

Facing Economic Disaster

Harry was born in Birmingham, Pennsylvania, on October 11, 1844. His father's name was John Henry (1811–1891) and his mother was Anna Margaretha Schmidt (1822–1899). Both John Henry and Anna emigrated from Germany. John Henry arrived in the United States in 1840 seeking better economic opportunity. He met Anna in 1843 and they married in Birmingham later that year. Their marriage produced eight children—Harry, John, Peter, Jacob, Elizabeth, Margaretha, Mary, and Henrietta.

Anna was a devout Lutheran. Her father, a pastor, trained her in the Christian faith. She passed on her biblical convictions to her children. Harry memorized Scripture and discussed the principles found in Scripture with his mother. He also attended private Lutheran schools and seminary. His home and school training was thoroughly biblical.

Although John Henry was an honorable man, Harry's spiritual strength and mentor was always his mother. She wanted him to be a pastor, but his love was business. Eventually she accepted and supported his call to business. Throughout his life, Harry acknowledged that his success was due to the biblical training and support that he received from his mother. After his mother and father passed, Harry reflected on his parents' influence on him. He said he had an honest father and a mother with a Christ-like spirit.

As a young man, Harry loved to work in his mother's garden. During his teenage years, he owned his own garden and sold the produce—a sign pointing toward his future career. This experience bonded him to the food business, which would become his lifelong work. During this time he attended business school and learned bookkeeping.

He also worked at his father's brick company where he learned bulk material processing, the importance of chemistry, and quality as a distinguishing sales feature, and he kept the books for the business. Harry could have made a career in his father's brick business, but he lacked passion for it. His business pursuits led him to return to the garden—to raising vegetables and producing and selling products. He loved this.

Harry and Sarah (Sallie) Sloan Young married on September 23, 1869. Harry was twenty-five years old. The United States was four years into the healing process from the wounds of a horrific civil war. Part of this process was the migration from a wartime economy driven by government debt to a peacetime economy driven by true profitability. People were looking for opportunities during this time.

Harry and his friend Clarence decided to form a partnership to start a company. They were neighbors and worked together in the brick business owned by Harry's father. As a teenager Harry took the surplus produce from his mother's garden and made horseradish, which he bottled and sold. This became their first product.

In the early 1870s, the company became known as one of the fastest growing in the country. As with all quickly growing organizations, the challenge was to manage the growth. Failure to manage the rapid growth proved to be a fatal flaw.

The company lasted six years. During this time Clarence handled the operations and Harry was in charge of the sales, marketing, and bookkeeping. Harry was a natural marketer and salesman; he was a bookkeeper by training.

Harry and Clarence's value proposition was not only quality horseradish but also convenience. There were few prepared foods in those days and women spent most of their time preparing meals. Many families had gardens and animals and most meals were prepared from what we call "scratch."

Stores sold food in bulk. Women went shopping with a list of needed items, such as, flour, sugar, vinegar, olive oil, and so forth. Generally shoppers did not peruse the store aisles to make selections. There were few brands—most everything was a commodity. The women gave their lists to the storekeepers to fill. Then they might run a quick errand and before returning to pick up their merchandise.

Most foods were bland, creating a significant demand for condiments to add flavor. The preparation of seasonings could be arduous, sometimes taking the entire day or even longer. This simply added more work to the long workdays of housewives.

In those days *caveat emptor* were the watchwords for buying anything, including food products. Many times companies would add filler items to their products that diluted the quality. The few existing condiments were frequently sold in cheap brown bottles making it difficult for the buyer to judge the quality until the bottle was opened. Returns and refunds were not the norm, so the buyer assumed the risk of the purchase.

Harry theorized that housewives would value the convenience of quality prepared foods. So to reveal the purity of their product, Harry and Clarence packaged their horseradish in clear bottles. This was more expensive but proved to be a highly successful marketing strategy and was a major reason for the rapid success of the company.

The strategy of focusing on purity and convenience enabled them to see the value of branding. Harry adopted the brand "Anchor." The anchor design was an early Christian symbol commonly found in the Roman catacombs as a symbol of hope in Christ beyond this life. The symbol also reminded Harry of his commitment to tithe 10 percent of the company's profits.

Soon Harry added jellies and home preserves to his product line. In 1871, he added celery sauce and pickled cucumbers.

