

## [Transcript] Founders / #284 Andrew Carnegie, Henry Clay Frick, and the Bitter Partnership That Changed America

The presenting sponsor of this episode is Tiny. Tiny is the easiest way for you to sell your business. They provide straightforward cash exits for founders. I've told you before, one of the best things about making this podcast is I get to talk to a ton of founders. And one of the themes that pops up again and again in the conversations I get to have with other founders is that a large part of our life is actually searching for what we're going to call our life's work, something that is unique to us, something that we can do forever. And in that search, in almost every single case, that means starting more than one company. This is so common that Tiny has built an entire business around buying other businesses. If you go to [tiny.com](https://tiny.com), you'll be able to see the way they differentiate their offering compared to other people that buy businesses.

Tiny has been referred to as the Berkshire of the internet. In fact, if you stick around to the end of this episode, the last six minutes is actually a masterclass on product differentiation from Warren Buffett. And I compare the ideas that Warren writes about in his shareholder letters to Tiny's approach to building their business. Like Warren Buffett, the process of selling your business to Tiny is very straightforward. You go to [tiny.com](https://tiny.com), you'll get a response within 48 hours. They'll make an offer within seven days and then they close within a month and you get a bag full of cash. If you have a business that you want to sell now or in the future, make sure you go to [tiny.com](https://tiny.com). And one more quick thing before we jump into this insane episode, you're not going to believe the story that is in this book. It is wild. I want to give you a personal podcast recommendation. If you do not already follow the show, invest like the best in your favorite podcast player, wherever you're listening to this, please search in that podcast player and follow the show right now. Here's three episodes to get started with, three episodes I absolutely loved. Episode 137 with Bill Gurley. It's called All Things Business and Investing. It's absolutely excellent. And then I have two episodes with my friend Sam Hinky that were excellent as well. Episode 88, Sam Hinky, Data Decisions and Basketball. And episode 204, Sam Hinky, Find Your People. And now let's jump into the bitter partnership of Andrew Carnegie and Henry Clay Frick.

One of America's wealthiest men, his holdings valued at more than a hundred billion dollars in today's dollars, sat up in his sick bed in his Manhattan home and called to one of his caregivers for a pen and paper. Andrew Carnegie, 83, once the mightiest industrialist in all the world, was now an influenza ravaged man. He took up his pen and began to write as if possessed. When he was finished, he summoned to his chambers his longtime personal secretary, James Bridge. Take this to Frick, Carnegie said, as he handed the letter to his old confidant. It would have been enough to snap Bridge upright, surprised enough to hear Carnegie mention that name, much less hand over a letter to that person. True, Henry Clay Frick was a fellow giant of industry. And he and Andrew Carnegie had been partners once. Frick had been the man Carnegie trusted above all others to manage the affairs of Carnegie Steel. But the two men had not exchanged a word in nearly 20 years. That's since Carnegie drove Frick out of the business and Frick successfully pressed a monumental lawsuit against his former partner, the first in a long string of vengeful acts. Had Carnegie divulged the contents of this letter, the secretary's expression would have likely turned to outright astonishment. Bridge left Carnegie and made his way down Fifth Avenue from the awe inspiring 64 room mansion across from Central Park to an even more imposing structure some 20 blocks south. Bridge arrived at the Frick mansion, a modern day palace that its owner had vowed would make Carnegie's place look like a hovel.

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Though Frick like Carnegie was white bearded by now as well, he would have never been mistaken for Santa Claus. Frick's countenance was intimidating. You see that his head is there, placed on that body for his triumph and your defeat, one of his contemporaries observed. That's why Carnegie had gone to great pains to portray himself as a benevolent friend to his workers. He had delegated the job of holding the line on wages and other demands to Frick. This is a fantastic metaphor. A patent to Carnegie's FDR, as it were. Frick tore open the envelope and

scanned its contents. Frick glanced up. So Carnegie wants to meet me, does he? A meeting was precisely what Carnegie had called for. Carnegie had reason that both he and Frick were growing old and that past grievances were beneath their dignity. They were first among equals. Surely it was time to meet and patch up the wounds they had inflicted upon each other. The words might have touched a chord in almost any other man. But Henry Clay Frick, still the ranking board member of US Steel, showed no sign of gratitude or relief. By this time, Breach might have been edging to the door. Frick's ire was legendary. He had gone toe to toe with strikers, assassins, and even Carnegie himself, and had rarely met a grudge he could not hold. Long before Frick had constructed the mansion that would dwarf Carnegie's up the street, he had gone out of his way to purchase a part of land in downtown Pittsburgh.

Then he built a skyscraper tall enough to cast Carnegie's own office building next door in perpetual shadow. Yes, you can tell Carnegie I'll meet him Frick said, finally wadding the letter and tossing it back at Bridge. Tell him I'll see him in hell where we're both going. That was an excerpt from the book I'm going to talk to you about today which is meet you in hell. Andrew Carnegie, Henry Clay Frick, and the Bitter Partnership that transformed America and is written by Les Stanaford. So the last seven to 10 days I've done something

that I don't normally do. I was traveling for the holidays and I usually read one book at a time. I was actually reading three books at the same time. So I reread this book, because I just did the the last episode, which is episode 283 is on the autobiography of Andrew Carnegie. To prepare for that podcast, I reread my highlights, all of my highlights, and notes for this book. And it made me realize how much I love this book and how great it was, like what how great the writing was. And I actually think this book is easier to learn about the life of Andrew Carnegie than his own autobiography. And it has to do with not only the quality of the author's writing, but also the main focus of the book is on the relationship and the partnership. One of the most important partnerships, maybe the most important partnership that Andrew Carnegie ever had, and that is with another formidable individual named Henry Clay Frick. And so through the rereading of the highlights, I was like, oh, I'm going to do this right now, while the autobiography of Andrew Carnegie is fresh in my mind. I also have been reading a book on the founder of Rolls-Royce

and another new book on Jake Gold. So those are going to be the next two episodes after this one. So if you listen to last week's episode, there's going to be some review here, but there's a ton of new information. I want to jump right into Les, the author Les does a fantastic job of really setting the scene of what it was like, the technology, the multiple technological revolutions that are occurring in America in the mid to late 1800s. Almost every single robber baron makes a cameo, makes an appearance in this book. But the part that I want to start with is why

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steel was so important. By the end of the book, we'll go over Andrew Carnegie selling his steel company to JP Morgan. At once that transaction is done, it is said that Andrew Carnegie had the largest liquid fortune in the world at that time. How is that possible when he starts out as a 13 or 12 or 13 year old immigrant to a penniless immigrant to America with no education? And a large part of that is what Jeff Bezos said in the shareholder letters last week or the week before, where you should really pay attention to technological trends and use them as tailwinds instead of headwind. So this is why steel was so important. It was a leading technology of the day. Remember, we define technology as it's just a better way to do something. And so steel is going to be an incredibly important ingredient in a large technological revolution that's occurring in America at the time, which is the vast expansion of the nation's railroad system. And so it says as the Civil War began, there were fewer than 30,000 miles of track in all of the United States and much of that was in varying gauges and states of repair. So not only is it going to expand too many times that size, but also all those railroad tracks have to be redone because it has to be standardized. So it says the 1890s, which is that this occurs through the explosion of Andrew Carnegie Steel Company happens in the 1890s. The 1890s saw the width of railroad track standardized and nearly 163,000 miles of railways put into use to build this vast network of track and bridges. No supporting industry is more important than iron and steel. There's dual technology tailwinds here. You have this vast expansion of the railroad network, right? And then you also have the technological advancements that allowed for the mass production of steel and the vast expansion of the rail system proceeded hand in hand to the end of the 19th century. By the time Carnegie is done, the United States goes from being behind most of Europe to actually turning out more steel than Great Britain, France and Germany combined. And so it says in less than half a century, the United States had been transformed from a largely agrarian and underdeveloped federation of competing interests to a relatively cohesive economic juggernaut. And then he ends the section with just excellent writing. The age of, remember we're at 1860s to, let's say 1890, the age of the founding fathers was over and the age of Titans had begun. And this is when you start to see truly, for the first time in history, truly gigantic businesses, they talk about standard oil, Rockefeller's obviously in here, Vanderbilt's transportation network is obviously going to be in here as well. And of course, Carnegie's combination of his steel company with Morgan's JP Morgan steel company creates the world's very first billion dollar corporation. There's also, so those are like obviously larger businesses, but Henry Clay Frick, you're still going to be able to produce and to create really valuable businesses, even if they're not the largest in the world. So Henry Clay Frick, he actually becomes partners with Carnegie first by monopolizing the Koch industry. So Koch, they're going to refer to this as Koch. The book, it is bait, but too menace coal. And this is why Koch is important and how Henry Clay Frick was able to leverage his domination of Koch to be a major shareholder in Carnegie Steel, which makes him a ton of money. But anyways, Koch is a substance that could provide the fuel necessary for the economical production of steel in significant quantities. And so Henry Clay Frick's company is eventually going to be valued, and they think the valuation was modest, actually lower than the actual value, but it's going to be eventually valued at 70 million

