A BUSINESS HISTORY OF THE HESSTON MANUFACTURING COMPANY, INCORPORATED, 1947-1963

by

DWAINE REED TALLENT

B. A., College of Emporia, 1957

A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

College of Commerce

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1964

Approved by:

John M. Amos
Major Professor

TABLE OF CONTENTS

INTRODUCTION 1

HISTORY. 3

MANAGEMENT AND ORGANIZATION. 19

MARKETING AND SALES. 32

INDUSTRIAL RELATIONS 45

FINANCE AND ACCOUNTING 56

PRODUCTION 64

ENGINEERING AND DEVELOPMENT. 69

CONCLUDING REMARKS 73

ACKNOWLEDGMENT 77

APPENDIX 78

INTRODUCTION

Hesston, Kansas, is the home of the Hesston Manufacturing Company, Inc., a manufacturer of specialized farm equipment, who, in 1963, was the thirteenth largest of the nation's 1200 farm equipment manufacturers. Hesston is located in approximately the center of a triangle formed by McPherson, Hutchinson, and Newton. In 1947, Hesston, like so many other small Kansas towns, was existing but had no promise or prospect of future growth. The 400 inhabitants were primarily dependent upon farming for their livelihood, and it seemed unlikely at that time that the town would ever be more than a small rural community, not growing but never quite dying. But, since the company's founding in 1947, both it and the community have grown by leaps and bounds until today the population of Hesston is approximately 1300 and the company employs nearly 600 people. More than one-third of the community was directly dependent upon the company for their livelihood in 1963.

Hesston College, a co-educational junior college, was founded in 1909 and is supported by the Mennonite Church. Here again growth was limited because of Bethel College, a four year Mennonite Church school, located in Newton only ten miles from Hesston.

Many of the people in the Hesston community are of the Mennonite religion. They are a God-fearing people who seek religious tolerance and who worship every day--not just on Sundays. The Mennonite people are industrious, well disciplined to hard work, honesty, and integrity. Furthermore, they are a freedom-loving and independent people able to meet problems with ingenuity and believe in giving a day's labor for a day's pay. These people have spent their lifetime in farming, know the "feel of the farm", and have the inventiveness to solve the problems of the farmer.

It was natural that these people would develop a farm machinery company, a company that in 1963 supplied equipment to all 50 states, plus Canada, Mexico, Europe, South America and Africa.

During the first few years the company relied very heavily on farm labor. The farmers enjoyed receiving a regular pay check and many of those who had marginal operations sold their farms and moved to Hesston. This was the beginning of an evolutionary process which has continued through the years. Today, these people work side by side on the assembly line as they once worked in the grain fields when they settled the area nearly 100 years ago.

The founder and president of the company, Lyle E. Yost, has developed and employed highly capable, competent, and intelligent executives. These men have had extensive and varied backgrounds in business and manufacturing. This leadership has provided sound and progressive growth for the company during its history. The company is small enough for management to take a personal interest in its activities and large enough for them to enjoy the benefits of their efforts. Each member of management is a specialist in a particular area while at the same time being well-informed in all areas of the business.

Objectives of the Study

The author's purpose in the preparation of this study was to compile, evaluate, and present pertinent data concerning the history of the Hesston Manufacturing Company. The purpose of this study is not to make recommendations concerning the company or to critically analyze the company operations.

It is the author's desire that this study may furnish answers to the following questions: Why has this particular company been successful? Will it continue to enjoy its present rate of growth? Has the company's growth

been hampered by its location? Is the committee management system desirable? Has the religious atmosphere of the community played an important role in the company's growth? What role does service play in establishing and building a company? What are some of the disadvantages facing a short-line manufacturer? Does Hesston have a unique organization, or is it no different than any other?

Additional questions will undoubtedly be raised by each reader. It should be noted that in a study of this type there is no one answer. This study will provide the information upon which individual answers may be based.

Study Methodology

The case approach was employed in this study. Eight days were spent in interviewing various department heads, administrative specialists, professional and supervisory personnel, shop workers, and people in the community. Each member of top management was interviewed at length both on an individual and a group basis. Findings in this study were based on the above mentioned interviews in addition to supplementary information furnished by company records. The opinions expressed by the author are based upon personal observations during this period.

HISTORY

Founding and Early Years

In the fall of 1947, Lyle Yost and Elmer Berner were custom combine operators following the wheat harvest from Texas to the Dakota's. Lyle Yost, the head man in one of the crews, was concerned about the amount of time that was being wasted in unloading the filled bin of wheat from the combine. One

day he kept tally of the time his men lost in stopping to unload their machines. To his surprise he found it was taking them three hours to perform this operation. Three hours a day during harvest in Kansas is very precious and can mean the difference between getting all of the crop harvested or having it hailed out. Mr. Yost thought that surely some sort of an unloading auger could be perfected that would not only allow the combines to unload faster than the gravity method then used on the machines, but the machines could even be unloaded while moving, thereby saving much additional time. Because of the low position of the gravity drain spout and the high truck beds, holes sometimes had to be dug in the ground for the truck wheels before the wheat could be unloaded from the combine. At that time there was an unloading auger on the self-propelled Massey-Harris, but there were no unloading augers on the pull-type machines, which in 1947 comprised about 95 per cent of all the machines sold. This was a problem that he felt had to be solved as it was costing the farmer money for non-productive work as well as wasting time in getting his wheat harvested.

He took his problem to Adin Holdeman, who had formed a partnership with his two brothers in 1937 operating a blacksmith and repair shop known as the Hesston Machine Shop. He asked Holdeman if he could build an unloading auger for his combine. The Holdeman boys did a little bit of everything including the designing and making of various custom farm machinery. Since 1943 they had been custom building a silage blower. According to Holdeman, "We built manure loaders, forage blowers, trailers, and anything else the farmer wanted."

Holdeman and Yost developed an unloading auger which could be attached to the existing gravity unloading spout. This seemed to be the answer to the problem so Yost had one put on each of his combines.

Elmer Berner, Lyle's uncle, was also doing custom combining at the time and was aware of the problems caused by the gravity unloading system. On one or two previous occasions, he had been in business with Lyle's father, but was now a farm equipment wholesaler, and was well acquainted with the farm equipment dealers in Kansas. When he saw the type of unloading auger they had developed, he had one put on each of his combines. He told them that he thought they had a good idea, and should offer it to other combine owners. The three of them, Yost, Holdeman, and Berner, decided to make a few of the augers and see if there was a demand for them. The idea of an auger was not new, but their particular application of it was quite new.

As Berner was familiar with the farm equipment business, he believed he could sell these attachments to the farmers. They decided to start by building 25 of the unloading auger attachments. Before they could finish making all 25, Berner had taken a pick-up load to western Kansas and sold them in one day for $195.00 each. These 25 were sold so fast, that they decided to build another 50 or 75. These were also sold as fast as they could obtain the material and manufacture them. They then decided to build 150, but the demand still exceeded the supply. They built 250, then 500, finally 1,000 augers were built and were sold immediately upon being produced. Increased demand made it necessary for them to discontinue their other work and manufacture as many augers as possible.

The time was right for this particular product. Farmers had gone for several years unable to buy new equipment because of World War II. They had the money, but there were no new machines available. Since the farmer couldn't buy a new combine, he wanted to modernize the one he had and attachments were the answer.

These were difficult times for the newly formed partnership, not because of insufficient sales, but because of material shortages. They had no allocation for material at that time so Yost searched in pastures and junk piles to obtain the necessary material. He frequently went to Wichita to stand in line all day waiting for a load of sheet metal to arrive. They used a type of spiral flighting in their auger which could not be purchased at that time. They went to junk yards to find old sheets of metal out of which they would stamp a washer and have it formed to make a sectional piece of flighting. Several of these sections were then welded together to form the auger. They had no trouble selling the finished product, but they did have trouble finding the material out of which to make their finished product.

The first year of operations was successful. An increasing business made expansion necessary. A 40 by 40 foot quonset was built in which to do the blacksmith and repair work. This addition made possible an expansion of the manufacturing space in the original 40 by 100 foot building.

Because of the extent of their present operations, and the unlimited liability of a partnership, they decided to incorporate and did so on January 1, 1949. The first officers of the corporation were: President, Adin Holdeman; Secretary-Treasurer, Lyle Yost; and Sales Manager, Elmer Berner.

In 1950, Lyle Yost was asked to accept the presidency which he did. During that year Berner retired and his stock was purchased by Yost and Holdeman. In August, 1950, Yost brought in Harold Dyck to be the Sales Manager. Dyck had started with the company in November of 1949 as a salesman.

In 1954, Adin Holdeman decided to sell his stock and buy a farm in southeastern Kansas. At that time the company was in need of additional

capital for expansion. When Holdeman left, his stock was purchased by seven men. Within six months he was back with the company and was made foreman of the experimental shop, a position he still holds today. Holdeman describes it this way:

> These seven guys helped the company growth quite a little. I don't have any stock now. I have a good job here, I am comfortable, that is, I don't have anything to complain about. Looking at it from a financial standpoint, I would have been worth more money if I had stayed in, but at the time that was my choice, so there is no reason to complain about it, I'm not complaining.

He is now doing the job he likes best; designing and building new products or prototypes from sketches, plans, and ideas presented to him by the engineers with whom he works very closely. He is an inventor, a hard working man whose creativity is obvious. He talks with modest pride about ideas and designs he had several years ago that are now being introduced as revolutionary. He is the type of man who can build anything using only an idea and simple tools.

Mechanical Problems

During their first year of operation, the clutch mechanism on the auger frequently gave the farmers trouble. They were using the same home-made clutch mechanism that had been used with so much success on the manure loader made by the Holdeman brothers. For the auger to function properly, it was necessary for the gear ratio to be correct. The auger clutch was operated directly from the combine drive belt. The clutch was engaged by pulling a rope and disengaged by its release, however, the direct drive provided a different gear ratio which sometimes made it impossible to engage or disengage the clutch. They frequently received telephone calls from farmers as far away as Oklahoma and Texas complaining that they had a bin full of wheat on their combine and the auger would not work.

Because of extensive farming and custom combining operations, it was necessary for Yost to own an airplane. When a farmer would call concerning trouble with the auger, Yost would get the exact location of the field and then Holdeman and he would immediately fly out to fix the machine. They made several trips throughout Oklahoma, Texas, and Kansas during the first year of manufacturing. When they landed in a wheat field and pulled the airplane up next to the combine, the farmers were quite surprised. As Mr. Yost said, "This had never happened to them before and they thought it was terrific". When the owners of the company would come in an airplane to fix their product the farmers were very impressed. Because of the demand for consumer goods in those years, it wasn't necessary for firms to provide extra service in order to sell a product. Quite naturally they made quite a reputation for themselves in that first year.

The clutch mechanism gave the company so much trouble that they sent their 35 employees home one afternoon and told them to come back in the morning and they would have the problem worked out. Yost and Holdeman flew to Oklahoma that afternoon, where most of their augers were being used, and reviewed the situation. The next day they engineered a motor drive clutch which was the answer to the problem. This operated directly from the combine motor rather than from part of the machine, thereby giving it the needed rpm's necessary to give the clutch the advantage it needed to auger the grain. The improved clutch made it possible to unload the combine bin with only the combine motor running rather than the whole machine.

Under these circumstances, there were many dissatisfied dealers and farmers. The distributors for Hesston cooperated with the company 100 per cent and worked right along with them through this period of unrest, and in the opinion

of Adin Holdeman, this is what put Hesston on its feet. The company made kits to convert the old machine driven clutch to the motor drive and sold them at a special price to the dealer to sell to the farmer. This was a real boon to Hesston because without the kit the product would not perform satisfactorily. The improvement and the kits helped to build an excellent reputation for Hesston with their creditors and with the farmer.

Early Products

In 1948, they made and sold more than 2,200 unloading augers for nearly every make of pull-type combine. The Hesston Unloading Auger was easy to mount on the combines of that day and took little time to get into operation. They then made a maize bar which extended the cutting sickle of the combine about six inches to allow the large maize heads enough room to fall back between the reel and the auger. The maize bar proved to be nearly as successful as the unloading auger.

Next they manufactured a striaght through auger for the header on the International combines. A retractable finger auger was built for use in the rice fields of the South. International was having trouble with their machine in the rice fields because the grain tank was on one side of the machine and in wet fields the combine would bog down and nearly tip over. Hesston took one of the International machines, placed it on a scale with a loaded grain bin and moved the bin in different locations until it was properly balanced with the weight of the grain evenly distributed over the machine. They thus developed the balanced grain bin and the modifications necessary for its installation. This was a good item and many were sold to International dealers for use on their machines in the rice fields.

The first major product for the company was the unloading auger. The first complete machine was the silage blower or unloader. Holdeman and his brothers were building this before they started manufacturing the unloading auger and since it was such a popular item, they continued to manufacture it for several years. It was finally dropped when it no longer fit into their manufacturing line.

In 1953, a new era began for Hesston when the now famous Hesston Straw Chopper was introduced. It boosted the sales volume past the million-dollar mark for the first time in 1954. Employment grew from the original five people in 1947, to more than 75 in 1953. The Straw Chopper is an attachment that will fit most combines. Its function is to chop and shred straw and weeds to allow for easier tillage of the soil following harvest. It has been a success since it was first introduced more than ten years ago. More Hesston Straw Choppers are sold today than any other make.

In 1955, Hesston built a self-propelled swather or windrower which they called the 100 series. This was the first complete machine actually designed and produced by the company. It was originally designed for use in windrowing grain, but someone started using it on alfalfa with satisfactory results. After a few improvements and changes had been made on the machine, the company started selling them for windrowing alfalfa. There was a demand for this type of a machine, but the 100 series had several shortcomings. The engineers at Hesston came up with a 200 series, which was also self-propelled, but an altogether different and new machine bearing no resemblance to the 100 series. The clutch and transmission was a belt driven mechanism which was so maneuverable, durable, and simple that it is still being used today on the Hesston Windrower. The steering system was so different and successful that the company was able to obtain a patent on it. Because of a certain amount of

skepticism on the part of the farmer, the windrower caught on slowly at first--by the dozens, then by the hundreds. The machine became known as the Hesston Windrower-Conditioner which could be used in alfalfa, grain and many other crops. Sales reached nearly $5,000,000 in 1958, close to $6,000,000 in 1959, and nearly $7,000,000 in 1960. In 1963, more than half of all the windrowers sold were made by Hesston.

Employee-Management Relations

After Holdeman left as production manager in 1954, a man from the outside was brought in to manage the production function of the company. He was a good man as far as getting the job done, but he seemingly had no respect for people. He was a production man and did the best job anyone had up until that time, but he treated the men like machines. As one of the men who was there at the time put it, "Our community was not an industrial community. The biggest share of the fellows who worked here were not from industrial areas and had no experience in other big manufacturing plants and the like. They weren't used to being handled like machines." Another employee had this to say, "This production man lived two lives. He was a perfect gentleman to the management, and was on the management team, but there isn't vulgar enough language to describe the names he called the men out here in the shop."

Management was unaware of the conflict that existed between the production employees and the foreman. In March, 1957, management issued a notice stating the company was in the process of studying jobs and setting up a job evaluation system and when it was completed the employees would be informed. The workers were worried and somewhat suspicious. They told management that if they had something to say, say it now. Management replied that frankly they didn't

know what they were going to do, they were merely studying it now and that is all they would tell them.

