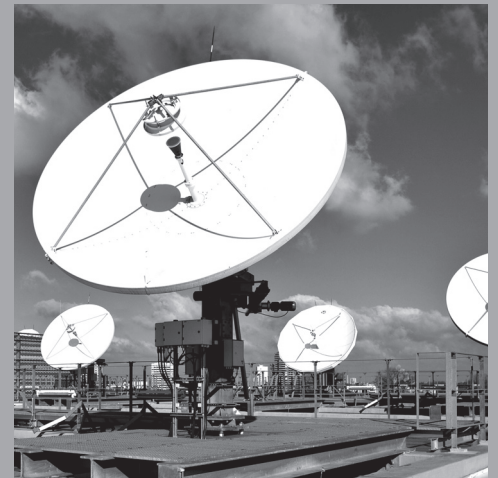


175
YEARS

OF BERTELSMANN
THE LEGACY FOR
OUR FUTURE

C.Bertelsmann



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PREFACE

Hartmut Ostrowski

A large, stylized white letter 'B' is centered on a rectangular background with a horizontal gradient from orange-red on the left to dark blue on the right.

Bertelsmann is celebrating its 175th anniversary this year with the theme, “The Legacy for Our Future.” Bertelsmann was founded as a publishing house on July 1, 1835, in the East Westphalian city of Gütersloh. We are proud of having grown from our humble beginnings into one of the world’s leading and most enduring media companies. What is more, we are confident that Bertelsmann will continue to build on its legacy for many decades to come.

In fact, the history of Bertelsmann is not just *one* story – especially regarding the period following World War II. The widely diversified structure and consistently decentralized management of the company instead determined that our historical tapestry is woven from a host of strands, which must be viewed in their entirety to be able to truly depict and describe Bertelsmann. This anniversary book is inspired by an organizing principle that flows logically from this: it is a collection of texts by various authors, each of whom contributes his own overview and reporting to Bertelsmann’s historical mosaic.

Rather than attempting to portray the company’s entire history, this anthology concentrates primarily on the postwar era at Bertelsmann, and particular on the rise of a modestly sized Westphalian publishing house, which began with 120 employees, into a leading international media corporation. It seems appropriate to focus on this period. After all, the history of the company between 1933 and 1945 – and its role of the biggest publisher of literature for the Wehrmacht – has already been thoroughly researched by a renowned Independent Historical Commission. The commission was formed in 1998 after Bertelsmann was publicly accused of falsely representing its history during the Nazi era. The criticism was justified. For Bertelsmann, this marked the beginning of an overdue critical examination of its own past, as well as of the way it portrayed itself in the decades following 1945. Bertelsmann has

acknowledged the 2002 report from this commission as the official portrayal of its history, particularly during the Third Reich.

It is apropos to build upon this historical foundation by dedicating this anniversary anthology to the time following 1945, without attempting to conceal or embellish the period that preceded it. The work of the Independent Historical Commission has formed the basis for our modern corporate archives. And it has set the standard for the way in which we treat our history now, and in the future.

The anthology you hold consistently views the company from an outsider perspective and approaches our history with a modern, objective editorial point of view. In each chapter, renowned academics and opinionmakers, selected for their expertise in their fields, write about one thematic element in the company’s development. They were given access to the archives, and Bertelsmann also decided to release newer sources to ensure proper assessment of certain episodes during the postwar period. Within the framework of the book’s overall concept, the authors were free to take an unfiltered and uninfluenced look at their respective subjects. The result is a work based on solid documentation written from a historic perspective, a work that explicitly allows critical voices to be heard. This book is not a promotional brochure, but instead reflects the historical judgment of its authors. Bertelsmann has learned from its past mistakes in dealing with its history. We attach great importance to the examination of our own history, without claiming to be absolutely certain of all of the facts. After all, what happens today is already history tomorrow.

The individual chapters in this volume describe the paths of many Bertelsmann business sectors. They include the international postwar expansion of the “brilliant idea” for a book club, the gradual development and expansion of our book publishing business into a company that is now a worldwide

market leader, the bold entry into the magazine business, the long-term development of the television business, Bertelsmann's contribution to the global music trade, the organic growth of services, and the development of our corporate culture principles. Bertelsmann's history, its corporate divisions and companies are made up of many exciting stories of economic success – stories that also reflect the rapid changes in global media. These are stories of creativity and of entrepreneurial spirit. Of bold, unconventional and sometimes risky steps – some of which eventually proved to be milestones in the company's history. When these steps were taken, their success was far from certain; and not all of them did end in success – that's also part of the story. Indeed, no international media company can look back on a similarly extensive and varied treasury of experiences. They form a key component of our corporate identity and lay the groundwork for our standards of conduct.

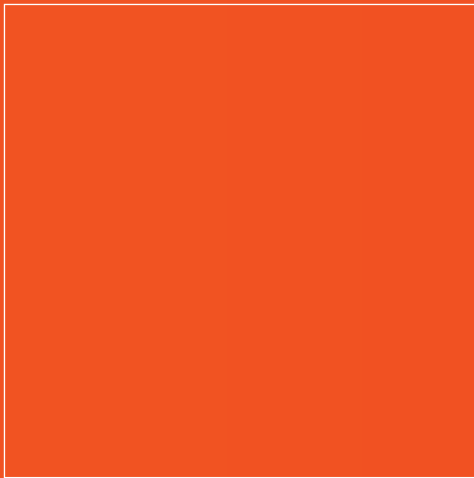
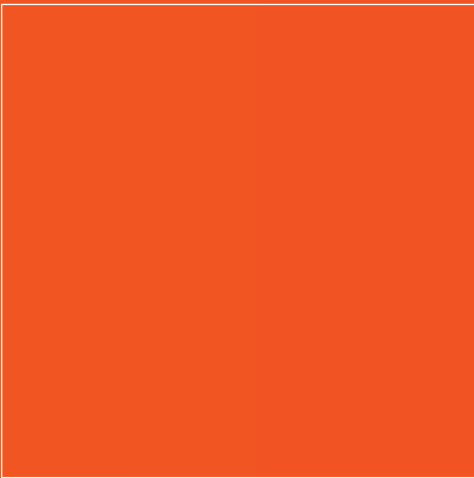
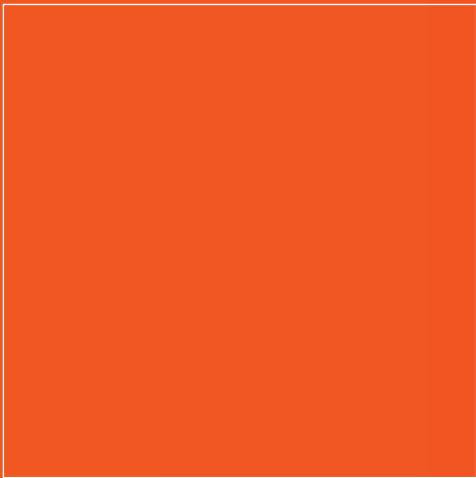
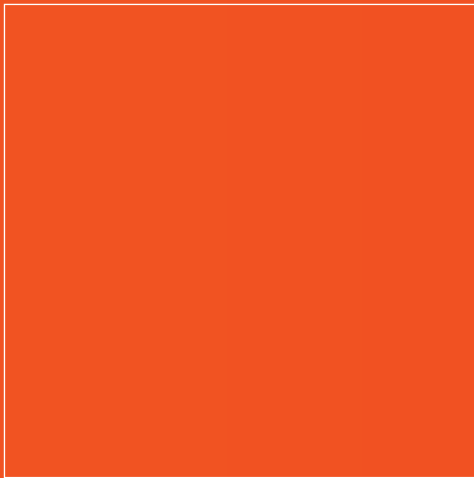
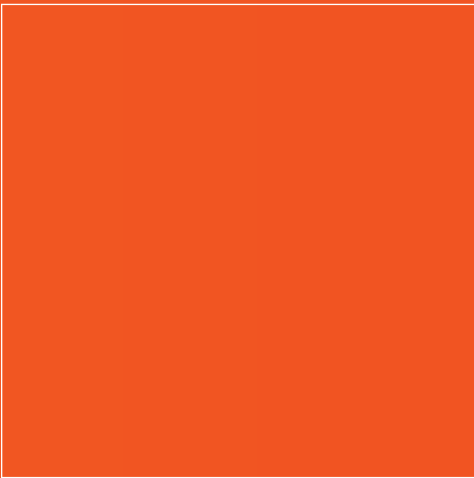
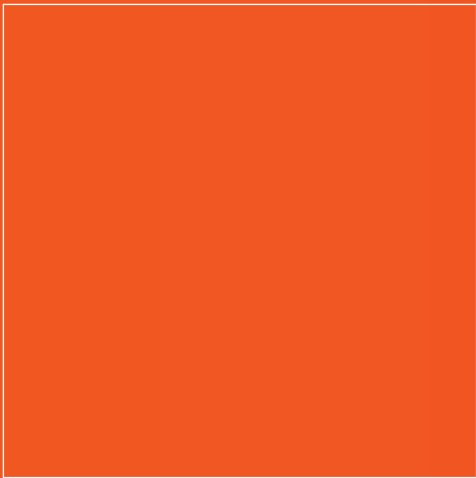
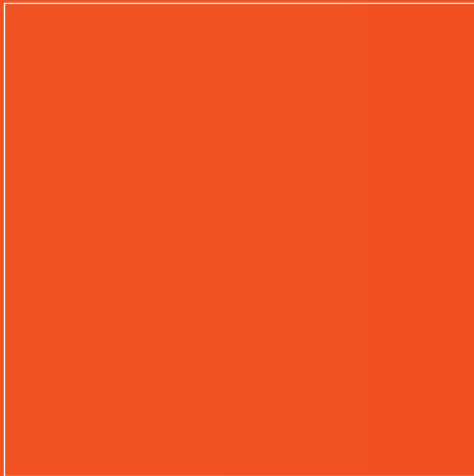
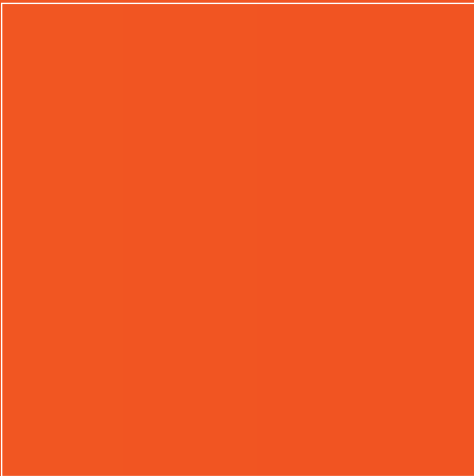
As diverse as the development of Bertelsmann might have been in its individual aspects, there are also constants that for many decades have shaped the company throughout all of its divisions, and that have been and continue to be crucial to its success. In his introductory chapter for this anthology, internationally renowned historian Hartmut Berghoff explores seven key strategies and basic principles that he believes to be the common motifs running through Bertelsmann's history.

