



CYRUS MCCORMICK AND THE RISE OF THE MEGACORPS

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This paper had its inception long ago. In a sense, it has been foreordained for nearly forty years. As a graduate student at Northwestern University in the late 1960s, I frequently studied in Deering Library, then a magnificent but aging gift from the son of William Deering, Cyrus Hall McCormick's arch-rival in business. Upon my arrival in Lexington in 1971 to join Washington & Lee's history faculty, some of my first encounters on campus were with Cyrus McCormick. After all, there was his prominent bronze statue, standing astride the front lawn ever since 1932, and which from afar I mistook for Robert E. Lee. I'll be returning to this confusing monument later in my paper. Then there was the University's old library which was renamed in 1941 in McCormick's honor in gratitude for his and his family's benefactions. I spent a lot of time in its main reading room finishing my dissertation.¹

So, as you can see, my paper has had a long gestation period. While the labor has been pleasant, it still gives me great relief to deliver this talk in the twilight of my teaching career. Dick Rathmell, President of the Rockbridge Historical Society, has served as the unwitting midwife. To him, I say "thank you."

IRONY IN AMERICAN BUSINESS HISTORY

The subject of Cyrus McCormick and his invention calls forth innumerable ironies and unintended consequences in American history. Here are but a few: a Southern slaveholder² elevates the Northern states, through the production of surplus grain and the creation of surplus labor, to a decisive industrial and manpower advantage in the Civil War. Thanks largely to McCormick's "Virginia Reaper," for instance, the North exported 200 million bushels of grain to Europe during the Civil War³; by lightening the labor of all grain farmers and straightening their bent backs, a well-intentioned Virginian⁴ accelerates his nation's urbanization and industrialization. These

forces shatter, in turn, his beloved agrarian way of life and transform farmers into a quaint, vanishing breed.

Rather than explore more fully the ironic and the unintended that inform McCormick's life and legacy, certainly worthy subjects, I have chosen instead to address a topic of more immediate contemporary significance. We would all agree, I think, that giant corporations wield enormous power in the America of 2004. Criticism and praise abound. Only the historical perspective seems to be missing. So, I ask: how did these megacorps come into existence? More specifically, how do Cyrus McCormick and his enterprises instruct the curious as to the reasons for the emergence of big business in America at the end of the nineteenth century? My talk addresses these questions.

CYRUS McCORMICK, BUSINESS VISIONARY

In his lifetime, Cyrus McCormick did nothing less than to revolutionize agriculture and define an entirely new industry. He brought an end to centuries of harvesting grains by hand – with sickle, scythe, and cradle. In doing so, he became a millionaire,⁵ the acknowledged giant of the new farm machinery business, and a household name around the world. But why was it McCormick who satisfied a long-standing need for labor-saving machinery on the farm? Who substituted animal muscle for human muscle? Setting McCormick apart from his rivals and competitors, and putting him in the vanguard of change, was his fluency in the languages of invention, marketing, and organization,⁶ a rare combination of gifts. As few have done, he successfully took his invention, the first practical mechanical reaper, to market. To do so, he had to pioneer new and original methods of selling, advertising and distributing his product. There was no one to imitate. He would be the businessman others would imitate, a model in fact for the future automobile industry.

The distinguished business historian Richard Tedlow has written that, compared to other nations, "America has been the best in starting and nurturing companies." With this claim I have no quarrel. Tedlow went on to author, with one exception, a superior book "about what Americans do best – founding and building new businesses," a study of seven men who "broke old rules and made new ones, who built new worlds, who were determined to govern and not to be governed." On his elite list, the "best of the best," are Andrew Carnegie, George Eastman, Henry Ford, Thomas Watson, Charles Revson, Sam Walton and Robert Noyce.⁷ Charles Revson? Nail polish over the reaper? Cosmetics over farm machinery? Now really Professor Tedlow! With Tedlow's selections I do have a quarrel. Cyrus McCormick deserved to be included.

McCormick's entrepreneurial genius revealed itself in multiple, interrelated ways. Let us call it "The McCormick System."⁸ His was a new business culture, an expression of Southern ingenuity rather than the more heralded Yankee ingenuity found in William Deering and John Deere. McCormick's novel techniques overthrew the tradition of "caveat emptor" and substituted trust, accountability, brand recognition, and customer good will. To enlarge the market for his machine, McCormick introduced some ingenious devices.