At that time there were about 100 employees, 80 of whom worked in production. The production workers went on a sit-down strike for two consecutive days about the middle of March in 1957. The Mennonite people cannot, in all clear Christian conscience, strike. Some of them did participate in the sit-down strike, but many of them stayed at their machines or asked to be excused to go home because they couldn't take part in the strike. Management, through a foreman, issued an ultimatum on the second day of the strike stating that if the workers were not back at their machines by 10 A.M., they would be terminated. Some of the workers wanted to talk to management, but others felt that management was not leveling with them and were ready to quit. All lines of communication between the workers and management had been severed. Neither side could or would rationally talk to the other at that time.

About 9:45 A.M. on the second day of the strike, a group of 25 or 30 production employees made a march on the office. There were quite a number who did not participate including a few who stayed at their machines. When they arrived at the combination office building and assembly area, they saw Ray Schlichting, then Assistant General Manager and Secretary-Treasurer, talking to the plant manager, Roy Albright. They approached the two men with tempers high. Schlichting tried to reason with the men, but they were not in a reasoning mood. They wanted a wage policy now. Management had told them they were working on a wage policy that would give them some incentive, that would progress, and that had a scale where they could better themselves, but they were having trouble getting it all worked out. The workers took

this as just another management excuse, and they were not buying excuses any more. Schlichting was sincere and told them that possibly in another two weeks they would have it worked out for presentation to the workers. The workers did not buy this either. By now it was 9:55 and something had to be done, or the workers would be without a job and management would be without a production crew as a result of the directive they had issued.

Richard Huxman, who had been with the company for about five weeks, stepped forward and suggested his willingness to go back to his machine if management would make the plan they were now working on retroactive to the present. In this way they would get their increase in pay and the new wage scales now, instead of waiting until the plan was completed sometime in the future, so that actually they would be working under better conditions now. If he could have this assurance, he would be willing to go back to work. Schlichting agreed to the proposal, and indicated that management would be glad to do that. With this, Huxman and most of the group went back to their machines. The remaining dozen men discussed the proposal for a few minutes and they too went back to work. The crisis had subsided, at least for the present.

Out of this situation a shop committee was chosen by the workers to represent them. Even though Huxman was a new employee, he was chosen to be a member of the committee along with Alpha Tatro and Irvin Reimer. This committee then began meeting with management in an attempt to arrive at a solution to the problem.

Formation of the Union

The Boilermakers, an affiliated union from Newton, heard of the trouble and were outside the shop the next day handing out their literature to the

production employees. Within a short time the union began getting cards back from the production men asking for an election. It was at this time that the shop committee decided that something had to be done. The shop committee-management system had been tried before and had failed because of the lack of bargaining power on the part of the committee and the lack of interest and sincerity on the part of management. The shop committee knew they would either have to join an affiliated union or form an independent union and obtain recognition from the National Labor Relations Board. They felt they had to have an organization with bargaining powers because the shop committee had no such power.

The committee was working with management at the time, but management was in no position to tell them what to do, or which course of action to follow. Within a short time a sufficient number of cards had been returned to the union, enabling them to ask the National Labor Relations Board for an election. The shop committee was working with the union organizers, although management was not aware of this at the time. As Huxman tells it:

> We were actually working with these organizers, to this extent; this would be an easy way to organize our people as far as we were concerned. I mean we would just step out of the picture after the election was over with and they had the job. We didn't have to battle what looked like a mountain that we couldn't climb. We were just a bunch of farm kids and didn't know what we were getting into. I think if we would have known what all we had to go through even then we would probably have run for the hills.

They worked with the organizers, but at the same time did not completely trust them because of all they had heard about unions. They set traps for the organizers in the hopes of tripping them up and thereby verifying their suspicions about unions, but the organizers played it straight. All of their actions up until this time had been completely legal and honest.

A meeting was called between the organizers and the shop committee shortly before the scheduled election. The union was not sure that they had received cards from a high enough per cent of the hourly employees to merit an election. The committee was sure they had because when the union had asked management for a list of the hourly paid workers, they gave them a list of all people on hourly wages which included clerks and secretarial help which were not eligible to belong to the union or to vote.

The turning in of a card was a personal thing and the employees had been assured by the union that no one was to know who turned in cards and who did not. The union told the shop committee they had to have five more names before they could be sure they had enough for the National Labor Relations Board to call an election. The committee said they were through, they knew some of the men who had turned in cards but they weren't going to talk to any more men because they felt sure that more than enough cards had been turned in by those who were eligible. The union said they had to know for sure. The committee told them they were not going to go around and ask everyone whether or not they had turned in a card, because this was to be a private matter. One of the union men presented the list of names and cards that had been returned and told the shop committee that this would be an easy way to check. The committee was very much opposed to this action but the union argued that they were in a corner and this was the only way to be sure that enough cards had been returned. One of the union representatives is reported to have said:

> Nobody need ever know about this. You need our help and we need yours. If you can look at this list, you'll know who did and who didn't send in a card and then you will know who to talk to. We have done this before and nobody will get hurt by it.

The members of the committee saw their opportunity to catch the union breaking one of their own rules, but they knew they would actually have to

look at the list or otherwise the union would deny having suggested it. The members of the committee did look at the list and then announced that they were through. One of them is reported to have said, "You have betrayed the confidence of everybody who sent a card in by doing this, and we are through helping you".

The next day the union representatives tried to get them to change their position, but they could not be persuaded. The committee then worked hard against the union and word soon got around that the union had betrayed the confidence of those who had sent in cards. The proposal was defeated very badly, and most of the men feel that it would have carried had the union not betrayed the confidence of those who had requested an election by going over the list and cards.

It was apparent to the committee that they had to organize a union of their own, and management had been trying to get them to organize. Management could not openly help, because the feeling was still running high against management. No one trusted management, and their actions, though perfectly sincere, were looked upon with suspicion. The committee knew they would have to retain a lawyer, and one had been suggested by management. Under the circumstances, they felt it undesirable to retain a lawyer that had been recommended by management. Alpha Tatro knew an attorney in McPherson whom they contacted and subsequently retained as the union attorney. Neither the attorney nor the men were familiar with the proper procedure to follow in organizing a union. Jointly they studied other independent union contracts and organizational structures in an attempt to formulate the type of organization they desired. According to Huxman:

> We hired this attorney with no money down, and no money required until we were organized and had money in our treasury and then could pay him. He just went all the way with us. That's the smartest move we ever made. He is still the union's attorney and he is just one heck of a swell guy, and since then has gotten real interested in union business in other companies.

The newly formed organization applied for a state charter as an independent bargaining agent, and also applied to the National Labor Relations Board to be recognized as the legal bargaining agent for the workers of the company. The Hesston Manufacturing Workers Association received both the charter and the recognition from the National Labor Relations Board. They negotiated their first contract with management in the summer of 1958. The union has had since its founding between 80 per cent and 90 per cent completely voluntary participation.

Union Problem

The shop employees were still having trouble with the plant manager. They could not work for him or with him and the union committee had been unable to convince management that the trouble was with the plant manager. On October 16, 1958, the attorney for the union wrote a letter to management informing them that there would be no meeting with them until further notice. All communication with management had once again been broken. Richard Huxman said, "We got to the place where we couldn't even communicate with our own people any more. There was such a struggle between this plant manager and us that some of our own people turned their back on us because they felt that we would come up wanting." The employees still did not trust management when the chips were down. The workers did not like the shop conditions, but neither did they like unemployment.

The plant manager brought in several of his own men to replace some of the older supervisors. It became apparent that he would soon have the production shop completely infiltrated with his own men. His goal was to build an organization to the point where management could not afford to fire him. The resulting vacancies in supervisory personnel would make it virtually impossible to continue production. The foremen and the manager were working against time to accomplish their goal, and the union committee was also working against time in their attempt to alert management to the seriousness of the situation before it was too late.

The union finally resumed meetings with management and put their jobs on the line. They forced management to make a decision between the workers and the plant manager. In the last meeting with management the union committee was informed that they had better be right.

In February, 1959, the break came. The superintendent left, the plant manager left, and two of his foremen left, all within a one week period. This exodus left quite a hole in the production shop. The move was a daring one on management's part because for the first time in the history of the company they had a man in the plant who could turn out the production. The plant manager's timing was good because he came in just when the company was getting into the windrower production in the latter part of 1956, which was also the time that communications were breaking down. He certainly cannot be blamed for the communication breakdown, but on the other hand, the situation did not improve with his arrival.

Before his termination, management had hired a man to understudy the plant manager so there would be some continuity after his termination. The understudy received no cooperation from the manager, as might be expected, and

consequently was not prepared for the job for which he was supposedly being trained. Ray Schlichting took over the job of plant manager until Ed Melcher came in September, 1960, as production manager.

MANAGEMENT AND ORGANIZATION

Policy decisions are made by management and legalized by the Board of Directors. In 1963, the Board of Directors consisted of the following stockholders: Lyle Yost, Chairman of the Board; Harold Dyck, Director of Distributor Sales; Ray Schlichting, Director of Finance; Clifford Stutzman, Purchasing Agent; and R. W. Ruth, banker.

Hesston uses a horizontal organizational chart as shown in Exhibit 10. This type of chart is preferred since it is easier to read and more clearly presents the various organizational levels.

President

Lyle Yost, age 51, was an original founder of the Hesston Manufacturing Company, Incorporated. He was the company's first secretary-treasurer and has served as president since 1950. Mr. Yost received his B.A. degree in Business Administration in 1937 and a B.S. degree in Education in 1942 from Goshen College, Goshen, Indiana. He has also taken advanced training in banking and education at Notre Dame and Indiana University, as well as seminars sponsored by the American Management Association. From 1937 to 1940, he was associated with Joe Yost, his father, in a farm equipment dealership and farming operations near Hesston, Kansas. From 1940 until 1942 he held various positions in the St. Joseph Valley Bank in Elkhart, Indiana. After receiving his education

degree he taught economics and social science for one year in Wakarusa, Indiana. From 1943 until the formation of the partnership in November of 1947, he farmed extensively in Kansas and North Dakota.

Mr. Yost is an aggressive, energetic man who is constantly alert for new and better methods of production and has pledged himself and the company to the development of new and better specialized farm equipment. In the farm equipment industry, he is recognized as a leader in specialized machinery. As one of the employees described Mr. Yost:

> Mr. Yost is a visionary, and I mean he plans ahead. He told me that he wants to build this into the type of organization that if the world is still here 100 years from now, that for this community, for our children's children, and our children's grandchildren, there will still be a Hesston Manufacturing Company here to provide supplement to the economy of this area.

Vice President and Director of Distributor Sales

Harold Dyck, age 44, grew up on a farm in the Hesston community and was associated with his father for a time in farming operations. From March, 1948, until September, 1949, he was manager of the Berner Equipment Wholesale Division in Turon, Kansas, a farm equipment distributor selling to dealer organizations in Kansas, North Dakota, Nebraska, Colorado, Wyoming, and Montana.

He came to work for Hesston in November of 1949 as a salesman and was promoted to sales manager in August, 1950. The personnel records were not too accurate at that time, but it was either in 1954 or 1955 that he was promoted to his present position of Vice President and Director of Distributor Sales. He is an industrious and highly capable individual who is well qualified for this position. He is well acquainted and respected in the farm equipment industry. He has the "feel" of the market and constantly strives to serve the customers needs as honestly and fully as possible.

Secretary-Treasurer and Director of Finance

Ray Schlichting, age 45, came to Hesston as Assistant General Manager and Secretary-Treasurer in 1953. As the company grew, the broad title was no longer appropriate, and in October of 1959 he was reclassified as Director of Finance.

He received a B.S. degree in Business Administration and Accounting from South Western State College in Weatherford, Oklahoma, in 1941. From 1941 to 1945, he was in the military service. From 1945 until 1949, Schlichting was in the Financial Management and Accounting Administration Division for the Mennonite Central Committee International Welfare Agency. He then took a job as Assistant to the Treasurer in the Miller-Hess Shoe Company, Akron, Pennsylvania, and served in that capacity until 1952. For the one year prior to coming to Hesston he was the Business Manager for Tabor College in Hillsboro, Kansas.

Over the past ten years he has been in charge of the production shop, and the accounting department and still exercises a major degree of judgment when it comes to making decisions in these areas.

Mr. Schlichting very carefully and thoroughly examines the proposals in which he has a voice in arriving at a decision. Without exerting a strong backward force, he requires each person submitting a proposal to defend and justify it. If this is done to his satisfaction, he will exert all of his efforts and influence in the implementation of the proposal. As one of the men in middle management described him, "Mr. Schlichting is a financier. He can put his finger on every dollar that goes through the treasury and this is terribly important."

Director of Manufacturing

Ed Melcher, age 45, came to Hesston in September, 1960, as Production Manager and was promoted to his present position in October, 1961. He was graduated Magna Cum Laude from Coe College, Cedar Rapids, Iowa, in 1941. In 1947, he passed the Iowa State Board of Engineering Examinations in Industrial Engineering.

Mr. Melcher has a varied and extensive background in business and in manufacturing. He worked as Chief Inspector for Universal Engineering Corporation of Cedar Rapids for one and one-half years. He then went to work as Production Control Manager for Midland Engineering Corporation of Cedar Rapids for one year. Following this, he formed a partnership whose business was the designing and manufacturing of truck and trailer bodies. He made the designs and supervised the shop and his partner handled all sales. The partnership was subsequently dissolved when he and his partner could not agree on financial matters.

For the next year and a half he worked in the Industrial Engineering Department of the Collins Radio Company in Cedar Rapids. He left this job because he thought he could improve his industrial engineering techniques under more rigid management. He then spent two years as Senior Timestudy Engineer and Section Head for the Montgomery Ward Mail Order House in Denver, Colorado.

Following this, he was Shop Superintendent of the Technical Division at the White Sands Proving Grounds for three years where he was in charge of construction and maintenance of all technical facilities on the proving ground. He left this job because he preferred private industry to civil service. For the next five and one-half years he was Manager of the Missile Production Department in the Firestone Pacific Coast Plant. As he felt he was ready for a more

challenging position he spent the next two years with Firestone Steel Products Company as the Manager of Defense Sales. He then worked for eight months as Manager of Stamping Sales for Firestone Steel Products Company, a division of Firestone Tire and Rubber Company. At Firestone's request he took courses at UCLA leading to a certificate in Business Administration.

With this varied background, there are few problems or situations that Mr. Melcher has not handled at least once. The production shop has shown improvement each year under his direction. He is a quiet, easy-going man who, contrary to the impression received from a casual observation, has every situation well under control and is constantly "on top" of the conditions in his department. He too is highly respected in the farm equipment industry.

Director of O. E. M. Sales

Lloyd Smith, age 40, came to Hesston in June of 1958 as an O. E. M. (original equipment manufacturers) Sales Representative. In October, 1959, he was promoted to Director of O. E. M. and Export Sales.

He received a B.S. degree in Engineering from Kansas State University in 1947. Prior to coming to work for Hesston, Smith had worked for the Krause Plow Corporation in Hutchinson, Kansas, and was president of their branch office in Mexico from 1950 to 1953. After this plant was closed, he went back to Hutchinson as a sales representative. In May, 1954, Smith went to work for the Product Planning Division of the Ford Motor Company in Birmingham, Michigan. He worked in product planning until coming to Hesston.

Smith, like Dyck, has the "feel" of the marketing area for which he is responsible. He is very optimistic and well-informed concerning the potential foreign markets for Hesston products. He is quiet, but alert, and his

enthusiasm for a particular project is apparent in his discussions and defense of it. Having taken a well-thought-out position, he is not easily swayed by opposition. His convictions are real, but he is not inflexible. The export market has constantly expanded under his direction, and could well become a major marketing channel for the Hesston specialized equipment.

