

## **The failed 1912 merger between Carl Lindström AG, the Gramophone Company Ltd and the Victor Talking Machine Co Inc**

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In the six years between the 1908 economic recession and the outbreak of the First World War in 1914 the European record and player industries, but importantly not their American equivalents, experienced an important reformation. This centred on a critical shift from recording using cylinders as the main type of sound carrier, to the adoption of what (with the notable exception of Pathé) became the industry standard; the Berliner-Johnson lateral or zigzag cut disk. During this same period of time, the European record and player industries entered a period of integration, consolidation and growth which led, in 1911-12, to proposals that would have seen, if they had come to fruition, the merger of the world's biggest record and player manufacturers; Carl Lindström AG, the Gramophone Company Ltd and the Victor Talking Machine Co Inc. This paper examines this extraordinary episode and places it into the context of the dynamic pre-1914 international trade in records and players; and as an event that prefigured the industrial integration of the 1920s and early 1930s.

In order to understand the merger proposals it is important to grasp what had happened in the record and player industries before 1912; and especially in the recession year of 1908. 1908 was the year of crisis not just for the record and player industries generally, but specifically for the cylinder business; as Sydney Dixon, the head of the British branch of the Gramophone Co, reported to his board in June 1908:

The whole trade, both factors and dealers are shaken with the sudden changes and collapses which have taken place ... The cylinder trade has gone to pieces altogether. Columbia and Edison Bell are unsalable - in fact I hear of the records of both companies being offered at 2d each. Further than all this the collapse of the Odeon Co has also affected trade.<sup>1</sup>

Those manufacturers who survived the 1908 recession were principally engaged in producing disk records and players. This was noted by Sydney Dixon, who wrote to a Victor

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<sup>1</sup> 'Epitomes' June 1908 (Board papers, EMI).

colleague in September 1908 about the changing nature of the volume disk record market and noted its vibrancy:

We now have five competing 10-inch discs single-sided at 2/6d [12.5p or \$0.63]. These are the Discophone, the Russell, the Royal, and the Clarion; the Odeon move against Zonophone has resulted in putting out the Jumbo record, viz: the 10-inch double sided at 3/- [15p or \$0.75]. They have some very excellent bands, and of course have the use of all the artistes bound up to the Odeon. The Odeon itself they are now bringing out as a double-sided at 4/- [20p or \$1.00]. The Columbia have kept to 3/- [15p or \$0.75] for their double sided, 10", and 2/- [10p or \$0.50] for their single sided 10-inch. With the exception of a few good sellers they get now and again, their trade, however, lies entirely in machines, where they do very well indeed.<sup>2</sup>

The development of both a strong disk record and player manufacturing base in Europe was noted as early as 1906; as seen in this Leipzig trade fair report, where the correspondent of *Talking Machine News* observed:

The manufacturers of discs and disc machines are about equally divided. Excepting the Gramophone and the Odeon, practically no other firm is represented which builds and manufacturers its own discs and machines. The rest of the manufacturers either manufacture records alone, or if they handle machines they buy them elsewhere, or else they manufacture machines and buy records elsewhere.<sup>3</sup>

In the years 1908 to 1914 the European markets were dominated by the German disk player trade: as a result, by January 1912, German player manufacturers employed around 5,000 people.<sup>4</sup>

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<sup>2</sup> 'SWD to Calvin G. Child' 22 September 1908 (Victor files 1908, EMI).

<sup>3</sup> 'The Leipzig Fair' *Talking Machine News* Vol 3 (March 1906) p. 59.

<sup>4</sup> 'Census of Trade's in Germany', *Talking Machine News* Vol 9, January 1912, p.428.

**German players and record exports to Britain<sup>5</sup>**

<b>Year</b>	<b>Records</b>	<b>Records quantities</b>	<b>Players</b>
1907	£154,700	NA	£105,100
1908	£103,000	NA	£63,000
1909	NA	NA	NA
1910	NA	1,800,000	NA
1911	£272,500	2,836,000	£242,500
1912	£236,000	3,027,000	£211,000
1913	NA	4,202,000	NA

**Table I**

For the British record and player industries, the years 1908 to 1914 were characterised by the extraordinary success of German manufacturers of these products. It has been possible to create a table of imports of German records and players to Britain. Although incomplete, it does show the steep curve as German market penetration increases ahead of market growth. In 1907 £154,700 worth of records and £105,100 worth of players were imported; the figures for 1908 were £103,000 and £63,000 respectively.<sup>6</sup> In 1910 almost 2 million German manufactured records were imported into Britain. In 1911 the figure had grown to nearly 3 million, whilst in 1912 it stood at 3.2 million. In a rising market, German disk record imports accounted for 4.2 million in 1913; around one third of the total British market.<sup>7</sup> To this must be added the one third market share held by the British branch of the Gramophone Company, with the balance held by other British manufacturers like Columbia and Edison Bell, together with a host of often transient British minnows and other minor importers; such as Pathé.

