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Norton Simon Inc.

Norton Simon Inc. is an international marketing company with major positions in the food and food services, soft drink, cosmetics, distilled spirits, packaging and communications industries. Such popular brand names as Hunt's, Wesson, Canada Dry, Johnnie Walker, Tanqueray, McCall Pattern, Redbook and Max Factor represent some of the many facets of "NSI," an engagement which originates in the New York office, with substantial participating work by the Los Angeles office plus 27 other H&S practice offices and 17 DH&S offices around the world. For the H&S partners, managers and staff accountants who provide general audit, tax and consultation services, Norton Simon Inc. is much more than a group of trade names.

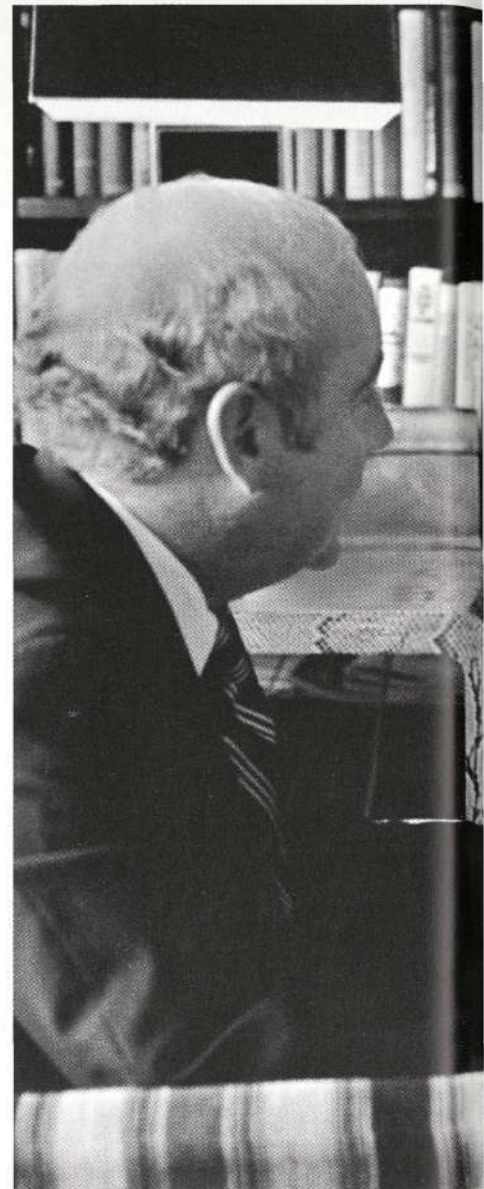
Formed in 1968 with the consolidation of Hunt Foods and Industries, Inc., Canada Dry Corporation and McCall Corporation, the company bears the name of its founder, Norton Simon, the well-known California entrepreneur, investor and art collector.

Even as a young man, Norton Simon displayed considerable talent as a businessman. By his late teens he was investing in the stock market and did well enough that he emerged from the 1929 crash with \$35,000. Part of this went into the purchase of a bankrupt orange juice plant, which he renamed

and reorganized as Val Vita Food Products, Inc. In 1943, the Hunt Brothers Packing Company, a small northern California firm, merged with Val Vita Food Products, Inc. Mr. Simon and some of his associates converted their ownership of Hunt stock into control of the company. With Norton Simon at the helm, our Haskins & Sells office in San Francisco was chosen to handle the general audit.

In 1945, the company's name was changed to Hunt Foods, Inc., with our Los Angeles office taking over the engagement. In 1956, the Ohio Match Company and Hunt Foods, Inc. were combined through an exchange of stock under the Ohio Match Company name, and the following year the company was renamed Hunt Foods and Industries, Inc.

Canada Dry traces its origin to a small plant in Toronto in 1890. A pharmacist and chemist, John J. McLaughlin, began bottling his soda water products for distribution to stores, beach resorts, sports arenas and restaurants, a move that gave birth to the modern soft drink industry. In 1904, Mr. McLaughlin formulated what he was later to call Canada Dry Pale Dry Ginger Ale. Encouraged by rising demand in Canada, the company expanded its operations. In 1919, the first shipments of Canada Dry Ginger Ale were made to the United States, and in 1922 the first Canada Dry plant opened in New York. Following the repeal of the U.S. Prohibition Amendment in 1933, Canada Dry set up its own Wine



and Spirits Division, which was subsequently spun off into Somerset Importers, Ltd. Our New York office began performing audit services for Canada Dry and Somerset in 1925.