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dollars, 70 million dollars and \$1,800 is, you know, multiple billions today. So before the author introduces us to Henry Clay Frick, he gives an overview of Andrew Carnegie's life. I'm going to read it. There's going to be some overlap between this episode and the autobiography of Andrew Carnegie, but I consider them in addition to not in replace of. But I want to read a bunch from this section because you see how there is massive growth occurring in a ton of new industries all at the same time, from railroads to telegraph to oil to iron and then steel as well. And that's to say nothing of the bunch of the bankers and the financiers that are in this book and that are building great wealth at this point in American history. So the first job Carnegie finds in America, he's working as a bobbin boy in a weaving mill. He's making \$1.20 a week. I'm going to fast forward to the next job. It says Carnegie found a close position and another mill and then happened into a position as a delivery boy for a telegraph company in downtown Pittsburgh for \$2.50 a week. Before long, Carnegie had picked up telegrapher skills, including the ability to translate the clicks and clacks of Morse code directly into text or speech. His skills and self confidence attracted the notice of a number of influential customers, including Thomas Scott, who was then assistant superintendent of the Pennsylvania Railroad. So I did think it was interesting how Carnegie is always taking advantage of the opportunities in front of him. And that one opportunity is in front of him, he's doing the best job he can and leads to his next opportunity. Really, I'm skipping over a bunch of that because I covered that last week. But also the main point, the real important reason that Thomas Scott, the role he played that was really important in Carnegie's life is he introduced Carnegie to the larger world of business. And so a young Carnegie has a front row seat inside of an industry that is touching all different industries. And that position that Carnegie has is going to lead to all kinds of business opportunities, investments, and really, this is a crash course on entrepreneurship and learning how to make money. The real benefit to Carnegie was the practical business education that he received from his association with Scott. And so what's going to occur over the next few pages, the note I have here is this is where he becomes an entrepreneur. And one thing that Carnegie did that was smart is he always knew that he's able to access these opportunities because of his position with the railroad company, and his relationship with Thomas Scott. And so this is where Carnegie makes his first investment in oil. Carnegie was approached by a group of businessmen who persuaded him to visit the region north of Pittsburgh, where a new substance known as oil had been discovered.

Carnegie took one look at the mad scene in Pennsylvania's new oil country and made his decision. He was able to raise the necessary cash and join a group of investors to found the Columbia Oil Company. Just two years later, he was receiving nearly \$18,000 in yearly dividends from the new company. So to put that in perspective, people working in the factories are making maybe \$100 to \$200 a year. And Carnegie is making this much money and he still got a full time job with the railroad. It was a lesson that Carnegie would not forget when another such venture presented itself in 1862, he did not hesitate. The incidence of sabotage on the north's rail lines had greatly increased during the Civil War, with wooden bridges being vulnerable to arson. Carnegie's mentor Scott approached him with the notion that he might take advantage of his contacts around the Pittsburgh iron mills and rail yards to assemble a group that could make bridges of a substance far more difficult to burn. And looking back on his career, Carnegie talked

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about how important this decision to start the bridge company was the Keystone Bridge Company was formed. And to Carnegie, it was the investment that turned out to be what he said, quote, the parent of all other works. And so his business income is far outstripping his salary, says Carnegie was earning more than \$45,000 a year from this and all his other investments compared with just \$2,400 from his railroad salary. Yet he understood that was the contacts he made

and the information he derived from his association with the railroad that made everything else possible. So let's pause there before we go into the expansion of his young Andrew Carnegie's empire. Think about it. Look at the different industries he's already touched. He learned how to be a telegraph operator, telegraph is the leading communication technology of its day. He's working for the railroad company, the leading transportation network and technology of its day. He's making investments in oil, the leading commodity of its day. He's working in iron, which leads him to steel, which winds up becoming the most important ingredient in manufacturing of his day. So it says Carnegie joined with his bridge building partners to form the Cyclops Iron Company, which would allow them to secure the raw material for their projects without dealing with a middleman. This strategy, so Carnegie, like I said last week, he always wants to control over, he wants control over anything that his business needs. More control means less cost and more profit is the way he thought about it. This strategy is going to what is what brings him to his life to intersect with Henry Clay Frick. Remember this part when JP Morgan later in the book is analyzing Carnegie's steel company realizing, uh-uh, I don't want to compete with that. So this

goes on for a few years. Eventually he has no choice. He's got to quit his job. He's like, I'm going all in on this. Determined to make a fortune and certain that he could never do as a salaried man, he tendered his resignation to the Pennsylvania Railroad and turned his energies to iron. And then he also does something that's really smart. You have to go to where the action is. This is Andrew Carnegie at age 33. Carnegie had made another significant decision. He had left his adopted hometown of Pittsburgh, taking up residence in New York City. He had decided that if he aspired to join the ranks of society's greats, he should have a presence among them. So at this point in Andrew's career, he's got his hands on a bunch of different things. He's it says he's operating at full throttle all the time. And this is where he comes to the conclusion. He's like, well, what's the best way to actually produce and generate the most amount of wealth? And so it says, perhaps it made more sense to end the scattershot approach to accumulating

wealth and put all good eggs in one basket and then watch that basket. The question was, which eggs and which basket? So he takes a trip to England. This is where he meets with Henry Bessemer, but he was going to be the inventor of the Bessemer process for producing steel. It's interesting enough. So that happened in the 1870s. That trip is also where Carnegie met Junius Morgan, which is JP Morgan's dad. So on the same trip, he meets JP Morgan's dad, JP Morgan is going

to buy the steel company that he's going to spend the next two decades making. And he learns that he should be making a steel company on this trip. Both things happened on the same trip is very fascinating. Of the men with whom he had met on his for on his foray to England was the inventor Henry, one of the people he met when he went to England was inventor Henry Bessemer. As a result