Director of Industrial Relations

John Siemens, age 43, came to Hesston in August, 1958, as Director of Personnel. When he arrived the company was just finishing contract negotiations with the newly formed independent union. In October, 1959, Siemens was promoted to Director of Industrial Relations.

He received his B.A. degree in Psychology from Tabor College in 1948. He received a master's degree in Educational Psychology and Guidance from the University of Kansas in 1950. From June, 1948, until January, 1950, he was a field consultant for the Vocational Rehabilitation Division of the Kansas State Department of Vocational Education. From January, 1950, to August, 1958, he was the Director of Personnel for the O. A. Sutton Corporation, Wichita, Kansas, a manufacturer of house cooling units.

The personnel department, under the guidance of Mr. Siemens, has been responsible for implementing several employee benefits, the most recent being the profit-sharing retirement program inaugurated in 1962 and fully approved by the Internal Revenue Service. Since Mr. Siemens has been with the company, there has been no recurrence of the labor-management difficulties which had previously existed. He is a quiet man who articulates every statement with evidence of complete and careful consideration.

Chief Engineer

Ray Adee, age 41, received his Mechanical Engineering degree from Kansas State University in 1947. After graduation he worked for the Krause Plow Corporation, Hutchinson, Kansas, as a product engineer. He was promoted to Chief Engineer in the early 1950's. In February, 1956, he came to Hesston as Assistant Chief Engineer, and was promoted to his present position in January, 1958.

Adee, looking much younger than his age, undertakes his job with a great deal of enthusiasm and product knowledge. He is supported by a well-qualified staff of engineers who are constantly turning out new and improved products in the established Hesston manner.

Management Committees

The Operating Committee and the Products and Marketing Committee consisting of division heads with the President serving as the chairman for each, perform a major management function in carrying on current operations as well as doing long-range planning.

Each Friday is reserved for the committee meetings. Friday morning is devoted to business coming under the jurisdiction of the Operating Committee, and Friday afternoon is reserved for business pertaining to the Products and Marketing Committee. Each Friday the order is reversed. The functions performed by each committee are different, even though they are composed of the same individuals. When the need arises, special meetings of either committee may be called. The special meetings are usually called by the President, but if a department manager feels that a special meeting should be called to handle a particular problem or a pressing need, he has the authority to do so.

The committee management system has always been used at Hesston and all members of top management now sing its praises. Some members will readily admit that they have not always looked upon the committee-type management with favor. A few felt that the committee system was a means of postponing or eliminating the distasteful job of decision making. Others felt that committee's acted too slowly and were not ready or willing when "opportunity knocked". There are a few who have always felt that the committee system is the best method that can be used in operating a business. All admit that the committee system of management is not the best for every company, and in some companies it would probably be the least desirable. For Hesston, this type of management has been successful because it has been used correctly and carefully. Each person on the committee has a unique gift or a unique talent for management in a particular area, but because of the committee his abilities are not restricted to his particular area of specialization. "Anybody that possesses the ability and has the judgment and the resources to contribute to a decision has the opportunity to contribute to it", is the way one of the committee members described the committee system.

The Operating Committee

The responsibility for the management of the company rests with the Operating Committee. All decisions affecting the over-all operations of the company are made by this committee and become company policy.

Each department manager has the authority and responsibility for making decisions within his own division. Only if a decision made within one department would have a direct affect on one of the other departments, would it be handled by the Operating Committee. For example, the engineering department would

not make a decision which would completely change the design on a machine presently being manufactured, without first discussing it with production and marketing. A modification on a machine not yet in production would probably be made by the engineering department, providing the modifications were within the bounds of the production specifications as set forth by the Products and Marketing Committee.

The best method of communication within the Operating Committee is the reporting system. Each department manager gives a report to the committee concerning the activities within his department. After each of the six department manager's have given their reports, additional comments may be made by the President or one of the manager's concerning the reports. After this is finished, any department manager having a problem involving other departments presents it to the committee for discussion.

It sometimes becomes necessary to needle and prod some of the members before they will express their real feelings without reservation. A majority, if not all, of the members take advantage of their freedom of expression to state exactly their position on items being discussed. Tempers sometimes run a little high, but it is agreed by all that it is better to "let off steam" across the table from each other than to go back to their respective offices and build up their own case.

The committee forces the airing of disagreements when they are small, not allowing them to build to the breaking point. It has been found that most disagreements can be settled to the satisfaction of all concerned if everyone will honestly and without reservation express his opinions and thoughts on the matter.

No vote is taken to arrive at a decision. One of the members described the procedure used to arrive at a decision in this manner, "We keep coming in on the problem and get a meeting of the minds and we try to get a unanimous decision." They don't always agree on the solution to a problem. Mr. Yost said, "I keep telling them if they all agree with me, I don't need them. We have a lot of areas of disagreement, and that's good." Unanimity is not required for a decision to be made. However, if the decision is not fairly unanimous it is carried over to the next meeting where it will be considered again. Between meetings, those opposed to the decision have an opportunity to study the problem more carefully and perhaps come up with one or more counter proposals that will be acceptable to the entire committee. On the other hand, the original solution might be found to be the best one and can now be agreed upon by the entire committee.

The Products and Marketing Committee

The development and marketing of new products is the responsibility of the Products and Marketing Committee. The current engineering program is presented and reviewed at each meeting. Ideas for new products are presented and discussed. A study report is made on each of the new products that had been presented in the previous meeting. After the reports have been thoroughly discussed and analyzed a decision is made as to which of the new products will be accepted. A completion date is decided upon and the necessary assignments given to the engineering department.

Decision Making

There seem to be two schools of thought as to how the decisions are made in the Operating Committee and the Products and Marketing Committee. There is

the opinion, held by the majority of the committee, that decisions are made very democratically with no individual or group exerting pressure because of their position in the company. As one of the members expressed this, "We don't insist much around here, as a rule we discuss it." I asked one of the members if there were any problems in his department that he had difficulty in getting the Operating Committee to agree with him as to their importance. He had this to say:

> I don't think I would have any problem that I can't work out a recommended solution that they would support me on. They may not understand why I want to do some things sometimes, but as a rule they will go along with me. But if I am in cost trouble, they are not as liable to go along as they would is I were well within my budget. I get suggestions from them and usually they are quite helpful. Of course there is always some disagreement.

The Operating Committee and the Products and Marketing Committee are composed of three major stockholders and four minor stockholders. A few of the members feel that the influence of the major stockholders has a definite bearing on the decisions made by the committees. This is not to say that the decisions are made by the major stockholders, but rather that their feelings concerning a particular decision will, in some instances, carry more weight than the feelings of the minor stockholders.

It is also noted that the major stockholders are members of the Board of Directors and have been with the company longer than any of the minor stockholders. It is generally agreed that because of their experience, they should be the leaders or the pace-setters for the committee. Some of the members do feel that the major stockholders exert a certain amount of influence by virtue of their position. They all feel that decisions could be made by one or two of these individuals and these decisions would probably be as good as a decision made by the entire committee. It should be noted that decisions are <u>not</u> made in this manner. It is felt that while the major stockholders are in a position to use this power, they do not.

A decision may be made if four of the seven committee members are present. There is an agreement that a decision arrived at by four of the members, in the absence of the other three, will constitute a company decision. If the decision involves someone who is absent, the committee will try to contact him for his clearance. If he cannot be reached at the time, the decision will be made with those present. When a decision is made in the absence of one or more of the members, the absent members have the right to request a meeting to reconsider the decision. New information may be provided by the absent member which, when carefully analyzed, may result in a reversal of the previous decision or a modification of the decision. The policy of the committee is that people will support what they help to create.

As mentioned earlier, a decision is not arrived at by voting, but rather by a thorough discussion of the situation. Every attempt is made to present all information pertinent to the problem under consideration. If one or more members feel that more data should be compiled and studied prior to reaching a decision, the item under consideration may be carried over to the next meeting at which time it will be considered again.

None of the members feel that decisions have been delayed to the extent that company growth has been hampered or their competitive position damaged. In fact, many of them feel that just the opposite is true. In many cases, decisions have been made faster by the committee than they would have been made by an individual. If the decision were to be made by an individual, he might delay it several weeks for more information. A decision to be made by the committee will at most be delayed one week, and this is the exception rather than the rule. Most decisions are made at the time the problem is presented because everyone is aware of the problem and when they come to the meeting they have thoroughly investigated the situation and are in a position to arrive at a decision.

There is constant needling on the part of certain men on the committee to get the rest of the members to obtain the information and make a decision. Special meetings and sessions may be called to discuss matters between regular meeting dates. If, for example, the President knows that a decision should be made but that those affected have not been able to agree on the course of action to follow, he will call them together and every attempt will be made to arrive at a decision then rather than delaying it further. As the President put it, "All I do in this office anymore is needle; the other fellows do the work. I try to force a decision."

The committee system forces each of the members to concentrate completely on the particular problem being discussed and to make certain that he has all of the information that he feels is necessary for him to arrive at a decision. With each member operating in this manner, all of the pertinent information will be gathered and a decision can be made. For the most part, each of the members is aware of what is going on in the other departments of the company and are therefore prepared to discuss a problem that one of the manager's may present. As one of the men expressed this situation:

> Thank goodness we are a sales and marketing oriented company. Our whole management group gets out into the fields, and I don't have to spend hours trying to convince them that this is what the customer wants. They pretty well have this understanding, because they get out enough to see and get a feel of the climate. They know what is happening in new methods and techniques. I think this has been a real factor in our growth and success. A lot of red tape is by-passed in finding out what the customer wants and how he feels. The management group actually go out and operate the machines in the field, to get the feel of the machine and to talk to the farmers, custom operators, and hay buyers to find out what they want.

MARKETING AND SALES

Four major marketing channels are utilized in the marketing of Hesston products; namely, O. E. M. (original equipment manufacturers) accounts, exporters, independent farm equipment distributors, and wholly-owned branches.

O. E. M. Sales

O. E. M. accounts have contributed materially to Hesston's growth particularly during the early years of the company. Some method was needed whereby the company could produce and sell an item before having to pay for the raw material going into the product. The O. E. M. accounts served this purpose quite well. The unloading auger and the retractable finger auger were sold in this manner. After the first year they agreed to manufacture the auger for the larger companies and sell it to them. They manufactured only the quantity ordered and paid for by the major long-line companies. This enabled them to collect from the sale of their products before paying for the raw material. Their operations for the first several years were financed in this manner.

Up until the last few years, the O. E. M. accounts have been a very important part of their business. The importance of this has changed over the years as shown by Exhibit 7.

Acquisitions and mergers among some of the O. E. M. accounts during 1961, resulted in a shifting of relationships which required flexibility on the part of Hesston to adjust quickly to these changes. At this time it was believed that a shift in volume was taking place which would result in O. E. M. sales substantially exceeding distributor sales in 1962. The anticipated increase in O. E. M. sales for 1962 was expected to come about through increased sales of the windrower.

During 1962, marketing channels for Hesston products were increased to include six O. E. M. accounts. The anticipated increase in windrower sales through O. E. M. customers for this year failed to materialize. The loss of the Cockshutt windrower account as a result of the acquisition of Cockshutt by Oliver contributed to this decline. However, total O. E. M. sales were up slightly and accounted for 48.3 per cent of total sales. Sales of straw choppers and row crop savers were up substantially due to favorable moisture and crop conditions which helped to offset the decline in windrower sales.

It was during 1962 that the first industrial machine was manufactured. The marketing was handled through an O. E. M. account. This industrial machine is the Jacobsen Turf Commander, a golf course lawn mower, but the item has never "gotten off the ground" as far as sales and acceptance are concerned.

During 1963, approximately one-third of the sales volume was produced for four agricultural O. E. M. accounts--straw choppers for Allis-Chalmers combines, retractable finger augers for J. I. Case combines, windrowers for J. I. Case Company and New Holland Machine Company. There was no production for the one light industrial account.

In 1963, the company witnessed a drastic shift in the distribution of sales. Distributor sales now accounted for 64.5 per cent of the total and the O. E. M. accounts represented only 35.5 per cent. One reason already mentioned for this change was the fact that there was no production of the Jacobsen Turf Commander during 1963.

Production of windrowers for New Holland was discontinued at the end of the 1963 fiscal year. The relationships with New Holland were good, but Hesston could not quite accept some of their marketing policies. Hesston

suggested in 1961 that New Holland start working on their own windrower and since that time this O. E. M. account has been gradually phased out. Hesston has a three year contract to make parts for the windrower they made for New Holland.

The New Holland account was marginal for Hesston because New Holland would never completely give up the development part of the windrower. The agreement was for Hesston to develop, test, and produce the windrower and New Holland was to market it under their name. Since New Holland would never quite relinquish the development aspect, this cost appeared twice.

It is believed and hoped that the J. I. Case account will be maintained for some time. The relations between top-management of the two companies are good and Case has requested that Hesston continue to furnish the Case windrower for them. The combined sales of Case and New Holland windrowers accounted for nearly 42 per cent of the total windrowers sold in 1963.

Distributor Sales

The Hesston Distributing Company Inc., a wholly-owned subsidiary, is the distributor of Hesston products in the middle sixteen states. The Northern Branch, Branch No. 20 has as its southern border the Kansas-Oklahoma state line and includes the western two-thirds of Missouri, all of Iowa, portions of Minnesota and Wisconsin, Wyoming, Kansas, Nebraska and Colorado. The Southern Branch, Branch No. 10, includes all of New Mexico, Texas, Oklahoma, Louisiana, Arkansas, Mississippi, and parts of Tennessee and Alabama.

In the Northern Branch the main products are the Hesston 500 Windrower and the Beet Topper, while in the Southern Branch the main items are the Hesston 500 Windrower and the V-22 Cotton Harvester. The row crop saver and straw chopper attachments are popular items in both branches.

The Distributing Company has about 500 dealers in each of the two branches to whom they sell only Hesston machinery. No dealer located within the boundaries of the Distributing Company may buy a Hesston machine except through the Distributing Company. All sales of Hesston products outside this territory are sold through an independent distributor.

Harold Dyck is the President of the Distributing Company; Lyle Yost, Vice-President; and Ray Schlichting, Secretary-Treasurer. Each branch has a branch manager who along with the officers, make up the Operating Committee of the Distributing Company.

In 1961, the volume of Hesston sales through sixteen independent distributors including the Hesston Distributing Company, Inc. and a Canadian export firm, serving five distributors in Canada slightly exceeded the volume sold to O. E. M. accounts. Hesston Distributing Company, Inc. accounted for 37 per cent of the Hesston line sales with an added net profit contribution after taxes amounting to 5.5 per cent of its net sales or 30 per cent of total net consolidated income.

Two new independent distributors were added in 1962 bringing the total to eighteen. This year also saw the completion of arrangements for the marketing of Hesston windrowers through eight New Idea Farm Equipment Company branches throughout the eastern states. This arrangement provided for dealer and retail financing which the company felt was necessary in order to obtain a fair share of the market.

The sale of windrowers under the Hesston name was extended into Canada in 1962. Even with this expansion windrower sales decreased because of additional competition.

The biggest news in 1962 was the acquisition of the V-22 Cotton Harvester. This was a brush-type harvester which the company felt had excellent sales

potential throughout the cotton-growing areas of the south and east. The V-22 was to be sold largely through the Hesston Distributing Company which would add further to the profit contributions of that subsidiary.

The increase of over $1,000,000 in sales volume in 1963, was largely realized from sales through independent farm equipment distributors. The introduction of a new model windrower and the addition of the New Idea Farm Equipment Company as a distributor of windrowers in eastern United States were the major contributing factors. Expanded customer demand, heavy combine sales and good crop conditions resulted in straw chopper sales well above all forecasts.

