



## Business Adventures

Twelve Classic Tales from the World of Wall Street

John Brooks  
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### Rating

9 <sup>7</sup> Applicability  
<sup>8</sup> Innovation  
<sup>10</sup> Style

### Focus

Leadership & Management  
Strategy  
Sales & Marketing  
Finance  
Human Resources  
IT, Production & Logistics  
Career & Self-Development  
Small Business  
Economics & Politics  
Industries  
Global Business  
**Concepts & Trends**

### Take-Aways

- Twelve tales of 20th-century commercial legends explore behind-the-scenes events.
- When the Ford Edsel failed in 1959 after barely more than two years – due to poor performance and worse market sense – Ford lost an estimated \$350 million.
- Xerox Corporation, which released its first copying machine in 1959, was one of the great successes of the 1960s.
- Chester Carlson, creator of the Xerox process, became one of the wealthiest Americans.
- By 1966, US businesses were copying 14 billion documents a year.
- Xerox pioneered the concept of a corporation with a social conscience.
- The 1966 civil suit against Texas Gulf Sulphur Company set the precedent for insider-trading cases.
- The suit held that one can commit insider trading even after the data are public.
- The 1962 trial *Goodrich v. Wohlgemuth* – a “bellwether” on trade-secret protection – threatened to bar scientists with knowledge of trade secrets from changing jobs.
- A firm can gain an injunction to prevent a former employee from disclosing secrets.

# Relevance

## What You Will Learn

In this summary, you will learn: 1) How Ford Motor Company misread the market for its Edsel, 2) How copy machines fueled Xerox Corporation's fast growth, 3) What events shaped US insider-trading rules and 4) How a legal case about space suits defined trade-secret protection.

## Review

John Brooks's collection of classic *New Yorker* articles – cited by Bill Gates and Warren Buffet as a favorite read – offers gripping behind-the-scenes sagas of epochal events in 20th-century business. Originally published between 1959 and 1969, Brooks chronicles 12 business war stories, including four highlighted here: the spectacular rise of Xerox, the equally spectacular fall of the Ford Edsel, a landmark insider-trading case, and corporations' attempts to protect trade secrets by keeping their employees from going to work for their competitors. Brooks's elegant prose outshines the usual business writer's; he eschews jargon for understated wit, vivid characters and restrained drama. Even though this 1969 anthology does show its age in some places, *getAbstract* recommends Brooks's insights and singular style to anyone intrigued by pivotal moments that shaped the modern US economy.

# Summary

*“On November 19, 1959, having lost, according to some outside estimates, around \$350 million on the Edsel, the Ford Company permanently discontinued its production.”*

*“When the men in the highest stratum of...Ford...were given their first glimpse of the [Edsel]...it produced an effect that was...apocalyptic.”*

## Things Go Wrong: Ford

The story of the Edsel is a mixture of tragedy and farce. Ford Motor Company launched the car in 1957 and discontinued it “two years, two months and 15 days” later, losing an estimated \$350 million in the process. The Edsel disaster remains difficult to fully explain.

Ford kicked off the Edsel project in 1955, a year of titanic success for the US auto industry. Motorists bought more than seven million vehicles, and automobile stocks drove the market up at a breakneck pace. The Ford Motor Company expected the future to be even rosier. An internal market study predicted that the US gross national product would rise by more than \$135 billion by 1965, a year that would see 70 million cars on US roads. Analysts projected that nearly half the cars sold would be medium-priced models.

Ford faced a problem in the medium-priced segment. Ever since the 1940s, owners of its economy cars tended to trade up to its rivals' medium-priced vehicles while ignoring Ford's Mercury, although it was priced in the same range. To participate in the coming mid-priced boom, Ford needed a second car in that segment. In April 1955, Ford's Special Products Division got to work on the Edsel; by summer, it finalized a design that mixed the familiar and the novel. Much of the car's appearance conformed to the style of the time: It was big and encrusted with chrome. It bristled with push buttons and gadgets. The car's front end boasted a distinctive, centered, oval grill, and the back had unconventional tail wings that spread to the sides.

Ford announced that it spent \$250 million on the project. It put \$150 million into revamping its factories to manufacture the new car. It set aside \$50 million for advertising and promotion, including a two-page display in *Life* magazine. By the summer of 1957, the Edsel division had 1,800 salaried employees, sought 15,000 more for factory jobs and built a nationwide network of more than 1,000 dealers.