One powerful inducement was his so-called “free trial,” a written warranty with every sale, a money-back guarantee of a full refund if his product performed unsatisfactorily. A related inducement was his “installment buying plan.” In 1849 he sold his \$120 reaper to farmers on the following terms: \$30 down on delivery before harvest and the remaining \$90, plus 6% interest, by December 1. (All shipping and freight costs, by the way, were at the purchaser’s expense.) Clearly, McCormick was willing to take large, unprecedented financial risks in order to market his product.

But it was not nearly the gamble one might think. McCormick the Calvinist, a man who later endowed a theological seminary, understood well the dark side of human nature. He seems to have factored large accounts receivable into his calculations of price and profit. From 1849 until 1858 overdue and unpaid bills ballooned to over \$400,000, potentially disastrous had he not been making around 150% profit per reaper.⁹ Moreover, he standardized his hefty profit margin by setting a price that was publicized, fixed and non-negotiable. There was to be neither haggling nor bargaining with the customer, nor any special rebates. Everyone paid the same price.

Another of McCormick’s innovations was the “field trial,” an especially effective piece of advertising and promotion in rural America. McCormick arranged public contests, free of charge to spectators, by rival reaper manufacturers. In fact, McCormick invested heavily in advertising of all forms. He even published a trade magazine circulated by his network of agents that achieved a large readership among farmers. He entered numerous state fairs and exhibitions to demonstrate “Old Reliable.” The prizes and awards he won, at home and abroad, helped make “McCormick” a brand name long before branding was a corporate craze. Such popularity permitted McCormick to charge more for his machines as well as pay his agents lower commissions.

In the early years, McCormick created a network of trained agents tied to him by exclusive contracts and exclusive territories. They ordered, received, delivered and repaired the reapers he made. Later, in the 1880s, the regional agents working on commission were replaced with salaried managers who oversaw franchised dealers. The organization was first-rate.

The Rockbridge County native also knew how to adapt the ideas and inventions of others to his commercial advantage. Clearly, his invention stimulated the invention of more sophisticated farm machinery by those with greater inventiveness than he possessed. With all ensuing technological improvements, he tenaciously kept pace: Atkins’s Self-Rake Reaper; the Marsh brothers’ Harvester; Withington’s Wire Self-Binder; and Deering’s Twine Self-Binder. He was inventor and borrower, too. Bill Gates could be Cyrus McCormick reincarnated. Similarities in their respective strategies and tactics are striking.¹⁰

As McCormick’s biographer has pointed out, rather persuasively, “his days as an inventor closed with his patent of 1847.”¹¹ Thereafter, he shrewdly purchased patents, patent rights, and licenses from others, paying royalties when necessary, while his expert

attorneys battled in the courts in never-ending “patent wars” with his rivals. His years in business were awash in litigation. He was undaunted.

McCormick’s most inspired decision, which was made in 1847 at the age of 38, was to move the center of his operations westward, from the Shenandoah Valley to Chicago. He realized that the future of the reaper was in the Great Plains and on the western frontier. By getting there first, he “scooped” a big chunk of the domestic market. This, too, was a big gamble, for Chicago was then a far cry from the railroad hub that it later became. His reaper preceded the railroad into Chicago by three years. In fact, he established his production facility in Chicago BEFORE the telegraph, canals, and railroads had arrived in that town of 17,000. McCormick bet on its future and won the lottery. His company’s growth and Chicago’s growth intertwined for the rest of the century. Cyrus McCormick emerged as Chicago’s first big industrialist, the businessman who owned its largest factory.

McCormick’s move to the “prairie market” ended the era of decentralized, sub-manufacturing that was characterized to a troubling degree by inadequate supervision, unreliability and poor quality control in places like Brockport, New York, and Cincinnati. With centralization of production in Chicago constant supervision, improvements in manufacturing processes, and economies of scale commenced. Since McCormick’s innovations in marketing and sales had solved many of the most difficult problems in the mass distribution of his reaper, in how to penetrate a national market of farmers, his first Chicago factory was free to attack the problem of production on a grand scale. When mass production integrated with mass distribution, the megacorp made its debut in the farm machinery sector. And the road to International Harvester was first illuminated.