Sales of the cotton harvester, which was sold largely in the areas served by the Hesston Distributing Company, were disappointing. Unfavorable weather conditions had a definite adverse effect on sales; however, the market resistance to accept new cotton growing and harvesting methods as well as the required extensive product education were underestimated by the company. The longer-range potential for the cotton harvester remains optimistic.

The company is making an all-out effort to educate and train farmers in new cotton growing and harvesting methods. During February of 1964, Hesston sponsored a three day seminar in Wichita entitled "Cotton for Profit". A cotton meeting this far north seemed unlikely, but nearly one hundred experts from universities, industry, farmers, the United States Department of Agriculture, and Hesston personnel came to listen and contribute to the seminar. Hesston's two cotton harvesters for 1964 were introduced at this meeting. It was the first public showing of the much rumored tractor-mounted basket model of the brush harvester.

Export Sales

Exporting of Hesston products outside North America is done through two farm equipment export companies, each being responsible for several products. Hesston sells directly to the export firms who in turn sell the products to distributors all over the world chosen by the export company's agents living abroad.

These sales have grown nicely since this channel was first started in 1960. By 1962, Hesston products were sold in fifteen countries on five continents. Total export sales were approximately $100,000 in 1960, nearly $180,000 in 1961, and close to $250,000 in 1963. For fiscal 1964 sales estimates were placed at $400,000. The company wants to increase volume to $1,000,000 and $2,000,000 annually, and they all agree that the demand is there. As Lloyd Smith put it, "To do this, which is possible, we have to change our system, we can't get that sales volume by selling through an agent."

There are several avenues available to the company for the big push into the export market. A partial assembly plant could be set up in some of the countries, where they could assemble the heavy and awkward parts of the machine, thus reducing freight costs. Another possible solution is to work out a licensing agreement whereby another company would manufacture the product and pay Hesston a royalty. Something similar to this was done in 1963, when the first Hesston Manufacturing Agreement for production in a foreign country was signed with Hamashbir Hamerkaze Cooperative in Tel-Aviv, Israel. The agreement permitted the Israel firm to manufacture and market the Row Crop Saver under the Hesston name. It is believed that this is only the first in a series of similar agreements that will be drawn up with other foreign companies.

Probably the most expensive solution to the problem would be to build a factory or factories in the countries to which they export. While it is felt that this would be the most expensive way, it is also believed to be the most effective way to enter the market. To keep initial costs at a minimum it is necessary to start with an assembly plant which would produce and assemble some of the easier and bulky parts. If this were successful a bolting assembly could be added, then a welding assembly. The last step would be to install machines to cut and form some of the heavier parts. This step by step process would also eliminate the necessity for training a large number of personnel at one time.

Large companies agree that to grow in the foreign market, factories must be established in at least some of the foreign countries. Most of them also agree that it takes five years for this to become profitable. Hesston is desirous of taking a course of action that is profitable from the start. Building seems to be the most likely solution and the one that will promote the greatest growth for the long period. Once it has been decided to build, it then becomes a problem of where to build and how much to build. All of the countries to which Hesston exports their products would like for them to build a factory in their particular country.

Europe offers the best potential for growth both inside the common market and in the outer seven. The company feels that the market in West Europe, which they have visited, can grow just as fast from a point, in five years time, as the market in the United States can grow. As Mr. Yost described it, "This market may grow faster than we expect, this depends on the type of effort we put forth, the kind of people we get, our ability, and our objectives".

The farms in West Europe are going through the same type of revolution as they are in the United States, in that the number of farms and farmers are decreasing while the size of the farm is increasing.

Hesston believes that the least likely solution to the problem would be for them to set up their own export company. Among the many drawbacks to this possibility are; financial problems, legal documents, translations, import permits, and shipping schedules.

Another disadvantage in exporting is the expense of getting the equipment to the country. Exporting results in higher crating costs, inland freight costs, over-the-water freight costs, in addition to the import taxes and duties assessed on farm equipment by most countries.

Under this set-up, a machine which sells for $5,000 in the United States, may sell for as much as $7,000 or $9,000 in Europe. The demand is there, but few farmers can afford the price, and the company must find ways to drastically reduce the price which the farmer must pay. They feel that the machine, particularly the Hesston Windrower, could be produced for about 15 per cent less in any given foreign country which would make the cost to the farmer comparable to the cost in the United States.

Company sales growth has been between 10 per cent and 15 per cent per year, but Smith feels that if they build a plant overseas, the export growth could be at least 50 per cent a year for the first few years. Management feels that the potential in most of the foreign markets is virtually unlimited. An all out effort is being made to expand rapidly but carefully in the foreign market. The responsibility for designing the system to be used has been given to Lloyd Smith. His statement expresses the

feeling of the company on this matter when he said, "Instead of going off in all directions at once, we want to do it in a manner that is sound and has good growth potential and is profitable."

Dealer Selection

Each of the sixteen distributors, including the Hesston Distributing Company, are assigned a specific territory within which to distribute machinery under the Hesston name. The choosing of dealers to handle the Hesston products is left to the discretion of the distributor representative servicing that particular area. In no case will a dealer be served by two Hesston distributors on the same product.

Each distributor has their own staff of salesmen who look over the towns assigned to them to pick out the dealers they would like to have sell the Hesston equipment. They try to select an agressive dealer whom they feel can and will exert maximum sales effort in the promotion of Hesston products. His credit-rating is checked and he is then approached about the possibility of becoming a Hesston dealer. If he agrees to become a dealer, one of the company's service men will train the dealer's service department in the servicing of the particular machine or machines for which he is a dealer.

Hesston does not have a franchised dealer who handles only the Hesston line. All short-line companies, like Hesston, sell through other franchised farm equipment dealers. It is generally agreed that there are about nine major farm equipment companies through which short-line companies market their products. It is not uncommon to find seven dealers in a particular town with each dealer selling two or more different lines of farm equipment.

In selecting dealers to take on the Hesston line, the company tries to obtain a particular type of dealer who is handling a certain line of major farm equipment. They try to get a dealer who is selling a popular line of tractors manufactured by a company who does not have a product similar to Hesston's . For handling the V-22 Cotton Harvester, the company tries to obtain a good Ford, Case, Minneapolis Moline, Massey-Ferguson, or Oliver dealer since none of these companies have a spindle cotton harvester. They do have a cotton stripper but it has offered little competition to the V-22. A Massey-Ferguson dealer is the most desirable since this company has nothing in the way of cotton harvesting equipment. From the standpoint of competition, John Deere and International Harvester are the least desirable since they both have a cotton harvester very similar to Hesston's. By the same token, if they can find a John Deere or International Harvester dealer who will promote their line, he will put less effort on the John Deere or International Harvester cotton machine.

If they can't get the best dealer in an area, they will try to get the second best and so on. This has created problems for Hesston because the best dealers usually handle a major line who has a product similar to Hesston's and they are going to sell their own before they sell the Hesston machine.

Competition

In 1963, New Holland began manufacturing their own windrower. Hesston's management have seen the New Holland Windrower and all agree that it is a good machine and will be a strong competitor. Their next strongest competitors, in windrowers, are International Harvester, John Deere, Owattona, and Versatile. In straw choppers, one of their oldest products, their biggest competitor is

the Innes which is manufactured by a small company. The straw chopper is also manufactured by the major full-line companies and is standard with many machines. Adee commented on this trend by saying:

> This is a natural thing that happens. We built augers for combines for years, it was conversions at first and then we started selling them to the manufacturers who build the combines and then gradually, one by one, they got an open plant that was not keeping people busy so they worked around any patents we might have and built it themselves. This is not as likely to happen when we build a complete machine. We are getting away more from the attachments and are building complete machines.

The cotton harvester manufactured in 1963 was the mounted type, but they expect to introduce a self-propelled cotton harvester soon. The self-propelled farm equipment is much more expensive than the mounted or pull-type, but companies have found that as soon as a farmer can afford to buy a self-propelled machine, he will do so even though economically it is undesirable. The self-propelled cotton harvester has been in the test field for one year and it has been decided to spend another year in testing. This was Adee's comment on the delay:

> We have decided to spend another year in engineering, which I have misgivings about. While we will be able to refine a lot of little things on it and prove it out in the field, we're also going to be a year later, and I wonder if now wasn't really the time to put this out because we get heard about, it gives us the reputation and good publicity of putting out good machines and being ahead of everybody else. Any time you delay something, even if it is to be a little more sure about your engineering, you've lost a year. I think we should shoot for yearly programs if at all possible on machines of this type, unless it is something completely new that requires a lot of research. If you have to do it in a year, you will work real hard, maybe have one more man on it than if you had two years. So you put more cost in one year than you would per year on a two-year program, but not a whole lot, but the main thing is that you get the feeling of the urgency of it. Just by concentration everybody does something better. The more time you have the more time will be spent in doing things that really don't contribute directly to the primary goal. In a shorter period, you stay on course, you stay on target. The only control over a lot of things is either money or time, people don't have the self-discipline.

Basically the Hesston and Case Windrower's are the same. There are some minor differences, but the finished machines bear a strong resemblance to each other. In essence, this amounts to a dual distribution system of one product even though it is marketed under two differenct names through different marketing channels. This dual distribution of a competitive product has been of concern to dealers in certain areas. As a selling point, the Case dealer may say that his machine is just as good as the Hesston and is in fact made by Hesston.

Largest Shipment

As a result of a suggestion by Milt Miller, Traffic Manager, Hesston received national recognition on December 27, 1963. On that day, a 29-car Missouri-Pacific train loaded with 142 Hesston Windrowers rolled out of Hesston bound for the West Coast. It was the largest shipment of hay harvesting machinery ever to emanate from a manufacturing company west of the Mississippi River. It was the largest single shipment in the 16-year history of the Hesston Manufacturing Company. Retailing at nearly $750,000 it also had the distinction of being one of the most valuable shipments made by any manufacturer in the history of Kansas. This was such a huge success and provided so much excellent publicity, that plans are being made to put together a 50-car trainload in December of 1964.

Reorganization

During the early part of 1964, a marketing consulting firm was retained to completely examine the current marketing system and recommend any changes they felt would be necessary to handle a sales volume of twenty million dollars in five years.

This is not a current problem, nor is it a pressing problem, but management felt they must be prepared for the anticipated sales volume increase resulting from the expansion of their marketing activities. Management feels that the marketing department must at all times be leading the other departments in the company. They also felt that within the past two years marketing had slipped from the position of leadership that it had enjoyed, to one of being pushed by some of the other departments, particularly production and finance.

At one time Hesston could market and sell more products than they were able to produce or finance. It is now possible to finance and produce more than their present marketing system can sell. This was a minor problem in 1963, but corrective action had to be taken before the company could achieve its goal of a sales volume of twenty million dollars in five years.

As a result of this study, the marketing department is undergoing a reorganization program consistent with the rapid growth and development of the company in the last few years. One part of this new program divided the department into the two areas of marketing development and sales. Lloyd Smith was appointed as the Director of Marketing Development responsible for the development, planning and programming of all marketing activities. Harold Dyck was appointed as the Director of Sales responsible for the implementation and putting into action all of the developed programs. Constant interaction between the Marketing Development personnel and Sales Personnel are required since they have common objectives of making available and servicing the customers with the right products at the right time.

After the reorganization had been completed, a memorandum carefully explaining and outlining all of the changes was given to each salaried

employee and was also presented in a monthly magazine published by the company. No personnel were replaced or dismissed because of this reorganization, but several new positions were created which are to be filled, when possible, with the existing personnel.

INDUSTRIAL RELATIONS

Labor-Management Relations

On December 31, 1963, employment reached an all time high of 582. This figure was broken down into 558 people employed by the manufacturing company and 24 employed by the distributing company. A further breakdown showed that there were 316 employees in production; 150 employed in indirect labor on an hourly basis; and 92 salaried personnel.

The average employee-turnover is approximately two per cent per month, most of which occurs in the production plant. It is usually necessary to cut back employment during the summer months which are historically slow for the farm equipment industry. Much progress has been made in leveling out production, but there is still much work to be done in this area.

Since the formation of the independent union in 1958, every effort has been made on the part of management and labor to build and maintain a good working relationship. This is evidenced by the fact that it has been more than five years since a grievance has been filed. All grievances filed prior to that time were settled before reaching arbitration.

The agreement between the Hesston Manufacturing Company, Inc., and the Hesston Manufacturing Workers Association is similar to most collective bargaining contracts, with one exception. This exception, stated in paragraph 46 of the contract, reads as follows:

> It is agreed by the Union and the Company that there shall be no strikes, slow-down of work, stoppage of work, sit-down strikes or boycotts, and no lockouts during the life of this agreement. Any employee either causing a strike, slow-down of work, stoppage of work, sit-down strike or boycott, or participating in the same, shall be subject to dismissal.

There is a very good reason for this particular clause in the contract. The union wanted an organization in which everyone could participate. The community of Hesston consists of people belonging to all religious groups, but the majority of them belong to some branch of the Mennonite Church. There are a total of sixteen branches of the Mennonite Church, eight of which are represented in Hesston. The union knew that members of certain branches of the church could not participate in strikes of any form and could, therefore, not belong to a group which allowed this type of activity. They felt that if an employee did not join the union, it should be for an individual and personal reason and not because of the activities or policies of the union. The union contract has been fully accepted by each branch of the church, so that if an individual does not belong to the union it is not because of his church's opposition.

The employee relations are somewhat hard to describe because they are so unusual. Neither management nor the union must constantly be on guard to prevent the other from taking advantage of them. This may sound trite, but they are one big happy family. One of the men who has seen the organization grow from its start had this to say:

> There are probably other organizations that measure up and exceed us but I do think we have something a little different and unique in industry as such. I don't know where I would rather work than right here. And this feeling gets strength when you get people from the outside to say this. A large number of our technical men in the shop and most of the engineers are from the outside and have worked in organized shops. And all of them will tell you they have never seen anything like what we have here. The attitudes the people have in here, from the floor sweeper on up, are something we can all be proud of.

> I think we can attribute this to several different things. I don't think we can ever exclude the fact that the people are independently organized here. They feel like they truly have representation and a voice, and they don't have to take any lip from anybody. If they have a gripe, they can come out with it without fear of reprisal or without fear of losing their job. We encourage guys to gripe about something their foreman did. Come right out with it and nail him to the wall. And we have all of our foremen accepting that kind of a condition, which I think is really something. You always have those that try to withdraw, but we work real hard at this to get people to come out with their feelings, get them out on the table where we can get a look at them and then, and only then, can we make a decision based on facts.

Another employee who also saw the organization grow from the beginning feels this way about the employee relations at Hesston:

> One thing to which I attribute the satisfaction or cooperation that we have with the employees is the local organization that we have within the plant. I think our union, which I have seen come up from the start, has done the company and the employees just a lot of good. As far as I am concerned this local organization has done a real good job for the employment here. In a lot of aspects, its better for the employee than the affiliated union. One thing I contribute to the satisfaction you find over the whole plant is the communication between employee and management. They have their regular meetings, and if the employee is dissatisfied he has a way of communicating to management. All in all, this organization certainly has been a blessing to management and to the employees.

Union membership is not compulsory, and no attempt is being made in this direction. Even though it is completely voluntary, approximately 90 per cent of the eligible employees belong to the union. Dues are one dollar a month and are all retained by the local union. This money is used to provide various benefits for the union members. One of these is paying a member's wages for the first week of illness or injury not provided for under the Workman's Compensation Act.

