

Thunder From Arosa: Karl Kimmich and the Reconstruction of the Stollwerck Company, 1930–1932

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The continuing snowfall at the Swiss vacation resort of Arosa in February 1931 provided Director Karl Kimmich of the A. Schaffhausen'scher Bank in Cologne with the opportunity to produce a sixteen page letter filled with sharp criticisms and unpleasant questions for Generalkonsul Karl Stollwerck, the Chairman of the Board of Directors of the chocolate-making firm Gebrüder Stollwerck. As he made clear to Stollwerck, the future of the company was a source of "serious concern" and, in order not to lose time upon his return, he wanted Stollwerck and his fellow directors to get to work providing "materials based on precise figures" to serve as a foundation for the "undelayable decisions" that were necessary. He warned against responding with a "defensive policy," as had been the practice in the past and to entertain no illusions that "rectifications" would suffice. On the contrary, "there has to be the greatest possible break with the old cherished habits and one must tread new paths" if solutions were to be found to the problem that "the entire Stollwerck Concern works unprofitably."¹

This does not appear to have been German "cooperative managerial capitalism's" finest hour. Before returning to Kimmich's questionnaire and his undoubtedly dreaded descent from Arosa, therefore, it is worth noting that Gebrüder Stollwerck had better days and that Alfred D. Chandler, Jr. had good reasons for giving the company a favorable review in comparison with its British counterpart, Cadbury, in *Scale and Scope* [1990]. Founded in 1839, the Stollwerck firm concentrated much more on marketing, distribution, and managerial personnel than Cadbury, and these qualities permitted it to pioneer in packaging, advertising, developing vending machines, and building plants abroad before 1914 in Austria-Hungary and the United States. The family, to be sure, did dominate both the supervisory board and the board of directors, but it also took substantial bank credits to finance its expansion and had bankers on the supervisory board just as it employed salaried managers in its

¹ Kimmich to Stollwerck, Feb. 24, 1931, Bundesarchiv Potsdam, R 8119 F (Deutsche Bank), P 4784, fol. 207/1-16. Unless otherwise noted all references are to Bundesarchiv Potsdam, R 8119 F.

operations who numbered among its top directors. It had become a joint-stock company in 1902. Stollwerck was hard hit by the war, losing its facilities in the United States and Great Britain, and the company tried to compensate for its loss of these markets by looking to eastern Europe and building plants in Rumania and Hungary. Unhappily for Stollwerck, it was quite vulnerable to the depression which hit in 1930 because there were an excess number of producers in Germany, the demand for chocolate was elastic, and conditions in eastern Europe were, if anything, much worse than in Germany [Chandler, 1990, pp. 398-402, 407-8, 515-16; Kuske, 1939].

This, however, does not really explain why Stollwerck was undergoing reconstruction and was subject to the very special attention of Karl Kimmich. He had been delegated by the supervisory board to oversee every aspect of Stollwerck's activities, and to not only develop a reconstruction plan, but make sure it was set in motion. Kimmich found the materials he had taken with him to Arosa clear only in the sense that they confirmed that the company had been mismanaged for some time and that something had to be done. There was, for example, an immense disparity between the figures for investment expenditure between 1926 and 1929 provided by the director in charge of finances, Heinrich Trimborn, and the director in charge of marketing, Gustav Laute. In trying to deal with the thorny issue of whether to move the whole or part of the production at Stollwerck's plant to its chief center of operations in Cologne, Kimmich found himself presented with differing freight rate calculations by the directors and no explanation whatever for why the company was doing so well on caramel bon bons and chocolate covered candies in Berlin while earning so little on them in Cologne. There were all sorts of other questions, such as why Berlin employed 76% women and Cologne only 71%, thus enabling Berlin to save more money. The fundamental question, and one which suggests the need to take a closer look at what was meant by "rationalization" in the middle years of the Weimar Republic, was why there had been so much rationalization designed to increase production in Berlin and in Cologne when the old facilities would have sufficed to meet demand and have saved 5.5 million marks in investments in the two plants since 1924. In fact, unused capacity was the common denominator of the seven plants run by the company, and something had to be done about it.