However, no single individual was as decisive and indispensable to Bertelsmann's success as Reinhard Mohn. The post-war founder of Bertelsmann was one of the 20th-century world's great entrepreneurs, and his achievements in the development of the company are unparalleled. The trust he placed in his employees laid the foundation for the decentralized culture and structure of our company, for the delegation of responsibilities, and for the autonomy that we at Bertelsmann continue to enjoy

today. In this spirit, his quotes on the jacket of this book typify Reinhard Mohn's philosophy: "We must find the courage to define new objectives." – This entrepreneurial mindset is in fact crucial to the ability to create "the legacy of our future." This is what has allowed Bertelsmann to grow. The corporate culture shaped by Reinhard Mohn, with its basic principles of partnership, entrepreneurial spirit, creativity and citizenship, continues to provide a reliable pathway for the values which will continue to be the basis for our future conduct. Each essay you will read in this volume further documents the extent to which Bertelsmann bears the signature of Reinhard Mohn. This anthology thus also honors the life's work of a great man, who very sadly did not live to celebrate the 175th anniversary of his company.

Reinhard Mohn and his family have earned our gratitude – first and foremost Liz Mohn, who now carries forward her husband's legacy. I consider myself fortunate to work for this privately held company – with shareholders who think in terms of generations rather than quarterly balance sheets, and who prefer long-term development to short-term spurts of growth. This stable and trustworthy ownership structure provides us with a high degree of independence, and gives us the freedom to consistently develop Bertelsmann in harmony with our customers' changing needs and demands.

Not least, however, this anthology is dedicated to our employees – both those who helped create the history of Bertelsmann in the past and the more than 100,000 colleagues throughout the world who now continue to write our legacy for the future. It is thanks to them that we view the future with such confidence. Whatever will be written in coming chapters of Bertelsmann's legacy for the future, there can be no doubt that our creativity and entrepreneurship will play a key role in tomorrow's transformative digital world of media and services.




History Outline

FROM SMALL PUBLISHER TO GLOBAL MEDIA AND SERVICES COMPANY

Outline of the History of Bertelsmann, 1835 to 2010

Hartmut Berghoff



It is highly unlikely that any company will turn 175 years old. Most do not survive long after their founding, and even established companies often do not last beyond three generations. Maintaining continuity for over six generations is a remarkable achievement. The history of Bertelsmann began early in the industrial era, at a time when Gütersloh lay in one of the poorest regions of Prussia, and spans five changes of political systems in Germany.

More than its longevity and adaptability, Bertelsmann's successes command attention. In 1835, after having already established a bookbindery in 1819 and a lithography workshop in 1824, Carl Bertelsmann opened a publishing house specializing in religious works in Gütersloh. It was a modest venture. The workforce grew slowly, reaching 14 employees by 1850. Out of this nucleus arose a global enterprise with more than 100,000 employees. Celebrating the anniversary of Bertelsmann's founding ought not to lead to the conclusion, however, that this spectacular success was straightforward and somehow inevitable. The firm's growth did not proceed without setbacks, crises, and long periods of preparation. The step from small printing and publishing house to mid-sized firm with more than 100 employees took 90 years (1925). It was another 28 years (1953) before Bertelsmann had more than 1,000 employees and could be considered a large company. Not until the Federal Republic's "economic miracle" of the 1950s did Bertelsmann achieve its first major leap in growth. During the 1960s, as the boom began to slow, Bertelsmann expanded abroad and into new businesses beyond print media. During the 1980s and 1990s, the company joined the ranks of the world's leading firms in the media industry. *Seven key strategies and basic principles* have taken shape over the course of Bertelsmann's history.¹

1. *Economies of scale* reflect the fact that unit costs sink as output rises because fixed costs are spread across ever more units. In printing, economies of scale are particularly

effective: large press runs reduce the cost of the individual book enormously. Bertelsmann realized this point early on and relied upon modern technology and large press runs. Its transformation into a large company was driven by recognizing major trends, conquering mass markets, and exploiting economies of scale.

2. *Economies of scope* arise from offering related services and reaping synergy effects. Bertelsmann long operated as both a publishing house and a printing firm, thereby remaining independent of outside manufacturers. With the systematic incorporation of non-print media, such as phonograph records, and the transfer of successful business models to foreign markets starting in the 1950s, the search for synergy entered a new phase and became a driving force of the company's growth. Aside from a few cases, Bertelsmann never ventured into entirely new product areas; instead, it incorporated related fields of business into its core areas, relying on internal growth and also, since the 1970s, acquisitions.

3. *Decentralization*. Bertelsmann has avoided bloated managerial and bureaucratic structures. The company's different divisions have operated autonomously and close to their markets. The coordination of growing numbers of relatively autonomous units became a major challenge that was met not only by increased oversight but also by feedback from below. A strong corporate culture and the unchallenged authority of Reinhard Mohn, who led the company through a half-century long period of growth, effectively counterbalanced the centrifugal tendencies that inevitably arose.

4. *Paternalistic corporate culture*. As is often the case in Germany's mid-sized business sector, the *Mittelstand*, the leadership and employees of Bertelsmann saw themselves as a sort of extended family, and both sides gave and received more than had been stipulated in their labor contracts. The owners' private family celebrations often included employees. Conversely, employees received gifts from the owners on



Gütersloh 3 April 1833

Carl Bertelsmann

Carl Bertelsmann

Left: Historical view of the house where Carl Bertelsmann was born, built in 1791.

Above: Logo of Carl Bertelsmann's lithographic print shop (1824).

Below: Signature of Carl Bertelsmann from the year 1839.



family occasions of their own, such as the birth of a child. This paternalistic culture could not survive as the firm grew and opened ever more numerous facilities far beyond Gütersloh. It was replaced by a modern, in part more formalized paternalism in which gifts were replaced by unusually high wages, a profit-sharing plan, and generous benefits. Reinhard Mohn saw himself and his employees in a partnership that continued the “reciprocal loyalty and care” of his predecessors; in his view, “justice and humaneness constitute[d] the foundation of our corporate community.”² In practice, that could mean many different things. In a firm with hundreds of facilities around the world and many subsidiaries acquired by purchase, there can be no common corporate culture. In the Gütersloh offices, warehouses and factories, however, the formative influence of the old and new paternalism is still tangible. Bertelsmann ranks among the most highly regarded employers in the region. The identification between family, firm, and staff remains extremely strong today.

5. *Growth from its own resources.* Bertelsmann’s paternalistic culture, which has remained stable in principle but

not in form, has given rise to a strong culture of independence. Just as a family does not tolerate interference from outside, this family-owned business has always wanted to rely on its *own resources in pursuing growth*. Despite this self-imposed restriction, Bertelsmann has been one of the most quickly and most steadily growing large companies in Germany since the 1950s. Growth is not, however, an end in itself; in the media sector, only large, well-capitalized firms will be able to survive in the long term. This compulsory need to grow has on occasion collided with the principle of independence. The pendulum has thus swung between the poles of growth orientation and autonomy; over time, the tendency has been towards independent growth.