The union has an elected board which officially represents them in bi-monthly meetings with a management committee. This Employee Relations Committee is an important part of the company and is used as a main channel of communication for both the union and management. Information is given to the

employees concerning the status of the company, and at the same time management is made aware of any complaints or desires on the part of the worker. This statement by Mr. Yost adequately reflects the feelings of management and the union.

> There is no reason why people in a community like this can't get along. Sunday's we're in Sunday School and Church together and eating dinner together. We're just neighbors all the time around here. I think we have something here I would like to see other companies try more (the labor-management relationship). I think it could be done. Naturally the international unions don't like to see this happen, they don't get a chance to represent the group. We were told by many companies that this was very, very, dangerous. They said that all we were doing was setting up an organization for the international union to take over. If we get so bad that we can't get along with them, I think an international union should come in and take over, but it will be our fault if this happens. We (management) will be at complete fault, because we have the machinery and the tools now to keep a good relationship.

Much hard work has gone into and continues to go into the development of this type of organization, it did not just happen. One of the management members of the Employee Relations Committee had this to say:

> We always want to have three or four representatives of management at these meetings so that the union will not feel that this is second rate stuff that comes around every two weeks and has to be taken care of. We make a lot out of this and it is important that we do, because it is vital to our company. If we can keep something like this going with our cooperation and the worker's cooperation, we can continue to have working relations in here that can't be beat. I don't see anything in the foreseeable future that should change this kind of feeling.

Most of the present management remember only too well the difficulties that were experienced during the middle and late 1950's, and will do everything in their power to prevent a recurrence of that situation. They recall with vivid detail the steps that led to the final break of all communication between the worker and management. The blame was not all theirs, but they are willing to accept their fair share of criticism in allowing the situation to reach the proportions it did before they exerted the additional effort

necessary to reach an agreement. Both management and the union know they have something now that neither of them is willing to give up.

Employee Benefits

The company has what they feel to be a unique profit sharing retirement plan for all employees which they participate in after having been employed at Hesston for three years. The plan was put into operation in 1962 and operates in this manner. After the company has earned 10 per cent on its invested capital, management sets aside a certain percentage of the excess profits and places them in a trust fund vested and administered by the local bank. Each employee who has worked for Hesston three years or longer is allocated a proportional share of this excess according to his salary. If profit objectives for the year are met, the hourly employee receives approximately six per cent of his base salary and the salaried employee approximately eight per cent of his salary. If an employee has participated in the program for one year and leaves the company, he will receive 20 per cent of the amount that has been placed in trust for him. This amount increases progressively each year so that after an employee has participated in the plan for five years he is entitled to the entire amount that has accumulated in his trust fund. This is the case if he leaves the employment of the company by his own will or if he is terminated by the company for any reason. This plan is not designed primarily to hold the employees, but rather to help the employees in their retiring years.

There is also a bonus plan for the three levels of management. If the profit objective has been met, top management receives a bonus of from 75 per cent to 80 per cent of their base salary; middle management receives from 35 per cent to 40 per cent of their base salary; and, lower management receives

from 10 per cent to 12 per cent of their base salary. If the profit objective is not met, the bonus percentage is reduced accordingly.

For the hourly employees, the company pays one-half of the cost of a group health insurance plan and a group life insurance policy. The company pays the entire cost of this insurance for the salaried employee.

Employee lounges are provided in the office building and in the production plant. There are vending machines for cold drinks, hot drinks, pastries, candy, fruit, and sandwiches in each of the attractive lounge areas. The profits from the vending machines dispensing cold drinks, pastries, and candy go into a fund controlled by the Employees Activities Committee which is used to sponsor programs and activities for the employees.

Free coffee is provided to all employees at an average cost of $1,000 per month to the company. Management would prefer to spend this amount on something of more lasting benefit to the employee. It has been suggested that management discontinue providing free coffee and instead pay the half of the insurance cost now being paid by the hourly employee. The cost of the insurance to the hourly employee is approximately $24 per year. If the average employee purchased the same amount of coffee he is now receiving free, it would cost him about $20 per year. This is merely a suggestion and has not yet been proposed to the union.

Employee Training

At this time, there are no company wide training programs for employees. If a sufficient number of department heads find that a particular type of training program is needed for their personnel, a company wide program would be established to fill that need. The company does not feel they are large enough to put on many company wide programs.

The salaried personnel are each interviewed at least once a year both comprehensively and on a performance basis. Accomplishments and shortcomings are noted by the supervisor and the employee in a joint conference. They reach an agreement as to what the employee is going to do to improve himself and/or his performance in certain areas. This is not done behind the employee's back, but rather with his full knowledge and cooperation.

This plan is also followed with the hourly worker, but not to the extent that it is being done with the salaried employee. Managment has given budget approval for the hiring of a second man in the personnel department whose prime responsibility will be in working with hourly workers on an individual development and training program similar to the one being conducted for the salaried workers. The interview and performance review procedure follows the same channel as is shown on the organization chart, with each person in a department reporting to the department head, the department head reporting to his supervisor and so on through the levels of management.

The personnel department enters into the picture in providing tools and training the supervisor in how his performance review job can best be handled. John Siemens explained the role played by his department in this manner:

> The job performance review sheet is simply a tool that reminds the supervisor and gives him a method or a tool to do this job of reviewing performance. This performance review and self-evaluation isn't our management development program. The management development is the follow-up of this evaluation. It is a plan for each man. I would imagine that we have a lot more management development going on in this company than in most companies, but it is not on a group basis. We don't feel that we are large enough to put on very many company wide programs that will universally fit everyones need. In some companies, management feels they need management development so they set up a bunch of programs and they put everybody through it whether they are interested or whether they need it or not. But, we aren't carried away with this type of program.

> We have first-line supervising training courses, and we have at times put management people through programs for understanding the budget for example, universal tools that we think everybody can use. We haven't done enough of this.
>
> We don't have a continuing program which shoots at everybody. We have a continuing program that shoots at everybody's individual needs. We make use of American Management Association courses and seminars, correspondence courses, and we make a practice of sending men to different plants to see what they do and anything else we can do to help a man develop the thing he really needs in his department. We try to do all of this on an individual basis. We believe that this accomplishes more than by throwing a handful of buckshot at everybody.

A man probably has a better chance for promotion at Hesston than he would in any other company in this part of the state. This is primarily because of more job opportunities resulting from the company's rapid growth. Normally a man in the production plant would go through a sequence of jobs on the way to becoming a crew chief in his department. From there he would step on up to a third shift or second shift foreman's job, which is in effect an assistant foreman. The next step would be to the job of foreman. Most of the foremen in the production shop have come up through the shop levels in such a manner. Most of them have also taken a supervisory training course. This is given by the company and is designed to give them a broad over-view of supervision. It is believed that most of the men have learned more from their individual development programs than they have from the programs put on for everyone. This is not on-the-job training, but rather a tailor-made development program for each man, worked out between him and his supervisor with the help of the personnel department.

In the union contract each job is assigned a labor grade (see Exhibit 5). There is a rate range for each labor grade and a progression system is set forth in the contract. There are no escalator clauses in the union contract.

Management does not believe in escalator clauses since they feel such clauses are self defeating, but they do take the cost of living into consideration in evaluating pay rates. The philosophy of management is to pay their employees above-average wages for comparable jobs performed in their basis type of industry in Kansas.

Employee Morale

It is agreed by all of management that employee morale is good. They also agree that this is very difficult to evaluate. When asked about the employee morale in the production shop, Ed Melcher summed up management's feelings when he said:

> Oh, it's all right, I really don't know. You think you're doing fine and everybody is smiling and seems happy and then all of a sudden, you are in the deepest trouble you have ever been in. So it's not wise to make any statements. I think supervisory morale is high, very high. I don't think we have gotten our story told to the people down in lower levels the way we are trying to. We are trying to reach that now and are working on it real hard. We are going into contract negotiations this summer and we will need that goodwill. I do believe the people feel it is a better run shop than it was last year.

Community Relations

Milt Miller has been the mayor of Hesston for five years. He has been employed by the company for twelve years and is presently the traffic manager responsible for the warehousing and shipping of all finished goods. Mr. Miller feels that the majority of the people in Hesston speak very highly of the company and are well aware of the contributions that have been made by the company to the growth of the community.

The company is very much interested in the community and have helped to support and promote various activities in the community. The management of the company, along with the other businessmen in town, worked out an arrangement whereby the city could employ a city planner to draw up a comprehensive city plan. Twenty-five per cent of the cost is paid by the city and the other seventy-five per cent is paid by the businessmen. This method was thought to be more advantageous than that of urban renewal.

Several years ago it became apparent that if the company were to maintain their insurance rates it would be necessary for them to have an additional source of water close at hand. The city also had a water problem since during the peak season they had only about one hour of water supply in the event of power failure. The city's superintendent of utilities estimated that the city should construct a 100,000 gallon water tank and inquired into the possibility of the city building a 200,000 gallon tank, with the difference to be paid by the company. It was finally decided that a 300,000 gallon tank would be the most economical size to build on a joint project.

The city issued water revenue bonds to pay for the total project. In turn the company, to help pay off the water revenue bonds, pays to the city a fire demand charge equal in monthly payments over a ten year period to the cost of a 100,000 gallon tank. The company is actually paying about one-half of the total cost, and the city has 200,000 gallons of water storage for what it would have cost them for 100,000 gallons.

As a result of this type of cooperation, Hesston now has a policeman--the first in over thirty years. The company agreed to pay salaries for the policemen and the town agreed to furnish the patrol car.

Communications

The primary channels of communication are through the departmental supervisors. This is the most important method of communication, but other methods are used to aid the supervisors in the performance of this vital function.

Employees are kept informed of the company operations through a monthly magazine called "Shop Talk". Each employee is encouraged to hand in news or stories of interest about himself, his family, or his fellow-workers. He may advertise items in the "Shop Swap" column free of charge. This magazine is furnished free of charge to each employee and to each Hesston dealer. It contains stories and pictures concerning all of the activities of the company and the personnel for a month. In addition to a feature article covering, in pictures and words, a major event of the last month, there are also biographical sketches and pictures of one or more men in management positions. Pictures and details of all promotions are presented as well as pictures recognizing employees for various lengths of service. The employee presenting the best safety slogan for the month is shown receiving an award. Information concerning marriages, births, and deaths can be found on the last page of the magazine. This is a very attractive magazine, representing again the Hesston quality.

Each employee, except the hourly workers in the shop, finds a communication on his desk each morning called the "Morning Memo". This one-page communication is prepared by the president's secretary from information presented to her. Each "Morning Memo" gives a quick run down on all of the personnel who are leaving that day, where they are going, and when they are expected back in their office. If it is known in advance that visitors will

be present that day, their names are given as well as the company they represent and the purpose of their visit. The "Morning Memo" for January 21, 1964, reported that I would be visiting with various people in the company for the next two weeks in connection with a study I was conducting at Kansas State University in the College of Commerce. If surprise visitors show up, their names and the purpose of their visit appear on the memo the following morning.

There is usually a "Thought for Today" item as well as a comment on an item of general interest. The last item on the memo is a complete list of all personnel who are out of town stating where they are and when they are expected to return.

When the "Morning Memo" was first started many considered it to be a waste of time and money, but now the first item of business for the day is to read the "Morning Memo" and it has become a very important part of the communications system for management.

Each employee of the company receives a card, a letter, and a gift from Mr. Yost on their birthday. There is a company picnic each summer which provides entertainment for the employees and their families. A report is given at this time concerning the present state of the company and future plans.

FINANCE AND ACCOUNTING

Hesston's financial needs are well taken care of at the present. For the past ten years all earnings have been retained for use in the business--about half in the form of working capital and the other half in the form of improvements and additions to property, plant and equipment and the reduction of long-term debt.

Seasonal Credit

An aggregate amount of unsecured bank credit, equal to the company's working capital, is available on a seasonal basis from three banks with whom relations have been excellent. A covenant in their term loan stipulates that the seasonal credit must be off the books for 60 days. This has created no problem and the company has been off the books for as much as four or five months. Mr. Schlichting, Director of Finance, indicated that this requirement could be adjusted if it should create a problem or does not fit into their operations. In the last four years, the company has had no difficulty in having the necessary funds available to meet their obligations. Mr. Schlichting estimated that their present debt to equity ratio was about 1 to 5 or 1 to 4. He made this comment in regard to their need for additional capital.

> It's possible that if we wanted to expand our distribution functions, into areas where no independent wholesalers handle our distribution, that this would call for additional capital, and it might actually call for raising some capital. But this could be done in a number of ways. We can use the debt capital route to substantial advantage, I mean we could go to a 1 to 2 debt to equity ratio very easily and not jeopardize our seasonal loan either.

Long-Term Note

In September of 1959, the company became liable to the Prudential Insurance Company of America on an unsecured 6.125 per cent promissory note in the amount of $500,000, due September 1, 1971. The note made provision for annual mandatory principal pre-payments of $40,000 beginning on September 1, 1960, and each September 1, thereafter until the note is paid in full. The agreement with the insurance company covering the note payable contains

a provision that the Company will not pay cash dividends, acquire shares of its capital stock or make certain other payments except to the extent of 60 per cent of consolidated net earnings subsequent to September 30, 1958. At September 30, 1963, $632,800 of consolidated retained earnings was not subject to these restrictions.

Bonds

On August 31, 1959, the company authorized the issuance of $500,000 of registered subordinated debenture bonds Series B. Maturity dates currently run through 1978, with maturities in any one fiscal year not exceeding $21,000. The agreement with Prudential provides that the company will maintain consolidated working capital of at least $750,000 and that the principal amount of subordinated debenture bonds outstanding will not be less than $250,000 prior to September, 1964. Debenture bonds maturing during the year ending September 30, 1964, amounted to $21,000.

Common Stock

In 1956, 2,500 shares of common stock were authorized with a par value of $100. In 1956, there were 1,200 shares issued and outstanding and 2,400 shares were issued and outstanding on September 30, 1957. In 1958, the number of authorized shares was increased to 7,500, of which 3,000 were issued and outstanding at the end of the fiscal year on which a premium of $30,000 had been received. On September 30, 1959, 3,200 shares were issued and outstanding on which a premium of $60,000 had been received. No additional common stock was sold during 1960. On September 30, 1961, 3600 shares

were issued and outstanding on which a premium of $180,000 had been received. There was no change in the capital stock account balances during the fiscal year 1962. Of the 3,600 shares issued on September 30, 1963, 3,484 were outstanding and 116 shares were held in the treasury.

The common stock is held by ten individuals, none of whom have a controlling interest. Each member of the Operating Committee is a stockholder in addition to Clifford Stutzman, Purchasing Manager, and two local bankers. Mr. Yost, with 43 per cent interest, is the largest stockholder, who along with Harold Dyck, Clifford Stutzman, and Ray Schlichting, in that order, comprise the major stockholders.

Most of top management feel that they are now in a position to offer their stock publicly over the counter, but none of them anticipate this happening within the next two or three years. They are agreed that this may be their next major financial step. They have been studying this possibility for the past two years so that when the finances are needed or they feel the time is right, they will be ready.

An agreement has been worked out among the existing stockholders concerning the purchase of stock in the event of the death of one of the stockholders. This has not been a problem in the past, but some of them feel that it could become a problem by placing a hardship on certain of the remaining stockholders. They feel there is no need for the sale of additional stock at the present time, but the open market would provide the current stockholders more flexibility.

Distributor Financing

Mr. Schlichting carries prime responsibility for the company's affairs when it comes to anything related to finance, or the economics of the operation. I asked Mr. Schlichting if he saw any prospect of Hesston financing their distributors. This was his comment.