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of the process for transforming iron to steel that bore his name, a quantity of steel might that might have formally have taken as long as two weeks to produce could now be made in 15 minutes. So let's go back to the definition of technology from earlier in the book. Technology is just a better way to do something. So the Bessemer process takes something that took two weeks and now they

could do it in 15 minutes. So Carnegie finds himself in the right place at the right time with the right set of skills, because now he's like, wait a minute, you can make steel so much faster than you could have. And because of experience with the railroads and building bridges, he realizes, Oh, wow, the demand for this stuff is going to skyrocket. To that point, it says Carnegie understood the industry's vast potential appetite for an improved form of iron. Not only did everything in the business move on iron rails, but the cars and the engines were built of iron, as was the machinery that loaded and serviced them, as were the new bridges that span the rivers and chasms of the America West. If there were a cheaper and more durable substance than iron, it would lead to a revolution in the business, not to mention a fortune for those who got in on the ground floor. That realization, that idea is the foundation in which Andrew Carnegie's giants financial fortune rested upon. And so this is where it says Carnegie made up his mind. He returned to Pittsburgh intent

on building his own steel mill. So that happens in 1872. There is a, there is a very famous financial panic, and it's called the financial panic of 1873. And it seems so at the beginning, it's like, oh my goodness, you know, as it turned out, he could not have chosen a worse time to start his company. He is starting his company during a financial panic. Financial panics are just a name that they used to put on depressions and recessions. We call what they call financial panic, which is a way better name, by the way, we call recessions and depressions today. And so the note I left myself on this page, this is lessons from the financial panic of 1873, turned out the best time to expand is when no one else is actually willing to take the risk. So it says the New York Stock Exchange would close its door for the first time in history, remaining shuttered for 10 days. Of the more than 360 railroad companies in the United States, one quarter declared bankruptcy. 20,000 businesses of all types failed and one sixth of the nation's workforce found itself out of work. Those are the economic conditions that Andrew Carnegie is going to start his business. This business becomes one of the most valuable businesses that has ever been created. That is insane to think about. So it says the depression actually played into Carnegie's hands. The decreased demand for materials and labor caused

by the economic downturn resulted in nearly 25% savings over the cost Carnegie had originally projected for. For Carnegie, it was another invaluable business lesson. The best time to expand was when no one else dared to take the risks. So Carnegie is able to build this his very first still mill right for 25% cheaper than he than he originally thought. He's also able to get labor cheaper than he thought but he did who was always willing to pay top dollar for the very best people.

And maybe I shouldn't say always willing because this is the fight that he tries to screw over Henry Clay Frick who is you know, it's like one of the best entrepreneurs that you can get him working in your company. Why would you do that to him? But there's this weird like ego thing going on. We'll go into that later. But anyways, for at this point in his career in Carnegie's career,

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he realized the benefit of finding identifying the very, very best people and paying as much as much as you need to. So he says there is no labor so cheap as the dearest in the mechanical field, meaning the people that are actually manufacturing and controlling his plants the best of the best pay for themselves for key positions. He hired the best and paid top dollar. Carnegie's success can be attributed to another lesson he had learned on the way up the value of meticulous cost accounting. And so this is actually an idea that he applied in his previous businesses that he's now applying to steal after forming the Cyclops ironworks. Carnegie revolutionized the industry's practice by applying the same standards he had learned in freight hauling when he's working at the railroad, right to the foundry's production line. As a result, when the Union iron or Keystone Bridge, both companies that he owned and controlled submitted a bid on a project, there was no guesswork involved. If Carnegie chose to undercut a rivals figure, he did so with absolute confidence that he could deliver what he promised and make a profit for his was the only firm in the field with near fanatical devotion to cost accounting when he discovers that Henry Clay Frick has the exact same ideas that Carnegie is applying to ironworks to steelworks and to his bridge company. Frick is applying those ideas to monopolizing the coke industry. He's like, Oh, this is another me. He's just like a decade and a half younger. Frick is like a decade and a half younger than Carnegie. As Charles Schwab, that's not Charles Schwab winds up running Carnegie Steel winds up being the first president of US Steel. He is a protege of Henry Clay Frick. That is not like the Charles Schwab, like the broker guy, the finance guy as Charles Schwab would later put it. Carnegie never wanted to know the profits. He always wanted to know the cost. And then this next part, this is just like Jeff Bezos on episode 282. Jeff and Amazon get like the highest rating that had ever been rated in and I think it was service. I can't remember exactly. And he's like, Oh, we're the best that's ever happened. Cool. I still want to be better. So Carnegie is the best and he still pushes for more improvement. Just like Jeff did. Jeff Bezos did. Even his key employees were not spared Carnegie's heavy handed management style to almost every positive report.

Carnegie's response was good, but let us do better. And so because he had a fanatical devotion to lowering cost, he had the lowest cost structure in his entire industry. This is something you and I've seen over and over again, Henry Ford, Rockefeller, Carnegie, Frick, they all do this. They were able to charge less lowering the price of the customer, got them more customers and this like virtuous cycle competes or repeats over and over again. I think Jeff Bezos said this beautifully in his shareholder letters. I mentioned it on episode 282. He said, repeat this loop. While other manufacturers were charging \$70 a ton for their rails, Carnegie offered his for \$65. Following another one of his well known dictums, this is my favorite, one of my favorite things he ever said. And I couldn't remember if he said it or Frick said it, turns out Carnegie said it, cut the prices, scoop the market, watch the costs and the profits will take care of themselves. And why could he charge \$5 less per rail than his next nearest competitor? Because he was able to produce his rails for less than \$50. Also interesting to note, what is the role that Carnegie played? He's not the one running the plants, right? He actually was the principal salesman for his iron and steel companies. That was one of the most surprising things I learned when I read that fantastic biography of the first 35 years of Bill Gates' life. It's called Hard Drive. It's episode 140. I'm going to reread the book soon. But Bill Gates, at the very beginning of Microsoft, it was him, his secretary and I think 28, I think the first 30 employees of

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Microsoft, if I'm remembering correctly, was Bill Gates, his secretary and 28 programmers. And it said Bill did all of the sales. He spent all his time just selling as much software as possible. He was maniacal about it. And so anytime you're studying the history of business in the 1800s and early 1900s, you'll see that they do not like competition. They all try to collaborate. They try to fix prices. But we'll see a little bit of this. This is very similar to Rockefeller as well. They try to essentially create a steel pricing pool, right? They're going to, I guess, cartel is the way to think about this. And so he's approached by this group and they're like, okay, let's all get together and we'll give you 9% of the total profit and sales from this cartel. And he's like, are you insane? Carnegie balked when he deemed his proposed share was so far too small. Were they actually offering him 9% of the total pie when he could make steel more efficiently than any of them? He asked in disbelief, pounding the table, preposterous, what did he need with them? And so this relentless attention to cost cutting is where Carnegie and the lives of Henry Clay Frick are going to start to intersect and they'll stay intertwined for about 20 years. And what brought Carnegie, or excuse me, what brought Frick to Carnegie's attention was the

fact that Frick figured out a way to produce high quality Coke way cheaper than Carnegie tried to because Carnegie wanted to control his, like if it was important to his business, he wanted to control the process. And he's like, we could just buy it cheaper from Frick. Why are we doing this? And so that's eventually going to lead to a partnership. Carnegie continued his quest to cut cost, focusing now on the raw materials demanded by the steelmaking process. The next indispensable substance for the production of steel was Coke. Carnegie has to have this as a non-negotiable, a steady supply of high grade Coke at a consistent price was essential to the efficient production of iron and steel and had led Carnegie to buy his own Coke ovens. But their limited capacity meant that Carnegie could actually buy cheaper Coke from competing operators. As a result, Carnegie decided to sell his own ovens and buy all of his Coke on the open market. He dispatched his brother Tom, who's going to be his partner, to go meet with the principal manufacturer of Coke, one Henry Clay Frick. So I covered the early life of Henry Clay Frick on, actually read a biography with all the way back on founders episode number 75. But I want to jump into when he's a young man and go over how Frick got into the Coke industry. There's essentially like lots of borrowed money like the earliest years of Rockefeller's career, right? There was a line in one of Rockefeller's biographies where it said like he was the greatest borrower I've ever seen. So Frick is going to have lots of borrowed money and he's going to wind up growing rapidly during an economic downturn. So Frick is 21 years old. He starts to work with, to partner with his cousin because his cousin was involved in the manufacture of Coke. His cousin's name is Abraham Tinsman, but Tinsman was not a gifted operator. He was not doing well at this kid. Tinsman was having a difficult goal of it and was casting about for new partners. He needs money. So Henry Clay Frick goes and meets a bunch of bankers to borrow money to get involved and to buy into this Coke business.