6. *Market orientation.* Whereas most German firms have long shown a pronounced orientation toward production and have neglected marketing, marketing strategy has played a dominant role at Bertelsmann from an early stage. Sales and marketing experts have had great influence. Bertelsmann is an example of a company that focused early on its markets, and it has become adept at identifying new trends in popular entertainment.

Staff enjoying coffee and cake (1930s).

Garden party in "Mohns Park" to celebrate the company's 100th anniversary in 1935 with guests and employees. At left are Agnes und Heinrich Mohn, and Friederike Mohn (née Bertelsmann).



7. Freedom of action for managers. Bertelsmann is a family firm that has given managers considerable responsibility. It has become a hybrid company that is led simultaneously by the family and the management. The company was led by the family for over five generations and remains under family control today. Many skeptical observers have classified family firms as an obsolete model, especially for a large company, because it places too great demands on the family's resources. Bertelsmann has indeed experienced problems with financing and the transition from one generation to the next, but those problems have never jeopardized the firm's success in the long run. It is a family-owned business that has consciously integrated managers from outside the family and has drawn on their skills and dynamism whilst maintaining the family's final say on strategic decisions.

Decentralization and the delegation of responsibility have spared the upper levels of Bertelsmann's management from being overburdened with time-consuming and laborious tasks better left to others who are closer to the matters at hand. The second and third tiers of management have enjoyed

considerable freedom of action. This has allowed Bertelsmann to avoid one of the great weaknesses of many family-owned businesses, namely the tendency of heads of families to want to do everything themselves, which hobbles their subordinate managers. It does not take away from the family's achievement in recognizing its limits and sharing responsibility to note that the transition from a family-run to management-led firm was by no means problem-free and that the coexistence of family influence and managerial responsibility has inevitably created tensions, as the interests of the managers could never coincide entirely with those of the family. The key point is that this arrangement has made possible growth that could not have been expected from either a purely family-run firm or a purely management-led firm.

These seven principles were not applied from the start of the company's history, but instead took shape over the course of time. To understand how they developed and worked in combination, it is necessary to look at the firm's development from the beginning.

1. A conservative Christian publishing house:
from the founding to 1921

How was it that the workshop founded by Carl Bertelsmann (1791-1850) in 1835 was able to survive and grow to become, by 1910, an established printing and publishing house with 80 employees that was ranked among Germany's leading Protestant publishers? For one, Bertelsmann benefitted from the circumstances that contributed to the success of the publishing industry as a whole. By 1890, Germany had achieved almost universal literacy. Increasing numbers of Germans were coming into contact with print media. Bertelsmann's first 50 years also coincided with the period that saw industrialization banish the threat of subsistence crises in Germany. A mass market for printed matter developed during this era of rapid economic growth. And it was an additional benefit to Bertelsmann that Gütersloh was linked to Germany's most important north-south railway line in 1847.

The firm's list of publications consisted entirely of Protestant edification literature and theological writings. Gütersloh lay at the center of the Minden-Ravensberg revival movement (Minden-Ravensberger Erweckungsbewegung) led by Pastor Johann Heinrich Volkening (1796-1877). This lay Pietistic movement sought to mobilize Protestant believers and it thus had need of printed texts in quantity. Carl Bertelsmann was so close to Volkening that he geared the output of his press entirely to the revival movement. This connection made possible the development of an uncommon but very direct channel of distribution. Bertelsmann was often able to bypass bookshops and sell works directly to ministers and members of Pietistic groups. This approach increased profit margins and would later influence the firm's distribution methods. After 1850, Bertelsmann began cautiously to expand the range of its offerings, in part by purchasing other publishing houses, in the direction of pedagogy and other humanities disciplines. It also added a handful of periodicals. Religious and theological titles continued to dominate. Politically, the press belonged to the anti-liberal camp.

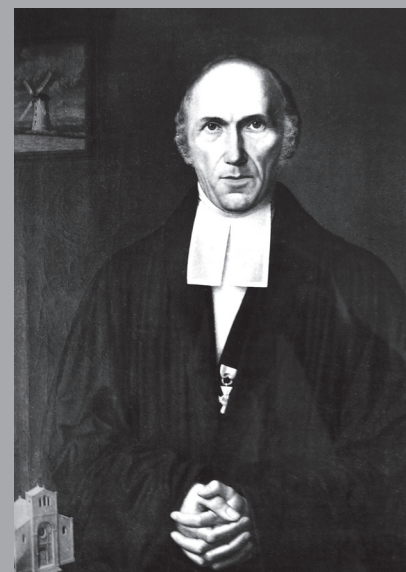
Of the seven key strategies that were to become hallmarks of Bertelsmann's business philosophy, two were already recognizable in outline. Bertelsmann was in many respects a typical *family business*. It entered its second generation in 1849 under the leadership of Heinrich Bertelsmann (1827-1887). The family and the company were considered an inseparable entity, and the workforce was closely bound to the family and the company. When employees were sick, the boss visited them at home. When they wanted to build a house, he gave them loans. The *pursuit of economies of scale* was, by contrast, still only in its infancy. Bertelsmann was producing a broad array of highly diverse titles, mostly in small print-runs. It was able to achieve economies of scale only with hymnals, calendars featuring biblical quotations, and notebooks for church trombone bands. A strategy of mass production was still a long way off. A step in that direction came, however, in 1868 with the acquisition of a new printing plant with steam-driven presses.

The transition from the second to the third generation was difficult. Family businesses are dependent on existential circumstances such as their owners' health, age, and family size. Heinrich Bertelsmann's sons had died in childhood. His daughter Friederike survived as an only child, but, given the prejudices of the times, it was out of the question that she, as a female, might take over the firm from her father. In such situations, family businesses traditionally look to relatives outside the founder's direct line. Sons-in-law are the classic choice, and that was the model the Bertelsmann family followed. Johannes Mohn (1856-1930), the son of a pastor, came from the same milieu as the pious family of printers. He joined the firm as an apprentice in 1874. He proved himself to such an extent that Heinrich Bertelsmann helped him avoid military service by arranging for an apprenticeship abroad and then, in 1881, gave his consent to Mohn's marriage to Friederike. That same year, Johannes Mohn received the commercial procuratorship.

Workshop operation in the print shop (circa 1906).



Portrait of the clergyman Johann Heinrich Volkening (painted circa 1870).



for Bertelsmann. Until Heinrich Bertelsmann's death in 1887, the son-in-law and the head of the company worked closely together. Mohn became a partner in the company, but when Heinrich's widow, Emma Charlotte Bertelsmann (1823–96), became a de facto member of management this led to a dual leadership that was riven by conflict. Only after her death did Johannes Mohn become the sole owner of the firm. Despite the lack of a successor from the direct family line and a challenging transition in leadership, continuity as a family business was preserved.

These circumstances might also explain why Bertelsmann did not experience transformative growth during the era of the German Empire. Offering titles closely related in terms of ideology and maintaining a conservative, cautious outlook made possible solid growth but not the sort of breathtaking expansion achieved by the dynamic new Berlin-based media firms of the era. Leopold Ullstein, August Scherl, and Rudolf Mosse all came to the booming capital from the provinces and each used highly innovative ideas to build large companies from the ground up within a short time. Bertelsmann, by contrast, remained a thoroughly conservative, mid-sized publisher in Gütersloh for the time being.

Johannes Mohn in his study (circa 1906).



2. From pious inheritance to the popular mass market, 1921 to 1935

The handover from the third to the fourth generation proceeded smoothly. Johannes' only son, Heinrich Mohn (1885–1955), took over sole leadership of the firm in 1921 after an eleven-year transition. The publishing house had stagnated since the outbreak of World War I. It had 84 employees in 1921, roughly as many as in 1914, and its revenues that year totaled a modest 700,000 marks. The shortage of paper and wartime economic controls that remained in force until 1920 hindered its operations. The effects of inflation then began to be felt ever more strongly because upper class and lower middle class book buyers were hit by the inflation with particular severity. These groups were impoverished and bought ever fewer books, the prices of which began to increase daily in 1922. In the last phase of the hyperinflation – in the spring and summer of 1923 – the market for printed matter collapsed entirely. Bertelsmann had to close its printing plant and lay off most of its employees. The company stood on the brink of ruin. With the beginning of the economic stabilization that came with the introduction of the Rentenmark in November 1923, Bertelsmann quickly

revived its operations and by 1924 had expanded its staff to 94. Nonetheless, the company could not regain its pre-war growth momentum. There was no doubt that the instable market required a fundamentally new orientation. That was long delayed, however, as result of the crisis of the book market and Mohn's caution. Nevertheless, Bertelsmann succeeded in developing ideas for the future in this uncertain environment and laying the foundations for its rapid growth in the 1950s.