McCall Pattern is the oldest of the companies in the NSI family. Formed by James McCall in 1869, McCall Pattern later expanded into the publishing business and in 1897 distributed the first issue of *McCall's* magazine. In 1929, McCall's acquired *Redbook* magazine.

When Norton Simon Inc. was formed through the consolidation of these three long-established companies, the corporation was headed by three men, all



Pat Waide (l.), partner in charge of the Norton Simon Inc. engagement, confers with David J. Mahoney, NSI board chairman and president.

with prior experience as chief executives of successful major business enterprises. David J. Mahoney, formerly president and chief executive of Canada Dry Corporation, was named the president and chief operating officer of NSI.

In 1969, Mr. Mahoney was promoted to chief executive officer. Later that year Norton Simon withdrew from the active management of the company, to which he had given his name, to pursue his other interests. Soon thereafter, David Mahoney moved NSI's corporate headquarters to New York City. The 1971 audit of NSI marked the beginning of the New York office's supervision of the overall engagement, after being handled by Los

Angeles since the 1968 consolidation of the companies.

The movement of NSI's corporate headquarters to New York positioned the company in the midst of the corporate and marketing capital of the world. It also represented a symbolic return to the city of Mr. Mahoney's previous successes. Born and raised in New York, David Mahoney attended the University of Pennsylvania's Wharton School on a basketball scholarship. At 28, he opened his own advertising agency, and when he was 32, a client offered him the presidency of the Good Humor Corporation, which he built up and sold for a handsome capital gain.

At 38, Mr. Mahoney became executive vice president of the Colgate-Palmolive Company. Five years later, he was recommended to Norton Simon as the man to rejuvenate one of Mr. Simon's investments, the Canada Dry Corporation. A year and a half later, Mr. Mahoney was named president and chief operating officer of the newly-formed Norton Simon Inc.

In the six years of its corporate existence under David Mahoney's leadership, NSI has increased its shareholders' equity by 90 percent—from \$342 million to \$662 million. Working capital has also increased during the same period and is presently \$623 million. It has been said that all of these figures reflect the soundness of NSI's basic product lines, imaginative marketing and the practicality of decentralized management of its 12 operating companies.

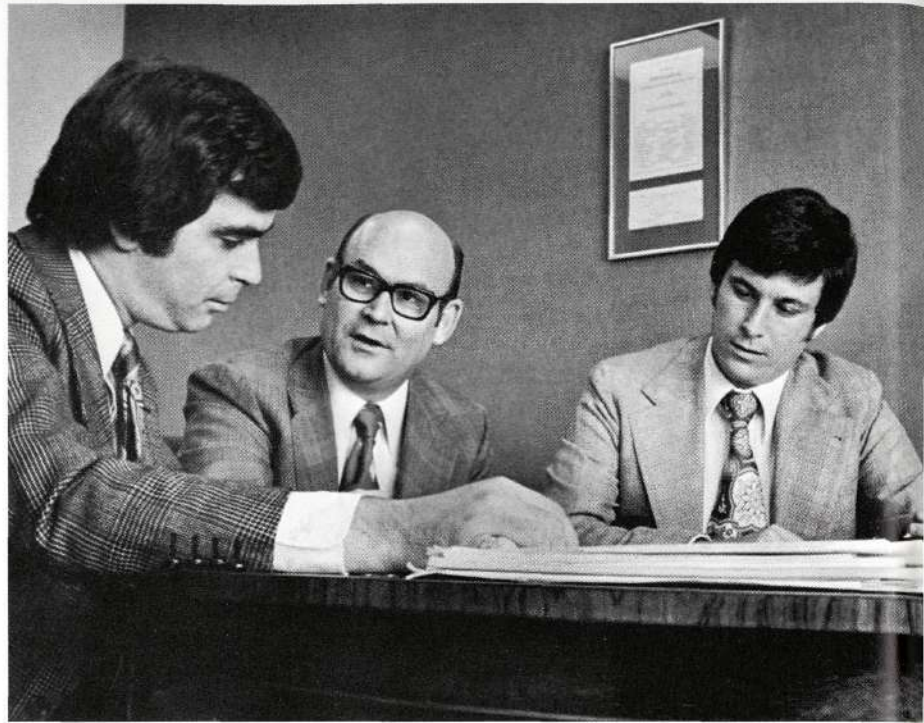
Each of NSI's 12 companies operates as a separate corporation with its own officers and board of directors. David Mahoney and the corporate officers establish performance criteria and a policy framework for them. Each company is then encouraged to develop and implement its own plans for continuing growth and increased profitability. Twice a year at NSI's headquarters, operating plans, profit projections, market-share targets,

personnel policies, and other major objectives are formally drawn up. From that point on, each company president is free to operate as his judgment dictates, subject to quarterly reviews by his board and an annual review by the NSI board. In keeping with the East/West balance of NSI operations, board meetings are held alternately in New York and Los Angeles.

