

Reversals of Fortune in the Tea Industry

Part XXXVII: "Will he challenge again?"



Sir Thomas Lipton, pictured on the front cover of the November 3, 1924 issue of *Time*, *The Weekly News-Magazine*

“**W**hen the *Shamrock IV* trailed the *Resolute* across the line in the last of the 1920 yacht races for the *America's Cup*, sportsmen who stared at one another amid the din of the whistle, cheers and salutes — sportsmen who met afterward in London clubs, in Paris bars, in Manhattan cafeterias — asked, rather incredulously than inquisitively: “Will he [Sir Thomas Lipton] challenge again?”

— *Time*, *The Weekly News-Magazine*

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Reversals of Fortune in the Tea Industry, Part XXXVII

In his revealing biography of Thomas Lipton, *The Man Who Invented Himself*, James Mackay entitled Chapter 9 *The Golden Years; 1900-1914*. During this period, Lipton's worldwide tea empire grew to staggering proportions, and that growth was directly linked to Lipton's genius for generating "news." Newspapers loved Lipton because he sold papers and it seemed that the American public could not get enough of him.

Lipton's first two challenges handily paid for themselves in free publicity. His third loss in 1903 was even more of a win for his tea sales. In *A Full Cup: Sir Thomas Lipton's Extraordinary Life and His Quest for the America's Cup*, Michael D'Antonio states:

After his defeat, Lipton received, once again, more loving attention than the men who had won. Indeed, in the month after his boat won the *Cup* races, Nathanael Herreshoff's name was not mentioned once in *The New York Times*. The managing partner for the *Cup's* defense, C. Oliver Iselin, got a bit more ink, but most of it was for his business dealings and social appearances. His connection to the *Reliance* was noted just four times. By contrast, Lipton made news every single day for almost three weeks running and got his name in the paper a total of forty-three times.

In the U.K., Lipton's *Cup* challenges received mostly positive press coverage as well. He seemed to be immune to the scrutiny targeting the British upper class at the onset of the twentieth century. The British humor magazine, *Punch*, frequently treated Lipton's escapades with benign satire. In the words of Michael D'Antonio:

... *Punch* placed Lipton the sportsman, millionaire, and socialite in a new category: charming eccentric. In a time when the rich and powerful — including the royal family — were under increasing scrutiny from social critics and politicians, this treatment was a boon to Lipton. In general, Britons reserved a safe place in their hearts for oddballs and self-promoters who could amuse and sometimes serve their fellow citizens. As long as Sir Thomas qualified for this kind of gentle ribbing, his positive public image was secure.

Lipton was keenly concerned about his public image. After all, his name was on every one of his stores and every packet of his tea. For decades, he had been marketing his public image as carefully as his products. But there were two events that threatened Lipton's pristine image; the first occurred at the onset of his *Golden Years* and the second at the culmination. Neither involved his U.K. store operations or his tea empire.

Lipton had been in and out of the pork business for over a decade, initially to stock his ever-growing chain of retail stores and, subsequently, to supply a lucrative catering operation in which pork played an important role. He had shipped trainloads of pork to Klondike gold miners at the height of the *Gold Rush*, and while others made their fortune selling arms and munitions during the Spanish-American War, Lipton made his fortune supplying pork.

Another opportunity for huge profits in pork arose at the outbreak of the Anglo-Boer War in 1899, which was promptly followed by the Boxer Rebellion in China. Lipton worked his magic once again and positioned himself to profit from the increasing demand for pork. Mackay provides a detailed account:

In order to supply the dramatic increase in demand, Lipton, by a series of clandestine manoeuvres, succeeded in cornering the pork market, beating Armour and Cudahy at their own game. By 15 October 1900 the price of pork had risen from eleven dollars to seventeen dollars a barrel, and by the end of the month it peaked at twenty dollars, although it subsequently dropped back slightly. Only 35,000 barrels had been produced that year, and Lipton owned every one of them. Unfortunately, his competitors had contracted to supply almost twice as many. And among the customers to whom they were bound by contract, at a price of eleven dollars a barrel, was none other than Lipton himself. Now Phil Armour found himself in the ridiculous position of having to buy pork from Lipton at eighteen dollars a barrel — in order to supply Lipton at eleven dollars