For the first time in the firm's history, *managers assumed decision-making* responsibility. The disadvantage of family businesses, namely their dependence on the health of the owner, made itself felt in early 1924. In the highly critical period between the end of the hyperinflation in the autumn of 1923 and the final resolution of the currency crisis with the introduction of the Reichsmark in April 1924, Heinrich Mohn had to move to the resort of Braunlage in the Harz Mountains on account of his asthma and thus give up control of the firm's daily operations. Although he still reserved the final say on strategic decisions for himself, he had to hand over consider-

Friederike, Johannes and Heinrich Mohn (from left to right) and views of work at C. Bertelsmann (circa 1906).



able responsibility to the managers immediately under him. The strictly family-run publishing house became a company led jointly by its managers and the owner's family. This transformative decision was born of the necessity that arose in 1923–24 with the owner's chronic illness. This model proved successful, however. Gerhard Steinsiek (1894–1969), a pastor's son who had been an apprentice in the book trade and also Heinrich's brother-in-law since 1923, was given commercial procurement and named deputy by Heinrich. Oversight of daily operations thus remained in family hands. Fritz Wixforth (1897–1976), whose father had already worked for Bertelsmann and who had himself joined the company in 1911, became head of sales. For the next 30 years, he would be the most creative influence within the company's top management. In 1933, the Swiss Theodor Berthoud (1900–1970) joined this group of young managers who would lead the company to new dimensions after 1950. The principle of delegating responsibility was more than a matter of necessity for Heinrich Mohn. According to his recollections, he organized "the work to cre-

ate a larger number of independent areas for the individual employees and, moreover, made the work [...] as stimulating as possible in order to encourage interest in the business and understanding." When Mohn returned to Gütersloh in 1926 – equipped with two breathing apparatuses – the principle of delegation of responsibility was intensified. It was crystal clear to him that "with the overabundance of work, it was not possible to adequately master multiple areas of knowledge."³

"Rationalization" was the slogan the business community of the Weimar Republic hoped would get Germany out of its continuing economic troubles. That held in Gütersloh as well, as Heinrich Mohn would later recall. "It was soon clear to me that our equipment was obsolete and was not being fully utilized and, further, that the publishing house was suffering from small average print runs. If the firm was to increase revenues and profits, then above all we had to aim for larger and maximum print runs so that the production facilities could operate profitably."⁴ Here, for the first time, the focus on *economies of scale* was explicitly formulated as a strategic goal.



View of the composing room, with Fritz Wixforth, Gerhard Steinsiek and Otto Oeltze at the standing desk (circa 1935).



To be able to calculate economies of scale, Mohn introduced a comprehensive accounting system. Decisions about the publishing list would henceforth be based not on estimates and hunches but on hard numbers.

Bertelsmann began to pursue mass production and the associated opportunities for profit more systematically than ever before. The market situation was, however, anything but favorable. Its customers were under significant economic and cultural pressure. Those in the educated upper middle class were among the Weimar Republic's economic losers. Popular piety had passed its zenith long before. Weimar society was more secular and more pluralistic than that of Imperial Germany. The culture of mass consumption and political extremism, both on the left and on the right, offered new alternatives to traditional values and attitudes. Demand for hymnals and religious tracts was no longer growing.

The result of this was that *market orientation*, i.e. following the lead of the market, gradually became one of the company's guiding principles. Bertelsmann abandoned the traditional thematic focus of its publishing list and turned toward popular entertainment. This happened not all at once but, rather, hesitantly and incrementally. Mixing old and new, the firm's publications began to offer entertainment for the Christian family. Magazines that offered excerpts from published novels and short stories were sold initially through congregations. They offered an idyllic alternative world to the urban culture of the Weimar Republic. The idea of offering pleasure reading produced in large print runs and sold by subscription took off and provided Bertelsmann with solid growth until 1931. In 1928, it began to offer fiction in book form. By 1933, theological works made up less than half the titles on the company's list of publications. Thematically, Bertelsmann's publications shifted increasingly during this period from titles with a Christian focus to *völkisch*, nationalistic works that held up the rural community's ties to the land against the uprooting influence of large cities. These works were anti-modern,

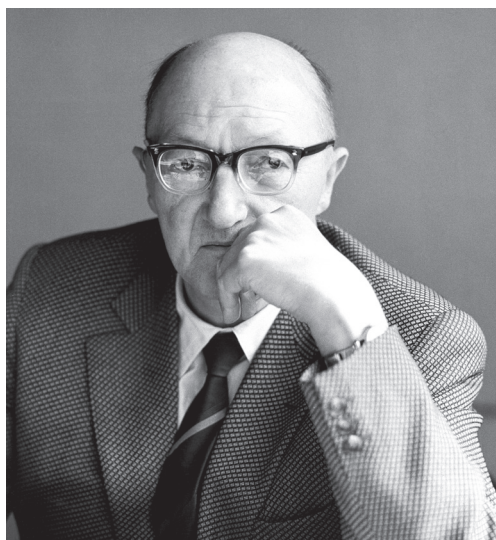
anti-democratic, nationalistic, racist in part, and, in some cases, anti-Semitic. Heroic praise of the ordinary soldier was intended to help readers forget the humiliation of 1918–19. Anti-modern and völkisch attitudes gained ground in the 1920s, and Bertelsmann decided to serve this growth market. This course eased the firm's accommodation with Nazi ideology after 1933. Thus Hitler's rise to power did not mark a caesura for the publishing program or the company as a whole.

In contrast to publishing houses that served the educated middle class and gave more attention to literary quality than to popular demand, Bertelsmann focused on marketability. Viewing reading as a leisure time activity, it offered easily consumed fare at low prices. Bertelsmann reached a mass market with a sort of *Reader's Digest* that reprinted excerpts of stories published elsewhere. In setting this new direction, Heinrich Mohn not only abandoned a publishing policy nearly a century old but also limited the influence of his own beliefs on the company. Personally he adhered to a strict religious faith. The sharp contrast between old and new principles made itself felt in the company's working hours as well. Keeping the presses running around the clock contradicted the Christian idea of reserving Sunday as a day of rest and worship. Into the 1920s, Heinrich's mother, Friederike, would go through the printing plant on Sundays and turn the presses off herself if she found them running. Sunday was supposed to belong to God's commandments, not to those of *economies of scale*. It was a remarkable achievement that Heinrich took a new position that ran counter to his own beliefs and family tradition in the interest of the firm. That decision served the firm well in the long run, and at the same time brought it into fatal proximity to the cultural policy goals of National Socialism.

The new policy of concentrating on conservative-völkisch popular entertainment went hand in hand with innovative marketing. Spectacular window displays devoted to a particular title attracted customers who had never entered a bookshop before. It introduced new products such as

small volumes and decorative books intended as gifts. Bertelsmann also relied on channels of distribution outside of regular bookshops. It used wholesalers to supply stationery shops and convenience stores, facilitating their entry into the book trade by allowing them unlimited returns. The success of this approach was evident in the firm's balance sheet. Revenues and profits nearly doubled between 1925 and 1931. As the number of employees grew only moderately in that time, from 102 to 125, revenues and profit per employee rose by 46 and 67 percent, respectively. Return on sales reached 13.6 percent in 1931, the highest level for many years. The company first felt the effects of the Great Depression in 1932; its profits that year were a third of those of the previous year. Even though business clearly picked up in 1933, Bertelsmann would not match or surpass its best Weimar-era results until 1936–37. The Great Depression crisis did not threaten the firm's existence, but it did disrupt its expansion.

Gerhard Steinsiek (left)
and Theodor Berthoud (1960).



Advertisement for *Bertelsmann-Feldausgaben*, the company's army editions (1940).



**Jeder Band 1.50 RM
in Feldpostverpackung
1.60 RM**

Mein lieber Torchen!

Du beklagst Dich, daß ich Dir noch nie etwas zum Lesen geschickt habe. Ich habe gar nicht daran gedacht, daß ein Buch ein so beehrtes Geschenk für meinen lieben Soldaten ist. Von heute ab schicke ich Dir regelmäßig ein gutes Buch, und zwar nehme ich die schönsten

Bertelsmann Feldausgaben

3. From the National Socialist boom to a society in collapse, 1935 to 1947

Bertelsmann responded to its commercial setback and Hitler's rise to power with a twofold strategy. First, it continued to pursue the course of mass production of light popular reading material and streamlining its operations. Second, it adapted itself to the country's new rulers and pushed ahead with subject matter compatible with the regime's cultural policies and propaganda. Bertelsmann tried to win Nazi writers such as Will Vesper and Hans Grimm for its list. Tried and true conservative-völkisch popular reading material celebrating rural life and ordinary folk could remain part of its publishing program without much change. It found a new hit, however, in works glorifying war. There was great enthusiasm for rearmament in Germany. The book *Flieger am Feind* (*Above Enemy Lines*) offered the reminiscences of combat pilots from the First World War and called upon young people to emulate them. In 1934, the *Buch der todesbereiten Pflichtererfüllung* (*Duty unto Death*) became the "official Christmas book of the Hitler Youth."⁵ Even more successful was the series *Spannende Geschichten* (*Exciting Stories*); aimed at children aged ten and up, it transformed

war into an adventure. In 1937, Bertelsmann sold 693,000 of these dime novels; by 1940, total output had reached 6.8 million copies as the series was able to capitalize on contemporary events at the front. In the course of the war, these stories often included racist or anti-Semitic material. Works inciting racial hatred were to be found throughout Bertelsmann's catalogue of publications. Such works made up less than 5 percent of its general reading offerings, however, and were thus not a focal point of the company's list.