In 1872, Clarence's brother E. J. joined the company. The additional partner enabled the company to expand to the Midwest. Soon the company added sauerkraut and vinegar to the product line, and then in 1875, the company added ketchup, using Harry's mother's recipe.

The expansion of the product line was largely driven by a desire to be efficient. The company was vertically integrated—from the soil to the store. This meant the company handled its own transportation. One of Harry's pet peeves was waste. He hated waste, which caused him to seek efficiency. For efficient transportation, the wagons needed to be fully loaded as often as possible. The expanded product line facilitated this objective.

Salesmen served as teamsters transporting goods to customers and then stocking the stores. They would also remove (buy back) bad products. Harry was a stickler for quality. He knew that the reputation of his brand was the key to selling at a premium price.

From 1869 to 1875, the company developed a national presence. Harry had demonstrated that he was an innovator in marketing, sales, quality, and packaging. In many ways the future seemed bright, but trouble was looming.

In 1875, several factors converged to set up an untenable scenario for the company.

- First, the company had grown rapidly with a thin base of equity capital, causing it to be dependent on debt.
- Second, emboldened by its success, the company entered into futures contracts with farmers to buy their entire cucumber crop—1875 was a bumper year for cucumbers.
- Third, the partners did not communicate well. All were busy with their various responsibilities. Clarence and E. J. continued to expand the business operations, assuming that Harry was handling the finances. However, Harry was distracted with sales and marketing—his true love—and he was financially unsophisticated and economically unaware.
- Fourth, the economy entered into a recession in 1873. Unemployment grew to between 20 and 40 percent. Only 25 percent of workers were employed full time. More than ninety thousand people in New York City lost their homes and thousands were eating out of garbage cans. The partners were slow to recognize the reality of the recession and were unprepared for a slowdown in sales.
- And fifth, the slowdown in the economy produced a bank crisis, which meant that credit was unavailable.

By the summer of 1875, sales begin to dramatically decline due to the worst economic recession in US history up to that time. At the same time, cash demands to meet contractual obligations associated with the futures contracts were increasing. There was no bank credit available and cash reserves were low. The partners were caught off-guard and unprepared for the cash crisis. Their poor communication habits contributed to their slowness in recognizing the problem.

Bounced checks were the first signs of trouble. Since Harry focused on sales and marketing during the week and did the bookkeeping generally on the weekends, he was unaware checks had been written that could not be honored. The bounced checks caught the partners by surprise and panicked their customers and suppliers.

Harry put everything he had into the business and sought to raise capital from his friends and family. Clarence and E. J. contributed little. Instead, Clarence and E. J. began to pull away from Harry and blamed him for the problem.

Harry's efforts were too little too late. By the end of 1875, the company was bankrupt, Harry was personally bankrupt, and his father, who had made loans to Harry, was bankrupt. Then

Harry was accused of and arrested for fraud. December 1875 was a low point in Harry's thirty-one years of life.

To satisfy creditor claims, the company assets were sold along with Harry's assets, his parents' personal assets, and his father's business. Still this was not enough; there remained creditors who were not fully paid.

Harry was publicly portrayed as the culprit. The local newspaper disparaged him, casting doubt on his business judgment, his character, and his Christianity.

Harry's diary from this period reveals a state of despair, loneliness, and heavy depression. He was emotionally paralyzed. Fulfilling his commitment to teach Sunday school was all he could do. He doubted himself and he doubted God. After all, Harry faithfully tithed. Why would God let this happen to him?

All his friends deserted him. He discovered the truth found in Proverbs 19:4: "Wealth brings many friends, but a poor man's friend deserts him" [NIV].

Christmas, Harry's favorite holiday, was meager in 1875. He was penniless. His wife and two children received no Christmas gifts—a huge point of pain for Harry.

Harry's father was also traumatized by the events. He had financially backed his son, which put his brick business in jeopardy. With the slow economy, the business failed early in 1876. He slipped into depression and never recovered. John Henry would live another sixteen years, but mostly institutionalized.

Through the fall of 1875, Harry's wife, Sallie, lost weight over the economic disaster. She invested \$700—most of her life savings—in the failing company.

The year 1875 ended in economic disaster for Harry and his family.

