Why Merge?

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As a life-long resident of New England, I am somewhat familiar with some of the trials and tribulations which have plagued our fishermen. Although this industry has many unique problems, I must admit that in our northeast region it has had setbacks which have a parallel in some of the other basic industries of this area. Although there is no apparent relationship between the fishing and textile industries, we find that many of the basic causes and conditions which have led to the decline of one industry also have had the same adverse effect on the other. Excessive fragmentation, limited product lines, inefficient equipment, foreign and sectional competition, increased production costs, reduced productivity and dwindling sources of raw materials are limiting factors which have been most damaging to the New England fishing industry, but every one of these conditions has also adversely affected the New England textile industry as well as the New England shoe industry.

Where there is a broad area of compatibility and economic justification, the merging of individuals, companies or associations can have and has resulted in great benefits and improvements. Those who are skeptical will say that few potential merger combinations can meet my two demanding requisites of compatibility and economic justification.

In spite of the significantly high percentage of divorced persons and also the large number of unhappily married couples, the major source of merging still remains the state of matrimony. It works because over the ages it has brought physical, social and economic benefits to the two contracting parties, and in the aggregate the benefits to both parties have offset the liabilities.

For the same reason, business mergers have taken place since the dawn of history. In fact, whenever two persons or groups agree to do anything in unison, they are essentially merging. A merger may be of very short duration, or it could be a permanent union. So much for the broad concept of merging.

As businessmen and entrepreneurs, you are probably more interested in its application to your type of business. First of all, let me give you an example of a small fragmented industry and how it has been affected by the recent merger movement.

Some 20 years ago I had a number of clients in the garment industry in New England. Many of these were small operators whose plants employed less than 75 persons. At that time there were more than 300 such small plants in New England, and this was a dog-eat-dog business with the number of new companies coming on stream each year about matching those that failed. There was little or no industry order, and both the employers and employees suffered by the erratic and cyclical nature of this business. Probably the two greatest problems they faced were the absence of sound management operating methods and the very narrow range of their product line. As a consequence of this, the bankruptcy and failure rate in garment manufacturing at that time exceeded that of any other industry in New England.

In the past 10 years, this industry has undergone a startling change. The more successful small manufacturers began consolidating. At first these mergers were primarily of the type where a manufacturer joined forces with his competitor. These companies usually were in the same garment line and essentially of the same size and financial standing. Most of these combinations were of such a small size that the surviving company still remained a private, closely-held concern. In most cases, this resulted in immediate economies and made possible the expansion of their product lines and the initiation of fairly simple data processing and management services such as inventory controls, marketing and sales analysis. In addition, it brought an improvement in manufacturing procedures, reduced sales overheads, and of significant importance, it taught people of varying backgrounds and experience how to work more closely together. It also prepared them for the second round of mergers when they were to combine with the larger and more stable publicly held companies. Although many of these companies may not have gone the full cycle, most of the successful operators who have survived in the last 25 years have had to use this method to strengthen their competitive position. There were a few well-capitalized companies who did not need outside help, but they were the exception. In this respect, I can speak from first-hand knowledge, and I would like to share an experience with you.

For over 150 years, the Boston area was the base of two of the leading protective clothing manufacturers of America. These companies were the H. M. Sawyer Company and the A. J. Tower Company. They had several common distinctions. For example: (1) They made an excellent but unprofitable rainwear product; (2) They met each other's price competition come hell or high water; (3) They had in-bred managements that had kept them both in a stagnant state; and (4) They operated profitably only during periods of crisis (i.e., war or national emergency), so that theirs was always a feast or famine type of business. In essence, they suffered from all of the maladies that then faced the textile industry and to which I alluded at the start of my talk.

From beginning to end, the fate of these two companies seemed to be closely intertwined. The Sawyer Company, which was in deep financial trouble, lost its president in 1955 and his executors were forced to sell this company. Along with three associates, I bought this concern for less than its net worth because the Boston banks, which were the trustees, did not want a liquidation. Actually, a liquidation would have substantially reduced the return to the shareholders even below our purchase price. We fortunately had experienced management to take over the newly acquired company.

Fate also played a part in our merging of the Sawyer and Tower Companies. The aging owners of the A. J. Tower Company were frightened and benefited by the sad experience of the Sawyer stockholders (their principal competitors) and became apprehensive of their own vulnerable position. They initiated merger negotiations with our group, and we acquired them, merging the two companies but retaining their name, product lines and product brands. The combined companies became known as Sawyer-Tower, and thus began a complete renaissance and revitalization of these two ancient concerns.

By consolidating four separate and antiquated plants into one modern and efficient factory, we were able to substantially reduce our product cost while competitors were accelerating theirs. The funds for this modernization program were obtained through the sale of surplus real estate. In the marketing area we were able to get far greater coverage with only 3/5 of the former combined sales organizations, and promotion expenses were even more favorably affected.