And this is where he meets another legendary figure in the history of American business. This is Thomas Mellon. Thomas Mellon is the patriarch of the Mellon family dynasty. His son Andrew is also going to be a very successful banker and entrepreneur. He's going to be a life long, Andrew's going to be a lifelong friend of Henry Clay Frick. It was Henry Clay Frick who traveled to Pittsburgh to seek a loan for these activities and the banker who considered the

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matter was a 57 year old man named Thomas Mellon whose background as a judge, he's always referred

to as Judge Mellon throughout like in the history books, whose background as a judge must have enabled him to discern the potential of this whippersnapper. Frick had little to offer as collateral beyond his confidence in the future of Coke. So here Thomas Mellon can only go on his judgment. Do I find this person trustworthy? Am I going to have is he going to repay back the loan? He decided yes, he approved the loan before the first new oven had been completed, their Coke oven. Frick was back to apply for a loan for a second, a second loan for a second oven. Okay. One of Mellon's officers recommended the request be denied. Mellon asked a mining engineer for an independent opinion before making the final decision. The report soon came back. This is one of my favorite lines about Andrew Clay Frick and it's a great way for you and I to think about our businesses. It says he knows his business down to the ground. It was enough for Mellon who approved the loan. He would approve many more loans after that. By the end of 1873 Frick and company owned 200 Coke ovens selling everything it could produce to the rapidly expanding steel makers in the region. Then came the economic collapse as iron and steel declined so to Coke. But Frick, who would later recall this as one of the most grueling times in his life, proved as undaunted in the face of adversity as Carnegie had been. Instead of turning tail, he used the depression and the confidence he had cultivated with Tom Mellon to his advantage. He judiciously purchased the coal lands and Coke ovens of his failed and failing competitors. So that is a buying spree that starts in 1873 and continues for the next nine years. His relentless acquisitions continued until by 1882 the company owned some 3,000 acres of coal lands and operated more than a thousand Coke ovens about a quarter of all those in the area. By the age of 30, Frick reckoned himself a millionaire and was fielding more demand for his Coke than he could possibly handle. And so Carnegie is obviously very, very impressed by Frick. Carnegie had done his homework on Frick and was impressed with what he found. Frick's company not only owned the best coal lands in the area, it produced the best Coke from it, but also they had in Mr. Frick, this is what Carnegie said about Frick, but had in Mr. Frick himself a man with a positive genius for its management. Now keep in mind, he's saying that many, many years before Frick is going to run the entire Carnegie company. It's going to take a while, but this idea he saw, he's like, okay, this guy is different. And this also touches on this idea that, that Carnegie believed in a form of social Darwinism. Frick's rise from humble beginnings was obviously intriguing,

Tim. It would have signaled to Carnegie that Frick was another one of the fellow fittest, survival of the fittest, and those are the individuals with whom Carnegie sought to align himself. First version of their partnership is that Frick is going to become the exclusive supplier of Coke for all of Carnegie's iron and steel works. Eventually, Carnegie is going to own more Frick's business than Frick does. And that was intentional because Frick used Coke as a way to get what he truly wanted, which was steel, an interest in the premier, the best steel making company on the planet. So now the book goes into Frick, you know, it's this relentless, he's a relentless acquirer, and he's bankrolling some of these acquisitions by selling equity of the company to Carnegie. Frick continued to pursue acquisitions vigorously. That's one way to put it. Bankrolling his purchases with sales of his stock to Carnegie. In addition, the Carnegie's also set out buying up the stock of H.C. Frick owned by Frick's other partners, with whom Frick had been

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involved with early on. Carnegie now owned 50% of the Frick Coke company. The original Frick associates held 33% and Frick held the remaining 16%. And the crazy thing is at this time, Frick's company is actually making more dividends. This is going to change rapidly. Then Carnegie's steel company, eventually Carnegie's steel company starts making like 30, 40 million a year at the end of the 1800s, or excuse me, the beginning of the 1900s, like that's insane. And that's in \$1,900. You know, you can multiply by at least 100x. So it says by 1888 dividends from Frick's operations with total almost \$2 million, which is slightly higher than the total of those from Carnegie's iron and steelworks themselves. So again, speaks to the operational genius and ingenuity of Henry Clay Frick. And then to wrap up this section, this is what I just what I just mentioned. Why would Frick do this deal? Because he had lots of debt and he viewed Coke as a way to get what he really wanted, which was steel. Frick saw in their continued association an avenue to his own extravagant dreams. Coke was important, yes, but ultimately, it was a secondary element in a much grander scheme. What Henry Clay Frick longed for was an entry into steel. He was willing to divest himself almost completely of his holdings in coal and Coke, if that's what it took to accomplish his goal. So initially, Carnegie was reluctant to include Frick as a partner. It actually took the early death of Carnegie's brother Tom for Frick to be able to run the company. So it says while the death of his brother and principal firm manager had been a severe blow, Carnegie saw advantages in promoting Frick to fill the void at Carnegie Brothers. To hard charging Andrew Carnegie, his brother had sometimes proven to be a bit reluctant and risk adverse as a competitor and entrepreneur. There would be no such timidity with Frick. Of that much, Carnegie was certain. And if it meant allowing Frick his wish to buy into the company, it was a small price to pay. It had taken the death of Tom Carnegie to accomplish it. But Henry Frick was now a partner in steel. So Carnegie's brother had actually died of pneumonia. Now, the reason I brought this to your attention is because something happens when at the same time that his brother was really sick, Carnegie was sick, and they were worried that Carnegie might actually die. And so once Carnegie recovered, they had this idea, the other partners in the steel company was like, oh, we need to make this thing called the ironclad agreement. This is a really important part because this ironclad agreement is going to be the linchpin that starts this gigantic war between Carnegie and Frick, a war that lasts until the day they both die. They went up dying a few weeks apart. So I'm going to skip over some parts. We're just going to give you a summary here. It had been Andrew, but if it had been Andrew Carnegie who died instead of his brother, his majority interest in the Carnegie companies would have required immediate liquidation of the entire enterprise. So that this ironclad agreement is the solution to this in case any of God forbid Andrew Carnegie was died early, since he's the primary owner of the business, the ironclad agreement function as a safety net, ensuring that the company had ample time to arrange for the purchase of a deceased partner shares at book value. The book value is going to be artificially depressed later on when the company is way more successful. I think at the time it's making like 21 million a year in profit. And Andrew's like, no, the business is only worth \$50 million. I don't know what you're talking about. And that is going to cause a rupture and a war between these two partners. The agreement included a provision that required any partner, dead or living, to sell his interest upon a vote of three quarters of the other parties. As a result, though he himself would never be subject to such provisions, Carnegie could easily marshal the

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forces

necessary to squeeze out any partner who became troublesome. That is exactly what he does with Frick. It is doubtful that neither Phipps, this is another one of their partners, or Carnegie was prompted to draft the clause by the entrance of Frick into the firm, though one day it would seem so. There is no record of Frick frick objecting to these terms, like the other partners, he signed the agreement. So a main theme of the book is this constant conflict between ownership and labor. It was very common if you read any of the I talked about this a bunch on the podcast in the past, but if you read any like business history books from, you know, the 1800s or the 1900s, it's, you can only describe it as a war. That's what it is. They literally kill each other. And so a main part of this book, the first rift that causes this war between Carnegie and Frick is over the handling of this thing called the homestead strike. That is how they refer to it. History refers to it as the homestead massacre. Two sides literally line up with guns and start murdering each other. The amount of violence in this book is shocking. But we're not there yet. We're still that happens in 1892. But I need to bring out there's a there's a series of labor disagreements. And we really see Frick's personality anytime not only is this guy like a very formidable