On New Year's Day 1876, Harry and his family gathered around the dining room table to discuss what to do. They were out of work, out of money, and had few options.

Harry's anchor was always his mother. She encouraged him to look up to the Lord and ask what he was to do.

A key biblical principle is that obedience precedes guidance.¹ Harry could be obedient to what he knew.

One step of obedience was to pay back his creditors. Although legally he was under no obligation to do this, he felt that it was morally right. His partners, Clarence and E. J., felt no such obligation. Henry began to make a list of creditors and what was due each of them. He determined to pay each his percentage of the total obligation, which was 37.5 percent of the total due. (He owned 37.5 percent of the company.)

Next Harry faced the challenge of forgiveness. This was perhaps his biggest obstacle. He needed to forgive his partners who had rejected him, his friends who had abandoned him, and

his creditors who had falsely accused him, especially those who had him arrested. He also needed to forgive the media for publishing lies about him and forgive his banker for failing to support him. And he had to forgive himself for failing. By the grace of God, he accomplished this seemingly impossible task.

Then Harry assessed his options. What could he and his family do to go forward? One thing they could do was to farm and produce products that could be sold locally. During the past six years of business, he had discovered there was a market for convenience foods and condiments, such as, ketchup, pickled vegetables, sauerkraut, and horseradish.

Notwithstanding the bankruptcy, people still valued his Anchor brand. So he began again, just as he had six years before.

This time the business would be a family enterprise. Initially Harry would not be in charge. The family chose one of his brothers to lead the company. Within a short period of time, however, it was clear that Harry was the leader. The various family members gradually found their niches.

The company was small and vertically integrated. One family member ran the farming operation. Another focused on producing convenience foods and condiments. Harry was the overall leader and in charge of marketing, sales, and accounting.

At first the product offering was horseradish, fruit preserves, and celery sauce. These products could easily be produced by the family with minimal cost and sold for good profit margins.

By early summer the business was going well. Harry was able to begin acquiring some of the old company assets to build the new company.

The business plan called for ketchup and sauerkraut to be added late in the summer of 1876. Additional products enabled the company to build sales and generate profits to reinvest in the business.

The company was a quick success but the success was not handled as before. Harry had learned that growing quickly was not necessarily a wise way to build a business. To build a sound business required wise growth. Harry believed wisdom came from the Lord. He sought to follow biblical principles and prayed about everything he did. Though he didn't have many biblically based business models to follow, he knew that building on biblical principles was the correct way. His priorities were the Lord, family, church, and then business.

Though his mother was a German Lutheran, Harry became a Presbyterian, probably because his wife, Sallie, was a Scotch-Irish Presbyterian. It was common for the upper-middle class in Pittsburg to convert to the Presbyterian Church.

Throughout his life, Harry was committed to spiritual education. He regularly taught Sunday school and was very active in the Sunday School Association. Even during his darkest time in late 1875, he faithfully fulfilled his commitment to teach.

During the early days of Harry's new company, the 1876 Centennial Exposition was held in Philadelphia. Harry found much inspiration at this event. There were new product ideas. There

were also new technologies presented, such as, tin cans for packaging, semi-automated canning machines, the telephone for communicating, and pickle sorting machines.

Throughout his life, Harry was an early adopter. He was always willing to try new ideas. He also learned through his bankruptcy, however, the importance of living within his means. Instead of building with leverage as he had done with his first company, the new company would be conservatively built, using retained earnings as the capital foundation and then prudently using debt.

The 1877 railroad strike convinced him of the importance of a biblically based management philosophy. As the robber barons thrived, the labor unions emerged in response to management abuses. Harry determined that he would not treat people as the robber barons did, who used and abused people. Instead he would practice Fredrick W. Taylor's management theory known as "paternal capitalism."

Paternal capitalism was based on the Golden Rule. In this philosophy, management treated workers as a good father treats his children. Depending on the company, workers received a wide variety of benefits such as medical and dental care, legal aid, small employee loans, marriage counseling, uniforms, manicures, massages, education and training, housing, entertainment, vacations, sabbaticals, sick leave, personal time off, child care and education, and transportation. All of this was intended to bless the workers and discourage union activities.

Harry paid average wages but generous incentives, which included many of the aforementioned benefits plus clean factories, free lunch concerts, athletic facilities, family outings, and employee dinners at his home.

