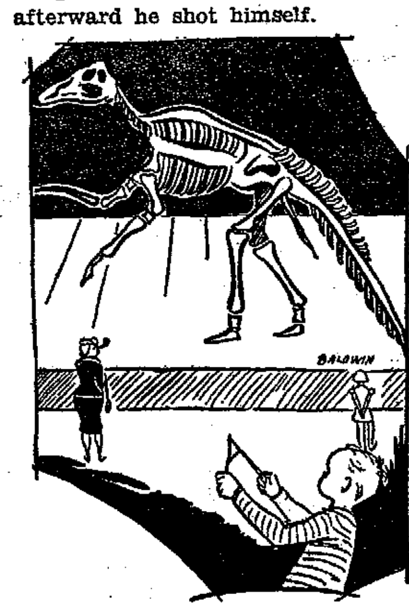
Retailers from all over the country were demanding a very wide variety of styles. The customers wanted to see an endless assortment of colors and patterns. The automobile brought the farmer to town. The movies and vaudeville shows brought actors dressed to kill. Kids went collegiate and girls wanted sheiks. Remember the Oxford bags and blazers? After the Civil War the color worn by the boys in blue became the custom. Everybody wore a blue suit on Sunday. But after the World War, in the jazz and gin era, the market wanted the whole spectrum, every conceivable pattern and in every known kind of cloth.

Now with the rapid change in demand for styles the colossus became punch drunk. A small mill with from twenty to two hundred looms may hit upon a good style and keep busy all season or may even copy a successful style and operate on that. Huge American Woolen with a capacity of millions of yards cannot manoeuver in a fickle market.

Prices are established in August when spring buying starts. Manufacturers wait until November for discounts. Some independent will always come down in order to get business. So must the large mills. They cannot hold out. Overhead goes on and workers cannot be fired and rehired over night.

So in 1924, with the staple blue suit and army uniform a thing of the past and no strong woolen market for an inventory profit, American Woolen took its first staggering deficit, $6,900,000.

William Wood, his health broken, resigned from the company. Soon afterward he shot himself.



The directors who had been paying Wood $1,200,000 a year plus income taxes came to their senses too late. The company was run as though it were in receivership. Gradual liquidation of most of the 57 mills began.

From 1926 through 1929, $9,000,000 was lost. And the worst was yet to come. For three years through 1932 the losses aggregated $15,000,000. In 1933, $7,200,000 was earned as inventories increased 87% in value, but for the period 1934 through 1938 another $1,000,000 was lost despite new mechanization of the remaining plants. 1939 and 1940 were profitable and the outlook for the present is good, as long as wool prices are in an upward trend and the profitable staple uniforms can be turned out.

Flint, Ayer and Wood seem to have been obsessed with the idea that in a huge concentration of capital there is an advantage. Their policy of giving preferred stock for the assets of mills and considering the common stock as the claim on future increment indicates that. Other trusts were financed on this basis and it worked. But in those cases where it did work there was a control of raw material resources, advantageous sites and exclusive patent rights. As the nation grew, these restrictions on free competition resulted in an extra increment that made fortunes for stockholders. The folly of promoting growth without the growth factor is seen in the record, a $64,000,000 loss since the last war period.

It is of special interest at this time, to consider the facts that unwittingly made the corporation successful for the limited period of the last war time boom. When the State replaced the free market all was well. The producer no longer had to satisfy the demands of individuals.

Today we see once more the effect of the State economy on earnings. Sales for the first half of 1941 are double those of a year ago and profits are at an annual rate of over $10,000,000. But this time investors look ahead. The $100 par preferred stock is selling for $75, the value of the accumulated arrears.