hard guy, anytime that he feels he's like, listen, if you want me to run the company, then I'm going to run the company. But if you're constantly like going to second guess my decisions, he just constantly threatens to resign and Carnegie doesn't want to run the company. And so a lot of times Carnegie gives in, I think Frick resigned the total of like three or four times. I'm going to get to the first part of this. This is actually the second time Frick resigns over a disagreement with Carnegie. So says Carnegie was accustomed to obedience from his subordinates. But if he expected unquestioned subservience from Henry Clay Frick, he had gravely miscalculated. Frick had from the beginning of his career been a hardliner on labor issues. He was incensed by the interference of labor organizers and unions in what he considered a process properly left to the discretion of the owners of the company. And so throughout Frick's career, he never backed down against labor. This is back. This is a about sale story when he was running the Koch company. During an 1877 strike that disrupted the shipment of coal and coke to his company, Frick accompanied a sheriff's deputy to help evict a striker who lived on a shack on the property. Frick and the sheriff told the striker that he would have to leave and the striker refused. Frick grabbed the striker by his hands and feet and flung him off the embankment where they'd been arguing and into a nearby creek. As the striker struggled to his feet, he found his belongings flying after him, including his mattress and his clothes. As a popular New York based publication once put it, Mr. Frick is a forceful self-reliant nature and in previous conflicts with labor organization has shown a determination to carry his point at all hazards. So the reason they're giving the background to you and I at this point in the book is because Carnegie is insisting that Frick settles with the strikers that he gives into their demands. And so Frick's like, okay, if that's what you want to do, I resign. Whatever the reasons, Frick responded in rather startling fashion to Carnegie's demands that he settled with the strikers. He writes a letter to Carnegie and the rest of the partners, as you hold a majority of the stock and are entitled to control in the company and in viewing what is passed between us on the subject, I feel compelled to vacate my position as president. I therefore enclose my resignation. And the problem with that is Carnegie knew there's nobody that he could replace Frick

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was Frick was the best person for the job. And so this goes on for several pages. But what was shocking to me is the end result of this giant disagreement they're having, you know, not the first time they have a big disagreement, this is the largest in their career so far in their partnerships before the actual end result of their disagreement was a closer partnership. So said the incident had taught both partners important lessons about each other. Carnegie saw that Frick was no puppet, but rather a man willing to take considerable risks in defense of his principles. If Frick's actions made clear that he was less pliable than others in Carnegie's circle, and there's a lot of people that would just, you know, just said Carnegie wanted, you know, unquestioned subservience from his from people around him for some reason. Frick's actions made it clear that he was no less pliable, that he was less pliable than others in Carnegie's circle. They also indicated a strength of will that might be useful if applied to others. Carnegie was wise enough to grasp Frick's point of view. And because he had also seen in Frick a managerial capacity second to none, he was willing to overlook Frick's resignation as the understandable act of a proud man. And so it says Carnegie determined to put Frick's managerial talents directly to work within the steel company and to share Frick's loyalty, Carnegie offered him an increased share of the company. Frick was named chairman of Carnegie Brothers and company.

And as a result, he now owns 11% of Carnegie's company. Carnegie wrote Frick a glowing letter of congratulations that ended with him saying, I'm expressing my thankfulness that I have found the man and he put the man in capital letters. And it said to Carnegie, Frick represented something special. Not only had Frick risen up from nothing as Carnegie had, and not only had he proved himself

the master of an allied industry, Frick had an ambition, a singleness of purpose, and a lack of self doubt that Carnegie envied. And Frick is a crazy workaholic. What we'll see here is that Frick's approach to running Carnegie's business. He's running both the Frick co company and Carnegie's

steel eventually it's going to be merged into one business that that happens after they have a falling out though. But anyways, Frick's approach to running Carnegie's business was the same approach

he used to run his business. The new chairman meaning Frick commenced the exercises of his duties with relish Frick worked from dawn till dusk, taking no holidays and familiarizing himself with every detail of the company's business. And Carnegie and Frick had a lot of common, a lot in common in their business building philosophy. This is Carnegie's mantra could also be applied to Frick Carnegie was always more interested in what a cost to produce goods than in revenues or profits Carnegie would repeat the mantra time and time again, profits and prices are cyclical subject to any number of transient forces of the marketplace costs however could be strictly controlled. And in Carnegie's view any savings achieved in the cost of goods was permanent. Another thing they also did both Frick and Carnegie would constantly invest in technology to drive down costs I talked about this in last week's episode as well. Carnegie had become convinced that basic earth furnaces represented the future of steelmaking they're talking about a new technology has developed his steel business has already been around you know for a decade, decade and a half at this point but they're constantly they're relentlessly searching out and investing in new technology that helps them become more efficient to drive down costs that's

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the whole point of me reading the section to you. Although it meant scrapping hundreds of thousands

of dollars worth of Bessemer converters Carnegie was undeterred even if we save half a dollar per ton by the changes it would justify a large additional expenditure right now. On this issue the two men were of one mind Frick had made his way in coke by the same reckoning that Carnegie had in rail and then in steel if you knew your cost down to the penny you were always on firm ground. Furthermore Frick had always understood how essential new technologies were in driving costs down cost control became nearly an obsession. Furthermore they shared a business philosophy that set them apart from their peers most of whom were more concerned with net profits and dividends than with the reduction of fixed costs. And so then the author goes into great detail about all the strikes and what happens and like the reasons behind the homestead strike the homestead

massacre. I'm just going to pull out a couple things that I think are just useful for us to keep in mind because I don't think we're ever going to have to deal with something like this in our lives but to me it's like okay there's a clear loss of perspective sometimes your focus in your life can narrow so much that you have a hard time seeing anything other than what's in right in front of your face. And I think stepping back and detaching and taking an overall look at the situation can cause you to avoid making these emotional emotionally charged decisions that

in this case you know in our case maybe causes us a loss of business loss of money where the case is in this case it was a literally loss of decades and decades of un-lived life these people died for no reason. And so the background is Frick and Carnegie they're not budging the union they're not giving into union demand so they're saying okay we're going to close down the plant the people that work at the plant refuse to leave that that leads to Frick hiring the Pinkerton detectives which is essentially like a private security a private armed security force of like 300 people they're going to show up the plant is right next to this body of water so they're going to show up on this boat boat's going to get to the edge of the water it's going to be met by 5 000 workers and there's going to be a giant war. And so the head of the union is Sky name O'Donnell he we're going to pick it up the story from there he's talking to the Pinkerton detective saying do not get off this boat so he says on behalf of 5 000 men I beg of you to leave here at once I do not know who you are nor whence you came but I do know that you have no business

here we the workers in these mills are peaceably inclined we have not damaged any property and we do not intend to but in the name of God and humanity do not attempt to land do not attempt to enter these works by force captain hindy is the leader of the Pinkerton force step finally onto the deck of the boat to deliver his response we were sent here to take possession of this property and to guard it for this company we do not wish to shed blood but if you men don't withdraw we will mow every one of you down and enter in spite of you you had better disperse for land we will O'Donnell surveyed the scene around him in addition to the armed thousands who had occupied the steep

banks of the river so that's his side hundreds more looked down upon the scene from a railroad bridge just upstream O'Donnell had spent weeks and months in an attempt to engineer a peaceful resolution to a dispute that in his mind cried out for a meeting of reasonable minds how had it

