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Houdaille management attempted a novel, 11th-hour rescue of its machine tool business by lobbying the U.S. government in 1984 for sanctions against rival Japanese builders. Bolstered by a "60 Minutes" feature that again put Houdaille in the national spotlight, the firm's lawyer, Richard Copaken, claimed that unfair national subsidization of Japan's machine tool industry allowed it to dominate the U.S. market. Hotly debated but eventually denied, the Houdaille application became a national symbol of American industrial distress. The only real beneficiary from the application may have been Copaken, who, according to Holland, billed more than $1 million to the company for his services and cleverly copyrighted the lengthy application that would make him famous.

In fact, despite his criticism of the famous leveraged buyout firm, Holland's astute analysis of the machine tool industry finally vindicates KKR. His account of the slow decline of Burgmaster under Houdaille management suggests to the reader that its failure was assured long before KKR leveraged Houdaille to the eyebrows. If anything, KKR's principal fault seems to have been their desire to sell the company in one piece, rather than rapidly applying the inevitable triage to its divisions.

Full Text Transliterate [unavailable for this document]

"When the Machine Stopped: A Cautionary Tale From Industrial America" is a passionate critique of the newest form of financial brinkmanship, the leveraged buyout (LBO). The author, Max Holland, chronicles the grim consequences of a single deal: In 1979, the LBO specialists, Kohlberg, Kravis, Roberts, engineered the private purchase of Houdaille Industries, a failing manufacturing conglomerate. At a price of $350 million, it was, at that time, the biggest such buyout ever attempted. Borrowing heavily on a slim amount of invested capital, KKR's risks were large, but perhaps not as large as the risk they took with the company, its reputation, and the livelihood of its employees.

Holland argues that the desperate cash-flow requirements of Houdaille's new management stifled the development of new products, and destroyed what was left of their reputation for quality workmanship. He paints a sad picture of the last days of Houdaille--of shipping unfinished machines and laying off large portions of the work force in order to cut costs to the bone. As one might expect, this conflict finally led to the company's demise. In 1987, the profitable divisions of Houdaille were sold, while the others were closed down.

Holland recounts the Houdaille deal from the perspective of its greatest casualty-the Burgmaster tool division. If fact, "When the Machine Stopped" is primarily the history of Burgmaster, a Gardena, Calif., firm that seems to have fallen prey to virtually every new managerial and financial fad of the last 30 years.

Founded in 1944, Burgmaster created a niche in the machine tool industry through the popularity of its patented turret-head drill, the brainchild of its founder Fredrick Burg. Its flexibility and its capacity to reduce manufacturing labor costs made the Burgmaster drill particularly popular in the newly emerging aerospace industry. With early success came larger plans. The Burg family took the company public in 1961 with the issue of stock on the over-the-counter market. By 1965, the company had grown from a workshop in the Burg family garage into the largest machine tool manufacturer west of the Mississippi.

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In 1979, after a decade of stagnation and painful competition with Japanese tool manufacturers, some of whom had licensed Fred Burg's turret head drill and were selling it in the United States, Houdaille made headlines in the financial press. The Wall Street firm, Kohlberg, Kravis, Roberts, took the huge company private through a technique they virtually pioneered--the leveraged buyout. Burgmaster, once proud of its reputation for quality workmanship, was now forced by cash needs to pump shoddy machines out the door. Its dwindling reputation virtually assured the company's demise.

Houdaille management attempted a novel, 11th-hour rescue of its machine tool business by lobbying the U.S. government in 1984 for sanctions against rival Japanese builders. Bolstered by a "60 Minutes" feature that again put Houdaille in the national spotlight, the firm's lawyer, Richard Copaken, claimed that unfair national subsidization of Japan's machine tool industry allowed it to dominate the U.S. market. Hotly debated but eventually denied, the Houdaille application became a national symbol of American industrial distress. The only real beneficiary from the application may have been Copaken, who, according to Holland, billed more than $1 million to the company for his services and cleverly copyrighted the lengthy application that would make him famous.

Holland's inside knowledge of the company comes, in part, from his father who worked as a Burgmaster machinist for 29 years. Consequently, he provides a rare glimpse of corporate growth and change from the employee's point of view. Indeed, he may be too close to be a dispassionate critic of Burgmaster's succession of managers. Yet, lest we suspect him of a biased perspective, Holland draws upon myriad interviews, from line workers and managers to investment bankers and government officials.
His characterizations of the Burgmaster managers and the problems they confronted are particularly insightful. Less so are his descriptions of the Kohlberg, Kravis, Robert team, who apparently declined to be interviewed for the book.

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"When the Machine Stopped" is a well-crafted story about what happens when a company's perspective shifts from a focus on quality products to a focus on quarterly reports to a focus on monthly cash flow. Holland's particular strategy of exploring a single firm in depth, pays off in a fascinating case study not unlike Tracey Kidder's "The Soul of a New Machine" in its mastery of technical detail and ability to absorb the reader in the dynamics of the corporation.

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