*Talking Machine News* reported the dominance of the German player and record industries in the field of exports, citing Russian imports as being:

<sup>5</sup> Series compiled news reports in *Talking Machine News 1908-1913*

<sup>6</sup> Exports of talking machine goods to the UK, *Talking Machine News*

<sup>7</sup> Cited in 'Foreign News' *Talking Machine News* (September 1913) p.16.

**German record and player exports to Russia 1908-1912<sup>8</sup>**

Year	Records	Players
1908	M431,000 or £17,240	M1,948,000 or £77,920
1909	M820,000 or £32,800	M1,670,000 or £66,800
1910	M1,207,000 or £48,280	M2,342,000 or £93,680
1911	M1,005,000 or £40,200	M2,178,000 or £87,120
1912	M152,000 £6,000	M1,180,000 or £47,200

**Table 2**

These figures show an important trade, despite punitive tariffs, and one roughly comparable to German exports into Free Trade Britain. They also show how imports of German records into the Russian market fell as Western record companies opened their own Russian pressing plants so as to avoid transport costs and Russian import tariffs. The comparison with German imports to Britain is interesting, though it remains a matter of regret that a full serial for these years has not survived. In 1911, for instance, German player exports to Britain were valued at around £78,000 [M1,950,000 or \$390,000] within £10,000 of the value of German player exports to Russia.

In 1911, the Swiss manufacturer Thorens exported clockwork motors for use in British-made disk players to the value of £75,000 [M1,875,000 or \$375,000]. In comparison, the machine turnover of the British branch of the Gramophone Company was £108,242 [M2,706,050 or \$541,210]. However as the prices of Lindström machines were anything up to eighty per cent cheaper than those of the Gramophone Company, the extent of German and Swiss domination of the British and Russian record player trade must have been phenomenal.

The context for this remarkable development of a disk market in Britain began in 1897 when William Barry Owen came over from America to start a trade as the 'Gramophone Company'. The cost of players and disks meant this trade was mainly a middle class affair, and as far as creating mass markets for gramophone products was concerned it developed

<sup>8</sup> 'Russian imports' *Talking Machine News* Vol XII, June 1914 p.138.

somewhat later than the cylinder.

The Gramophone Company felt the first major challenge its British and continental European competitive advantage when the Zonophone disk and players appeared in 1899.<sup>9</sup> The challenge was substantial, as American businessman Frederick Marion Prescott who controlled International Zonophone GmbH developed a similar manufacturing and marketing strategy to that of the Gramophone Company. He used the same Berliner-Johnson lateral cut or zigzag recording process and he created a first-rate multifaceted record catalogue, which were sold into a range of international markets. As a consequence, Prescott soon became an important competitor to the Gramophone Company in Britain, continental Europe and beyond.

Reacting to this competitive pressure, the Gramophone Company deployed its economic muscle in 1903; buying International Zonophone GmbH from Prescott. He took the money and promptly established a new disk record and machine manufacturing business, the Berlin-based International Talking Machine Company GmbH. This venture had French partners together with important venture capital and banking support. It marketed a mid-priced disk record the 'Odeon', which incorporated the then novel innovation of a sound signal printed on both sides of the disk: the disks were metric sizes with a 27-cm 10¾-inch standard. The 'Odeon' successfully undercut Gramophone Company's own prices and demonstrated the potential of this new mass market in mid-priced records. Prescott himself and his business methods were not without critics, and during a European business trip W E Gilmore, president of Edison's US National Phonograph Co, told the inventor of Prescott's activities in Berlin, concluding with the unflattering remark: 'He is still as crooked as a ram's horn'.