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come to this and so the war the shootout commences I'm just going to pull out one example there's a ton of examples people are literally getting shot by cannons but disappearing there's a brother talking to another brother his brother just turns into a mist from getting hit by a cannon but this is when I got to this section I just wrote down in the book this is he's dead for no reason decades of unlived life lost for what for nothing john morris a 28 year old welsh immigrant was a skilled worker in the plants blooming mill he had taken a position atop the pump house overlooking the wharf when morris squeezed off around so everybody's armed right they're all shooting and killing each other they'll shoot each other they'll stab each other they're beating each other with clubs it's it's unbelievable what's in this book when morris squeezed off around that he thought had struck one of the pinkerton detectives he raised his head just to seek confirmation his timing could not have been worse as he rose a rifle bullet split his forehead the force of the shot catapulted him off the tower he fell 60 feet dead before he hit the ground the things about these conflicts and the author does a fantastic job in the book demonstrating is it's like doesn't start doesn't go from zero to 100 it's a slow accumulation of slights and disagreements and fights and the pressure just builds and builds and builds to the point where somebody thinks it's a good idea to get a gun sit on top of a pump house and start having a little shootout over a job and so eventually the pinkertons are greatly outnumbered they have to surrender and then when they try to surrender the people that are still living and surviving this is what happens and i just wrote humans are wild animals in men massive groups exhausted and sleepless their nerves frayed by the tensions of some 12 hours farm combat and their passions inflamed by witnessing the shooting of scores of their fellows this group of strikers snapped the pinkerton men scream for mercy they were beaten over the head with clubs and the butts ends of rifles you could hear the skulls crack they were kicked knocked down and jumped upon their clothes were torn from their backs and when they finally escaped it was with their it was with faces of ash and paleness and with blood in streams rushing down the backs of their heads staining their clothes and deaths on both sides didn't change the outlook from either the union or the owners this is Frick's perspective Frick won on a tell reporters that no man who had been known to raise a rifle or pistol in the battle would ever again be employed in his operations nor would any man asserting any claims to union membership Carnegie steel would not be dictated to and so that leads a few weeks later to Frick's assassination attempt in the building where the operations of Carnegie steel or house sits Henry Frick engaged at this moment in a conversation with Carnegie company vice president this guy named leishman hearing a sound at the door behind him Frick turns from a conference table with some annoyance at the interruption to find a man he had dismissed from his offices only a day or two before though the man had earlier represented himself as simon backman an employment agent he is neither an employment agent a reporter a striker an officer of law nor a business confidant he is in fact alexander berkman and he has come to kill frick and then in the book is alexander's own recollection of this assassination attempt i'm going to pull out it is really spooky i'm going to pull out a couple lines i step into the office and i find myself facing frick with a quick motion i draw the revolver as i raise the weapon i see frick clutch with both hands in the arm of the chair

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an attempt to rise i aim at his head perhaps he wears armor i reflect with a look of horror he quickly averts his face and i pull the trigger i hear a sharp piercing cry and see frick on his knees his head against the arm of the chair i feel calm and possessed he is lying under the large chair without sound or motion dead question mark i wonder i must make sure and so what happens

next there's different stories depending on who you ask and who was there i'm going to read the description of the author includes frick was not yet dead as berkman advanced upon the prone frick who roused himself and began to crawl weakly towards the door berkman raised his pistol and aimed at between frick's shoulder blades again he pulled the trigger but as he did the hand of leishman that was the guy that frick was talking to struck berkman's arm and the second shot went astray berkman and leishman struggled but berkman gained the upper hand he pointed the pistol at a spot between frick's eyes and pulled the trigger again there was a dull click but no explosion came berkman stared at the pistol in disbelief berkman would have shot again but he felt a rush of air then a thunderous crack as a hammer wielded by a company carpenter drove into the back of his head

the man who would have killed henry clay frick slumped unconscious to the floor and so there's varying different accounts whether frick was shot once or twice what was known is he was shot at least once in the neck there's also a report that he was actually shot twice in the neck and that two bullets were removed from his neck this is the crazy part of the craziest part henry clay frick's life's obviously insane but this is the craziest thing one of the craziest things i've ever heard when a surgeon was rushed to the office to tend his wounds it was said that frick refused any anesthetic the bullets are going to be removed and he's going to be stitched up right there at the office and he's going to insist on finishing the work he was working on before going to the hospital this is insane with the removal of the bullets the doctor advised that his patient be removed immediately to the nearest hospital but frick would have none of it he insisted that his wounds be sewed up then and there and next had himself propped up in his chair where he completed the letter he had been working on when berkman attacked only after he was finished

with his day's work did frick permit himself to be carried from the office to an ambulance where he would take him to his home and even then he stopped so that he might issue a statement to

reporters this is insane listen to the statement this is after being shot in the neck this incident will not change the attitude of the Carnegie steel company towards the union i do not think i shall die

but whether i do or not the company will pursue the same policy and it will win

after this assassination attempt he is forced to spend uh like i think the next like few weeks in bed while this also happens he had a young daughter die about a year before she had a she had swallowed a pin um when she was like two and there had been a series of infections she winds up dying when she's seven then a year later his wife had given birth to a newborn son that newborn son unfortunately never made it so i think he died the son was like a few months old and so it says reeling now from the loss of two children frick forced himself from bed to attend the funeral service of his infant son on august 4th on the following morning he rode a street car to his downtown offices and began his day properly at 8 a.m 13 days after being gunned down and so

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the

public relations fall out from the homestead massacre and everything that happens is the beginning of the end for the frick carnage partnership it's going to come a few years in the future from where we are now but it can be traced the author does a great job of tracing it back to this one event before i get there i just found a random paragraph that i really liked it was actually good life advice from henry clay frick to his protégé charles schwaab you must not allow anything to discourage you in the least even if things do not go well for some time to come or even if you should get much or even if they should get much worse just keep at it doing the best you can do not allow the fact that you're not getting along as well as you would like to lead you to put yourself in a compromising position so about two years later frick is going to resign from running so he's going to still be involved in the company i think he's like chairman or something

but uh he's not going to be running the company day to day he resigns because there's like again this is what i meant about it's very uh beneficial to like detach to step back they're like they have a series uh like an accumulation of these small little fights in one case carney wants to buy one of frick's former competitors uh this this company that produces coke frick thinks this guy is like a thief and he's just reputable and he doesn't want to be involved and so again it looks like he winds up uh resigning because of this but this is like the straw that broke the camel's back and then it's even another few years after this where they just have you know they almost get into a fight where actually frick chases carney out of his office under the threat of violence i just want to pull out an excerpt from the resignation letter that frick sends to carney and uh says it can only be described as a jaw dropper that is for sure mr carney is high time you should stop this nonsensical talk about me being unwell overstrained and treat this matter between us in a rational business-like way why do you write such stuff i warn you to carry this no farther with me but come forward like a man and purchase my interest and let us part before it becomes impossible to continue to be friends i desire to quietly withdraw doing a little doing as little harm as possible to the interest of others because i become tired of your business methods your absurd newspaper interviews and your personal remarks and unwarranted interference

in matters that you know nothing about and so it's crazy he resigns this is happening in 1894 they wind up like getting even remember i said earlier like they fought and they wanted being closer partners they wanted being you know pretty like repairing their relationship and the final fallout doesn't come for like another three years and then the last few events that happen is just they're it's it's remarkable to me so you have henry clay frick and angel carney they're some of the wealthiest people in the world they're most formidable people obviously very intelligent and they're still capable of being petty and emotional and ego driven all of this could have been avoided both of them do things that are very very bizarre and i think lead to again it's this accumulation of these little slights and fights that have been happening for decade after decade and so the first thing is like why would frick do this like this doesn't make any sense frick is still one of andrew's trusted confidants frick and his partner phipp phipp they're both very interested in having this this is going to relate back to the ironclad agreement that i mentioned earlier uh in the towards the beginning of the podcast they're both interested in like okay let's find a buyer for this company let's liquidate let's