Bertelsmann found a new and highly profitable market during World War II in so-called "Feldpostausgaben", paperback books that could be mailed to members of the armed services. Between actions, soldiers had much idle time and a correspondingly high need for diversion. Firms like Bertelsmann sought to satisfy that demand, and they profited from the availability of free shipping through the military postal service and massive orders from military procurement centers. The troops had little interest in publications extolling warfare, however, and asked instead for humor, light reading,

Boxes for shipping Bertelsmann's army editions (1939 to 1944).



and the classics. Bertelsmann, anything but ideologically rigid, delivered what readers wanted, ready packaged for delivery via the military postal service. A 1943 company memo noted, "With its work, the publishing house [...] has been pioneering. High-ranking Wehrmacht officials, the Propaganda Ministry, and the Reich Publications Office [Reichsdruckamt] have repeatedly acknowledged this."⁶ By 1943, Bertelsmann had supplied German soldiers with approximately 19 million paperbacks.

Constantly looking for large print runs and economies of scale, Bertelsmann steadfastly served a market initially eager for sensationalism, nationalism, and heroism but then increasingly desirous of escapist, unpolitical fare. The revenue opportunities were so great that Bertelsmann sought to license successful titles from other publishers and to recruit star Nazi authors, which brought the company into disrepute among party officials and publishers close to the party. During the war, Bertelsmann became the market leader in books for the troops and relegated even the Nazi Party's own central publishing house to second place in supplying books to the Wehrmacht. Bertelsmann's theology list, which Heinrich Mohn continued to actively support, became a marginal part of the firm's production after 1935.

The aggressive marketing strategy conceived largely by Wixforth was pursued systematically after 1935. Bookshops received detailed directions for window displays along with large format posters. Mail order and door-to-door sales, disdained by the traditional book trade, were used by Bertelsmann to attract new customers among the less educated groups in German society. One new offering aimed at this market segment was special deals on sets assembled from remaindered stock, which provided large quantities of reading material at low cost. Installment payments helped reduce customer hesitancy. Direct contact with customers at their front doors opened the way to follow-up sales. Mail order and door-to-door sales came to account for a quarter of Bertelsmann's revenues in the period 1936–1939. More important,

though, was what the company learned. Bertelsmann gained experience in winning new readers and in tapping previously undeveloped mass markets. It could not have achieved either by relying solely on traditional book retailing: it needed direct distribution, centrally coordinated advertising, and affordable new products precisely tuned to popular tastes. Bertelsmann learned to *systematically take its lead from the market* and to reach out to its customers, going right to their doorsteps if need be. These are recognizable as the guiding principles of its later book club, the Lesering, which rested upon the cooperation initiated in 1937 with mail order and door-to-door book vendors. The war interrupted these new initiatives in that it created a seller's market in which, thanks to their scarcity, books sold themselves.

Bertelsmann forged ahead with mass production after 1935 and grew more rapidly than ever. The number of employees nearly tripled between 1935 and 1939, jumping from 150 to 440. In 1936, construction of a new printing plant began, which went into operation in 1939. Despite wartime conscription, Bertelsmann was able to keep the size of its workforce more or less steady until 1941, by increasing the number of women on its payroll. Beginning in August 1943, at least nine so-called civilian workers (Zivilarbeiter) from the Netherlands were employed by the company; otherwise, it did not make use of forced laborers, prisoners of war, or concentration camp prisoners. However, Bertelsmann did rely heavily on contracting work to firms in German-occupied territories that in some cases deployed forced laborers.

In financial terms the company's chosen course was extremely successful. By 1935–36, it had overcome the stagnation resulting from the Great Depression, and thereafter it profited strongly from the Nazis' rearmament boom. From 1936 on, it enjoyed steady profitability as revenues grew exponentially before achieving unusually high profits during the war years up until 1943. In 1941, its return on sales was an amazing 41.1 percent. Revenues that year, amounting to 8 million Reich marks, were seven times the level of 1933; by contrast, its profit,

RM 3.3 million, had grown thirtyfold. Bertelsmann recorded a small loss, its first ever, in 1944, after recording returns on sales of 30.5 percent in 1943. There were a number of reasons behind the high profitability of the war years. In a seller's market, Bertelsmann had a timely selection of products and was highly efficient in production. It usually kept its modern equipment running at full capacity, and at peak work load periods it turned to job printers. When those contractors were based in the occupied countries, there were tremendous cost advantages. Increasing the number of female employees and temporary hires brought down labor costs. Bertelsmann was also able to reduce its advertising costs: customers were snatching up books as fast as the company could produce them. Finally, it was able to sell off old inventory that had long since been written off.

In the autumn of 1941, as the Wehrmacht's invasion of the Soviet Union stalled, there were signs that Bertelsmann's boom was coming to an end. Wartime economic restrictions became ever more noticeable from that point on. As a result of a shortage of coal, Bertelsmann could no longer operate a second shift or offer overtime work; the working day was limited to eight hours even though the company had more business than it could handle. It lost more than half its personnel to military service; the workforce stood at 200 in 1944. The shortage of paper became a serious problem as of 1942; Bertelsmann was able to get by thanks to its good contacts among government authorities and by becoming entangled in illegal transactions. It was able to procure a large supply of paper by cooperating with black market paper dealers who operated across Europe. Consequently, the company was investigated on suspicion of violating wartime economic regulations in 1943. In late 1944, it was no longer possible to put off the closing of its publishing operations as had been ordered in August of that year as part of the general mobilization for "total war." That order affected the majority of German publishing houses and other firms that were not immediately crucial to the war effort. The Third Reich mobilized its final reserves. In light of the ongoing investigation of its illegal paper purchases, there

was no chance that Bertelsmann might receive one of the few exemptions that would have allowed it to keep operating. The investigation ended inconclusively in 1945.

Even after Bertelsmann had to close its publishing operations at the end of 1944, the company continued to operate. Its manufacturing facilities were kept busy with commissions for products such as ration cards and paper munitions cartridges. The sale of existing inventory was still allowed. A massive air raid on March 14, 1945, inflicted heavy damages on Bertelsmann's facilities; on April 1, the U.S. Army captured Gütersloh without a fight.⁷

Contrary to the account it gave authorities after 1945, Bertelsmann was never involved in the resistance to the Nazi regime. Instead, like the great majority of German businesses, it opportunistically pursued its own business interests. It did not, however, take advantage of chances to enrich itself with the property of Jewish publishers. Nor was it directly involved in the terrible exploitation of forced labor. As a committed Christian and member of the Confessing Church, Heinrich Mohn maintained an inner distance from the regime and never joined the Nazi Party. To protect the company, however, he never allowed that inner distance to become too evident to the outside world, and he joined the SS as a sponsoring member. Some managerial employees in the company joined the NSDAP (Nazi Party). On account of his family's Christian and conservative background, he did not rank among the Nazi regime's favorites. Nonetheless, there was a considerable overlapping of interests between the firm and the regime. Bertelsmann understood better than its competitors, including the Nazi Party's own Eher Verlag, how to distribute *völkisch* and militaristic publications on a huge scale and how to satisfy the demand among soldiers and civilians for light, entertaining reading. In 1942, the company newsletter proudly noted, "Our books are spiritual ammunition."⁸ Bertelsmann consciously joined the war effort and served the National Socialist state, which allowed companies it deemed useful, to earn high profits. The Nazi regime was able to function because it understood how to instrumentalize the self-interest

of individuals of widely varying beliefs and did not insist on complete ideological adherence and political uniformity.

Despite the closing of the publishing house and heavy bomb damages, the core of the company was largely intact at the end of the war. Only one of its 17 printing presses was completely destroyed, and the paper reserves it had stored offsite, some 550 tons, would suffice for at least a year. In June 1945, Bertelsmann already had 152 employees and was printing urgently needed schoolbooks purged of Nazi propaganda on commission from the British military government. Despite this good start, everything was highly uncertain. It was crucial for the company's survival to obtain an operating license from the occupation government, and the licensing process was dragging on. Only in 1946 did the British authorities allow Bertelsmann to produce books; even then, it was still not permitted to publish magazines. At the same time, the company was forced to divide its publishing and printing operations into two separate units: the result was the establishment of Mohn & Co. OHG (GmbH as of 1947) and C. Bertelsmann KG.