*The Edsel  
"embodied...the spirit  
of its time...It was  
clumsy, powerful,  
dowdy, gauche, well-  
meaning."*

*Ford "would have  
saved itself money if,  
back in 1955, it had  
decided not to produce  
the Edsel at all but  
simply to give away  
110,810 specimens of  
its comparably priced  
car, the Mercury."*

*"The Edsel's  
failure...was a victim of  
the time lag between the  
decision to produce it  
and...putting it on the  
market."*

*"The estimated number  
of copies...made  
annually in the United  
States sprang from  
some 20 million in the  
mid-fifties to nine and a  
half billion in 1964."*

Ford introduced the Edsel on September 4, 1957, amid much hoopla: A band led a parade of the new cars into Cambridge, Massachusetts; a helicopter hoisted an Edsel sign over San Francisco Bay; and ads blared from radios and TVs across the nation. Ford needed to sell 200,000 of the cars a year to make a profit. Its launch was relatively promising: Customers ordered or took delivery of some 6,500 Edsels on the first day. But interest declined quickly. By October the company was selling only about half the volume it sought. When Ford finally discontinued the car in November 1959, it had sold only 109,466 Edsels.

What went wrong? Some observers said Ford relied too much on motivational science and market research during the Edsel's development and marketing. Apparently, the excessively calculated approach turned off the public. However, the theory doesn't stand up because Ford wasn't all that scientific. It tried to be. It conducted extensive market research during development and marketing but it often fell back on intuition and guesswork.

Consider what happened with naming the car. The head of Special Products, Richard Krafve, suggested the name "Edsel" – after Henry Ford's son – early in the development process. Members of the Ford family scotched the idea, so the division launched a massive name quest. It hired a Madison Avenue ad agency, which generated thousands of names, including Zoom, Corsair and Pacer. Market-research firms consumer-tested the names. Ford even tapped poet Marianne Moore, who contributed such names as Bullet Cloisonné and Pastelogram. Executive vice-president Ernest Breech didn't like any of the suggested labels. He plucked "Edsel" off the rejected-names list and secured the Ford family's approval.

The more meaningful problem that contributed to the Edsel's downfall was that almost half the cars in the first fleet were defective. They arrived at dealers' showrooms with "oil leaks, sticking hoods" and "trunks that wouldn't close." *Consumer Reports'* sample car suffered from leaking steering fluid, a skewed axle ratio and a faulty heater. The magazine clobbered the car in its review, putting two models of the Edsel at the bottom of its car rankings.

Another factor was the unavoidable lead-time between the car's conception and its introduction. Ford's executives were forced to guess what consumer attitudes would be two years in the future, and they guessed wrong. The market was no longer the booming dynamo of 1955, and the bright future depicted in Ford's market forecast never arrived. The market for medium-priced cars had cooled; consumers now preferred smaller compact cars. Despite the huge loss, Ford weathered the fiasco with little long-term damage. In 1958, its stock reached a low of \$40 a share – net income of \$2.12 a share – but, thanks to the popularity of its Thunderbird model, Ford's share prices rose to around \$90 in 1959, with net income of \$8.24 a share, and it did even better in 1960 and 1961.

### **Things Go Right: Xerox**

The spectacular success of the Xerox Corporation in the 1960s had its roots in a kitchen in Queens, New York. Back in the 1930s, inventor Chester F. Carlson set up a makeshift lab in his kitchen and tried to create a practical office copier. The concept of document copying was not new. The A.B. Dick Company had introduced the mimeograph machine in 1887, but the early machines were not easy to use. The mimeograph required users to prepare a special "master page," and later iterations of the machine needed heat-sensitive paper or they turned out wet copies. In 1938, using a process called "xerography," Carlson and his assistant Otto Kornei succeeded in producing a sharp, dry copy on standard office paper.

Carlson pitched the prototype unsuccessfully for five years. In 1944, he joined with the nonprofit Battelle Memorial Institute, which would work to perfect the invention and would

*“The time when almost anyone can make his own copy of a published book at lower than the market price is not some years away; it is now.”*

*“Anyone who bought [Xerox] stock toward the end of 1959 and held on to it until early 1967 would have found his holding worth about 66 times [the] original price.”*

*“The only way an insider could find out whether he had waited long enough before buying his company’s stock was by being hauled into court and seeing what the judge would decide.”*

*The Texas Gulf “decision was a famous victory for the SEC, and the first reaction of Wall Street was to cry out that it would make for utter confusion.”*

share any eventual royalties with Carlson. In 1946, the Haloid Company of Rochester, NY – ultimately renamed Xerox Corporation – bought the process rights. Xerox spent another 13 years and \$75 million to make it market ready and introduced its first office copier in 1959. Copying exploded almost overnight. By 1966, US offices were cranking out 14 billion copies a year and Xerox was racking up some \$500 million in sales, making it the 63rd-largest firm in the US in net profits. Xerox stock soared, and several hundred early investors became “Xerox millionaires.” Carlson became one of the richest people in America.

A trailblazer in technology, Xerox also pioneered advances in corporate conduct. It became the model for a new kind of firm that balances a quest for profits with a “sense of responsibility to society.” Xerox has donated millions to charities and Rochester-area schools. And it has taken bold stands on controversial public issues, such as its promotion of the United Nations.