It was therefore largely to serve the burgeoning British and European markets that these largely German ventures were established in the years before 1914 as manufacturers of disk records and players. Of them, the largest and most important was Carl Lindström AG. Lindström was a Swedish engineer and inventor working in Germany, repairing and manufacturing record players using the name Parlophon. In 1904 two German-born

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<sup>9</sup> For an account of this competitor see chapters 1 and 2 and Bayly and Kinnear *The Zonophone Record* (Victoria, Australia, 2001).

businessmen Otto Heinemann (1877-1965)<sup>10</sup> and Max Strauss acquired the business, though they kept Lindström as technical manager. Heinemann and Strauss obtained capital from the Bank für Handel und Industrie and went on to create an impressive machine manufacturing capacity. When the business became a public company in June 1908 it had 700 employees, by 1913 this had increased to 1,800 worldwide; that same year it produced 500,000 players for domestic and export markets (including Britain).<sup>11</sup>

**Carl Lindström AG Group turnover and net profit<sup>12</sup>**

Year	Gross Turnover	Dividends
1908	£104,000 (M2,600,000)	NA
1909	£161,400 (M4,035,000)	£23,030 (M575,750)
1910	£260,800 (M6,520,000)	£26,230 (M655,754)
1911	£660,000 (M16,500,000)	£35,100 (M877,487)
1912	£849,279 (M21,231,975)	NA
1913	NA	NA

**Table 3**

Although incomplete, the figures in Table II show the rapid growth in turnover, which more than tripled between 1908 and 1911. It also shows how the business conserved capital assets (it had a reserve of M629,750 or £25,190, by revealing only small net profit used to pay dividend, mainly to its banking shareholder.

During the years leading up to the outbreak of war in 1914, and in stark contrast to the way the British trade was organised, Carl Lindström AG engaged in an integration of the German player and record making and manufacturing sector; together with those suppliers of record-making material. The outcome of all this was a large and important multinational holding company operating on a worldwide basis, more than capable of competing with the Gramophone Company in Britain, continental Europe or any other market.

<sup>10</sup> Born in Germany Otto Heinemann was one of the creators of the Carl Lindström AG and one of the great industry consolidators. He relocated to the US during the First World War and became an American citizen. He created the Otto Heinemann Phonograph Corporation in New York during 1916 and began publishing 'Okeh' records: he later renamed the business the General Phonograph Corporation, which he then sold to Columbia in 1926.

<sup>11</sup> Data derived from *Talking Machine World* May 1912, p.27. The 1912 figures are taken from Alfred Clark's report on the Carl Lindström organisation. See below.

<sup>12</sup>Ibid. Before the First World War the exchange rate was 25 German marks to the British pound or 6.25 German marks to the US dollar.

An examination of the acquisitions shows how important Carl Lindström AG had become. In August 1910, it acquired Beka AG from founders Bumb and Köenig of Berlin. The international success of this business was reported by *Talking Machine News* in June 1908. The report said Beka had achieved 'tremendous success in India over the past two years.' It claimed the Beka Indian catalogue contained one thousand titles and the competition provided compelled the Gramophone Company's Indian branch to reduce its prices by one third.<sup>13</sup> In April 1909, as the industry emerged from the grip of recession, the price of the Beka range of double-sided records sold in Britain was reduced to 2s.6d for 10-inch and 5s for 12-inch: it proved the start of a major price war in the volume end of the market.<sup>14</sup>

In September 1911 *Talking Machine News* reported another acquisition 'Carl Lindström takes over Fonotipia Ltd'. Societa Italiana di Fonotipia was an Italian venture. The business was formed as a joint venture by the Italian music publisher Titto Ricordi, Harry Higgins manager of the Royal Opera House, Covent Garden and the banker Baron Frederick Derlanger (1868-1943). By exploiting Ricordi's huge musical copyright portfolio, it had sought to tie up the finest operatic and instrumentalists and control the record market: in this it failed miserably, though 'Fonotipia' remains a magical name and continues to provide record collectors with a rich vein of early historic recordings. Although the business created a catalogue of stellar names, it was badly managed and sales were poor; the venture languished until it was acquired by the Lindström group. The same *Talking Machine News* report went on to chronicle the businesses acquired by the combine:

... within recent memory this firm has absorbed ...Beka Records Ltd, Franz Poppel and now Fonotipia Co Ltd (London) which controls the output of Odeon, Jumbo and Fonotipia from International Talking Machine GmbH.<sup>15</sup>

Frederick Prescott also sold his business International Talking Machine GmbH to Carl Lindström AG: though the products of this business continued to be marketed in the United States by Columbia. Carl Lindström used Fonotipia Ltd as the vehicle to acquire the business

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<sup>13</sup> See 'Notes on India' *Talking Machine News* Vol 6, June 1908 p148.