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actually get our money out of this right we all know that the the i think they just made 30 or 40 million in the year whatever it was we know this company's not worth 50 million it's worth you know five ten times that um and so they're looking for a buyer and why would you do this they try frick and phipps try to sell the company but they won't tell andrew who the bitterest this is the weirdest thing i don't even i can't describe it to you so i'm just going to read to you and then maybe you can just share in my misunderstanding frick and phipps might have sold their holdings even earlier but the existence of one major stumbling block was the ironclad agreement of 1887 which they had all signed according to the provisions uh which were meant to protect the partners in the event of carney's death uh partner who wished to retire could do so but his shares had to be redeemed at book value and payment made in installments since carney had always opposed the reevaluation of the company the book value of carney steel in 1899 remained 50 million dollars even though the most conservative estimates places true valuation between 200 and 250 million remember it's going to sell for 480 million and it had it had made a net earnings in 1899 of 21 million dollars the impasse was finally broken in in april of 1899 with frick and phipps informed carney that they had been approached by a buyer willing to meet the 250 million dollar price carney asked frick and phipps who the prospective buyers were in carney's mind rockerfeller was one suspect and another was jp morgan but frick and phipps told carney that they had been sworn to secrecy by their prospective buyer and that they were acting solely as intermediaries what the hell is taking place here could you imagine asking somebody carney that carney is the majority of owner if they sell it for 250 million he makes 157 million like sell your just blindly sell your company agree to selling it but we're not going to tell you who it's selling like what are you talking about and so it winds up coming out anyways that it's in the eyes of carney it's this guy named betta million gates who's rather famous he pops up in a bunch of um books they call him a notorious wall street speculator he also built this giant like barbed wire business and two other brothers i think they're called the more brothers so essentially like in in carney's eyes these are like speculators these are not honorable people and he was absolutely mortified at the prospect of selling his business to people like this and there's two things that make this even worse is one gates and the more brothers had persuaded phipps and frick that if they could convince carney to buy the business they would get a broker's fee of five million dollars which is really weird because they're supposed to be partners right so they're profiting off that in this bizarre like your shareholders in the company your profits should just come from us buying the business and the second thing was that gates and the more brothers didn't even have the money necessary to make the purchase they had nowhere near 250 million dollars

and so from carney's perspective i understand it says it was just that what carney is suspected a despicable exercise of speculation and it made was made all the more distasteful by the secretive and self-serving participation of his longtime partners and so from there i'm like okay that was a bad move on fricks part but this is what i meant i was like this is really bad like unbelievable what carney does to frick here and it's this accumulated disagreements over a long period of time that lead towards this lack of perspective lack of detachment this giving into ego and in some way some form of revenge that carney is seeking on frick what frick wants is the company's valuation to increase to reflect the drastic increase in profits right so then he can then sell his earnings he's forced to sell earnings of book value but he's saying hey you're

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artificially depressing book value you know it's not worth this and yet because you won't have the company revalued you're screwing me out of a lot of money so it says frick replied through clenched teeth that he might be willing to permit a merger provided that the newly formed company would be capitalized at no less than 150 million though the figure was low in comparison they know it's worth more than that carney would have none of it there would be no such reevaluation of their holdings he insisted now they're both very upset with each other they start saying you know things across the line frick went on to say that carney had threatened to buy his own coke lands and run frick co-company out of business and further suggested that carney he was less than a man for not voicing objections to his face he demanded that carney apologized personally if carney had entertained the slightest hopes of patching things up frick's latest invective dashed him completely it was carney's intention now to abolish the office of chairman once and for all that means carney is like we're going to get we're kicking frick out of the company and so carney tells charles swabb who's now running the company this is frick's former protege he's like hey tell frick he needs to resign he warned frick of carney's intention to abolish frick's position at the next board meeting that is charles swabb so charles swabb winds up having a falling out with frick later on too but he felt a sense of obligation to me he did the right thing here so it felt a sense of obligation to his to his mentor and so he's like i'm not just going to spring this on frick at the next meeting he went and saw frick in person he's like listen this is what's happening like i have to do this because i'm running the company but i need to tell you you know myself so instead of mailing a letter to frick he actually goes to frick and tells him directly and so frick sees he has no recourse he's got it and then he's going to start plotting and get his revenge but he submits his resignation so from carney's perspective it's like oh this is really this went really smooth says never had a kudatag on more smoothly as so had or so it must have seemed with the troublesome frick out of the way at last carney you can envision only smooth

sailing but then so did the passengers on the titanic and so this is where carnegie goes too far he kicks him out of carnegie steel and he says hey i'm going to kick him out of its own company that he started and he's going to try to screw him over on the price and because carnegie owned most of the equity he essentially stacked the board and he says at the board meeting of the henry clay frick co-company carnegie sold to it to the new membership board membership was elected

one that reflected his and his loyalist controlling interests in the company the five new carnegie men on the seven member board of the henry clay frick co-company quickly got down to business abolishing the office of chairman and leaving the company in control of its presence so again carnegie

kicks frick out of the chairmanship role in the carnegie uh company does the same thing in the coke company as well frick though still a member of the board could do nothing deposed for a second

time through the machinations of carnegie and now dropped from the very company he had founded he

simply walked out of the meeting it was not the final indignity on the following day mr carnegie paid a visit to frick's office and this is crazy i don't know what carnegie was thinking here carnegie drew a copy of a document from his coat pocket carnegie explained that on uh the day before the

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meeting at which frick had been deposed from his own company there had been a special session of the

carnegie board of managers that he that frick wasn't there because he'd already been kicked out of the company and they had just one piece of business through a frick red was as unmistakable as it was infuriating as frick had proven to be an obstruction to the continued and efficient operation of their mighty leviathan of steel this is what he's saying is like frick is damaging the company the document stated the board had no choice but to invoke the provisions of the iron clad agreement frick's interest in the company must be surrendered his compensation fixed at book value and not a penny more frick would receive 1.5 million dollars for stock that was worth at least 10 times as much that number is way lower so carnegie's like i'm going to pay you 1.5 million even at the lowest number it's worth at least 11 12 million he winds up getting 31 million and then because of the the sale and the recapitalization of the company with us steel his holdings wind up being worth over 70 million dollars carnegie's like yeah that's only worth 1.5 million dollars and carnegie this is what i mean he's blinded by ego because we'll see the smart strategies used by frick to prove that you don't actually believe what your document says and to me this is a dishonorable act you're 1.5 million for a person who hoped you build at least a 250 million dollar company come on frick was undoubtedly the second most important person in the company that's ridiculous so says frick was on his feet by now his chair tipping backward with a crash for years i've been convinced there's not an honest bone in your body he shouted at carnegie now i know that you're a goddamn thief

he crumpled up the document and tossed it aside we'll have a judge and jury decide what you are to pay me he spun around his desk advancing on carnegie with his fists raised carnegie literally has to run away and it says it was the last meeting between andrew carnegie and henry clay frick so this is happening in the year 1900 i started the book with the request of carnegie having a meeting with frick that letter is written in 1919 so 20 years passes and they never meet again they both die in 1919 so i just want to pull out some smart strategies by frick so frick goes right to phipps phipps has been carnegie and frick's partner phipps is the one that actually created the ironclad agreement so frick says frick's had phipps pouring over the fine print of the ironclad agreement since it was phipps brainchild in the first place he was the logical person to discover its faults and soon enough he found them this is what i mean this is just very this is not a logical decision by carnegie this is an emotional decision by carnegie frick filed a lawsuit charging among other things that carnegie had unjustly attempted to force him out of the company and acquires holdings at a sum far below their value and remember carnegie still is like a private company right so frick's like okay we're going to air everything out buddy most distressing to carnegie was the fact that the details of the company's business affairs were laid out in the company brief if the suit actually went forward the public would for the first time learn details of the immense profits being generated by carnegie's enterprise frick's attempt to force a revaluation

of the company was bad enough but if documents held by frick were widely publicized revealing that carnegie had refused to renew the option for the more brothers purchase that's the the secret deal that frick and phipps were trying to broker that to renew the option for the more's brother purchase unless the value of the property was raised to a more rightful by carnegie's own reckoning five hundred million dollars so let me be clear there frick is in possession of documents

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that he wants to make public saying you're saying that the business is worth fifty million that doesn't make sense because in this document you're saying that the valuation of your business is five hundred million dollars and so it says if this document came out it would forever hamstring efforts to manipulate the value of his holdings and buy out troublesome partners for a song which is exactly trying to do to frick to carnegie that such information concerning the inner workings of the company should be made public wasn't a front an embarrassment and most important a disadvantage

to doing business other prominent entrepreneurs wrote to urge him to find a way to put this this airing of dirty laundry and privilege information to a speedy end so as she's saying hey you just need to pay frick this is a bad decision george westinghouse is actually one of these guys uh i cover i covered uh he he's went to war with edison in this fantastic book i covered back on uh episode