Nothing irritated Kimmich more, however, than that the management had allowed marketing to overwhelm the true profit-making potentialities of the company's productive facilities. In his view, "service to the customer" had been carried to an extreme and there were altogether too many "knickknacks" (*Kinkerlitzchen*) in the catalogue. He was uninterested in being told about the variety of items contained in the Sarotti catalogue since Sarotti had no debts, while Stollwerck would need to get rid of 1.2 million Reichsmark in debts before comparisons could be made with that competitor. The catalogue needed to be simplified and less attention paid to the wishes of travelling salesmen and individual customers. As Kimmich pointed out, "the large plant operation is not suitable for each and every thing. Stollwerck should shift its emphasis to where it has an edge over the others and where full advantage can be taken of

plant rationalization." Similarly, Kimmich thought that marketing operations had run out of control since costs had gone up from 5 to 7.3 million marks since 1924-1925, while sales had stagnated.

Indeed, the virtues of Stollwerck lauded by Chandler had become sources of vice in the eyes of Kimmich. Packaging costs seemed to be out of line, and 4 million marks in inventories of packaging material at a time of plummeting paper prices required justification. Kimmich was particularly upset by Stollwerck's advertising techniques. The selling of Stollwerck picture albums cost more than they were worth for both Stollwerck and its customers. He could not understand why these costs were charged to production instead of advertising. Nor could he comprehend the logic of providing a shop across from the Cologne Opera House with 2,000 RM in free goods in return for hanging a Stollwerck glass sign at the front window, not to mention the fact that glass signs were more expensive than the metal ones used by competitors. Kimmich found it curious that the company had not sought expert advice on its advertising. He was very anxious to learn about how the branches in central and eastern Europe were doing, but he could see already that the sales in the United States and western Europe did not justify the money expended on salesmen even when they did not, as was the case in England, embezzle the money they had been given. Customs barriers in the United States made that market hopeless, while the license fees in Italy did not justify the cost. Most basically, there did not seem to be a proper division of labor within the management and there was no coordination on the basis of solid information between production and sales. In truth, Kimmich could find no solid information about all sorts of matters of importance, the branches of the company, the competence of their managers, their costs, their profitability, "etc.etc."

Manifestly, the management of Stollwerck was in trouble, and they knew that behind the grim and highly regarded person of Kimmich stood the mighty power of Georg Solmssen, one of Germany's most formidable bankers. Long associated with the A. Schaffhausen'scher Bankverein and the Disconto-Gesellschaft, to which the former belonged, and one of the most influential figures on the managing board of the recently-merged Deutsche Bank and Disconto-Gesellschaft, Solmssen had been serving as Deputy Chairman of the Stollwerck Supervisory Board for some time and had been responsible for procuring large credits for the company through the Schaffhausen'scher and other banks. He and Kimmich had thought all was well in 1928 and the first months of 1929, an impression fortified by the receipt of a large payment from the United States for wartime losses and endlessly positive and optimistic reports from the management.

In the spring of 1929, however, Solmssen became suspicious and reported to Kimmich, after a serious discussion with Karl Stollwerck and Trimborn, that profits had not kept up with sales because of high costs. The forthcoming publication of the company's balances would lead to a drop in the

price of Stollwerck shares and serious losses for the shareholder consortium.² Nevertheless, the company actually expanded in this period in an effort to promote the consolidation of the industry by buying up some of the brand-name chocolate companies in Hamburg controlled by the Georg Schicht consortium, especially the Reichardt-Werke along with Hauswaldt-Gaedke and the Bremen firm of Goldina. This added to its debts and, when combined with government-enforced price reductions under the Brüning emergency decrees, made it impossible by the end of 1930 to overlook the fact that the company was in great financial difficulty and was in no position to pay dividends. Kimmich was asked to analyze the situation for the supervisory board and came to the conclusion that he, like Solmssen, had been fooled by all the optimistic reports and poorly drawn up balances. If he had known the situation, he never would have approved the use of the money received from America for plant expansion and would have opposed the Reichardt deal. He thought the company could be saved, provided that serious measures were taken.