Audit coordination is also national in scope. Partner Pat Waide and manager Ed Lewis meet with the NSI Audit Committee three times a year, alternating meetings between New York and Los Angeles. Pat and Ed have also kept pace with the international operations of NSI by visiting many of the subsidiary operations themselves to enable them to better coordinate this world-wide audit. As Pat Waide has said, "One of the most interesting aspects of the NSI engagement is the considerable attention given by both NSI top management and the management of the operating companies to our observations and recommendations arising from the annual audit. Dave Mahoney keeps the lines of communications open between H&S and NSI, particularly as to his accessibility to our management group and our having informative meetings with the NSI Audit Committee."

In order to provide for more efficient handling of the NSI engagement, different partners and managers have been assigned to supervise each of the operating companies' audits. During the height of the audit, it is estimated that approximately 30 partners, 45 managers and 175 staff accountants are working on the NSI engagement across the country, in a variety of roles. Manager Ed Lewis says that the opportunity to meet and work with H&S management and staff, as well as NSI corporate officers, has been one of the more rewarding aspects of his work.

Using decentralized authority enables NSI to run a corporation of more than 33,000 people with a headquarters staff of about 90. Among this group are a number of H&S alumni, headed by former partner Robert D. Walter, who joined NSI in 1971 and is vice president with responsibility for finance. Bob has always been acutely aware of the need for continuing education in the profession,



H&S alumnus Robert D. Walter (c.), NSI vice president with responsibility for finance, reviews a draft of the annual report with manager Ed Lewis (l.) and senior Harvey Hennes.

with new and progressive techniques that will help the profession keep pace with business changes. "The next decade," says Bob, "will provide the biggest challenge that professional accountants, both in public and private practice, have ever faced. Acting as business changes will become more important than ever; reacting to business changes will leave all accountants trailing progress."

Carl Brody, director of taxes for NSI, was a tax manager in the New York office before joining Canada Dry Corporation in 1963. Assistant treasurer Bob Luth, former manager in our New York office, joined NSI last year, as did former H&S senior Patty Stalp, now manager of corporate accounting. Assistant controller Brian McAuley, who was the manager on the McCall engagement for about four years, joined NSI last February. H&S alumni are also represented among the financial officers of several of the operating companies.

The largest part of NSI's marketing operations is their \$683 million-a-year food and food service business. Hunt-Wesson introduced canned tomato sauce and tomato paste to the American consumer 20 years ago, and leads in

this market, with demand limited only by supply. Hunt-Wesson is also the leader in edible oil, with Wesson Oil continuing to be America's most popular brand of salad and cooking oil.

In addition, NSI's food operations have also been successful in the introduction of a number of successful convenience food items. They include: Snack Pack single portion desserts; Skillet Dinners; Manwich Sandwich Sauce; the Wakefield line of frozen crab specialties; Reddi-Wip non-dairy dessert topping; and Orville Redenbacher's Gourmet Popping Corn.

In the beverage side of the business, Canada Dry Ginger Ale is the leading brand in its category in the U.S. and the Canada Dry line of mixers—Club Soda, Tonic Water, Bitter Lemon and Collins Mix—dominate their U.S. market. In the United States, Canada Dry serves about a third of the country's total population through eight company-owned plants. The rest of the country is supplied

through some 150 independent, franchised bottlers. Outside the U.S., Canada Dry products are marketed through 130 franchised bottlers in 72 countries.

Somerset Importers, Ltd. markets a quality line of distilled spirits. Johnnie Walker Red Label, the world's largest-selling scotch, and Johnnie Walker Black Label are major contributors to Somerset's line. In addition to these, Somerset has other leadership brands of scotch at each proof and price level.