<sup>14</sup> See *Talking Machine News*, Vol 7, April 1909, p37. The effects of this price reduction were dramatic with *Talking Machine News* Vol 7 January 1910 p305 reporting turnover for November and December 1909 three times greater than the previous year: admittedly a period of recession.

<sup>15</sup> *Talking Machine News* Vol 9, August 1911, p.206. The September 1911 edition reported that Lindström had bought the major portion of Fonotipia shares from the London banker Baron d'Erlanger for 3 million German Marks (£120,000).

and with it came the ubiquitous Frederick Prescott. In April 1912, in a rising market, Carl Lindström AG acquired additional player and component making capacity, purchasing of Automaten Sprechmaschinenfabrik, 'Phoenix', J Wolzen and A Winter of Dresden for which it paid £100,000 (M2,500,000 or \$500,000). In October 1913 it was reported that the combine had acquired another large German venture Grunbaum and Thomas manufacturers of record material but also with a large record pressing capacity; its overseas manufacturing plants stretched from Russia to Britain.

What was behind this rapid integration of the German record and player industries? As usual in German business the answer is the banks. Quite typically, German banks took a position in the business, providing capital in exchange for shares and placing a banker director on the Carl Lindström board. The bank saw its investment as long term, and was prepared to accept lower initial profits so as to generate investment capital. In this environment the business was able to integrate backwards into raw materials manufacture, sideways acquiring competitors and forward into distribution and retailing. The end result was the creation of a large combine that could dominate its sector of the German market and be a major player abroad. For the consumer, the downside was a cartelisation of the industry with monopoly players, limited product ranges and price-fixing deals: all of which had happened in Germany by 1914.

In this bank-driven system, the Gramophone and Victor companies were obvious targets. With manufacturing and markets quite different to those of Lindström, it was an attractive option. Victor was an important but peripheral objective, as it did not trade directly in Europe; though a tie-up with Victor would have given Carl Lindström direct access to the limitless US market. The Gramophone Company was a quite different matter; we know, for example, that by 1911 German banks had acquired around 10% of the shares in the business. We know that its market share in Germany was significant and provided a serious and credible challenge to Lindström. There was also the synergy of occupying different sectors of the market. It looked a sensible option that met the needs of the banks and both companies. But there were other factors.



As far as Britain was concerned, Lindström exported enormous quantities of records from its ever growing stable of labels. In 1911 sales of Lindström records in Britain amounted to £70,122 [\$350,610], compared to Gramophone Company British sales of £189,595 [\$947,975]. However, as Lindström's records were sold at much cheaper prices than most Gramophone Company records, they probably sold very similar quantities of records.

By 1914 the Carl Lindström stable of labels included 'Beka Grand', 'Beka Meister', 'Jumbo', 'Odeon' and 'Fonotipia'. Lindström also launched the 'Parlophon' record label in Germany (known as 'Parlophone' in Britain), which remains one of the oldest labels in the world: it created 'Parlophone's' distinctive £ trademark, which stood for the L in Lindström and not the British currency. By the outbreak of war in 1914, Carl Lindström AG was the largest German record company and, with markets across Europe, Asia and into South America, a major world player in this field of commerce.

Between 1908 and 1913, marketing the British Carl Lindström records and players was handled by London-based music wholesalers Barnett Samuel and Sons. However, in 1913, Carl Lindström (London) Ltd was created with a nominal share capital of £1,000 (M25,000 or \$5,000) and managed by its Swiss manager Otto Rühl from offices at 77 City Road, Finsbury, London. The purpose of this company was to secure its growing British asset base and position itself to gain an even larger market share. To this end the company opened British record manufacturing facilities in Hartford, to the North of London and it had London-based recording studios.<sup>16</sup>

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Such was the size and importance of Carl Lindström AG that late in 1911 it was confident enough (or at least the bankers were) to propose an amalgamation with the Gramophone Company. The issues at stake were complex, as Lindström had not yet integrated its many manufacturing or international interests and licensing agreements around the world; especially those in the America's that transcended the boundaries of the existing Victor-Gramophone territorial agreements.

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<sup>16</sup> For more information regarding Carl Lindström (London) Ltd see BT 31/21328/127948 (TNA, Kew).