Solmssen's initial idea was to take Kimmich, a specialist in company reconstructions, off the supervisory board and put him in *de facto* charge of the management board. In the end, however, Kimmich was delegated from the supervisory board to clean up the mess. Stollwerck and Trimborn had little choice but to agree since otherwise they could expect no further support from the banks. Even before taking his winter "holiday" in Arosa, Kimmich had investigated the company's operations with considerable care and made comparisons with the operations of its competitor Sarotti. His questions and comments were well grounded, and Kimmich's thunder from Arosa portended very stormy weather for Stollwerck's management.³

The "Financial Dictator" at Work

In March and April 1931, Kimmich and Solmssen worked hand-in-hand to change things at Stollwerck. Kimmich fumed at the manner in which the directors debated which items in the balances belonged where, telling them to come to the meetings with agreements worked out while insisting that the questions of liquidity had to be placed in the forefront. The greatest difficulties were encountered when it came to putting the firm's books in order and using modern accounting methods. Back in June 1930, Trimborn had hired a Herr Mink to introduce modern accounting methods, an area in which Mink was apparently as innocent of any real knowledge as Trimborn, and the result was chaos by spring 1931 and a total incapacity to set up a balance by November 30. Solmssen asked Kimmich to go into action, and Kimmich promptly pointed out to the board of directors that "It is really an impossible situation for the management of a business to be ignorant of the results nine

² See Solmssen to Kimmich, May 11, 1929, P 4784, fol. 67 and other related correspondence.

³ See supervisory board meeting of Jan. 30, 1931, P 4794, fol. 31-35 and related correspondence.

months into the new year.”⁴ In the end, they simply took the matter in hand and hired someone competent from a major accounting firm.

Similarly, Solmssen insisted that something be done to simplify the company newspaper, the “Stollwerck Post,” which he did not think contributed much to business. As he sardonically pointed out, “the content of the paper contains, along with things that are concerned with chocolate, every imaginable other thing that has not the least to do with chocolate.”⁵ Kimmich paid very close attention to reducing the advertising budget and making sure advertising was more effective. Thus, he put a virtual end to newspaper advertisements, which experts considered useless, and cut back on the advertising budget in general. At the same time, he sought to break the “passive resistance” of the persons in charge of advertising by asking for an expert plan.

Some of the most important changes made in the summer of 1931, however, were those in top management. An essential element of the financial reconstruction was a retirement of shares held by the corporation and a consolidation of shares at a 4:3 ratio. This would produce a “reconstruction profit” (*Sanierungsgewinn*) of 5 million marks. Such measures, which were undertaken in September, when combined with changes at the top taken in the summer, had as their goal restoration of confidence in the possibility of once again producing an appropriate dividend. Since the managerial contracts were to be renewed in July, it was an ideal time to invite the seventy-one year old Karl Stollwerck to take his pension and join the board of supervisors and thus have something harmless to do. The other two family members on the board, Franz and Fritz Stollwerck, who were not only incompetent but even troublesome, were simply to be terminated. The only family member left in a managerial position was Gustav Stollwerck in Pressburg who, if not a great asset, was apparently not viewed as a significant liability either.⁶

Trimborn was kept in his job, but Solmssen made a point of letting him know what he thought of him when Trimborn had the temerity to suggest that the intransparency of the financial accounts was a product of Kimmich’s appointment rather than his own ineptitude. He, Trimborn, had been the financial leader of the firm, Solmssen reminded him and, “since Karl Stollwerck understood little of financial matters and concerned himself more with the operation of the factory...the blame for the prior circumstances on the financial side of the corporation cannot be charged against him. The present situation of the enterprise has not been called forth by the bad business conditions alone, but rather a substantial blame is to be placed on the manner in which business previously was conducted.” Solmssen sharply criticized the optimistic reports of previous years, which in no way reflected reality. Since there was no reason to believe that Trimborn was deliberately misleading the board of supervisors, the cause could only be “that the headquarters in

⁴ Solmssen to Kimmich and Kimmich to the directors, April 1, 1931, P 4784, fol. 356-358.

⁵ Solmssen to Kimmich, April 1, 1931, *ibid.*, fol. 314.

