Attention Shoppers

1906 Sears IPO Heralds the Triumph of the Consumer Economy

By Gregory DL Morris

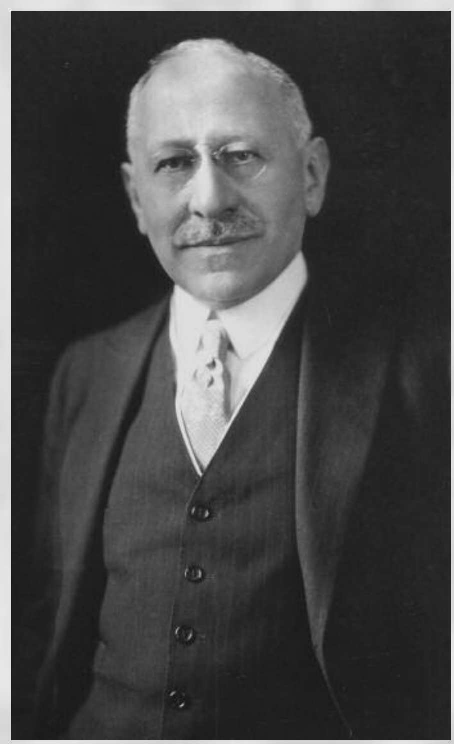
Since its inception in 1886, Sears has issued many glossy publications filled with numbers and descriptions. Most of those have been catalogues, with dazzling copy written by Richard Sears himself. But exactly 100 years ago the firm issued a different kind of publication filled with numbers and descriptions: its first annual report.

That 1907 annual report was a result of the company's initial public offering the previous year, which raised $40 million, and was underwritten by Goldman Sachs with help from Lehman Brothers. It was the first major retail IPO in American history and marked an important inflection point in the American economy. It was the point where the consumer economy rose to equal footing with the industrial one. It was also one of the high points in an epic entrepreneurial saga.

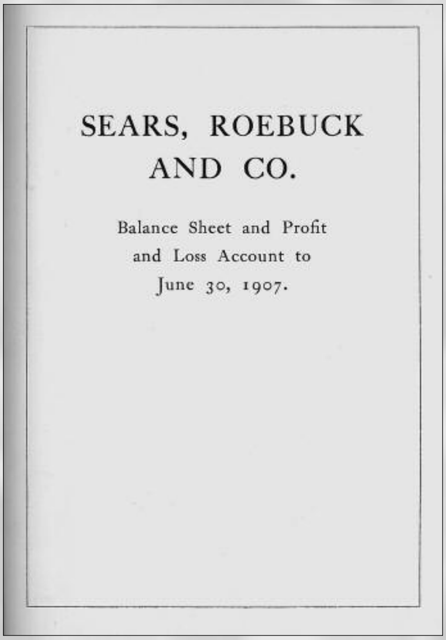
Until that time the large companies raising money on the equity markets were industrial concerns with large capital demands: railroads, shipping lines, mining and manufacturing operations. All dozen companies on the Dow Jones Industrial Average at the time were heavy industries (table, p. 22), and it would not be until 1924 that a retail firm was added to the DJIA: Sears Roebuck, on May 12.

So the 1906 Sears IPO marked the first time a retail concern got off the porch to run with the big dogs on Wall Street. The fact that it was able to do that reflected dramatic sea changes in the body politic. The rise of the consumer economy was marked by volume buying to reduce costs, and volume selling, driven by advertising.

"Department stores were the surface foamings of a tectonic reshaping of American social and economic arrangements that was gaining speed



Julius Rosenwald, president of Sears from 1908–1924.


SEARS, ROEBUCK AND CO.

Balance Sheet and Profit and Loss Account to June 30, 1907.

The cover of the first Sears annual report, June 30, 1907.

in the 1870s and '80s," writes Charles R. Morris in *The Tycoons* (Holt, New York, 2005; reviewed in issue 86). "Not many years before farm wives made their soap and candles from vats of animal fat, one of the nastiest of a woman's duties. By the 1840s and '50s better-off farmwomen bought their soap and candles from regional manufacturers like Cincinnati's Procter & Gamble."

The Tycoons also quotes Walt Whitman saying in 1858 that "the most valuable class in any community is the middle class — the men of moderate means living at the rate of a thousand dollars a year or so."

To serve that burgeoning demand, dry-goods stores were expanding and evolving. According to a survey published by Steven Schoenherr, professor of history at the University of San Diego, the world's first department store was the Bon Marche in Paris. Proprietor Aristide Boucicaut opened his first "bargain store" in 1838, and by 1852 it had become what today would be recognized as a department store: wide variety, fixed prices, and large volumes.

Around the same time in the U.S. Alexander Turney Stewart, an ex-minister and school teacher lent money to a friend to open a store. When it failed, Stewart took it over, and was successful. So much so that in 1848 he opened the Marble Dry Goods Palace catering to women at Broadway and Chambers Street in New York. Four years later he built the even larger Cast Iron Palace at Broadway and 9th Street, serving men and women with a staff of 2,000 in 19 departments on eight floors.