Bertelsmann could only speculate about future market opportunities as Germany grappled with problems of an entirely different order. Large parts of the cities were in ruins and much of the transportation infrastructure had been destroyed. Millions of refugees were pouring into the Western Allies' occupation zones. There was a life-threatening shortage of food and basic necessities that worsened in the winter of 1946–47 and provoked unrest. Aid from abroad prevented a humanitarian catastrophe. Against a background of social collapse, disorder, and poverty, the business community was confronted with numerous obstacles ranging from electricity outages to a lack of raw materials. Bertelsmann had to wait until 1946, for example, to receive a telephone line. Only in 1947 could it rebuild the destroyed sections of its building. That year, the firm had 300 employees and reached almost the same

level of revenues as in 1939, a comparatively impressive sum. Although living standards were clearly lower than during the war, the public had a huge appetite for reading material and diversion: consequently, books sold well. One part of Bertelsmann's business at this time was selling off inventory and offering Wehrmacht paperback editions in new bindings. It also produced editions of the classics, Heimatliteratur, namely books that celebrated old-fashioned rural life, and light reading: popular tastes had not changed much since the war. Even theological works were in demand once again.

This promising revival of Bertelsmann's business was overshadowed, however, by serious problems in the licensing and denazification procedures. The company tried to pass itself off as a persecuted Christian publishing house that had been part of the anti-Nazi resistance, denying its involvement in Nazi cultural policy and not mentioning that some of its leading figures had belonged to Nazi organizations. After the authorities discovered how far he had misled them, Heinrich Mohn resigned as head of the publishing house in April 1947. That immediately raised the question of succession – of the transition from the fourth to the fifth generation. Heinrich's oldest son, Hans Heinrich, had been killed in combat in 1939 and the second oldest, Sigbert, was in Soviet captivity. Neither the eldest daughter Ursula, a onetime NSDAP member, nor the younger, Annegret, were considered suitable. The choice, then, was the 25-year-old Reinhard Mohn (1921–2009), who had returned home from a prisoner-of-war camp in January 1946. His appointment as head of the company was initially a matter of sheer necessity. He himself later spoke of it as a "matter of chance."⁹ Like many of his generation, Reinhard Mohn did not have the opportunity to complete his education. After finishing his high school (Gymnasium) exams in 1939, he intended to study engineering as soon as he had fulfilled his obligatory six months of duty in the Reich Labor Service (Reichsarbeitsdienst). He was quite open about having no interest in the

The official order closing down the Carl Bertelsmann company, issued by the president of the Reich Writer's Chamber (Reichsschrifttumskammer), August 26, 1944 (reproduction of the copy in the company archives).

publishing business and wanted to leave it to his two older brothers. But instead of starting at the university, he volunteered for the Luftwaffe in the fall of 1939 and entered the officer training program. He was taken prisoner in Tunisia in May, 1943. After half a year in North Africa, he was sent to a POW camp for officers in Concordia, Kansas. He availed himself there of the opportunity to study in the "camp university," and he also became acquainted with the American Midwest through various work assignments. The fair and liberal treatment he received from the camp personnel and the culture of individual responsibility he encountered among Americans struck him as a positive counter-model to the authoritarian traditions of his homeland. The two years Mohn spent in Kansas left him with an enthusiasm for the United States that explains, among other things, his subsequent inclination to follow American models. He would have gladly remained in the U.S. in 1945 and created a life for himself there. He had to leave the country, however, and, after a short, dismal period in a French POW camp, he returned to Gütersloh in January 1946.¹⁰ He immediately joined the family business, the leadership of which he had to take over in spring 1947 despite his inexperience.

In this critical situation, the principle of *entrusting managers with responsibility* proved its value once again. The inexperienced boss could rely on the proven leaders Fritz Wixforth and Gerhard Steinsiek. Moreover, his father had given up authority on paper only and remained active in the business. Reinhard granted power of procuration to his father and much remained as it had been. Reinhard's short absence to learn the book trade in Göttingen and Cologne thus did not disrupt the company's operations. To the outside world, especially in the eyes of the suspicious occupation authorities, the "politically unsullied young man"¹¹ represented the company; inside the company, the established cooperation between the family and the management helped him grow into his new role.

**Der Präsident
der Reichsschrifttumskammer**

Leipzig, den 26 AUG. 1944
Postschließfach 661

Reichsschrifttumskammer, Leipzig C 1. Postschließfach 661

Firma

Einschreiben!

C. Bertelsmann

G ü t e r s l o h

Richthoffstr. 14



Schließungsverfügung

Die totale Mobilisierung erfordert den Einsatz aller Kräfte für den Sieg. Auch auf kulturellem Gebiet muß daher jetzt auf Einrichtungen verzichtet werden, die im Vergleich zu anderen Bereichen des Wirtschaftslebens bisher noch gespart werden konnten.

Auf Grund der Ermächtigung des Präsidenten der Reichskulturkammer und Generalbevollmächtigten für den totalen Kriegseinsatz verfüge ich die Schließung Ihres Betriebes, soweit in ihm eine Schrifttumskammerpflichtige Tätigkeit ausgeübt wird.

Durchführung und Folgen ergeben sich aus den Amtlichen Bekanntmachungen der Reichsschrifttumskammer Nr. 156 und 157.

Die Buchbestände Ihrer Leihbücherei (Kriegsleihbücherei) haben Sie sofort einer anderen Leihbücherei oder Kriegsleihbücherei zu verpachten oder zu verkaufen.

Beschwerden gegen diese Schließungsverfügung sind nicht zulässig und können daher nicht bearbeitet werden.

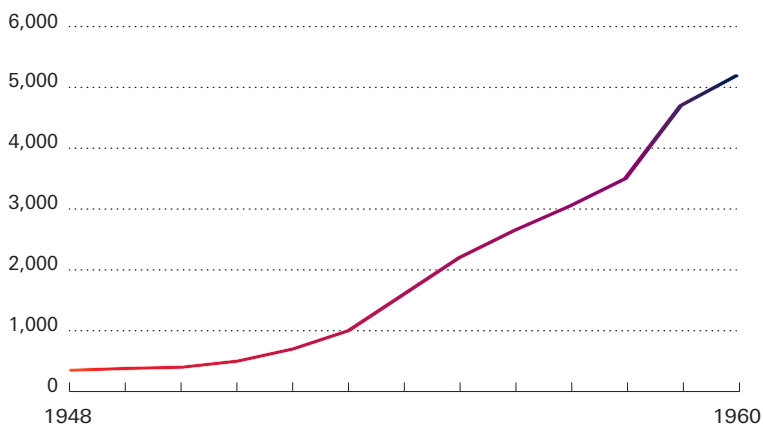
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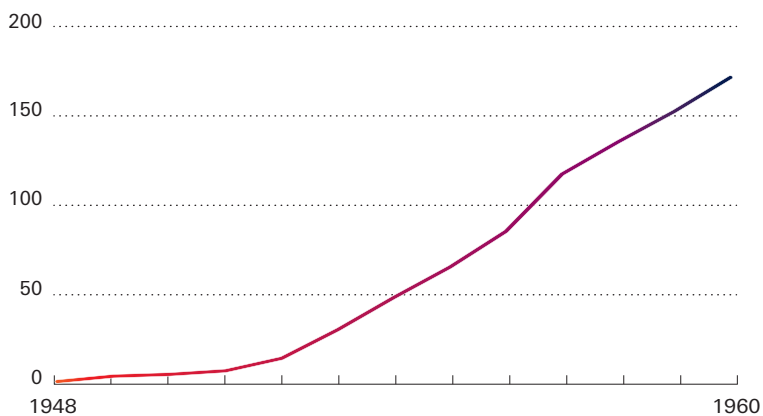
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Employees 1948–1960



Revenues 1948–1960

in DM millions



Detailed information on key personnel and financial figures are contained in the Historical Supplement.

4. “Those who can read, read Bertelsmann”:¹² The rise of a large company during the “economic miracle,” 1948 to 1960

The currency reform of 1948 and concomitant economic deregulation marked decisive steps toward the Wirtschaftswunder, West Germany’s “economic miracle.” The initial result, however, was a severe crisis. Prices soared as controls were lifted. Moreover, 100 Reich marks was, on average, converted to 6.5 Deutsche marks. The new currency held its value, but it was in short supply. People thus had to make careful use of it. For publishers, this new era opened with a crisis that threatened their very existence. Bertelsmann could not maintain its rapid growth. Revenues collapsed and many publishers went out of business. In 1949 and 1950, large portions of Bertelsmann’s output came back as returns. Layoffs appeared to be unavoidable. As an emergency measure, the company took on large, one-off jobs, such as the commission to print 250,000 copies of the *Duden* dictionary. Survival in the long run required an audacious leap forward. Bertelsmann built upon its experiences with direct distribution during the interwar period. Mail order and direct sales made possible a proximity to customers and a level of customer loyalty that was unknown in the established book trade. In June 1950, the company established a book club, the Bertelsmann Lesering. The members’ obligation to buy a certain number of titles every three months gave the company a measure of certainty in its planning and helped to smooth the usual seasonal swings in demand. *Economies of scale* require the utilization of production capacity at a steadily high level. Thanks to its considerable cost advantages, Bertelsmann could engage in aggressive price competition, not least because the retail price maintenance laws for books, the Buchpreisbindung, did not apply to book clubs. Bertelsmann’s costs were also lower because it could acquire the rights to reprint bestsellers for relatively modest licensing fees, which in turn helped it avoid the risk of being stuck with slow-moving titles.