In 1971 NSI acquired James M. McCunn and Company, the sole U.S. importer of Tanqueray Gin, and in 1972 added Old Fitzgerald and other premium bourbons. Old Fitzgerald's Louisville plant recently underwent a \$2.5 million upgrading and expansion of facilities and is now one of the most modern bottling and shipping facilities in the industry.

Attracted to the cosmetics business because it is a multi-billion dollar world-wide market that has shown good, reliable growth, NSI acquired Max Factor and Co. in February of 1973. The cosmetics business is a marketing-intensive industry where success is achieved through the same skills that NSI management has been using to merchandise its other consumer products.

Max Factor is the largest single contributor to NSI corporate profits, presently accounting for 25 percent of NSI's consolidated pre-tax earnings. It is the fourth largest in-store distributed

cosmetics company in the world, and is particularly strong in the international market. It is the leading cosmetics company in the United Kingdom and the number one foreign company in Japan. Max Factor's presence in the international market is proving valuable in NSI's plans to expand its overseas operations.

The management of NSI also believes that there are additional avenues for growth within Max Factor, such as expansion into fragrances. With that in mind, NSI during this past year acquired the business of Halston, a leading American fashion designer, through which a new \$60-an-ounce perfume is scheduled to be introduced next spring and marketed by Max Factor in selected prestige department stores. In the fashion design field, Halston has been selected to design the American athletes' uniforms for the next Olympic Games.

Another of NSI's consumer product companies is McCall Pattern Company, the second largest of its kind in the world, serving the home-sewing market.

Publishing activities are now limited to *Redbook*, aimed at women from 18 to 34. The McCall Printing Company, which prints *Redbook*, as well as *Reader's Digest*, *Ladies' Home Journal*, *Newsweek* and others, is the country's second largest periodicals printer. Foote & Davies, another printing activity, is a highly profitable web offset printing company located in Atlanta.

Norton Simon Communications provides advertising and marketing support to the operating companies as well as specialized services in market research, market planning and public relations. The other parts of NSI's communications and graphic services group include McCall Information Services Company, a data processing service specializing in subscription and coupon redemption services, and Talent Associates, a TV and motion picture production company which aired such award-winning shows as "The Glass Menagerie," starring Katharine Hepburn and the "Snoop Sisters" as well as the successful series, "McMillan and Wife," now entering its fourth season.

Completing NSI's corporate picture are the can and glass packaging activities. Can production is now pretty much limited to providing NSI's own needs. Glass Containers Corporation ranks fourth in its industry and assures competitively priced supplies for NSI's food, soft drinks, and distilled spirits.

In addition to its role as one of the world's leading marketers of consumer products, NSI is acutely aware of its social responsibility—in matters of the environment, human resources, consumerism, and product accountability.

To coordinate its nationwide philanthropic activities, NSI and its predecessor corporations have contributed over the past twenty years to the support of several foundations which are engaged in

charitable, educational, scientific and cultural activities.

The Norton Simon Inc. Museum of Art in Los Angeles has an international reputation for the superb quality of its art collection. The museum has a policy of loaning substantial portions of its extensive collection to other museums throughout the country, in order to give a wide segment of the public the opportunity to enjoy its works of art.

In addition, NSI makes contributions to colleges, universities and educational organizations throughout the country, as well as a wide variety of charitable organizations, including groups involved in conservation, recreation, community service, youth, religion and minorities.

Speaking about growth and social responsibility before a national dinner of The Newcomen Society in North America, David Mahoney said, "In the last analysis, profit and social responsibility are inseparable, because social responsibility without a profit behind it becomes nothing more than theory. If we meet both responsibilities, we are a long way toward meeting any test of corporate citizenship."

NSI's strategy has been to create leadership brands in large and growing markets which are tied to essential consumer spending for non-durable goods and services. "For the future," says David Mahoney, "we remain committed to aggressive and innovative marketing. As our investment in advertising and creative promotion has increased, so have our consumer brands continued to gain share in nearly every market of the world in which we operate. Our commitment is backed by experienced, resourceful management and strong financial resources. It is this philosophy which has been the underpinning of our growth in the past and should sustain our earnings progress in the years to come." □

Los Angeles partner Ted Middendorf (l.) listens as Alan Greenberg, Max Factor vice president, financial operations, discusses the company's international marketing plans for the coming year amid displays at the Max Factor Beauty Salon in Hollywood.

William K. Hood (l.) president of Hunt-Wesson Foods, Inc., chats with Mark Walsh, partner in charge of the engagement, at the company's Fullerton, California headquarters.





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