⁶ *Ibid.*, fol. 437-458.

Cologne lacked any overview of the condition of the concern.” That was why Kimmich had to be called in, and Solmssen made it clear, that he would not tolerate any criticism of this step. He also took the opportunity to express his personal disappointment in the old leadership: “I especially feel personally offended that I, as the Deputy Chairman of the Supervisory Board and as that person who held the company above water in difficult times in the past through very exorbitant granting of credits on the part of my bank was never informed of the true state of affairs either by General Consul Stollwerck or by you in the manner to which I had a right.” Solmssen now expected a sharp break with the old ways, and he would not tolerate the practice of withholding information. To insure that this would not happen, Solmssen informed Trimborn that the control of the finances of the corporation, both in Germany and abroad, was being turned over to Director Auel, who had previously handled the Danubian side of the concern. Solmssen warned Trimborn that he and his colleagues had to end the “passive resistance against what was necessary” and that its persistence would “force us to draw all the consequences.”⁷

Kimmich had not been shy about “drawing consequences,” and the results were apparent. By the beginning of August 1931, the Stollwerck debts had already been reduced by 4 million marks, and Kimmich promised another 1-1.5 million reduction by October. Most of these, as a meeting at the end of November shows, came from firing of personnel and wage and salary reductions. Thus, of the 1.2 million marks being saved, 1.03 million came from such savings. Naturally, these measures were not popular and provoked complaints from the factory council, especially about the handling of older employees. It is also important to note that these internal measures were accompanied by government emergency decrees which mandated salary, wage, and pension cuts.

Kimmich, however, was not a very sentimental fellow, and he was quite prepared to swing his axe high as well as low. He was, for example, deeply irritated by the fact that Karl Stollwerck was being promised a pension of 24,000 RM and his wife 12,000 upon his death in addition to receiving a prorated salary for 1931 of 48,000 and a travel cost allowance of 16,000. He complained that “it runs against my views,” that Director Auel was only getting 18,000 RM for his very hard labors “while Herr Karl Stollwerck, who has brought the entire Stollwerck family to great misfortune through his style of management shall receive 24,000 RM...”⁸ Kimmich thus managed to have a clause placed in the agreement that the pension could be revised.

Kimmich faced more pressing problems in the so-called Danubian works. Director Laute and other members of the Cologne administration were sent on a number of trips to evaluate the situation first hand, and Kimmich also had good contacts with banking circles in the region involved with the companies. It became almost immediately clear that the worst problems were in

⁷ Solmssen to Trimborn, Sept. 12, 1931, P 4785, fol. 122-125.

⁸ Solmssen to Kimmich, Aug. 5, 1931, *ibid.*, fol. 50; meeting of Nov. 28, 1931, *ibid.*, fol. 378-83; Kimmich to Emil Schniewind, Dec. 17, 1931, *ibid.*, fol. 484.

Brasov (Kronstadt), Rumania, where the miserable peasant population was suffering from low prices and in no condition to buy sweets. At the same time, the Rumanian government imposed high taxes wherever it could. A decision was taken to shut down the Brasov works at the end of 1931, although no decision was taken as to whether the shutdown was to be permanent. Already hard hit by staff and salary reductions, the local management was stunned by the decision which was made despite all their reports and efforts. The letter of Director Karl Reinerth, which was very much written with a Rumanian accent, if such a thing is possible, spoke of "downcast faces, tears, etc." and of how awful it was "just now in the season, where business has picked up and the factory is fully employed." It made everyone very suspicious, and they were blaming the Germans for all the unemployment. He insisted that further savings could be made, and that "it is a shame that the gentlemen in Cologne know neither the land nor the people or even our factory itself. Rumania is, whatever one thinks of it, the land of the future that will recover most rapidly. A momentary shutting down will not only carry great money losses, but will also be connected with a loss of reputation at a later time."⁹

Kimmich, however, wanted numbers, not promises about Rumania's golden future. As he told the directors in Cologne, "when one places the individual remarks set down in the letters regarding Rumania next to one another, then one can only wonder at the contradictions and the entire way in which the people there approach the problems. One letter after another is written, the content is repeated, and the very few figures, which are the heart of the matter, are still not there despite the journey of your two representatives."¹⁰

A Return to Cooperative Managerial Capitalism?