This simple but alluring idea could work only in a mass market. Breaking into that market was no easy task, given the 30 competing book clubs. The early success of the Bertelsmann Lesering was uncertain at first despite the formidable membership figures it achieved – 100,000 by June 1951.

The economic stimulus from the Korean War abruptly came to an end in 1951. The prices of raw materials rose sharply, and the Federal Republic suffered from a negative balance of trade and from bottlenecks in the heavy industry sector. An early end to the “economic miracle” and the social market experiment seemed possible. Unemployment rose and with it the danger of social unrest. It was not a good time to build up a book club. Moreover, rapid increases in the price of paper wreaked havoc with Bertelsmann’s calculations. With a heavy heart, Mohn decided in May 1951 to raise the monthly premium. The feared mass exodus of members did not materialize, however. Club membership stood at a quarter million members by mid-1952 and a half million a year later. By 1960, the Lesering had just under 3 million members. The new business model had become firmly established and acted as the engine driving the company’s growth. The West German economy overcame the early problems of its “miracle” relatively quickly. The Korean crisis was followed by an historically unprecedented boom starting in mid-1952 that saw annual growth rates of up to 12 percent. Unemployment fell, purchasing power increased. More than other clubs, the Lesering took advantage of the favorable conditions. Its success was based on five factors.

First, Bertelsmann profited from wide brand recognition it had achieved during the Nazi era. Millions of soldiers had come to treasure books from Gütersloh and had become regular readers during the war.

Second, Bertelsmann flooded the country with unprecedented advertising campaigns. Members were enrolled door-to-door and out on the street. Vans were turned into mobile bookshops. The club offered attractive prizes and premiums for customers who enrolled new members. The company’s salesmen, soon decried as a “gang of hawkers,” did not shy away from strong-arm methods.

Third, in contrast to all other clubs, the Lesering did not antagonize book retailers but rather gained them as partners by offering high profit margins. In its two-stage system, salesmen recruited new members door-to-door, and bookshops, sometimes



skeptically at first, did the same at their check-out counters. The Lesering was thus able to cover the whole of the country quickly without having to build up an expensive distribution structure.

Fourth, as this distribution system included many independent partners, it was difficult to supervise and entailed enormous potential for conflict. Bertelsmann thus began a drive toward centralization. The subsidiary Schloß Verlag, a mail order and door-to-door publishing house founded in 1950, was reorganized in 1954 as Verlagsgemeinschaft (VG) Bertelsmann based in Rheda. Even when most Lesering members were still served by external book retailers in 1957, there were *economies of scale* to be achieved by moving more and more business to VG and reducing the importance of independent book dealers. The company established an efficient processing center in Rheda that took advantage of the most modern data technology available – initially punch cards and, after 1964, magnetic computer tape – to serve millions of customers. At the same time, Bertelsmann took the reins ever more firmly in its own hands.

Fifth, Bertelsmann developed formidable financial muscle even though the company experienced extreme liquidity problems on several occasions. Neither the company nor the family had the capital to finance the growth that had surprised everyone. Banks failed to recognize the potential of the Lesering and refused to provide long-term credit. Bertelsmann thus turned to creative forms of finance. Distribution partners

Innovative marketing tool: bus with advertising for Bertelsmann’s *Lesering* (circa 1951).

paid for books with bills of exchange, which Bertelsmann could use as a cash equivalent. It also received loans from business friends such as Richard Gruner, who printed the *Lesering-Illustrierte*. In other words, it was initially Bertelsmann's partner firms and suppliers who helped finance the company. As was typical at the time, the vast majority of the company's profits were reinvested. The family was a patient investor content with modest pay-outs. Bertelsmann also made a clever tactical move in 1951 when it devised a plan that gave employees a stake in the company's profits and transformed payouts into long-term loans to the company. A large part of the company's profits were distributed to employees, thereby reducing the company's otherwise heavy tax burden. The employees were then obliged to loan the company a net amount (after being taxed at the individual level) until they retired. Bertelsmann saved millions in taxes and received inexpensive credit without expanding its equity capital. In the first five years, these loans

amounted to 9.5 million Deutsche marks. In 1955, each employee had on average a credit balance with the company of 4,500 Deutsche marks, a very large sum of money at the time. They thus became de facto partners in the company, which bolstered their sense of loyalty and motivation. The profit-sharing plan was modified several times after 1955, but the basic principles of profit-related pay-outs, loans to the company, and long-term association remain unchanged. Although Bertelsmann often found itself operating at the limits of its liquidity during the 1950s, it always succeeded in mobilizing the means necessary for investments required to retain its market leadership and, later, to buy competing book clubs.

The Lesering was part of the breakthrough of mass consumption in the early Federal Republic. As Germans still had to keep a close eye on their money, consumption remained on a modest scale until 1957. Reading was one of the most popular forms of recreation. Compared to a visit to a

The new Hollerith machines for data processing at the Verlagsgemeinschaft in Rheda (1959).



movie theater or restaurant, a book offered hours of affordable entertainment. Books could also be reread, loaned to others, or sold. Bertelsmann thus offered Germans a way to fulfill their desire for solid, tasteful consumer goods. Its strategy of low prices notwithstanding, the Lesering sold – in contrast to American publishers and its own wartime production – not paperbacks but, instead, well-produced hardcovers that were durable and generally attractive in appearance. Maintaining appearances – keeping up with the Joneses – and upward social mobility were key values of the simultaneously dynamic and conservative Adenauer era.

The Lesering epitomized the 1950s in breaking through social barriers to consumption. A trend already evident during the Third Reich finally took off. Millions of people outside the ranks of the educated middle class became regular readers. In 1955, 47 percent of households in the Federal Republic did not own a single book. The Lesering thus literally expanded into a vacuum. In addition, war-related losses meant there was considerable pent-up demand. In 1957, 54 percent of Lesering members were blue-collar workers, clerical workers, and low-level public employees.¹³ The incorporation of the customers of the mail order retailer Neckermann turned out to be a good move. The Neckermann-Lesering, integrated with the Lesering, was advertised within the mass market retailer's mail order catalogue. The attention of Bertelsmann's core businesses to their customers' desire to participate in the privileges enjoyed by the better-off and the company's creation of internal structures to fulfill that desire is evidence of its *marketing orientation*. That also applied to the content of the publishing program, which was geared entirely toward mass market popular reading.

In the ambiguous climate of consumption in the early Federal Republic, in which both living standards and cultural criticism were on the rise, a variety of accusations were leveled against Bertelsmann's success. In a letter to 14,000 ministers, for example, a Christian bookseller accused Bertelsmann of peddling "satanic products"¹⁴ and demanded that it return to



edifying works. Other publishers complained that the "book factory" was marketing books like soap powder. Unlike most publishers, Bertelsmann did in fact think in strictly commercial terms and aimed for the highest possible press runs – and with this strategy, it succeeded in turning millions of people into regular readers. It should also be noted that the licensing fees that came out of Gütersloh helped other publishers who looked down on Bertelsmann to stabilize their finances and to continue publish more demanding literary works.

In 1956, Bertelsmann for the first time ever ventured into a market outside of the print media and opened a small music division. This move was motivated by the pursuit of *economies of scope*. Listening to phonograph records was yet another form of domestic consumption, and Bertelsmann was already well positioned in that rapidly growing market. The replacement of expensive, fragile shellac by affordable,

Trade fair stand of the book and music club Lese- and Schallplattenring (1950s).

Covers from the magazine *Bertelsmann drei in einem Heft* from 1955–56.



durable vinyl began in 1951 and made records suitable for mass-marketing and mailorder sales. Bertelsmann recognized the potential of this innovation and applied strategies that had been so successful in broadening the customer base for books to the music business. There were synergies to be realized as Bertelsmann drew upon the proven club model and relied upon existing distribution structures and, of course, the Lesering's address file. All of this facilitated the company's entry into the music businesses and the transformation of readers into customers for a broad array of goods.