### **Things Get Interesting: Texas Gulf Sulphur**

The US Security and Exchange Commission’s 1966 lawsuit against the Texas Gulf Sulphur Company changed the way Wall Street does business. Previously, the SEC enforced rules on insider trading only rarely. Prevailing wisdom believed that managers who could profit from inside information would strive to keep performance high. The Security and Exchange Commission shifted its approach dramatically with its suit against Texas Gulf and 13 of its directors and employees.

This is how the suit came about: In 1959, Texas Gulf was exploring for mineral deposits north of Timmins, Ontario. It named one promising site Kidd-55. The company didn’t acquire the rights to drill actual test holes until June 1963, but the test was worth the wait. The sample core revealed potentially large copper and zinc deposits. The outlook brightened with each sample. In November, insiders began buying Texas Gulf stock. Over the next few months, company engineers, geologists, executives and some relatives and friends snapped up thousands of shares.

On April 9, 1964, three test drills confirmed that the mine would be commercially viable – although the company still didn’t know the size of its deposits. Gossip about a huge find spread in Canadian mining circles, and the story reached US newspapers on Saturday, April 11. Texas Gulf responded with a press release on Monday that downplayed the news, calling the accounts “exaggerated and unreliable.” The release had the desired effect of cooling off demand for Texas Gulf shares. The stock declined from 32 to 30-7/8 at the end of the day and dipped to 28-7/8 two days later. But the staffers who wrote the release did not talk to workers at Kidd-55 after Friday. If they had, they might have told a different story. Drilling on Saturday and Sunday confirmed a massive find. On Monday, as the downbeat press release hit the streets, Texas Gulf representatives in Canada revealed their findings to a reporter for *The Northern Miner*.

The *Miner*’s report appeared on Thursday, April 16. At 9 a.m., Texas Gulf briefed its board of directors about the strike, which it estimated at 25 million tons of ore. At 10 a.m., it released the details at a press conference. After the conference and after *The Northern Miner* arrived at New York newsstands, two board members bought stock in the company. It was trading in the low 30s.

When the SEC brought its insider-trading suit against Texas Gulf, the Kidd-55 mine was in full production and the firm’s stock had passed 100. The suit targeted insiders who bought stock any time from the first test drilling on November 8, 1963, to the hours immediately

*“The principles of law regarding the protection of trade secrets have become well established...difficulty arises...in the application of these principles to individual cases.”*

*“Protection of trade secrets was...recognized in the Middle Ages, when they were...jealously guarded by the craft guilds.”*

*“Thousands of scientists might...find themselves permanently locked in a deplorable, and possibly unconstitutional, kind of intellectual servitude.”*

after the April 16 press conference. At trial, the judge dismissed the case against those who bought stock before April 9 – the date that tests showed the mine was viable. Until then, he reasoned, investors were making “educated guesses” about the extent of the find. However, he found that an engineer and company secretary who bought stock on April 15 had acted on “material private information.”

The case against the two directors who bought stock after the April 16 press conference was the most contentious part of the SEC complaint. It rested on determining exactly when, in the view of the law, private information turns into public information. Is it public the moment the company releases it to the media, or must the law allot a “reasonable time” for the information to disseminate? The SEC favored the second interpretation, although it could not specify a reasonable time frame. The judge disagreed with the SEC, ruling that the news was public at the moment Texas Gulf briefed reporters. He dismissed the case against the two directors.

In 1968, the US Court of Appeals for the Second Circuit reversed most of the judge’s decisions. The appeals court ruled that those who bought stock before April 9 were acting on material information from the November 1963 tests. One director died before the appeals hearing, but the court ruled that the other director acted too soon when he bought shares after the press conference.

### Secrets of the Space Suit

Many companies regarded the 1962 trial of *Goodrich v. Wohlgemuth* as a “bellwether” concerning the issue of protecting trade secrets. If the decision went one way, it could have undermined corporations’ ability to protect scientific advances discovered through their research. If it went the other, thousands of scientists who knew trade secrets could have been constrained from ever working for a company competing with the firm where they made their discoveries.

Research scientist Donald W. Wohlgemuth managed B.F. Goodrich’s space-suit engineering department. An offer from a competitor, the International Latex Corporation, lured him away to work on its space suits for the Apollo moon mission. Goodrich asked the court to enjoin Wohlgemuth – in advance – from revealing Goodrich’s secrets and to prevent him from working in another company’s space-suit division.

The issue was whether the law could “formally restrain” someone from revealing secrets even when no evidence existed that he or she intended to do so. Further, the court had to determine whether the law could block an employee from taking another job just because the new position might present opportunities to spill secrets. The judge determined that the law cannot take action against disclosure before the disclosure happens, unless there is clear evidence of “evil intent.” An appeals court reversed that decision, issuing an injunction that restrained Wohlgemuth from disclosing any trade secrets. But it also ruled that he had the right to take a job in a competitor’s space-suit department. The findings motivated dozens of companies to bring lawsuits against defecting employees.

## About the Author

Time contributing editor and *New Yorker* staff writer **John Brooks** also wrote *Once in Golconda: A True Drama of Wall Street 1920-1938* and *The Go-Go Years*.