83 it's empires of light edison tessel westinghouse and the race to electrify the world so george george westinghouse sent a letter calling it a calamity by reason of the fact that the private affairs of your company will undoubtedly be made public and she's like you need to settle here if he were to prove this is the crazy part this is like the the the biggest weakness that car that carnegie that carneese argument and his actions had if he were to prove in court for instance that the value of carnegie steel was just a fraction of what frick claimed how on earth would he attract a buyer willing to pay what he privately knew what the company was worth and so eventually carnegie gives in it says the compromise would lay was laid out carnegie steel was to be valued at 250 million henry frick co-company to be valued at 70 million and they would be merged as a result of the agreement henry clay frick would remove himself from any role in the management of the new company perhaps it had cost him his job and the friendship of andrew carnegie then again he had 31 million dollars with which to console himself that is 31 million dollars in 1900 money and this is what i mentioned earlier jp morgan started a steel company starts analyzing carnegie's business is like oh i do not want to compete with that and this is going to lead to the world's first billion dollar corporation morgan understood the folly of a long-term battle with the carnegie company a firm that controlled its own sources of raw materials transport and manufacture and that was far more deeply capitalized than his or any of the other steel upstarts they might stay in the game for a while and they might put a dent into carnegie's armor but in the end carnegie would run them into the ground everyone in morgan's mind there was only one course of action and he did not hesitate only one question remained how much would it take to get andrew carnegie to sell and so what morgan does he does not approach andrew carnegie directly he goes through

charles schwaab charles schwaab is the one running the carnegie company remember that is the former

protégé of henry clay frick and morgan's like okay i need to talk to andrew for me tell me what it takes and so carnegie comes up with the calculation he like writes it down on a piece of paper gives it to schwaab to take to morgan remember all these guys are in new york city it's like they just live blocks me down the street from each other it's remarkable but the total price for the carnegie company that andrew carnegie wrote down on this piece of paper that schwaab is about to take to morgan is 480 million dollars schwaab glanced at the document only briefly carnegie had named his price the next step was to go to morgan when morgan examined this document he

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said

simply i accept this price with that one of the most storied deals in the history of american business had been done morgan then goes to carnegie's house to finalize the deal and it says as he was leaving morgan took carnegie's hand and said mr carnegie i want to congratulate you on being the

richest man in the world after the sales complete carnegie is not going to have any role in the company he's like nope this is it like i sold i'm done this is going to open up for henry clay frick to be back into now that the new combined company the u.s steel another beneficiary was one henry clay frick his interest in the newly formed united states steel corporation was 61 million dollars if carnegie relished the prospect of retirement frick evidently did not he made it known that he would be willing to consider the possibility of the being the chief executive officer of the new company carnegie lobbied hard against that possibility in the end charles schwaab was elected president of the new company though frick was voted onto the board of directors the arrangement did not last long less than two years into his tenure and annoyed by frick's continuing influence on the board schwaab resigned to be replaced by elbert gary gary remained at the

helm of the u.s steel company for more than 26 years and for more than 15 of those years he counted on the advice of his partner henry clay frick and that is where i'll leave it for the full story i highly recommend buying the book i think this book should be in every entrepreneurs library if you buy the book using the link that's in the show notes in your podcast player you'll be supporting the podcast at the same time that is 284 books down 1000 to go and i'll talk to you again soon okay so all the way back on episode 227 i read this fantastic book called the essays of warren buffett so all the way back on episode 88 i read every single one of warren shareholder letters but what this book that was put together by laurence cunningham called

the essays of warren buffett uh did that was so smart is that he took the shareholder letters and instead of organizing them by year which is standard he organized them by topic and so in the original podcast i did on this book which again is episode 227 one hour and 28 minutes into the podcast of their abouts i go over this letter that i'm about to read to you now it's under the heading titled on selling one's business and the reason i'm bringing this up is because one of the sponsors of this episode is tiny and one way that tiny has been described is that they're building the berkshire of the internet and you can go to tiny.com and read the testimonials and see all the founders that have sold their business to tiny and how their main differentiation just like warren buffett and charlie monger is there's no bs we're going to make this transaction as simple and easy as possible where a lot of people that buy businesses make you jump through hoops and it's just a headache and so if you think about what warren is doing here in this letter is his business is buying businesses and so his customer or founders or managers of businesses and so he is essentially writing a letter to a guy so he wrote this letter in 1991 to a guy who indicated he might want to sell his family business and so i'm just going to pull out a few highlights here and really think about what warren's doing is he is differentiating his services from other people that also buy businesses he says if you if you should decide to sell i think berkshire hathaway offers some advantages that most other buyers do not practically all of these buyers will fall into one or two categories and so now warren is going to describe his competition if

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you go to tiny.com you'll see they described their competition in some ways their competition which is typically vcs or private equity companies okay so warren says number one a company located

elsewhere but operating in your business or in a business someone akin somewhat akin to yours such a buyer no matter what promises are made will usually have managers who feel they know how to

run your business operations and sooner or later will want to apply some hands on and he puts the word help in quotation marks obviously warren does not think that the managers are going to install on that business are actually going to be helpful at all the second other option a financial maneuverer invariably operating with large amounts of borrowed money who plan to resell either to the public or to another corporation as soon as the time is favorable frequently this buyer's major contribution will be to change accounting methods so that earnings earnings can be presented in the most favorable light just prior to his bailing out and then listen to this persuasion technique that he uses because he's writing to somebody that he knows it's a family business which means they put a lot of their time and life energy into so he says if the sole motive of the present owner it's to cash their chips and put their business behind them and plenty of sellers do fall into this category either type of the buyer that I just described to you is satisfactory but if the seller's business represents the creative work of a lifetime and forms an integral part of their personality and sense of being buyers of either type have serious flaws so he's just described his competitive landscape he says listen there's option one there's option two but then there's a new option something that's completely different and better and he's describing the services that he provides to founders right so he says Berkshire is another kind of buyer a rather unusual one we buy

to keep tiny does too by the way all of the businesses we own are run autonomously to an extraordinary degree when we buy a business the sellers go on running it just as they did before the sale we adapt to their methods rather than vice versa and in tiny's case it's up to the founder if they want to stay or if they want to go tiny's fine with either solution and then Warren does something fantastic he's like listen you know who the past businesses we bought in fact I'm including in this letter a list of every single person we've ever bought a business from tiny does something very similar on their website which you can go see you know some of our past purchases I'm enclosing a list of everyone from whom we have ever bought a business and I invite you to check with them as to our performance versus our promises and then Warren says hey I'm going to keep it simple with you if you should decide to do a business do business with Berkshire we would pay in cash tiny says the exact same thing on their website your business would not be used as collateral for any loan by Berkshire there would be no brokers involved Warren also says you deal with me and finally you would know exactly with whom you are dealing you would not have one executive

negotiate the deal only to have someone else in charge a few years later or have the president regretfully tell you that his board of directors required this change or that change and because Warren has hacked away at the unessential all that is left is simplicity and his pitch is simple do you want a great home for your business then call me and I will do a cash transaction really fast same thing that tiny does I will not pester you if you have any possible interest in selling I would appreciate your call I would be extraordinarily proud to have Berkshire along with the key members

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of your family own blank so you took out any identifying information of who he's writing to okay I believe we would do very well financially and I believe you would have just as much fun running your business over the next 20 years as you have during the past 20 sincerely Warren Buffett

I think reading the entire letter is worth your time if you buy the book it's on pages 230 through 233 and make sure you go back and listen to episode 227 the essays of Warren Buffett if you have not done so already and if you have a business that you're interested in selling now or in the future make sure you go to [tiny.com](http://tiny.com)