

HENRY HEINZ IN A PICKLE



Today the catsup, pickles, vinegar and many other food products sold by the H. J. Heinz Company are known all over the world. But success didn't come easily for the company's founder, Henry J. Heinz.

In 1869, Henry Heinz, a young businessman from the Pittsburgh area, went into partnership with L.c. Noble to process and bottle horseradish, pickles, vinegar and similar food products. The business prospered because of the high quality of its products, and soon the partners were establishing sales offices, warehouses and factories as far away as St. Louis and Chicago. But Heinz, Noble & Company expanded quickly at a time when the country was experiencing a serious depression. Businesses normally borrow money to buy supplies and meet other short-term costs of production, paying back loans out of the money made from selling the goods they produce. But by 1875, banks were reluctant to lend because of depression conditions. Heinz pledged his father's house and brickyard in order to get funds to pay his short-term expenses.

The final blow came after Heinz signed a contract to purchase all the cucumbers and cabbages produced by a major Illinois supplier. An unexpectedly large harvest in 1873 drove up the company's costs of purchasing. Even though sales of company products continued to be strong, the partnership was unable to pay its daily expenses.

As rumors of the partnership's difficulties spread, several local creditors filed fraud charges (later dismissed) against Heinz, the only partner living in Pittsburgh. Heinz was arrested. Shortly after his release, the partnership declared bankruptcy. The firm's equipment was sold to pay creditors, as was Heinz's father's home. By the end of the year, Henry Heinz was begging local grocers for credit so that he could put food on the family's table.

In early 1876, Heinz persuaded his brother John and cousin Frederick to finance a new food processing business, F. & J. Heinz Company. Under the terms of the bankruptcy law, Henry could not be a partner until his debts were discharged, but he managed the firm as a salaried employee. F. & J. Heinz bought back much of the equipment that had been sold by the bankrupt Heinz and Noble firm. The new company soon began to prosper, and Henry was able to repay his debts and become a partner in the firm.

HEINZ CASE STUDY QUESTIONS

Type your responses to these questions and staple them to this sheet. Make sure that you write complete responses to these questions (50 words each).

1. Henry Heinz's original company supplied high quality products that people wanted and were willing to pay for, and yet the firm went bankrupt. Why do you think that Heinz, Noble & Company failed?
2. Would some of the problems that the partners faced be easier to overcome today than they were in 1875? Why?

TYPE YOUR ANSWERS ... 50 Words Each



In 1983, 18-year-old Michael Dell began operating a computer business in his college dorm room at the University of Texas in Austin. Today Dell Computer Corporation is one of the largest computer manufacturers and distributors in the world. Michael was a smart and determined young man, but he also had help from the U.S. financial markets as he moved from dorm room to corporate boardroom.

Michael Dell saw a business opportunity in selling computers and components directly to customers, rather than going through retail distributors. He began by buying components and assembling them to customer specifications, and soon he had sales between \$50,000 and \$80,000 a month. In May 1984, after finishing his freshman year, he incorporated his business in Texas with an initial capitalization of \$1,000.

In the first years of the business, the company's growth was financed by company earnings and loans from Dell's family. During that time, the firm began to design and produce its own computers, but it continued to sell its products directly to business firms, government agencies and individuals. Dell Computer Corporation's rapid expansion soon required more financial capital than the business could generate. Dell hired Lee Walker, an Austin venture capitalist, as the president and chief executive officer of Dell Computer Corporation. A venture capital firm raises money for new businesses that are not yet large or well known enough to issue successful stock or bond offerings. Walker immediately established a line of credit for the firm at Texas Commerce Bank.

Dell Corporation continued to grow, entering the British market in 1987. In the fall of 1987, Goldman Sachs, a large investment bank, worked with Dell on a private stock placement. An investment bank is an organization that helps businesses design offerings of stocks or bonds and arranges for the sale of the securities to investors. In a private placement, stocks are made available to a small group of investors. Dell Corporation raised \$21 million through this stock issue in October 1987. The following June, Dell "went public" – that is, again, working with an investment bank, it sold a new issue of stock to the public for \$30 million. The total market value of the corporation was estimated at about \$85 million.

By the year 2000, only 17 years after Michael Dell began assembling computer components in his dorm room, Dell Computer Corporation had annual sales of more than \$25 billion. The company operated not only in the United States but also in Europe, Canada and Latin America.

DELL CASE STUDY QUESTIONS

Type your responses to these questions and staple them to this sheet. Make sure that you write complete responses to these questions (50 words each).

3. How did modern financial markets make it possible for Dell to grow as rapidly as it did? Give examples and make sure to describe each type of financing that the company received along the way.
4. Compare and contrast the experiences of Henry Heinz and Michael Dell in building their businesses.

TYPE YOUR ANSWERS ... 50 Words Each