> No, I don't think that's our business. If we're going to finance the distribution operation, we're probably going to run it. Because we're not primarily in the banking business, we're in the business of developing, producing, and distributing specialized farm equipment. And to finance a distributor, is a banking function, pure and simple. There are specialists in that field, people who have chosen to perform that service, because they think they can do a good job, we think they can do a better job than we can. And to just grab a segment of the financing business because it is capital, is not consistent with our philosophy.

Hesston uses two types of credit arrangements for their distributors. The method they prefer is cash, on which the terms are either 5/10, n/30 or 2/10, n/30. The other method used is called dating, where they allow a certain number of months on an invoice before it becomes due. Trade discounts vary from 40 per cent to nearly 50 per cent, depending upon whether the sales are made to export distributors, Hesston distributors, or O. E. M. accounts.

Preparation of the Budget

The Controller, Howard Hershberger, is responsible for the preparation and implementation of the company budget. Mr. Hershberger graduated from Bethel College, Newton, Kansas, in 1950, and joined the company in January of 1951.

The first item on the budget is the expected sales volume prepared jointly by the two sales departments. The sales departments indicate the

number of units of each product they expect to sell during the next fiscal year. Each of these amounts is then reduced by approximately 10 per cent, depending upon the particular item, and an adjusted sales volume is arrived at for profit planning purposes. This is a conservative budget so that the company can realize an adequate profit on somewhat less than the expected forecast. In other words, if the sales volume anticipated by the sales departments is realized, profits will be greater than expected.

After the sales budget has been revised for profit planning purposes, it is taken to the Operating Committee. Here it is reviewed and discussed until a total sales volume for profit planning purposes has been agreed upon. After this budget has been approved, the total direct cost for each product to be sold is determined. The sum of the total direct costs for each product then becomes the cost of sales.

The second item to appear on the budget is the operating profit. This figure will be at least 10 per cent of the net sales. The operating profit is determined by the Operating Committee and may exceed 10 per cent, but will rarely if ever be less than this amount, for profit planning purposes. The excess of the gross margin, sales minus cost of sales, over the operating profit then becomes the amount available for expenses.

Schlichting and Hershberger then prepare an approximate budget for each department and submit it to them. Each department then prepares their budget entirely on their own, but with the knowledge of the goal that has been set for them. When the budgets are returned they are totaled and substracted from the gross margin to arrive at the operating profit. If this operating profit is equal to or greater than the operating profit desired by the Operatin Committee, the budget will be adopted. If the operating profit is less

than that desired, each departmental budget is reviewed with respect to tis relation to the suggested budget, and with respect to the budgets proposed by the other departments. Those departments that budgeted for an amount greater than that suggested are cut back to a point where the operating profit will be approximately 10 per cent of the net sales as originally established by management.

The yearly totals of each departmental budget is then divided by 12 to arrive at a monthly budget. The adherence to a budget is dependent upon the activity level of the particular department. The expenses in each department are separated into two categories, fixed and variable. The variable portion of the budget will move in relation to the activity level of the particular department. If the activity level of a department is up for a particular month, the budget for that month will be increased proportionately depending upon the amount of variable expenses. This then become the flexible portion of the budget.

If, for example, the distributor sales for a particular month were less than one-twelfth of the total, their activity level for that month would be reduced, thereby reducing the amount of their budget. If they have spent an amount greater than that indicated by their activity level, they must explain each excess to the Operating Committee.

This type of budget is based on expense rather than on sales. A sales department then is not measured on what sales should have been, but rather on the expenses associated with what the actual sales were. Strict adherence to the expense budget for a month is not expected, but rather it is expected for the expenses to be in line with what was actually done during a particular month. In other words, the expenses should be in line with the activity level and not with the budget.

Accounting

The accounting department uses a standard cost system with the actual costs being the same as the standard cost. Favorable and unfavorable variances from the standard are again arrived at by using the activity level of the various departments. By the same token then, the seriousness of the variance, either favorable or unfavorable, depends upon the activity level of the particular department and not so much on the dollar amount of the variance.

Items in the shop costing more than $150 are capitalized and those costing less than $150 are expensed. This is an arbitrary rule of thumb since it depends to some extent on the particular item. Small tools are all expensed. Grinding wheels, even though costing more than $150, are expensed because of their short life. If an item costing $150 is capitalized, it normally will be depreciated over a three year period. The dividing line between expensing and capitalizing an item for the office is approximately $75.

For all assets having a useful life of up to six years, the straight line depreciation method is used with 10 per cent of the cost of the asset recognized as the salvage value. For all assets having a useful life of more than six years, the declining balance method is used, at double the straight line rate, with the salvage value being the balance remaining at the end of the asset's useful life.

A data processing system was installed in the accounting department in 1960. In 1962, equipment for the mechanization of the billing operations was added and integrated with the data processing system. This installation enabled the accounting functions of the subsidiary operations to be centralized

thereby providing more adequate internal control as well as making readily available much additional sales and operating data. It was determined at this time that the cost of the equipment would be covered by savings over a period of less than four years.

In addition to the basic data processing equipment of punches, sorters, and a sorter and collator interpreter, they also have a 604 accounting calculator and a 402 accounting machine. An IBM 1440 Computer system with random access data storage discs has been ordered for installation in August of 1964. Until that time a higher capacity calculator unit has been installed to replace the regular accounting machine. This makes it possible to furnish daily performance reports covering the production of several major products. The new computer will make possible better production control, parts control, inventory control, and shop scheduling of major products. It is not believed that the new computer will replace any of the present personnel. It is expected that the cost of the IBM 1440 will be justified by the reduction of production costs over a period of years.

PRODUCTION

Facilities

The production plant is large and well-designed. The floors are clean, the material is stored neatly on vertical storage racks, and there is no scrap material or material waiting to be processed lying on the floor. The plant is highly automated, both as to machinery and methods of moving material.

Nearly $97,000 worth of new machinery and equipment was purchased in 1960 to improve and increase the production capacity. During 1961, the production facilities were expanded and improved by the addition of 26,400

square feet of plant space, the addition of a number of new machines including an automatic chucking machine--an introduction to automation; the installation of dryoff and paint baking ovens, and a complete revision of the shop layout providing for improved flow of production, particularly in the assembly operation. Also during this year performance was brought into line with established cost standards resulting in added contributions to profits in the form of favorable variances.

Production facilities were further improved in 1962 by the addition of 9,600 square feet of plant space, the acquisition of some additional modern equipment, the installation of a mechanized cleaning system and the completion of the revised shop layout which provided for improved flow of production. Major efforts were made in quality control improvement with gratifying results. Improved longer-range production planning was undertaken in an effort to avoid employment level fluctuations and to minimize the causes for production inefficiencies and unfavorable cost variances. The scheduled production of the cotton harvester was expected to help in leveling out employment fluctuations.

During 1963 production efficiencies resulting from continued modernization of equipment and methods, as well as fuller utilization of facilities through the summer months provided sufficient plant capacity without the addition of manufacturing space. Equipment additions included another automatic chucking machine, a high capacity, large bed press and conveyorized packaging.

The major property and plant improvements consisted of the acquisition of an additional 20-acres adjoining the original plant site and the development of a master plan for long-range use of this property. The entire 45-acre

plant site was properly graded for drainage and a major portion of the streets and parking lot improvements were constructed.

Costs

The Director of Manufacturing, Ed Melcher, indicated that high labor costs on new jobs are a constant problem. He explained it this way:

> I know why we have high labor costs, we have new tools, new prints, the prints are wrong, the tools are wrong, the fellows don't understand how it goes together and they have to be told two or three times. The foremen don't understand it, things sort of mill around. Something goes wrong, we have a committee meeting and have maybe ten people setting there staring at it.
>
> The problem is getting everyone aware that we are going to have a new product, getting everybody excited that this is going to be a real fine product. Right now we are having meetings with engineering, trying to get them to freeze the design and not change it when we start making dies. We have a twenty man crew who make dies. We have schedules showing the desirable release dates and the actual release dates, which usually match pretty close. We want to have some lead time. If something goes wrong in the field, engineering is trying to correct it while we are trying to build tools and dies, and this causes trouble. Or else we actually get into production and have built the thing, and then we have to set up a modification center or plan an extensive field kit program. It's just tough to get something new going. You take something a fellow has built before and you give it to him and he just goes ahead and builds it.
>
> With a new product the demands on supervision, on quality control, and on all our staff is much greater. It's just like an engineer, he sits down and he can't think of everything, if he could he wouldn't be working for Hesston.
>
> Prior to the time we were on IBM, it would take three complete production schedules to get the thing down where the costs were fairly good. But now we are hoping we can watch the costs very closely and we are making some real progress with the thing.

The production schedule is changed about every ten working days, at which time there is a complete model change on the assembly line. For example, the windrower schedule calls for the manufacture of between 18 and 20 windrowers a day with a complete production run producing 200.

Indirect labor has increased in recent years. Three years ago the production shop had one methods man, in 1963 they had three men. There are three salaried men in quality control where there used to be one. A tooling and plant engineer and a general foreman have recently been added to the staff.

The production shop has standards on labor which have been reduced by three per cent a year to compensate for the increase in wages. The shop as a whole, operates at about 79 per cent of cost. Cost of production charts are placed at numerous places around the plant which has resulted in a real effort to keep the costs at a minimum and still produce a quality product. During 1963, an improved system of performance reporting involving detailed shop cost standards was instigated. This has resulted in a substantial stabilization of production costs.

Costs are much harder to control on a new product, particularly scrap costs. Scrap costs run pretty stable at about $2,500 per month, but they have been as high as $8,000 per month. Warranty costs are also high on a new product. Melcher had this to say concerning warranty costs and quality control, "To get coordination and to get everybody agreed on what is a quality product is pretty hard, that is one of my problems. We can get so busy picking fly specs out of black pepper, or watching the paint runs, that we may mismatch an axle." He made this additional comment concerning the problem:

> After engineering has designed something and it apparently worked okay in testing, nobody knows for sure, but you get it out in the field and it breaks, then we have to send out kits and crews and this is highly expensive. But the trouble is nobody takes this seriously unless we are in trouble. Service, engineering, quality control, myself, maybe each of us gives lip service to the fact that it is a problem and that we need to coordinate and determine what we have to do for quality, but everybody is thinking about his own area and he has to get back there and do his work.

Products

Since the company started in 1947, they have manufactured 83 different products. The life span of the average one, a good one, is about three years. Several new products were added to the Hesston line during 1963 including an Auger-Header Windrower and a Sugar Beet Topper and Windrower. The auger windrower differs from the popular draper model in that instead of the alfalfa being delivered to the conditioner by way of canvas, a large auger is used, similar to that found on combines.

Hesston has acquired exclusive rights to manufacture and sell a sugar beet topper and windrower, which was invented by a Minnesota farmer. The topper portion of the machine, designed for three or four-row operations, crowns beets before they are dug up and taken to the sugar refinery. The windrower throws the heavy tops to the side, out of the way of the digging machine.

Operation

Melcher, in addition to being a member of the company Operating Committee and the Products and Marketing Committee, has his own operating committee for the production shop. This Manufacturing Committee is composed of: the Production Control Manager, the General Foreman, the Tool Plant Engineer, and Mr. Melcher. This committee meets one afternoon a week to discuss the work they are now doing, what they need to be doing, and any problems that they might have in their particular area of responsibility. These meetings serve as a two-way communications channel between the workers and various levels of management.

Richard Huxman, General Foreman, is responsible for getting quality production out on schedule. This is Melcher's over-all responsibility, but the foremen report to Huxman and he in turn reports to Melcher. Huxman described it this way:

> We are not as rigid in our lines of supervision and our level of management as a lot of companies are. Ed (Melcher) can talk with one of my men (foremen) and as long as I know about it, this is fine. Or, one of the foremen can go directly to Ed. One of the workers can come directly to me with a problem and as long as his foreman knows about it and is given a chance to get in on it this is fine. As long as it works like it does here, this is the way I want to operate. I don't like the militaristic type of management.

The peak capacity for the production plant is between February and April. The normal low production period is during the summer months, but this is being corrected by the addition of the cotton harvester on which production runs are made during the summer months.

ENGINEERING AND DEVELOPMENT

Major versus Minor Products

To determine what can be engineered, manufactured, and sold in a large enough volume to justify adding it to the product line has been a constant problem. On occasion, someone in the Products and Marketing Committee becomes over-sold on a product. The product is engineered and manufactured, but the demand is insufficient to justify its continued production. Ray Adee, Chief Engineer, feels that in some cases too much time and money has been spent on a small project, such as an attachment for an existing machine. The company realizes that the volume on such items will be small, but they feel that the attachment is necessary to maintain good dealer relations, or for some other reason. Adee feels that it doesn't take many of these

small projects to take the place of one big project that would really help the company and increase sales volume. Many times in the engineering of a product minor items will be brought in, either on that product or a different one, which will disrupt the original projects and prevent the engineers from concentrating on the main item.

Some projects go through without any disruptions and are a tremendous success. The fastest project to go through was described by Adee in this way:

> We pushed the Model 500 Hesston Windrower through in twelve months from the start of the idea to production. It was a tremendous success in every way. The machine sold well, had a good profit margin, and didn't take us long to do it. But, I am sure that if we hadn't had the big idea in front of us with everyone's support and it had been a normal state of affairs, numerous insignificant projects would have crowded out work on the main project--in this case the Model 500 Windrower.
>
> Decisions were made rapidly concerning the Model 500. But, the point here is that if we can pick a big project, sell everyone on it, and get enthusiastic enough as an entire company, we get support for it and they'll see that there just isn't enough room to push in a lot of little unnecessary projects with limited potential. If you have big projects in the making which lack enthusiastic support, there is the constant pressure to do a lot of little things. They don't amount to much in the long run. Sure we can engineer them, that isn't the problem. It's not challenging, it doesn't make the money. These things have got to be sound in every respect, if you are really going to get engineering talent to the point where they will do more than just put in their eight hours. We weren't built that way and we will never grow, without challenging projects. This is a competitive thing. You either win or you lose.

Another example of the minor projects to which Adee was referring was in connection with their new cotton harvester. Much time was spent in trying to fit this machine to, what he called, "an odd-ball tractor in which there is not much potential, you might sell twenty-five." It seems that the tractors that are the most difficult to adapt the cotton harvesters to are

the ones in which there is the least potential. It is a problem to evaluate the need for a particular attachment or adjustment on a popular and successful product. In Adee's words:

> It takes some discipline, because the temptation is that we are going along well, so we can pick up some of these little projects because someone has requested them, and they do not look like much trouble, work, or risk. You have to stick your neck out on a big project. It takes more nerve. I needle the rest of the management occasionally and tell them that they are losing their nerve, that they want to do the little insignificant jobs because they do not have the nerve to jump out with the big one. While this is not exactly true, I am trying to make a point that unconsciously we let this thing happen. It is happening to some extent, and I am not saying it is any worse now than it has been in the past. However, I think it is a situation we can certainly improve in the future. Efforts can be so widely spread that one loses sight of the end goal, and a sense of real achievement is lost.

Facilities

The engineering and designing of a product are both done in one of the quonset buildings in which the company first operated. Most of their equipment such as; metal lathes, stamps, mills, and presses are similar to those in the production plant. The engineering shop, however, make only temporary dies and tools rather than permanent ones. Adin Holdeman, Engineering Shop Foreman, is responsible for building a prototype of the machine as designed by one of the engineers. The prototype is an exact replica of the finished product and is used as a pattern by the production shop. The project space situation was described by Adee in this manner:

> We now only have space for three or four big projects at a time. We need room so that we can have every big project in the engineering shop on which an engineer is working, then his machine can be set up as he is designing it. He may not have it all complete yet, but he wants to see it built up through this point and then he can finish it in light of what he now has. To try and put the linkage on paper is sometimes quite complicated but is much easier when you can see the machine. As you see it built, you will see ways to improve it and you will make modifications as you go along. If an engineer sets in

> the office three weeks waiting for a stall to open up so that his machine can be started, this is inefficient. When his machine does get in, we put several men on it and go along real fast, but then if he wants to slow down and reconsider something, we have workers that we don't know what to do with. We would rather have the engineer start and then a little later the actual construction start so that they work along together. The completion date would be a little earlier, and we would have better machines and greater efficiency.