In 1858 Rowland Hussey Macy, a seaman, opened a "fancy dry goods" store in New York. According to Schoennherr, the red star he had tattooed on his hand as a boy aboard a whaler became the symbol for the new store. New York became a center of the trade, but every major city had its own department store magnate: Marshall Field and Aaron Montgomery Ward in Chicago, John Wannamaker in Philadelphia, and a host of others (table, p. 36).

Every one of them has a founding story, but none is as dramatic or indicative of the best and worst of free-market capitalism as the story of Sears. According to the company's own history, Richard Sears was an entrepreneurial fellow without much capital, working as a railway express agent in North Redwood, MN. One day in 1886 he received a shipment of watches that were refused by the addressee. He bought them from the shipper and resold them to other agents.

Within the year he opened the R. W. Sears Watch Company of Minneapolis. The next year he moved to Chicago, and placed an ad for a watchmaker. In walked Alvah C. Roebuck, and a new company was born.

That is where the tale turns strange. The official version is that Julius Rosenwald joined the company in 1895 and took over the operations that were bogging down. But according to a privately published history in the archives of Goldman Sachs, there was a fourth principal: Aaron Nusbaum. He made his first fortune at Chicago's Columbian Exposition in 1893, and called upon Sears two years later to sell a pneumatic-tube system.

That was the same year Roebuck, a craftsman not an entrapper, bailed


THIS TEMPORARY CERTIFICATE WILL BE EXCHANGED FOR AN ENGRAVED CERTIFICATE AS AND WHEN READY FOR DELIVERY

CERTIFICATE OF PREFERRED STOCK

5000

SEARS, ROEBUCK AND CO.

INCORPORATED UNDER THE LAWS OF THE STATE OF NEW YORK

Preferred Stock, $10,000,000 CAPITAL STOCK, $40,000,000 Common Stock, $30,000,000

This is to Certify, that Richard W. Sears is entitled to Five thousand fully paid and non-assessable shares of the Preferred Capital Stock of Sears, Roebuck and Co. transferable only on the books of the Company by the holder hereof in person or by duly authorized attorney, upon surrender of this certificate properly endorsed.

The holders of the Preferred Stock shall be entitled to receive, when and as declared, from the net or surplus profits arising from the business of this Company, cumulative dividends at the rate of, but not exceeding, Seven per centum per annum, payable in quarterly installments on such dates as shall be fixed by the by-laws, the first year beginning July 1, 1906, and the same shall be paid or set apart before any dividends shall be paid or set apart on the Common Stock. Should such net or surplus profits accumulated at any dividend day be insufficient to pay such dividend upon all of the then issued and outstanding Preferred Stock, such dividend shall be payable out of the future net or surplus profits, and no dividend shall at any time be payable, paid or set apart on the Common Stock until dividends at the rate of Seven per centum per annum from July 1, 1906, shall have been declared and paid or set apart on all of the then issued and outstanding Preferred Stock. Upon any dissolution or liquidation of the Company, or in the event of insolvency, or upon any distribution of capital, there shall be paid to the holders of the Preferred Stock the par value thereof and the amount of all unpaid accrued and accruing dividends thereon before any sum shall be paid or any assets applied on the Common Stock. This Certificate is subject to the provisions for the redemption thereof and all other provisions contained in the Certificate of Incorporation of the Company.

This Certificate is not valid, nor is its issue complete, until after registration thereof by the Registrar of the Company and notation thereof hereon.

In Witness Whereof, the Company has caused this Certificate to be signed by its President or Vice-President and its Treasurer or Assistant Treasurer or Secretary or Assistant Secretary and its corporate seal to be hereunto affixed this 15th day of June 1906

Assistant Secretary-Treasurer

J Rosenwald Vice-President

BANKERS' TRUST COMPANY, Registrar

COLUMBIA TRUST COMPANY, Transfer Agent

Shares 100 Each

1906 certificate for preferred stock in Sears, Roebuck issued to Richard Sears and signed by Julius Rosenwald.

© Sears Holdings Historical Archives

Certificate for 20,000 shares of Sears stock issued to Julius Rosenwald in 1904—a year and a half before the company's IPO.

out of the troubled company. Sears bought him out for $25,000. Remember that number. Seeking new capital, Sears invited Nusbaum to buy a half interest for $75,000. Unable to raise the full amount himself, Nusbaum brought in his brother-in-law, Julius Rosenwald.

Rosenwald, a clothier, was friends with Henry Goldman, and already a supplier to Sears. Indeed, Sears Roebuck owed Rosenwald's company money. How the exact payment was arranged is not clear, but Nusbaum and Rosenwald each bought a quarter interest in Sears Roebuck for $37,500.