By the end of 1931, however, there were growing signs that the adversarial nature of the relationship between Kimmich and the management was diminishing significantly. When Solmssen wrote Kimmich telling him that his contacts at Lindt & Sprüngli had claimed that the Reichardt-Hauswaldt Gadke brand name was not worth anything anymore and suggested that it might be sold, Kimmich consulted with the Stollwerck directors and reported back "that the gentlemen are, along with myself, of the view that such a business cannot be considered today. Reichardt is not a worthless brand, but one whose sales have held up quite well."¹¹ In fact, it was paying for itself.

In contrast to his treatment of Trimborn, Kimmich had always demonstrated a certain deference to Director Laute, who seemed to know his business and who proved capable of both adjusting to the new order but also standing up to Kimmich when he could use facts and his expertise to good advantage. Thus, when Laute wrote to Kimmich at the end of 1931 that the

⁹ Karl Reinerth to Director Franz Kuhles, Oct. 4, 1931, *ibid.*, fol. 242-245.

¹⁰ Kimmich to the Board of Directors, Oct. 12, 1931, *ibid.*, 255-56.

¹¹ Kimmich to Solmssen, Dec. 5, 1931, *ibid.*, fol. 416-18.

advertising program had to be changed gradually, that emphasis had to be placed on permanent advertising, and that it was better to have Stollwerck signs all over Württemberg's train stations than a huge sign at the Stuttgart main station, it was clear that Laute had been getting the message. Indeed, there were even signs of originality, as when Laute suggested that signs be placed at bathing and summer resorts and excursion sites, where people were relaxed and more receptive to thinking about chocolate. Kimmich responded very positively: "I welcome your proposal since it moves along the path which I have designated as necessary for some time, namely, instead of many advertisements in journals and newspaper one should rather create advertisements that have permanent effect." He hoped they would find a way of producing tasteful enamel signs – the days of expensive glass signs were over – and looked forward to "further proposals for going over to a modern advertising program."¹²

When Kimmich proposed that the Stollwerck name and advertising be used on the chocolate in the vending machines, however, Laute pointed out that this was not a good idea: "Each advertisement is counterproductive if the quality of the goods is not equally good and therefore somewhat disappoints. We already have to deal with storage damage in the distribution process when we sell to stores, and there is much more in the vending machine business. The vending machine is generally more or less subject to weather conditions, dampness, and sun, which make the goods unattractive or, in some circumstances, unpalatable. The machines themselves through unavoidable functional disturbances cause irritation, which is then transferred to the firm whose name is in the packaging." The vending machines also irritated shopkeepers, who viewed it as unwelcome competition. Thus, it was far better to leave the Stollwerck name off the packaging and simply have the name of its subsidiary, the "Deutschen Automatengesellschaft" on the machine. Through this "precautionary measure," the "Stollwerck representative always has the good excuse, 'we are not them,' and we can thereby avoid an adverse effect on our store business." At the same time, children, insofar as they still had any money for such things, liked the shiny machines and did not care much about what was in them.¹³

There was, indeed, the beginning of a shiny new Stollwerck, and Kimmich made a point of reassuring Karl Stollwerck, who was recovering from illness in a hospital in January 1932, that there was a "silver lining on the horizon" and that he did not, as had been reported, have to worry about his pension. The parent plants in Cologne and Berlin, "now that production has been consolidated," were making "very nice profits." Kimmich expected further profits in the months to come. To be sure, "truly hard measures had been necessary. All persons – directors, officials, workers, pensioners had to

¹² Kimmich to Laute, Dec. 3, 1931 in response to Laute's letter of Dec. 1, 1931, *ibid.*, fol. 398-400.