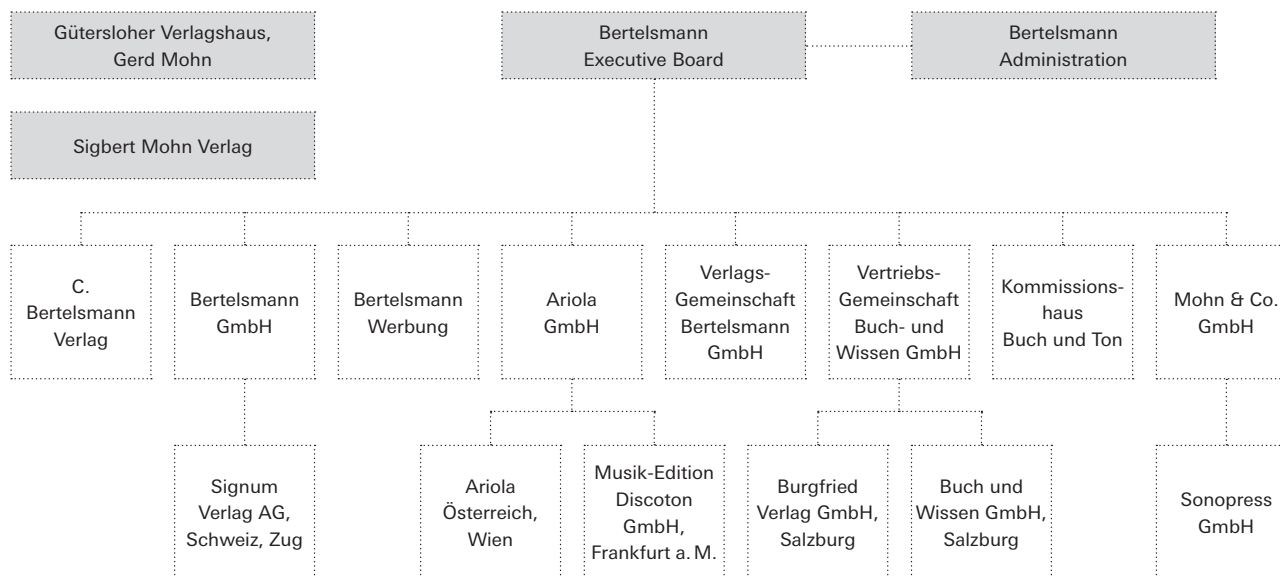
Bertelsmann established a music club, the Schallplattenring, in 1956, and by 1960 the club had signed up 300,000 members. Because the two dominant firms in the record industry declined to license music titles to Bertelsmann and record manufacturers refused to work for Bertelsmann, the company quickly founded its own record label, Ariola, and its own manufacturing firm, Sonopress. Both began operation in 1958. Once these two companies had overcome their start-up problems, the established firms in the music industry gave up their opposition and began cooperating with the Schallplattenring in 1959 and entered into licensing agreements. Soon other related products yielded additional *economies of scope* – for example, reading lamps, framed color prints, record players, and phonograph stands and cabinets. Indeed, the Schallplattenring was at times West Germany's leading vendor of record players. The potential for economies of scope for the two clubs in logistics was obvious. Accordingly, Bertelsmann established the Kommissionshaus Buch und Ton as a shared logistics in 1957. In contrast to these successes, the magazine *Bertelsmann drei*, offered through the Lesering since 1955, did not sell well and its publication was suspended in 1958.

Between 1950 and 1960, Bertelsmann's revenues increased 34-fold – from 5 million Deutsche marks to 171 million Deutsche marks – and profits 75-fold – from 200,000 Deutsche

marks to 15 million Deutsche marks. Return on sales jumped in this period from 4 percent to 8.8 percent. The number of employees grew 13-fold, from 400 to 5,190. Bertelsmann thus made the leap from mid-sized firm to large company. In response to the challenge of growing complexity, it created relatively independent branches for each of its fields of business. In other words, it pursued divisional organization. The component companies of the divisions were run as profit centers: the company heads acted with full responsibility for performance without disregarding the concerns of the parent company. In creating divisions, Bertelsmann adapted the standard organizational model used by large corporations in the United States even though it was by no means suffering the problems of giant companies that had grown sluggish as a result of their size.

This decision was in line with the proven *delegation principle*. Given the company's tempestuous growth, the informal style of leadership hitherto practiced could not be continued. A rebuilding of the company's formal architecture was needed. Moreover, the management in Gütersloh was observing developments in the United States very closely, and Mohn himself made several trips there. Reorganization also provided the opportunity to reorder the family's influence along Reinhard Mohn's ideas. Responsibility for carrying through the reorganization lay in the hands of Manfred Köhnlechner (1925–2002). Köhnlechner, a lawyer by training, left a career with the tax authorities to join the company in 1955. A year later, at the age of 32, he was named general director (Generalbevollmächtigter); at the time, people would normally only reach such top positions in the German business world after long years of proving themselves. Köhnlechner also received an unusually high salary and enjoyed freedoms that would have been unthinkable at other companies. The decisive factors behind his rapid rise to the top of Bertelsmann's management were his competence and his close personal relationship

Structure of Bertelsmann companies in 1959



Source: *Bertelsmann Illustrierte* 1959, issue 6, p. 6.

with Reinhard Mohn. The company head was only four years older than his top manager: a team of two ambitious men in their mid-30s stood atop Bertelsmann's management.

Eight partially autonomous units had come into existence by 1959. With a hierarchy of at most two levels, the structure was highly modern for the times. Some of the units had subsidiaries of their own. Mohn & Co. GmbH, for example, had Sonopress. All the threads came together in the company leadership. It could concentrate on overarching issues without becoming bogged down in the details of the individual divisions. Three departments with responsibilities that cut across the divisions – Personnel, Finance, and Controlling – belonged to the corporate administration headed by Köhnlechner. The Sigbert Mohn Verlag, a literary publisher, and Gütersloher Verlagshaus, a publisher of theological works headed by Gerd Mohn, were not incorporated within the new divisional structure and played only a secondary role within the company. Overall, a modern organization was created that gave new form to the long-established principle of *delegation*. In 1960, the company issued an *organizational plan and statement of principles* that gave written form to previously informal rules and practices. This step reflected the growing size and complexity of the company. At the center of the statement of principles stood the

idea of the company as a partnership, the idea of social justice, and the encouragement of freedom of individual action in the service of the company as a whole. As Reinhard Mohn emphasized, “The initiative of the individual is the greatest strength of the community.”¹⁵

Mohn strengthened the Bertelsmann community by offering substantial benefits. In 1955, he introduced a generous company retirement plan that made provision for employees' survivors as well as for invalid care. After 30 years with the company – time spent in military service and captivity as a prisoner of war counted toward company service – an employee was entitled to a company pension amounting to 42 percent of gross income at time of retirement. On average, company pensions came to 25 percent of income at time of retirement because Bertelsmann imposed a cap on the combined total of company and public pensions. Employees could not receive more than 75 percent of their final salaries. Nonetheless, at a time when poverty was the norm among elderly working class people – more adequate public pensions were not introduced until 1957 – Mohn created very attractive old-age benefits for his workforce. The pension plan incorporated a classically paternalistic way of thinking, which regarded benefits as “gifts” and “promises.” If necessary, management could reduce or even abolish

Bus with advertising for the *Círculo de Lectores* in Barcelona, shown in front of Sagrada Família Basilica, designed by Antonio Gaudí (1965).

pension payments – if, for example, the company registered losses in two consecutive years. The same also applied if Bertelsmann was “damaged in some way that makes the payment of pensions unreasonable” as a result of a strike.¹⁶ Very much in the manner of a pre-industrial *paternalism*, social benefits were offered with conditions and regarded as a means of discipline. These conditions were never invoked, however, and gradually disappeared. The paternalistic “promise” gave way to legally binding claims upon the company – to pledges that employees could depend upon – that reinforced the idea of the company as a community which Mohn espoused and that tangibly improved the living standards of former employees. That pledge placed heavy pension burdens on the company despite modifications of the pension plan in 1970, 1975, 1986, and 1999. In the period 1971–2000, the company had to set aside between 10 and 15 percent of its balance sheet total in most years.

This wide-reaching reorganization went hand in hand with a change in the company’s legal form and ownership structure. The limited partnership (Kommanditgesellschaft) became a single firm in 1957. Reinhard Mohn’s sisters Ursula and Annegret left the partnership immediately; Gerhard Steiniek, that is, his uncle, left upon his death in 1969 and the brothers Sigbert and Gerd Mohn in 1971. Until that time, the former male limited partners remained silent partners with shares of 8 percent each. Reinhard Mohn, whom his father had chosen as his successor and principal heir and who, with the Leser- ing, had created the engine driving the company’s growth, thus became the sole active partner. He thereby solved the chief problem experienced by many older family businesses, namely the multiplication of partners with each generation and the corresponding splintering of capital shares and the danger of conflicts between different branches of the family. In the case of Bertelsmann, the children and grandchildren of Reinhard Mohn’s siblings did not receive a stake in the company; control of the company was thereby concentrated in one branch of the family. To be more precise, Reinhard Mohn now had sole possession of the entire company and a free hand in all decisions.