McCORMICK’S FIRST CHICAGO FACTORY, 1848 – 1871

Between 1848 and 1871 McCormick regularly enlarged and improved his Chicago plant, which was designed with ready access to water and rail transportation. Comprised of both wood-working and iron-working departments, as well as a paint shop, and with docks on the Chicago River for receiving raw materials and shipping finished products, it was built to control costs. At first, some parts of the 1,200 pound reaper were manufactured elsewhere: sickles in Massachusetts; guard fingers in New Jersey; iron castings on the other side of Chicago. Raw materials arrived from all over the country and the world; white ash lumber from Michigan; pig iron from Pittsburgh and Scotland; steel from England. But the story of the next half-century was one of integration, of lowering costs by eliminating more and more outside suppliers and middlemen. By 1870, McCormick was producing 10,000 machines annually at his Chicago factory.

CONTINGENCY IN AMERICAN BUSINESS HISTORY

1871 MARKED AN IMPORTANT TURNING POINT IN THE HISTORY OF THE McCORMICK COMPANY. The Great Chicago Fire of that year proved both a

terrible misfortune, as the original factory complex burned to the ground with great financial loss, and a perverse twist of good luck. Contingency is a powerful force in the life of an institution. Without “The Fire,” one can readily imagine a different fate for the McCormick brothers. By relocating and rebuilding in a visionary fashion, with allowances made for prodigious future growth, McCormick obtained additional advantages over his competitors through the most up-to-date equipment, greater economies of scale, and wholesale efficiencies.

Thereafter, at the vast 230-acre “McCormick City,” which employed 1,400 workers in 1884 and whose main factory building was ten times the size of its predecessor, the McCormick Harvesting Machinery Company, which replaced the old partnership in 1879, operated furnaces and foundries, produced its own iron, ran sawmills and the largest twine mill in the world, and even manufactured its own bolts and nuts. The company also purchased mines and forests to assure steady supplies for its furnaces and sawmills. In time, virtually every part of McCormick’s harvesting machines would be made at this complex.¹² “McCormick City” anticipated Henry Ford’s industrial colossus at the River Rouge by twenty-five years. What was needed to transform “McCormick City” into the River Rouge was another technological breakthrough, the moving assembly line.

“McCormick City” liberated supply. Production doubled between 1870 and 1880. Between 1880 and 1884, when Cyrus McCormick died and his son Cyrus, Jr. took control of the company, output nearly trebled. By 1891, annual output approached four times its 1880 figure.¹³

THE CREATION OF INTERNATIONAL HARVESTER

America’s very first outbreak of “merger mania” occurred between 1898 and 1902. Over that span 212 major consolidations took place in American industry. One of those mergers involved the McCormick Harvesting Machinery Company. In 1902, it combined with its chief competitor, William Deering & Co. (remember that library at Northwestern), and three smaller rivals, to create the megacorp, International Harvester. With assets of \$110 million, and control of 85% of U. S. production of harvesting machines, IH was “a virtual monopoly.” By 1909, it was the fourth largest corporation in America, as well as the largest farm equipment company in the world. The corporate behemoth rested securely on foundations put firmly in place by Cyrus McCormick, father and son. In recognition of their central role in the creation of International Harvester, the McCormick family received 43% of the new company’s stock. And Cyrus, Jr., was chosen its first President.

According to Alfred Chandler, the dean of business historians, the initiative for the merger came from U. S. Steel and the Morgan bankers who dominated that corporate giant. Elbert Gary, head of U. S. Steel, feared that both the McCormick and Deering firms intended to build their own steel rolling mills, depriving him thereby of lucrative contracts and valuable customers. Gary’s efforts coincided with a readiness on the parts

of William Deering and Cyrus McCormick, Jr. to halt, once and for all, the fierce, cutthroat competition that troubled their industry.¹⁴

MEMORY, HISTORY AND MYTH

Now, let us return to that confusing statue on Washington & Lee University's Front Campus. Not only is the bronze casting susceptible to mistaken identity, but the chiseled inscription on its stone base also highlights the gap between historical truth, on one side, and selective memory and myth-making, on the other. Here's the salient part of McCormick's epitaph:

He Liberated Agriculture
Befriended Education and
Advance the Cause of Religion

This is how his admirers once preferred to remember the farm boy from the Valley of Virginia. Missing here, and in need of inclusion, is another line:

Furthered the Rise of Big Business

As to why it was omitted in 1932, and why so few people associate the megacorporations of modern America with the name "McCormick," I have my theories. But you will have to invite me back for Part Two. In the meantime, just as contemporary Londoners are instructed about another technology, far removed from McCormick's reaper, I ask you all to "Mind The Gap," the gap between history and myth in our study of the past.

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FOOTNOTES

¹The richest source on Cyrus McCormick's (as well as his family's) association with both Washington College and Washington & Lee University remains Ollinger Crenshaw, General Lee's College (New York, 1969), 169 – 71, 182, 193 – 5, 201, 348. Despite never attending a single meeting, McCormick served as a trustee of the college from 1869 until his death in 1884. McCormick's gifts to the college totaled \$20,000, an amount dwarfed by the \$350,000 which his widow and descendants subsequently donated. Consult, also, William T. Hutchinson, Cyrus Hall McCormick: Harvest, 1856 – 1884 (New York, 1935), 292.

²Cyrus's father, Robert, had nine slaves. On the eve of the Civil War Cyrus owned "three or four" slaves, property which he hired out to his Walnut Grove neighbors while he lived in Chicago. See William T. Hutchinson, Cyrus Hall McCormick: Seedtime, 1809 – 1856 (New York, 1930), 17; William T. Hutchinson, Cyrus Hall McCormick: Harvest, 1856 – 1884 (New York, 1935), 38. Hereafter, cited as Vol. I and Vol. II.

³Herbert N. Casson, Cyrus Hall McCormick: His Life and Work (Chicago, 1909), 192.

⁴Although his brother Leander was more nostalgic about their native state than he was, making "long annual visits" to the Shenandoah Valley of his youth, Cyrus was elected in 1880 as the first president of the Virginia Society of Chicago. Hutchinson, Vol. II, 37 (fn. 1).

⁵At the end of Cyrus McCormick's life his personal fortune was reckoned at \$10,000,000. In 1890 the interests of Leander and his son Hall in the McCormick Harvesting Machine Co. were bought out by Cyrus, Jr. and his mother for \$3,250,000, thus ending their involvement with the business well before the creation of International Harvester. Hutchinson, Vol. II, 642, 749.

⁶Chapter Two, "A Legacy in the Heartland," in Barbara Marsh, A Corporate Tragedy: The Agony of International Harvester Company (New York, 1985), 15 – 34, and Chapter Three, "Cyrus McCormick," in Harold C. Livesay, American Made: Men Who Shaped the American Economy (Boston, 1979), shed abundant light on McCormick's business innovations. Alfred D. Chandler's The Visible Hand: The Managerial Revolution in American Business (Cambridge, MA., 1977), 305 – 7, 402 – 3, 406 – 11, details McCormick's role in the "managerial revolution" that swept American industry in the late nineteenth century.

⁷Richard S. Tedlow, Giants of Enterprise: Seven Business Innovators and the Empires They Built (New York, 2001), 1. McCormick did qualify for inclusion in Daniel Gross, Forbes Greatest Business Stories of All Time (New York, 1966). See "Cyrus McCormick's Reaper and the Industrialization of Farming," 22 – 38.

⁸Casson, Cyrus Hall McCormick, 80.

⁹Marsh, A Corporate Tragedy, 23; Hutchinson, Vol. I, 249.

¹⁰James Wallace and Jim Erickson, Hard Drive: Bill Gates and the Making of the Microsoft Empire (New York, 1992), 117, 135, 269, 342, 352, 381, 390.

¹¹Hutchinson, Vol. II, 360.

¹²Casson is especially informative about the development of “McCormick City.”

¹³Chandler, The Visible Hand, 306 – 7.

¹⁴Marsh, A Corporate Tragedy, 4, 41 – 2; Chandler, The Visible Hand, 408 – 9.