Insufficient space has long been a problem for the engineering department. The old engineering shop lacks the capacity necessary to keep pace with the engineering office. To obtain additional capacity in the shop it is necessary to have more space, more machines, and more set-up areas in which to assemble the machines. To combat this problem, a modern and spacious engineering building is to be constructed in 1964. The building was designed with portable partitions to allow for expansion. The new office will have room for 40 per cent expansion. Using this same principle, wings can be added without interrupting work. The old facilities are located in downtown Hesston which is about one-half mile from the main office and production plant. The new facilities are to be located across the street and north of the main office, making it more convenient in terms of access to the main office and the production plan. Mr. Adee does not feel that their old location presented any disadvantage as far as communications were concerned, but he does feel that the new facilities will be more convenient.

Scheduling

Scheduling new products has been a problem since the founding of the company. One of the men described it in this way:

> One factor that contributed to the success of our company has been the ram-rodding of management. They see an item that will sell and they want it at a certain time. It is then up to the

> engineering department to get it for them at a certain time. This type of scheduling often disrupts other projects. I think that is another contributing factor to the success of the company--the push that management has had. If the management had taken things in stride, they would have never gotten where they did. We used to put in a lot of overtime and we really worked hard.

By 1962 a complete history of each product had been compiled. This data has enabled engineering to make an accurate estimate as to the length of time necessary to complete a new project. A realistic completion date could now be set that was satisfactory to management and possible for engineering.

CONCLUDING REMARKS

The story of Hesston is not an unusual story in America. It has happened time and again. Most of America's major companies had their beginnings the same way. It is often called the American way, or the free enterprise way. A need is discovered. An idea is born. A product is produced. Someone buys, and if it is good, others buy. Distribution is established. Competition is encountered. Faith is exerted. A new industry is born.

Yet, the story of Hesston Manufacturing is unusual because it happened in a small, central Kansas farming community, in what most observers would call, the most unlikely spot in America. For the town of Hesston offered few natural resources, no centralized shipping points, no other industry to help sustain it. It was just a good, quiet, farming community.

But it was really the most likely spot in America. Because the most important ingredient was in the community of Hesston and its surrounding area. This ingredient was people. An industrious people, well disciplined to hard work, honesty, and integrity. A freedom-loving people who are used

to meeting problems with ingenuity and who know no other way than to give a day's labor for a day's pay. A God-fearing people who seek religious tolerance and who worship every day--not just on Sundays. A people who have spent their lifetime in farming, who have the "feel of the farm" and who have inventiveness to solve the problems of the farmer.

There are several factors that have contributed to the success of the Hesston Manufacturing Company, Incorporated. Their success has resulted not so much from the number of factors, but from the combination and characteristics of these factors.

One of the primary reasons for their success has been the social responsibility assumed by the company. Relations between the city and the company are extremely good. The company feels a real responsibility, not only to the city, but to the people in the community as well. Other cities have offered various benefits to the company as an inducement to relocate their facilities. All of these propositions have been refused primarily because the company feels they have a responsibility to the people in the Hesston community. More than one-third of the population of Hesston is directly dependent upon the company for their livelihood. The employment opportunities provided by the company have been an important supplement to the economy of the area. Moving the company from Hesston would be inconsistent with the philosophy of management.

A factor that can be closely related to the social responsibility is the employee relations. Much hard work has gone into the establishment and maintenance of a good employee-management relationship. The important role played by the independent union in this relationship cannot be overlooked. Membership in an affiliated union would not only be inconsistent

with management's philosophy, but with the philosophy and religious beliefs of the community as well. The union was founded for the purpose of retaining the employee's independency. Management's philosophy that people support what they help to create applies equally well to the union.

Hesston's forward-looking management has had a significant influence on the company's growth and present position in the industry. Their primary objective, both in the short-run and the long-run, is to manufacture specialized equipment that will enable the farmer to perform his job better and easier. Supporting this, and equally as important, is their goal to be the first to manufacture this equipment.

The effective and efficient use of the committee-type management has certainly contributed to the success and growth of the company. Decisions are made with a complete understanding of their effect on each department. The committees also serve as an important channel of communication between members of top management. The committee system will not work for all companies but for Hesston it has been very successful.

It may be said that the religious beliefs of the community have served as the foundation upon which many of the preceeding factors have been based. The social responsibility expressed by the company and the employee-management relations have been, at least in part, influenced by the religious atmosphere.

Another factor that has been responsible for the company's growth has been management's determination and effort to keep all of the departments within the company well-balanced. This has not always been easy since, in effect, this requires management to take a critical look at itself. On occasion, the departments have become unbalanced, but management has been

quick to recognize this and take any corrective action necessary. They all feel that the marketing and sales department should be in a position of leadership, and constant efforts are being put forth in this direction.

No one or two of the above factors can be credited for the success of the company. The Hesston Manufacturing Company, Incorporated, has achieved success in the farm equipment industry because of a careful balancing of all of the above factors. Part of their success can be attributed to the factors themselves, but just as important is the relationship between these factors. Equally important is management's ability to not only maintain and improve these factors and objectives, but to conduct their business in accordance with them.

Everyone associated with Hesston feels that this is just the beginning. As new products are introduced and other Hesston innovations in farming are accepted, an even brighter future is coming up on the horizon. Hesston is dedicated to the production of specialized farm equipment that will enable the diminishing farm population to feed a growing nation and world. The story of the Hesston Manufacturing Company, Incorporated, is not complete. It is still happening.

ACKNOWLEDGMENT

The author feels very fortunate to have been given the opportunity to conduct this study to which many individuals have contributed immeasurably. Special thanks go to Professor John M. Amos, who encouraged me to make a study of this type, and Professor S. G. Huneryager, who laid the groundwork for the study. Their invaluable help and constructive suggestions concerning the preparation and presentation of the information is deeply appreciated.

Special thanks is given to my wife, Beverly, for her skill, patience and much of her valuable time spent in editing the report. Sincere appreciation is also given to Mrs. Lee Ross for her time and skill in typing the final manuscript.

Without the consent and cooperation of the management and employees of the Hesston Manufacturing Company, a study of this type would not have been possible. The company was most receptive to the project and cooperated to the fullest extent in providing and making available all of the necessary information, which is deeply appreciated and gratefully acknowledged. Special thanks is given to Mr. Lyle E. Yost, members of the Operating Committee, and others, who gave so freely of their time.

APPENDIX

Exhibit 1

HESSTON MANUFACTURING COMPANY, INCORPORATED

Consolidated Balance Sheets for Fiscal Years Ending September 30, 1956-63

	1963	1962	1961	1960	1959	1958	1957	1956
Assets								
Current Assets:								
Cash	$ 276,365	$ 312,696	$ 297,848	$ 540,704	$ 514,653	$ 350,555	$ 28,256	$ 7,039
Accounts Receivable	800,806	648,473	394,485	226,929	349,212	317,838	176,314	51,966
Inventories:								
Finished Goods	721,395	574,926	686,216	484,936	288,805	277,235	198,282	209,090
Parts	165,491	79,239	123,828	102,945	139,457	---	---	---
Work in Process	302,138	371,691	438,567	171,941	117,200	87,980	50,798	20,987
Raw Materials	607,027	447,731	396,648	224,239	246,503	172,866	145,203	80,103
Total Inventories	$1,796,501	$1,473,587	$1,645,259	$ 984,061	$ 791,965	$ 538,081	$ 394,283	$ 310,180
Prepaid Expenses	45,571	42,256	44,701	36,545	31,040	14,101	5,231	4,041
Total Current Assets	$2,919,243	$2,477,012	$2,382,293	$1,788,239	$1,686,869	$1,220,575	$ 604,084	$ 373,227
Investment and Other Assets:								
Cash Surrender Value of Life Insurance	$ 34,064	$ 28,083	$ 21,692	$ 15,132	$ 11,238	$ 9,874	$ 8,119	$ 6,293
Deposits	28,180	23,105	14,505	---	---	---	---	---
Deferred Charges	---	---	---	---	9,427	7,132	1,890	2,911
Patents-Unamortized	---	---	---	---	---	449	975	1,457
Investment-Hesston Distributing Co., Inc.	---	---	---	---	---	---	---	22,812
Total Investment and Other Assets	$ 62,244	$ 51,188	$ 36,197	$ 15,132	$ 20,665	$ 17,455	$ 10,984	$ 33,472
Property, Plant and Equipment, at Cost:								
Land	$ 62,203	$ 49,767	$ 49,234	$ 14,988	$ 6,300	$ 6,300	$ 6,300	$ 3,200
Buildings	756,484	723,038	699,464	565,334	337,746	241,634	150,302	80,126
Machinery and Equipment	724,048	524,550	444,415	293,654	196,855	152,400	107,337	71,381
Office Furniture and Fixtures	181,685	143,434	121,179	74,816	58,304	44,932	36,362	28,693
Automobiles and Trucks	100,613	99,735	84,553	68,496	26,959	25,916	18,458	18,583
Total	$1,825,033	$1,540,524	$1,398,845	$1,017,288	$ 626,164	$ 471,182	$ 318,759	$ 201,983
Less: Accumulated Depreciation	584,850	437,080	362,890	271,998	164,418	121,508	93,366	74,252
Net Property, Plant and Equipment	$1,240,183	$1,103,444	$1,035,955	$ 745,290	$ 461,746	$ 349,674	$ 225,393	$ 127,731
Total Assets	$4,221,670	$3,631,644	$3,454,445	$2,548,661	$2,169,280	$1,587,704	$ 840,461	$ 534,430
Liabilities and Stockholders Equity								
Current Liabilities:								
Accounts Payable	$ 303,822	$ 305,836	$ 417,990	$ 250,000	$ 116,984	$ 149,203	$ 88,448	$ 30,303
Federal and State Income Taxes	368,009	290,173	345,315	239,830	146,390	259,080	45,572	11,000
Accrued Payroll and Profit-Sharing Bonuses	350,917	263,232	268,660	156,851	151,311	164,906	62,050	19,655
Long-Term Debt Due Within One Year	61,000	68,250	63,750	56,000	44,000	15,300	16,200	24,670
Customer Advances	---	---	---	---	---	---	4,922	34,400
Other Accrued Liabilities	---	194,702	103,901	63,235	72,190	77,102	55,199	40,139
Total Current Liabilities	$1,352,935	$1,122,193	$1,199,616	$ 765,916	$ 530,875	$ 665,591	$ 272,391	$ 160,167
Long-Term Debt Due After One Year:								
Note Payable to Insurance Company, Due $40,000 Annually	$ 300,000	$ 340,000	$ 380,000	$ 420,000	$ 460,000	$ ---	$ ---	$ 112,263
Notes Payable	---	---	11,250	---	---	12,115	16,377	---
Subordinated Debenture Bonds	266,500	281,000	282,500	269,500	260,000	164,500	150,000	---
Lease-Purchase Agreement	---	---	---	---	---	50,000	50,000	---
Total Long-Term Debt	$ 566,500	$ 621,000	$ 673,750	$ 689,500	$ 720,000	$ 226,615	$ 216,377	$ 112,263
Stockholders Equity:								
Common Stock, $100 Par, 7,500 Shares Authorized	$ 348,400*	$ 360,000	$ 360,000	$ 320,000	$ 320,000	$ 300,000	$ 240,000	$ 120,000
Capital in Excess of Par Value	180,000	180,000	180,000	60,000	60,000	30,000	---	---
Retained Earnings	1,773,835	1,348,451	1,041,079	713,245	538,405	365,498	111,693	142,000
Total Stockholders Equity	$2,302,235	$1,888,451	$1,581,079	$1,093,245	$ 918,405	$ 695,498	$ 501,693	$ 367,000
Total Liabilities and Stockholders Equity	$4,221,670	$3,631,644	$3,454,445	$2,548,661	$2,169,280	$1,587,704	$ 840,461	$ 534,430

* 116 shares in treasury in 1963.

Source: Company records.

Exhibit 2

HESSTON MANUFACTURING COMPANY, INCORPORATED

Consolidated Income Statements for Fiscal Years Ending September 30, 1956-63

	1963	1962	1961	1960	1959	1958	1957	1956
Net Sales	$10,671,355	$9,662,876	$8,691,577	$6,756,869	$5,745,131	$4,725,692	$2,568,149	$1,356,973
Cost of Sales	7,497,029	7,103,764	5,935,995	4,720,858	4,161,688	3,144,802	1,852,809	944,118
Gross Profit	$ 3,174,326	$2,559,112	$2,755,582	$2,036,011	$1,583,443	$1,580,890	$ 715,340	$ 412,855
Operating Expenses:								
Administrative	$ 800,673[1]	$ 657,192[1]	$ 425,137	$ 286,274	$ 284,570	$ 264,087	$ 202,013	$ 104,800
Personnel	---	---	74,248	53,616	42,237	---	---	---
Material Control and Purchasing	---	---	76,881	---	---	---	---	---
Selling	983,294[2]	782,992[2]	499,873	371,159	336,754	266,207	151,889	119,605
Manufacturing	---	---	286,421	264,519	193,619	219,147	100,289	62,687
Tooling	---	---	151,379	155,512	134,447	79,615	42,979	93,849
Traffic	---	---	121,209	96,882	121,921	106,617	57,553	---
Engineering	470,546[3]	405,573[3]	287,697	219,230	175,988	111,412	64,076	---
Field Service	---	---	87,371	92,208	---	---	---	---
Total Operating Expenses	$ 2,254,513	$1,845,757	$2,010,216	$1,539,340	$1,289,536	$ 533,805	$ 618,799	$ 380,941
Operating Profit	$ 919,813	$ 713,355	$ 745,366	$ 496,671	$ 293,907	$ 533,805	$ 96,541	$ 31,914
Other (Deduction) Income:								
Interest Expense	$ (72,883)	$ (78,685)	$ (67,015)	$ (63,423)	$ ---	$ ---	$ ---	$ ---
Other Income	15,269	6,702	1,483	---	---	---	435	288
Excess of (Expense) or Income	$ (57,614)	$ (71,983)	$ (65,532)	$ (63,423)	$ ---	$ ---	$ 435	$ 288
Income Before Taxes	$ 862,199	$ 641,372	$ 679,834	$ 433,248	$ 293,907	$ 533,805	$ 96,976	$ 32,202
Provision for Income Taxes	442,000	334,000	352,000	225,000	149,000	280,000	41,500	11,162
Net Income	$ 420,199	$ 307,372	$ 327,834	$ 208,248	$ 144,907	$ 253,805	$ 55,476	$ 21,040

[1] Total of General and Administrative Expenses
[2] Selling Expenses
[3] Engineering, Research and Development

Source: Company records.