Laboratory and other vital services which neither company could formerly afford were now initiated. There were dramatic improvements in new product development, quality control, production scheduling and deliveries. The most important change occurred in the realm of profits. In the 3 year period prior to the merger, the average combined annual profits of the two companies amounted to $125,000 on average sales of $3,200,000. Following the merger many unprofitable lines were completely eliminated, and in the following 3 years, the average annual profits were more than three times (over $400,000) the former figure with slightly less sales due to the discontinuance of unprofitable lines. As a result of this merger, Sawyer-Tower is now, after some 15 years, a viable company whose rescue can be wholly attributed to the beneficial effects of the merger of two weak rivals.

This is not an isolated case, nor is it only typical of the textile industry. There are many parallels in all segments of American industry. Since our interest is fishing and seafoods, I would like to give you a few examples where such mergers have not only been helpful but actually have been lifesavers for the parties involved.

I need not tell any of you of the cyclical nature of your industry and the financial risks involved. Weather, limited product lines, over-exploitation of resources, foreign competition and imports, new production techniques and mounting costs of equipment and capital requirements are making this a very tenuous operation.

Gentlemen, you are in an industry that calls for technical as well as financial skills, and the stakes and requirements are far different from what they were 15 or 20 years ago. There is no longer a simple industry, and fishing is no exception. Any thought of turning back to the nostalgic days of fishing from an open dory would have to be placed in the category of pipe dreams. There are some who will say that this complexity has been caused by the entrance of the "Big Boys" in this game. I will agree if you will include the many foreign participants who through their major concerns, national subsidies and huge investments have forced us to change the ante of our poker game. You cannot set your own rules for competing in this game. Whether you are fishing for, processing, or marketing shrimp, tuna, king crab, cod fish, haddock or any other seafood, you will need a capital investment and a management capability commensurate with the foreign and domestic competition.

The American people spend more money on seafood than any other nation of the free world, and for that reason it is truly a "Big Business" with all of the attendant problems and opportunities.

Although fishing is one of the oldest industries in the nation, its most dramatic technological advances have occurred only quite recently. New methods of refrigeration, processing and distribution have opened new and exciting horizons. These new developments call for vastly increased capital investments, and the most successful participants have been those companies that have met these new requirements. *Whether we like it or not, this is the price of progress!*

In line with this, it is my observation that the most successful seafoods operation is the one that is completely integrated. Companies like Consolidated Foods, Castle & Cook, General Mills and Ralston Purina may flounder and make serious initial mistakes, but in the long run with efficient production and processing facilities and their own distribution resources, they can and will weather the sometimes erratic production cycles of this commodity.

I do not want to leave the impression that you must be a giant to succeed in this industry. Katy Industries recently acquired a group of independent shrimp operations which were profitable and competitive, but I must be frank in stating that their managers were successful because they knew their business and they had the necessary physical and financial resources to meet the basic requirements and risks that I have already enumerated.

I have made a good case as to why it has been beneficial for New England garment plants to merge, but your concern is the fishing industry, and you are probably wondering if the same patterns I have outlined for the textile industry apply to your industry. Here again a few examples may prove helpful.

Everyone is familiar with the problems that have plagued the Alaskan king crab industry in the last three years. The three largest producers and processors of Alaskan king crab were Wakefield Seafoods, Pan Alaskan Fisheries, and American Freezerships. In 1968, all three of these companies were privately owned and operated. In 1967 and 1968 as head of W. R. Grace's Frozen Foods Division, I negotiated at one time or another with each of these companies. We finally acquired American Freezerships, while Hunt Foods acquired Wakefield. Pan Alaska's discussions with a number of major listed companies were not fruitful. Now some 2 years later, it is safe for me to say that neither Grace nor Hunt Foods have benefited very much by these acquisitions because of the drastic reduction in king crab production.

On the other hand, the former stockholders of Wakefield and American Freezerships in my judgment, are relatively far better off than those of Pan Alaska who remained unattached. In the long run, Grace and Hunt Foods will weather this setback, and in the final analysis, it is the consumer who will benefit through more efficient boats, processing plants, and reduced distribution costs.

It is not failing companies that produce a competitive atmosphere or improvements in any industry. The entrance of Grace, Hunt Foods, Gortons' (General Mills), Ralston Purina and Castle & Cook into the Alaskan field has helped stabilize this industry at one of its most critical periods, and I only hope that the government analysts who look with suspicion on every industry action will see the beneficial results of some of these acquisitions.

Because of the very high consumption of seafoods in this country, it is doubtful that we will ever see the day when import duties are applied to this commodity. As a consequence, we should focus our concern on the foreign competition that exists and the best methods to cope with this serious threat to our industry. In my opinion, there is no better means than through the combining of organizational, financial and physical resources to meet this foreign competition that has its own rules and is free of the many controls which now seem to dominate our "free enterprise" system.

In closing, I hope that my few comments on this subject will not give the impression that merging is the panacea to all management problems. In this respect, I must again emphasize that mergers should only be consummated where there is an apparent high degree of operating compatibility and true economic justification. Then a merger action may make the combined operation a much more viable entity. As in any form of business enterprise, there are good and bad mergers, and the results quite often reflect the scope of home work done by the merging parties.