¹³ Laute to Kimmich, Jan. 8, 1932, P 4786, fol. 45-7.

make great sacrifices” and further reduction of inventories would be necessary. Nevertheless, the bank debts had been reduced from 5 million marks at the beginning of 1930 to 2.3 million at the beginning of 1932. As the shareholders were informed at this same time, even Brasov had something to look forward to, since there were plans to reopen the plant, although the Budapest plant was simply to be shut down. Pressburg, however, was able to offer a 9% dividend, and Vienna a 6% dividend. Laute received a promotion, along with Director Alfred Junge, who had run the plants in Berlin.¹⁴

There was, to be sure, some cleaning up at the top to do. Solmssen took over the unpleasant tasks in question. Gustav Stollwerck was forced out of the supervisory board on the grounds that he could not be both a director at Pressburg and a member of the supervisory board and then forced out of Pressburg on the grounds that he did not really know what was going on. Another Stollwerck family member, Richard Stollwerck, replaced him on the supervisory board. Trimborn was given the choice between being pensioned off under the emergency decrees or going voluntarily and getting a better arrangement. Apparently, it was a very painful affair since, to the last, Trimborn did not recognize his responsibility for the mess so that an ultimatum was necessary. Karl Stollwerck’s pension was reduced to 15,000 RM and that of his wife, should she be widowed, to 10,000, provided she did not remarry.¹⁵

It was a measure of the changed situation that when the Cologne banking house of Sal. Oppenheim Jr. & Co. inquired of Kimmich whether it was best to sell its shares of Stollwerck at 25% of par or hold on to them, Kimmich could honestly advise the second option since “the financial situation of the corporation is in order and can be viewed today as thoroughly sound and the new management has managed to recapture the losses in the crisis months of July, August, and September 1931 of between 300 and 400,000 RM. In my view, the prospects for the future, now that the corporation again works actively even under the present strongly reduced sales, can be considered not unfavorable.”¹⁶

Thus, by the summer of 1932, Kimmich could report that “the character and the extent of the reconstruction were correct,” that the reorganization was functioning well, that the finances were in order, and that the confidence of the customers had returned even if profits were not entirely satisfactory because of the paying off of debts and a further cost-reduction program was necessary.¹⁷ This did not mean that surveillance was at an end in things large and small. Solmssen complained at the beginning of 1933 that the Christmas packaging had been old-fashioned and reminded him of the times when people stuffed the rooms with furniture that was filled with towers and such things instead of

¹⁴ Kimmich to Karl Stollwerck, Jan. 22, 1932, *ibid.*, fol. 58 and undated draft reports, fol. 66-68, 107-113.

¹⁵ Solmssen to Schniewind, March 2, 1932, *ibid.*, fol. 155-160.

¹⁶ Kimmich to Sal. Oppenheim jr. & Cie, April 21, 1932, *ibid.*, fol. 188.

¹⁷ Memorandum of July 5, 1932, *ibid.*, fol. 237.

conforming to current styles of simplicity. He was also concerned about costs in Berlin.¹⁸ Nevertheless, Kimmich had completed his task quite successfully.

This was, of course, an extraordinary exercise in banking power and an instructive case of the kind of crisis management that could be performed under German "cooperative managerial capitalism." Indeed, it might be noted that it was much more successful than the manner in which the great German banks managed their own crisis at the very time Kimmich was performing his labors for Stollwerck or their handling of some of the industrial firms responsible for that banking crisis. In the event, Solmssen had every reason to praise Kimmich for his "great constructive skill and capacity to think his way into industrial questions."¹⁹ Viewed from a broader perspective, the reconstruction of Gebrüder Stollwerck by Kimmich was a further step in its movement away from being a family-dominated firm and toward the modernization that made its survival possible. It is a messy but impressive confirmation of the Chandlerian model.

References

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 Kuske, Bruno, *100 Jahre Stollwerck Geschichte 1839-1939* (Cologne, 1939).

¹⁸ Solmssen to Stollwerck directors, Feb. 2, 1933, P 4788, fol. 2-5.

¹⁹ Solmssen to Kastl, Nov. 28, 1932, Historisches Archiv der Deutschen Bank, Ordner Kimmich. Kimmich subsequently was appointed to the Managing Board of Directors of the Deutsche Bank and became its spokesman in 1940-1942 before being named Chairman of the Supervisory Board in 1942, the year of his death.