According to a balance sheet from August 1895, signed by all three, the company's net worth was reported at $54,570.76. Four days later the company was re-incorporated in Illinois with a capital of $150,000. Sears held 800 shares each worth $100; Nusbaum and Rosenwald each held 350 shares. Recapitalized but still floundering, Nusbaum tackled the operational problems, Rosenwald handled fulfillment, and Sears went back to writing ad copy and working suppliers.

But clashes of style soon developed between Sears, the free spirit, and the Nusbaum, the disciplinarian. Early in 1901, with Nusbaum on a health leave in Florida, Sears gave Rosenwald an ultimatum: either the two would buy out Nusbaum, or Rosenwald and Nusbaum could buy out Sears. Again, the details are murky, but Nusbaum resigned as secretary and treasurer in February. Rosenwald assumed complete operating control, but negotiations for a buyout did not begin until later in the year.

Nusbaum felt he had been betrayed, but Sears and Rosenwald felt the company had to be saved from the friction in the executive suite. Negotiations dragged, but by the end of 1903 company records showed Nusbaum had been paid off in full, a total of $1,349,752.46 for what was by then a one-third share.

Two years later the company was again struggling, and Rosenwald approached his friend Henry Sachs for a loan of $5 million. Sachs thought that the figure was inadequate, and suggested a public offering. Goldman Sachs and Lehman Brothers underwrote $10 million in preferred shares floated at $97.50, and $30 million of common shares floated at $50.

Sears and Rosenwald each got $4.5 million for their previous stock, four times what Nusbaum had been paid, and 180 times what Alvah Roebuck got just four years earlier. But the escalation had only just begun.

As a result of the IPO the company was strong enough to survive the Panic of 1907. But the following year Rosenwald advised cost controls as a precaution. Sears advocated continued spending on advertising in particular. Most senior company officials sided with Rosenwald, and Sears resigned as president, although he remained chairman of the board until 1912.

Rosenwald continued to run the company profitably, and became a philanthropist donating many millions to public schools, universities and

Dow Jones Industrial Average April 1, 1905
Amalgamated Copper
American Car & Foundry
American Smelting & Refining
American Sugar
Colorado Fuel & Iron
National Lead
Peoples Gas
Tennessee Coal & Iron
U.S. Rubber
U.S. Rubber first pfd.
U.S. Steel
U.S. Steel pfd.

Source: Dow Jones

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Notable Department Store Foundings	
1838:	Aristide Boucicaut's Bon Marche in Paris
1848:	A. T. Stewart's Marble Palace in New York
1858:	R. H. Macy's in New York
1862:	Stewart's Cast Iron Palace
1865:	Marshall Field and Levi Leiter buy Potter Palmer's store in Chicago, promising to "give the lady what she wants."
1868:	Strawbridge & Clothier in Philadelphia
1869:	Zion's Cooperative Mercantile Institution in Salt Lake City
1872:	Lyman and Joseph Bloomingdale's in New York
1872:	A. Montgomery Ward mails first catalogue from Chicago
1874:	Harrod's in London
1876:	John Wannamaker's Oak Hall Clothing Bazaar in Philadelphia
1877:	David May's Great Western Auction House & Clothing Store in Leadville, CO
1879:	Frank Winfield Woolworth's "five-and-ten-cent store" in Lancaster, PA
1881:	Joseph Lowthian Hudson's in Detroit
1887:	Adam Gimbel's Palace of Trade in Vincennes, IN, soon expanded to Milwaukee

museums, as well as Jewish and black charities. The Julius Rosenwald Foundation was established in 1917, and his donations to the foundations came to $63 million by 1929. The foundation has built more than 5,000 schools and associated buildings primarily in black neighborhoods around the country with capacity for more than 663,000 students.

When Sears retired as president in 1908, he sold his shares to Goldman Sachs for $10 million. Twenty years later, and one year before the Great Crash, those shares were worth $200 million. That could buy a lot of retail consumer goods at any department store. FH

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Creative Financing of a Planned Community: Frederick Law Olmsted and the Riverside Improvement Company

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hold a series of lot sales to satisfy Riverside's creditors. Litigation dragged on for 17 years, with the final foreclosure sale occurring in 1891. The last creditors to be satisfied were the Peck estate, and "Eastern parties."

All but two of the original RIC directors remained in the Chicago area, and two of them, Allen and Seelye, lived in Riverside until their deaths. Childs, however, moved to Brooklyn in 1879, after the fall of the RIC but before judgment, where he continued in real estate. After transferring what is now 30 acres of North Riverside to the City of Chicago to settle his legal affairs, Gage moved to Denver in 1877, where he maintained interests in several hotels.

The village of Riverside was developed much along the lines originally planned by Olmsted, and remains an oft-cited example of Olmsted's vision for a planned community. More than 100 years later, the improvements still function, the water works stand, and the gas lamps still glow along the curved parkways. FH

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Notes

(Unless otherwise stated below, information and quotes are taken from concurrent articles in the *Chicago Tribune*.

i Childs' original proposal to Gage was an individual developer. The Riverside Improvement Company was incorporated a year later.

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