When the directors of the Gramophone Company were approached by Carl Lindström AG they took the matter very seriously, despatching American-born Alfred Clark their managing director to Berlin to assess the business and the deals' potential. To assist Clark, the Carl Lindström directors and managers opened their books and he was given every opportunity to visit the many factories within the group. He also discussed the issues with those Gramophone Company executives who managed the company's manufacturing and trade in Germany.

In January 1912, at the conclusion of this visit, Alfred Clark wrote an important report about the Carl Lindström business. This has survived and provides the historian of 2008 with a remarkable insight into the Lindström organisation at this time. It is probably the best surviving snap-shot of the pre-1914 German trade. This now forms the focus of my paper.

Alfred Clark began his report by explaining that Strauss and Heinemann had originally been engaged in selling cinematographs and films but gradually drifted into the talking machine business. Carl Lindström was a Swedish mechanic living in Germany. After trouble with labour unions he was compelled to leave his employment and he subsequently worked on his own account repairing machines for the Columbia Phonograph Co. Eventually he hired men to work for him, opening a small machine shop. He was discovered by Strauss and Heinemann who placed orders with him for talking machines. They found, however, that he lacked capital to manufacture sufficient machines for their needs and they eventually formed the Carl Lindström ACT acquiring the business and employing Lindström himself.

In the course of his report Clark noted that the overall management of the business appeared to be carried on with the minimum of executives. He noted that the group only dealt with wholesalers and therefore had a small manufacturing and selling organisation. The one exception to this being Fonotipia. As Clark observed, 'Fonotipia, however, has attempted to copy the Gramophone Company's system of special Branches in different countries and therefore requires a larger selling organisation': though the overall contribution made by Fonotipia was a mere £11,734 out of the total group turnover of £849,279; or 1.4%.

In his report Clark set out the complex structure of the whole group, starting with capital:

**Carl Lindström group capital structure**

<b>Company</b>	<b>Capital</b>
Carl Lindström AG	M3,500,000
Beka ACT	M1,000,000
Fonotipia Ltd	£60,800 M1,520,000
International Talking Machine GmbH	M400,000
Cie Française Odeon	Fcs 500,000
Fonotipia Italy	Lira 100,000
Masson GmbH Vienna	K200,000

**Table 4**

As this table shows, in January 1912 overall group capital amounted to of M7,220,000 (£288,800 or \$1,444,000), compared to the Gramophone Company's capital £600,000 (M15,000,000 or \$3,000,000). Additionally, Clark pointed out that Beka had recently acquired the large Puppel machine manufacturing concern, and that Fonotipia Ltd and its allied companies had been founded by former Gramophone Co executive Alfred Michaelis [and of course by FM Prescott]. He said Fonotipia used the Odeon record factory to manufacture its disks: later Fonotipia acquired Odeon as part of the International Talking Machine GmbH deal. Of the value of these concerns, Clark said 'I found that the turnover of the Lindström companies is very large and that their profits are also considerable, but as on a lower percentage than those of the Gamophone Company.'

Factories manufacturing disk players and parts were also noted, with Carl Lindström AG having its own facilities in Berlin, making machines, clockwork motors, tone arms and sound boxes, together with an electrically powered and coin-in-the-slot machines; there was also a clockwork motor manufactory at St Croix in Switzerland. There were, in addition, machine, motor, manufacturing and assembly facilities controlled by Beka and Odeon.

As to record manufacturing, the group had Beka's Berlin factory with 42 presses producing 'Beka' and 'Parlophone' records, as well as significant amounts of contract work. The factory

used material supplied by Grunbaum and Thomas (who had plants in Berlin, Warsaw and Vienna) and who pressed Beka records when the Beka factory was working to capacity. Beka had a matrix-making plant which Clark described as 'new and up-to-date'. He noted the use of the 'father-mother' matrix system. He described this process in some detail.

A copper shell is taken from the original wax and is then silver plated. This shell is then placed in a copper bath and another shell is grown on it. The two are found to separate quite easily. The second shell is then silver plated and is used as a master shell from which pressing shells are grown in the usual way.

Clark also noted that Beka 'make their own wax'; which he described as 'looking very bad'. Beka also had its own recording rooms. However Clark was unimpressed with the finished records, which he described as 'generally looked very poor'. Noting 'there is very little inspection'.

