

KELSEY-HAYES

Kelsey-Hayes was established in 1927 through the merger of Kelsey Wheel and Hayes Wheel. Both companies were founded in 1909, and both had made early advances in the wooden wheel industry. Kelsey and Hayes had important connections in automobile manufacturing, which helped them succeed as automotive parts suppliers. In 1909 the Ford Motor Company purchased three-fourths of the wheels produced by the Kelsey Wheel Company. Similarly, Hayes President and founder Clarence B. Hayes' early experiences in the wheel industry put him in contact with W.C. Durant (1861–1947) who eventually founded General Motors. Thus, even before the merger both companies had strong positions in the industry.

Fearing that Kelsey Wheel Company might become too dependent on the Ford Motor Company, John Kelsey sought to diversify his company's product line and customer base. Kelsey reduced business with Ford from three-quarters to less than one-third of total sales in 1910. By 1915 Kelsey produced wheels for 15 to 20 percent of the automobile industry. The Kelsey Wheel Company also produced 80 percent of artillery wheels during the World War I. By the end of the war Kelsey was turning consistent profits. During the same period, Clarence Hayes was supplying over half of the American automobile business with his wheels. In the 1920s the advent of the wire wheel required dramatic changes for these wooden wheel producers. Although both companies expanded into wire wheel production, they chose to face this new challenge together, and in 1927 they formed the Kelsey-Hayes Wheel Company.

Litigation against John Kelsey over the patent for wire wheels clouded the merger. The Wire Wheel Corporation of Buffalo, New York, disputed Kelsey right to produce the wheel. When Kelsey died in 1927, his successor George Kennedy bought the Wire Wheel Company in an effort to solve the problem. It was eventually decided, however, that the patent was owned by the Packard Motor Company, a car manufacturer, not the Wire Wheel Corporation. Kennedy paid Packard \$500,000 so that Kelsey-Hayes could continue with wire wheel production. By 1929 the company was making 10,000 wire wheels per day; by this time the manufacturer had also added brakes to its product line.

Kelsey-Hayes endured great challenges in the 1930s. Economic crises overshadowed the purchase of General Motor's subsidiary Jaxon Steel Products Company of Jackson, Michigan. The company had very costly debts that resulted in approximately \$2 million in losses for Kelsey-Hayes. They eventually survived these troubles by restructuring their finances and lowering expenses. But in the meantime a challenge from another quarter arose. The United Auto Workers (UAW) sought to organize the Kelsey-Hayes workers in Detroit, Michigan, who made and supplied brakes for Ford cars. The union struck the company in 1936. The company established a 75-cent minimum hourly wage but still refused to recognize the union. By 1938 and 1939, Kelsey-Hayes was showing profits again. By this time the company was selling newly developed hydraulic brakes to Ford (which had become standard equipment on Ford cars). Kelsey-Hayes also came out with a new brake drum.

During World War II (1939–1945), Kelsey-Hayes contributed to the war effort by producing machine guns. Kelsey-Hayes also manufactured tank components and aircraft wheels. The company acquired French and Hecht, Inc., an already successful manufacturer of wheels for agricultural and construction machinery. In 1946 labor strikes surged throughout the country and Kelsey-Hayes was shut down for six weeks. Nevertheless the same year brought successes when Buick and Chrysler began buying power brakes from Kelsey-Hayes. In 1947 Kelsey-Hayes bought a manufacturer of brake components—the Lather Company. By the 1950s Kelsey-Hayes was enjoying its highest profits in history.

During the Korean War Kelsey-Hayes produced parts for the aircraft industry. They also promoted specialty products for the automobile industry such as chrome-plated and aluminum wheels. In 1958 the company's research and development department began looking into anti-lock brake systems (ABS) for automobiles—prior to this, the ABS was only used in aircraft. With so much diversification of its product line, Kelsey-Hayes Wheel Company saw fit to change its name to Kelsey-Hayes Corporation in the late 1950s.

The company continued to broaden its product line beyond wheels; in the years that followed, the biggest successes were in non-wheel products. Kelsey-Hayes pioneered disc brake systems—standard equipment on Lincoln Continentals and Thunderbirds in the 1960s. But by the 1970s eighty-five percent of U.S. cars were equipped with Kelsey-Hayes disc brakes. Also at that time, nearly every jet engine contained some parts manufactured by the Kelsey-Hayes Corporation. During and after an oil crisis in the 1970s, the market demanded smaller cars that would be cheaper to operate. Kelsey-Hayes took researched and designed new components that would be lighter and more economical. Fewer people were buying new cars during this period; instead, they opted for used ones. Kelsey-Hayes sensed this and in 1978, as new automobile sales declined, they began manufacturing replacement parts.

In spite of these successes Kelsey-Hayes' stock was falling and its credit was overextended during the early 1970s. There was fear of a takeover; in 1973 the company became a subsidiary of Fruehauf Corporation. Kelsey-Hayes quickly recovered from its financial setback and consistently brought Fruehauf its best profits. In the late 1970s Kelsey-Hayes acquired Compositek Engineering Corporation whose history of producing fiber-reinforced plastics brought new opportunities for producing light-weight wheels. At the end of the decade Kelsey-Hayes was producing all types of wheels. The merger did not appear to diminish Kelsey-Hayes' success.

The Federal Trade Commission, however, (FTC) reviewed Fruehauf's acquisition of Kelsey-Hayes and decided that the merger violated anti-trust laws by discouraging competitive trade. Kelsey-Hayes had been a supplier to Fruehauf and, after the merger, Fruehauf was less inclined to buy from other suppliers. The FTC ruled that this was a restraint of trade. Also, prior to the merger, Fruehauf had itself manufactured products similar to those that Kelsey-Hayes produced. After the merger, Fruehauf had discontinued its own production of those products, and the FTC ruled that this was a limit on the diversity of available goods. Fruehauf was forced to divest itself of some of its Kelsey-Hayes holdings.

The problems for Fruehauf did not end there. Fruehauf was dismantled during a lengthy, unfriendly takeover in the mid-1980s. Kelsey-Hayes was independent again and was renamed the K-H Corporation. But K-H was short-lived, since debt and interest payments diminished any possibility for growth. In 1989 K-H sought out the Toronto-based Varsity Corporation and arranged for a friendly buyout. Under this new owner the company became the Kelsey Hayes Group of Companies, and by organizing itself into business units, the company made it easier to focus on distinct product lines. One year after the merger Kelsey-Hayes showed __BODY__ billion in revenues.

The Kelsey-Hayes story is about a company in the midst of a competitive environment that was able to survive and build itself up by furnishing the parts needed by big customers like General Motors, Ford, and U.S. government contractors. Although other parts suppliers tried to do the same thing, Kelsey-Hayes was successful because of its ability to read the market and to develop new products that were ahead of their time. The company also understood its limits and subsequently built relations with other companies, either by purchasing or merging. Such strengths contributed to Kelsey-Hayes' ability to issue innovative parts, such as aluminum wheels, disc brakes, and anti-lock braking systems—quite a change from the days of the wooden wheel.