Exhibit 3

HESSTON MANUFACTURING COMPANY, INCORPORATED

Percentage Analysis of Income Statements

	1963	1962	1961	1960	1959	1958	1957	1956
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	70.2	73.5	68.3	69.9	72.4	66.5	72.1	69.6
Gross Profit	29.8	26.5	31.7	30.1	27.6	33.5	27.9	30.4
Operating Expenses:								
Administrative	7.5	6.8	4.9	4.3	5.0	5.6	7.9	7.7
Personnel	---	---	.8	.8	.7	---	---	---
Material Control and Purchasing	---	---	.9	---	---	---	---	---
Selling	9.2	8.1	5.7	5.5	5.8	5.6	5.9	8.8
Manufacturing	---	---	3.3	3.9	3.4	4.6	3.9	4.6
Tooling	---	---	1.7	2.3	2.3	1.7	1.7	6.9
Traffic	---	---	1.4	1.4	2.1	2.3	2.2	---
Engineering	4.4	4.1	3.3	3.2	3.1	2.4	2.5	---
Field Service	---	---	1.0	1.3	---	---	---	---
Total Operating Expenses	21.1	19.0	23.0	22.7	22.4	22.2	24.1	28.0
Operating Profit	8.7	7.4	8.7	7.4	5.1	11.3	3.8	2.4
Other (Deduction) Income:								
Interest Expense	(.7)	(.8)	(.8)	(.9)	---	---	---	---
Other Income	.1	.06	.02	---	---	---	.01	.02
Excess of (Expense) or Income	(.6)	(.8)	(.8)	(.9)	---	---	.01	.02
Income Before Taxes	8.1	6.6	7.9	6.5	5.1	11.3	3.8	2.4
Provision for Income Taxes	4.2	3.4	4.1	3.3	2.6	5.9	1.6	.8
Net Income	3.9%	3.2%	3.8%	3.2%	2.5%	5.4%	2.2%	1.6%

Source: Compiled by author.

Exhibit 4

HESSTON MANUFACTURING COMPANY, INCORPORATED

Selected Balance Sheet and Operating Ratios

	1963	1962	1961	1960	1959	1958	1957	1956	1962 Medians[1]
(R) Current ratio	2.15	2.20	1.98	2.33	3.17	1.83	2.21	2.33	3.11
($) Net working capital	1,566,308	1,354,819	1,182,677	1,022,323	1,155,994	554,984	331,693	213,060	NA
(R) Acid test ratio	.79	.85	.57	1.03	1.62	1.00	.74	.36	NA
(days) Collection period	25	40	27	32	45	40	32	24	39
(R) Total assets to total equity	1.80	1.90	2.10	2.36	2.41	2.37	1.75	1.50	NA
(R) Fixed assets to total long-term debt	2.20	1.70	1.50	1.10	.57	.55	.47	.38	NA
($) Earnings per share	120.61	85.38	91.07	65.08	45.28	84.60	23.11	17.53	NA
(%) Net profit to net sales	3.90	3.20	3.80	3.14	2.56	5.48	2.23	1.64	3.06
(%) Net profit to tangible net worth	18.30	16.34	20.71	19.13	15.84	36.45	11.14	5.76	9.60
(%) Net profit to net working capital	26.83	22.76	27.73	20.43	12.57	45.78	16.75	9.91	14.54
(R) Net sales to tangible net worth	4.65	5.13	5.57	6.23	6.31	6.80	5.12	3.78	2.48
(R) Net sales to net working capital	6.82	7.10	7.34	6.65	5.00	8.50	7.74	6.41	3.63
(%) Fixed assets to tangible net worth	53.86	58.45	65.57	68.10	50.23	50.20	44.94	34.76	33.33
(%) Current debt to tangible net worth	58.78	59.45	75.86	70.10	57.85	95.63	54.34	43.67	31.00

[1] 1962 medians computed by Dun & Bradstreet for manufacturers of agricultural implements and machinery. Information is not available as to whether any of the 61 reporting firms were short-line manufacturers comparable to Hesston.

Source: Compiled by author.

Exhibit 5

UNION SALARY SCHEDULE

Effective October 1, 1963

Labor Grade	Rate Ranges
One	$1.55 - $1.80
Two	$1.60 - $1.91
Three	$1.65 - $2.02
Four	$1.70 - $2.17
Five	$1.80 - $2.32
Six	$1.90 - $2.47
Seven	$2.05 - $2.62
Eight	$2.15 - $2.77

Source: Union contract.

Exhibit 6

ANNUAL PERCENTAGE INCREASE IN SALES VOLUME

Year	Increase Over Previous Year	Year	Increase Over Previous Year
1963	10.4%	1959	21.5%
1962	11.2%	1958	84.0%
1961	28.6%	1957	89.2%
1960	17.6%	1956	40.8%

Source: Compiled by author.

Exhibit 7

PERCENTAGE DISTRIBUTION OF SALES

Year	Hesston Distributor and Export	Original Equipment Manufacturers
1963	64.5%	35.5%
1962	51.7%	48.3%
1961	49.1%	50.9%
1960	62.2%	37.8%
1959	46.6%	53.4%
1958	48.6%	51.4%
1957	46.2%	53.8%
1956	75.4%	24.6%

Source: Company records.

Exhibit 8

NET SALES

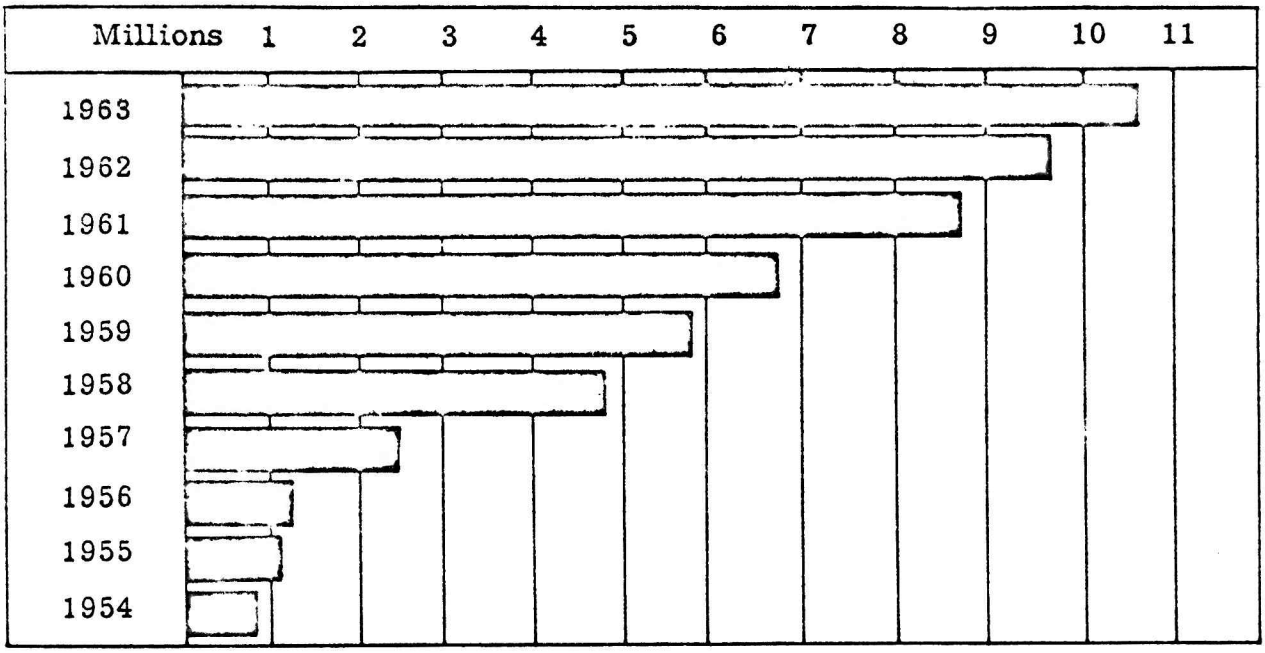


Exhibit 9

NET WORKING CAPITAL

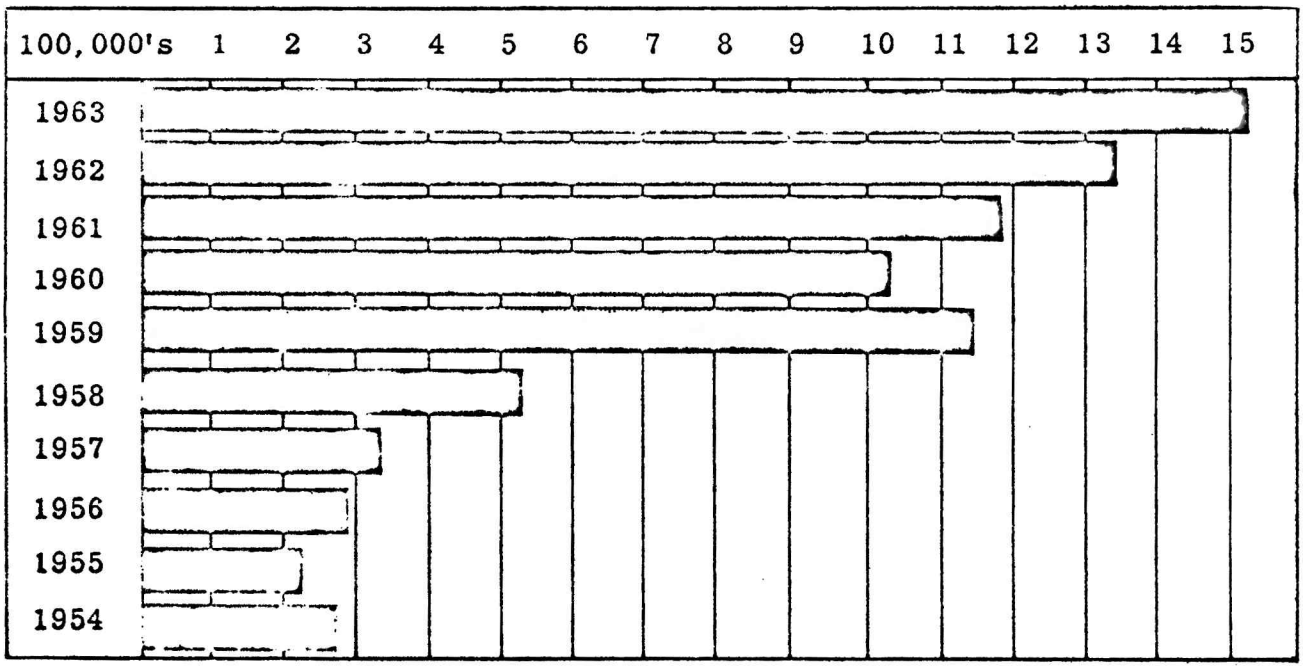
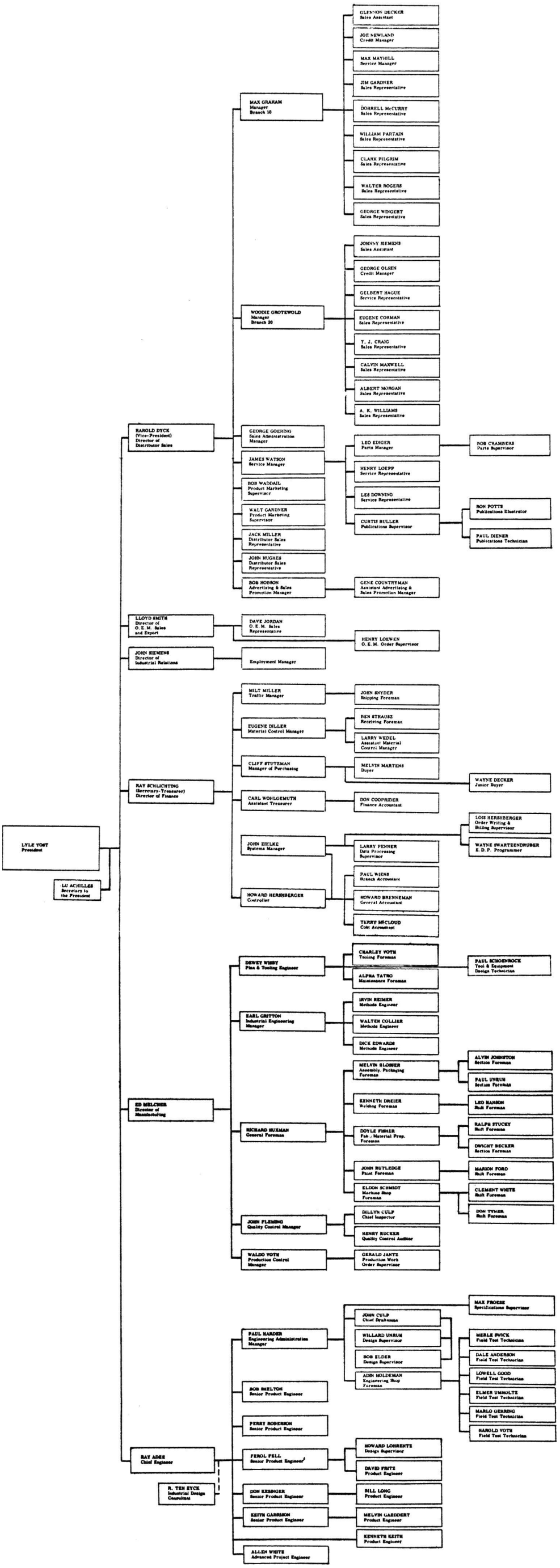


Exhibit 10

HESSTON MANUFACTURING COMPANY, INCORPORATED

Organization Chart--September 30, 1963



A BUSINESS HISTORY OF THE HESSTON MANUFACTURING COMPANY, INCORPORATED, 1947-1963

by

DWAINE REED TALLENT

B. A., College of Emporia, 1957

AN ABSTRACT OF A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

College of Commerce

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1964

The purpose of this study was to compile, evaluate, and present historical date concerning the Hesston Manufacturing Company, Inc., Hesston, Kansas. The information upon which this study was based was obtained through interviews with various department heads, administrative specialists, professional and supervisory personnel, shop workers, and people in the community. Each member of top management was interviewed at length both on an individual and a group basis.

The Hesston Manufacturing Company, a specialized farm equipment manufacturer, has enjoyed tremendous growth since its founding in 1947. Of the 1200 farm equipment manufacturers, Hesston ranked as the eleventh largest in 1963.

A total of 83 new and specialized products were pioneered and produced in Hesston, many of which have become standard equipment on major farm implements. The company is recognized in the farm equipment industry as being a leader in the development of specialized equipment.

In 1963, Hesston machinery was distributed to each of the 50 states, plus Canada, Mexico, Europe, South America, and Africa. Sales have increased approximately one million dollars each year since 1954. Total sales in 1963 were nearly eleven million dollars. Approximately one-third of this sales volume was obtained from the manufacturing of complete machines for major long-line farm equipment companies.

The Operating Committee and the Products and Marketing Committee, each consisting of division heads with the President serving as the chairman, performed a major management function in carrying on daily operations as well as doing long-range planning. The over-all operation and management of the company was the responsibility of the Operating Committee. The responsibility for

the development and manufacture of new products rested with the Products and Marketing Committee. Friday of each week was set aside for committee meetings.

An independent union, organized in 1958, has played a vital role in creating and maintaining excellent working conditions. Excellent labor-management relations have contributed substantially to the growth of the company. Similar relations existed between the company and the city of Hesston. Many projects were undertaken jointly by the city and the company.

The common stock of the corporation was held by ten men, seven of whom were members of the Operating Committee. The Board of Directors was composed of four major stockholders and one minor stockholder. Although the company was closely held, management could, if necessary, go to the public market.

The story of Hesston is not an unusual story in America. It has happened time and again. Most of America's major companies had similar beginnings. It is often called the American way, or the free enterprise way. A need is discovered. An idea is born. A product is produced. Someone buys, and if it is good, others buy. Distribution is established. Competition is encountered. Faith is exerted. A new company is born. More needs are discovered, new products are developed; and the process repeats itself.