The Berlin-based Odeon factory had 72 presses and four rollers, making pressing material and manufacturing 'Odeon' brown and 'Blue' labels, 'Fonotipia', 'Jumbo' and 'Jumbola' records. The business had recording studios in Berlin. As far as the British market was concerned, Clark noted, these brands were manufactured by the Crystalite Manufacturing Co Ltd in Kent, England. The Odeon plant had its own matrix-making plant and recording was done in Berlin.

He saw the turnover and profit figures for the various elements of the group and made a number of interesting comparisons with the Gramophone Company's own turnover and profit.

**Gramophone Co and Lindström AG  
comparative turnover for the financial year 1911**

Gramophone Co	£1,028,812 or M25,720,300 or \$5,144,060
Lindström AG	£894,279 or M23,356,975 or \$4,471,395
Difference in favour of Gramophone Co	£179,533 or M4,488,325 or \$897,665

**Table 5**

The report breaks down the figures on a country-by-country basis, but the bottom line proved to be Gramophone Company turnover was 21.14% greater than Carl Lindström.

Clark also highlighted the Carl Lindström record turnover by label.

**Carl Lindström record turnover by label**

Beka	£142,070
Odeon	£108,950
Jumbo	£35,550
Jumbola	£12,045
Fonotipia	£11,734
<b>Total</b>	<b>£313,349</b>

**Table 6**

**Comparative record and player turnover Gramophone Co  
and Carl Lindström AG and allied companies**

	<b>Gramophone Co</b>	<b>Lindström and allied co's</b>	<b>Grand total</b>	<b>Gramophone Co plus or minus over CL</b>
Records	£699,494	£313,349	£1,012,843	+£386,145
Players	£329,318	£535,930 <sup>17</sup>	£865,248	-£206,612
Totals	£1,028,812	£849,279	£1,878,091	+£179,533

**Table 7**

These comparisons show a breakdown of Gramophone Company-Carl Lindström turnover; earnings from both records and players. It reveals Gramophone earnings from records were around one third greater than those of the Carl Lindström group, but earnings from players show exactly the reverse. It must, however, be recalled that the price structure of Gramophone Company record and especially players range of products were significantly higher than the Lindström group.

As to the kind of trade the Carl Lindström engaged in Clark was in no doubt. 'I am convinced that Lindström has in no sense succeeded in touching our trade in good gramophones. Almost all their trade is in the very cheap motor [player] which we do not compete with.' What Clark omits is the fact that the Gramophone Company was still dependent on Victor in the US for supplies of machines. Victor could not produce a player to match the cost of the cheapest Lindström machines. With regard to this trade, Clark argued 'But as the great bulk

<sup>17</sup> The player figures Clark cited amounted to £407,530 and are for the Carl Lindstrom AG only. As we have firm overall turnover and record figures it has been possible to fill in the missing figures, which are cited in the table.

of Lindström's business is in the very cheap type, it may be taken that the two companies divide between them the two classes of machine trade.' The class of goods the two firms produced was also a subject of Clark's report. He reported:

The class of goods sold by Lindström companies is very low. The Lindström machines are not good in any sense of the word. The sound-boxes only give a fairly good result; the general workmanship throughout is bad but of course this is due to the extremely low prices at which they are manufactured.

The cabinets are of the cheapest quality and the very best that they had to show me would never have been accepted by any of our customers. They do not seem to appreciate the need of good cabinet work.

As to the record trade, the situation was more complex with wide variations in different countries. He said

Germany, which is the stronghold of the Lindström companies is their best record field, but the Gramophone Co in all countries undoubtedly leads in artistic records, and in fact, does almost the entire trade in this class of goods. In the medium and cheaper grades of records, however, there is great competition. The Beka records represent undoubtedly the cheapest grade. The Odeon records compare with the medium class gramophone records and the few existing Fonotipia artistic records are sold in a feeble attempt to compete with the gramophone records of high class artistes.

It will therefore be seen that in records the Lindström compete with us in every field but their competition is unimportant in the high class and much larger in the lowest class of goods.

Clark also noted that the bulk of Lindström trade in Germany was with concerns with whom the Gramophone Company did not deal. This meant that in the event of a merger, neither of the concerns was likely to lose custom. As to the quality of Lindström records, Clark was scathing.

The records which they sell are not well recorded. The material is not good, and the pressing generally is bad. They have a loose system of inspection and the result is that their product is in no way to be compared with ours.

