

The Dynamics of American Business.

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Our discussion of how we measure the American Economy (Observations on the state of the American Economy, Dec 3rd, 2013) led us to our next topic: What makes, or perhaps we should say “made,” American business so vibrant? Let’s take a quick look at what we do and how we do it.

We, as a people, have long been proud of the ingenuity and invention that seems to thrive in our American economy. But the question is Why? We’re certainly no better than the people of other countries. America does, however, tend to attract people of invention and ingenuity from other countries. Still, there are lots of inventions that occur overseas.

We can also make the observation that American businesses tend to thrive, then crash. Some take longer than others, but the end result is usually the same. Again, we ask Why?

Let’s put some things together. An invention is made. That part can happen anywhere. When that invention is converted to a business, however, the place of business was, for a long time, right here in America. That’s not hard to figure out. We had a very friendly business environment. Businesses could thrive and prosper.

Then came the idea of shipping the manufacturing end of things overseas, shipping the product back here, and selling it as an American product. Right? Nope. That came one step later. And this is the important part.

Pretend you are the inventor and you are the guy who runs the business. Perhaps you are the woodworker making furniture in South Carolina, or a bicycle maker like Iver Johnson. Maybe you are bigger. A Walter Chrysler, Aaron (Montgomery) Ward, Henry Ford, Fred Bear, John Deere, Glenn Curtis: You get the picture.

These successful businesses all had one thing in common. The founder made the product and ran the company. Each company was considered a bastion of quality and durability in its prime and some would say that the tradition goes on today. Alvah Roebuck’s legacy is fading. Sebastian Spring Kresge is a name all but forgotten. Today’s examples are Facebook and Twitter.

Ok, I've babbled on long enough. Here's the dynamic that makes American products and companies what they are or have been. The owner puts his personal reputation on the line with every product that is put up for sale. Each one is a reflection of him, his team, and the honor and pride they hold in themselves. An inferior product will be returned for re-manufacture or destruction because it would tarnish their reputation and their self-esteem.

When sons or daughters or shareholders become the owners, the connection between the creation of the product or service fades. It fades more often and more quickly when the new owner is a shareholder. Decisions about the business become more about the profit, than the product.

The shareholder's investment in the company or product is his money. He expects money as a return on his investment. The founder, son, or daughter's investment is lineage, heritage, family, or personal pride. Sure, they like the money, but the pride in the product is usually more important. Case in point? Augie Busch. After three generations, he sold the company to a Belgian investment firm. Heritage had lost its allure. He went one step past shipping the manufacturing process overseas. He shipped the ownership overseas.

What makes American businesses great is the personal connection between the ownership and the product. What makes them fail is the prioritization of profit over pride.