Harry became friends with the father of the modern department store, John Wanamaker, who adopted paternal capitalism as his management philosophy. Wanamaker mentored Harry and, among other things, showed him how to communicate with customers through advertising.

Wanamaker served as a spiritual father to Harry, which helped to make up for his natural father's shortcomings. But in the end, Harry's mother was his rock in life. His submission to her was critical; her guidance enabled Harry to overcome his failure.

The following is a summary of the key steps Harry took to move forward and build one of the great companies of the nineteenth and twentieth centuries.

1. He submitted to his mother's oversight and guidance.
2. He chose to faithfully obey the revelation that he had.
3. He chose to forgive those who hurt and abandoned him.
4. He chose to honor his moral obligations and repay his creditors.
5. He committed to building his company based on a biblical worldview.

Harry's company became a model of a company built according to a biblical worldview. The company is now more than one hundred years old and enjoys an outstanding reputation. Clearly, this is due to Harry's faith—his belief in the God of the Bible and his submission to the biblical teaching of his mother. Without this, Harry, whose full name is Henry John Heinz, could never have built the H. J. Heinz Company².

Below is an assessment of the philosophy, values, principles, and practices of the Heinz Company using the Beyond Babel Model.

Beyond Babel Model Components	H. J. Heinz Company
Customer Validation	<p>Understood the power of a brand</p> <p>Customer-centric: collected data from customers and competitors</p> <p>Focused on products that made life easier for customers</p>
Executional Excellence	
Right handbook	Bible
Right culture	<p>Defined by the Golden Rule: service and treating people well</p> <p>Embraced paternalistic capitalism</p>
Right people	<p>Defined by the Golden Rule: salesmen are key</p> <p>Loyal workers were highly valued and well treated</p>
Right value proposition	<p>Quality, purity, convenience, options, flavors</p> <p>Experimented with food chemistry to make the best products possible</p> <p>Protected his recipes</p>
Right systems	<p>Advanced packaging (clear bottles, tin cans)</p> <p>Early adopter of technology: telephone, electricity, natural gas, pickle sorting machine</p>
Right resources	<p>Reinvested profit to support growth</p> <p>Used debt prudently</p>
Right customer service	Salesmen stocked grocery shelves, removed out-of-date products, replaced soiled labels

Strategic Planning	<p>Built within his means, doing what the family could do</p> <p>The new food business employed numerous family members for decades</p> <p>H.J. paid back debts to rebuild reputation</p>
Equally Yoked Senior Leaders: C4	
Calling	<p>Called by God to business (mentored by John Wanamaker)</p> <p>Called to the food business</p>
Character	<p>Grounded in biblical worldview by mother</p> <p>Didn't seem to mature in his management practices—micromanaged certain areas throughout his life</p>
Capability	<p>Innate sales and marketing skills</p> <p>Trained in finance, but did not seem highly skilled</p>
Commissioning	<p>Family supported starting new food business while in H.J. was in bankruptcy</p> <p>Mother led new food business in the early days in 1876</p> <p>H.J.'s wife invested all available assets in new food business in 1876</p>
Biblical Worldview	
Theology	The God of the Bible is Lord of all
Philosophy	<p>Christianity is the basis of business</p> <p>Paternal capitalism pioneered by Fredrick W. Taylor</p> <p>Build with loyal people—great source was family members</p> <p>Producing superior products and marketing them under a brand would lead to increased market share</p> <p>Continuous manufacturing theory of Fredrick W. Taylor</p> <p>Vertical integration (farming, seeds, manufacturing, distribution, transportation, packaging, sales to groceries)</p> <p>Local manufacturing is the key to lower costs and higher quality</p> <p>Early adopter of technology (gas, telephone, electricity, tin cans, advertising , branding)</p> <p>Take Christianity wherever you sell products</p> <p>Treat everyone well</p>

Values	Loyalty Honesty Quality Hard work Profit Love Paying debts Relationships Reputation
Principles	Paternal capitalism Golden Rule Training Empirical chemistry Honor God (practice: tithe)

¹ Proverbs 3:5–6

² Information for this article was gleaned largely from the biography of H.J. Heinz by Quentin R. Skrabec, Jr. published by McFarland & Company, Inc., 2009