Given its acquisition programme, the group were, at the time Clark visited, still in the process of rationalisation, economising and strengthening the firm.

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In the end nothing came of the merger proposal merger, despite the time and effort put in by Alfred Clark and the clear interest of the Gramophone Company directors in the deal; and the obvious at-the-time benefits to both companies. So what happened?

It must be remembered that the original proposal was made to both the Gramophone and the Victor Talking Machine Companies. Eldridge Johnson, the Victor president, rejected the deal out of hand. There were numerous reasons for this.

1. Johnson was operating within a tightly controlled oligopoly; essentially a patent pool that rigorously excluded new players. He had no need for new partners and could see no benefit.
2. The United States was protectionist to the point that no European business could trade profitably. This is how Johnson wanted to keep things.
3. In 1911 Victor sold 124,927 players and 6,205,929 records in a rapidly rising market.<sup>18</sup> Johnson didn't need the extra business, he could barely cope with the trade he had.
4. As Alfred Clark noted in his report, Carl Lindström AG was engaged in a very different sector of the market (especially in the player market) than either Victor or the Gramophone Company. Johnson was simply not interested in the cheap end of the market.
5. Johnson was developing his South American markets, markets where the Carl Lindström group of companies were well established with record factories and player assembly lines. In this region Carl Lindström provided real competition.
6. One of the figures involved in the merger proposal was Frederick Marion Prescott, a man who Johnson loathed and distrusted; and who had tried to manipulate him during the negotiations: remember Edison head WE Gilmore described him as being 'as crooked as a rams horn'.<sup>19</sup>

Even if Johnson was not to be tempted, why in the final analysis did the Gramophone Company back off the deal; a deal that appeared to make so much sense?

1. The Gramophone Company at this stage of its development was dependent on Victor for players: until 1911 the Gramophone Company was tied by contract to buying all of its players from Victor.
2. The Gramophone Company was planning a huge investment to erect state-of-the-art player manufacturing facilities in London. A merger might obviate the need for this.
3. The Gramophone, with its 'Twin' and 'Zonophone' labels, was a major player in the cheap record market and so understood the nuances of the sector and Carl Lindström's role in it. It could benefit in a significant number of ways if the merger went through.

Given all of this, why did the directors of the Gramophone Company allow the proposal to lapse? It's not difficult to find an answer. In the final analysis, Johnson played his trump card. Opposed to his associates entering such an alliance, he told the London board that if

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<sup>18</sup> For Victor sales data see Robert W Baumbach *Look at the Dog: an illustrated guide to Victor Talking Machines*, p8 (California, USA) and Michael W Sherman *Victrola Records: the collector's guide to Victor Records*, p168 (Texas, USA 1992).

<sup>19</sup> For more on this see letters (Lindström file, EMI).

the deal went through he would begin trading in his own right in Europe. For the American Alfred Clark and the directors in London it provided a clear unambiguous choice; stick with the existing partnership or throw in your lot with Lindström. In the end it was no contest. Johnson won and the proposal lapsed. The best that Clark could do was to gain a licensing agreement with Lindström, whereby they acknowledged disputed machine patents held by the Gramophone Company and paid a royalty. In April 1914, it joined the Carl Lindström group and just about every other German record manufacturer in a price fixing cartel. It sought to fix both the minimum and maximum wholesale and retail price of records and the frequency of which new records were released. That the Gramophone Company sacrificed its own self-interest on the altar of the Victor relationship reveals the extent of its own weakness and the strength of its associate. Although the deal never came to fruition, it pointed the way forward to this industry's late 1920s mergers movement.<sup>20</sup>

Thus by the outbreak of war in 1914, and notwithstanding the failure of the Lindström deal, the record and player industries had become firmly established across Europe. Although the trade was begun at the end of the nineteenth century essentially as an arm of US enterprises, it had, by 1914, become a truly international trade. Therefore on the eve of war, European record and player industries were established in the growing leisure, cultural and communications revolution. Market-led businesses, they had grown by being alert to competition technological innovations and low cost manufacturing. It had succeeded in developing sophisticated marketing and opportunities to cut the pricing structure, together with a dynamic manufacturing base. Its future seemed assured; that is until the events of August 1914.

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<sup>20</sup> As a consequence of Alfred Clark's German visit he produced a 'Report of the Lindström amalgamation' for the Gramophone Company board meeting of January 1912. Much of the information in this section has been derived from this report (Lindström papers, EMI).