Lipton initially denied that he had really cornered the pork market, but later backed off, claiming that, by simple good fortune, he was able to acquire enough pork to supply his

needs. This, he admitted, may have resulted in a corner on pork, but it was never his intention to do so simply to drive up prices. This was the sort of market manipulation that soiled the public image of Jay Gould and his adversaries, and which the press loved to expose. Sir Thomas clearly did not want that sort of notoriety.

Lipton negotiated in private with all of his competitors and appeared to be generous in his settlements. He sold his pork for seventeen dollars per barrel, which was far below the price that he could have realized. In the end, however, Lipton handily cleared “over \$350,000” profit. Mackay claims that he could have driven the price of pork up to \$100 per barrel, which would have meant millions more in profits, but that also would have resulted in severe hardship to the poorest consumers.

The press was actually kind to Lipton. Headlines in the *Toledo Times* read “Sir Thomas is Not a Hog,” while the *Philadelphia Record* trumpeted “Gallantry to his Foes.” Although he was in many ways playing in the same park as the so-called robber barons of his day, Lipton strategically played his game by a different set of rules.

The outcome of the second embarrassing event, at the end of his *Golden Years*, was less benign. Early in 1914, a case was opened that implicated Lipton Limited in an illegal bribery scheme to secure contracts for provisioning military canteens. James Mackay refers to this affair as a “great scandal that almost destroyed Lipton [and which] burst upon him quite suddenly and unexpectedly.”

It all started when a disgruntled former employee-turned-whistle-blower disclosed an under-the-table bribery practice, within Lipton Limited, to secure lucrative military canteen catering contracts on the island of Malta.

In remote sections of the expansive British Empire, it was customary for salesmen to give small gifts to their customers, generally in the form of a “Christmas gift,” which often was cash. In some Asian countries such small

“gifts” are called “tea money.” Such activity involving British military procurements was illegal, but it was largely ignored as something trivial. The problem was, once such practice became an expected part of the procurement cycle, it escalated and soon got out of control. “Tea money” soon became “all-expenses-paid-vacation money,” and finally became “vacation-home money.”

Unfortunately for Lipton Limited, the investigation that began on January 17, 1914 revealed that Lipton Limited’s gifting was on a large scale and at least one British commanding officer was involved. As characterized by James Mackay, the whole mess went well beyond the simple gifting of a “case of Scotch or some similar trifle on Boxing Day.”

The timing of the scandal could not have been worse. Just a few days before Lipton Limited’s annual shareholders’ meeting was to be held, front page headlines revealed the daily developments of the ongoing bribery investigation.

Lipton appears to have been unaware of the bribery system until the case was opened. Yet he personally came under scrutiny, with Conservative MP Lord Nelson presenting the following formal address, which was published for all to read:

It must be perfectly plain to everybody that the employees of Lipton Limited were associated in a flagrant conspiracy with government functionaries and that large sums of money were actually expended in bribing those officials — money which presumably came out of the pockets of the shareholders. The head of this engaging enterprise — not the ornamental head but the chairman and managing director — is Sir Thomas Lipton, and in view of the well-established facts, it might have been reasonably expected that some adverse comment on their proceedings would have appeared in the press and that there would have been some condemnation expressed. On the contrary, we are invited daily, I might almost say hourly, to admire this gentleman as a sort of national hero, a magnificent sportsman of the true British type, a compendium of all the British and all the other Christian virtues, and I frequently see it suggested that his transcendent merits can only be recognized by making him a member of this House.

The tone at the annual shareholders' meeting started out hostile and went downhill from there. At prior annual meetings, Lipton was able to cajole the shareholders with his charm and wit. To no avail, he tried to appear calm and downplayed the bribery investigation. But the shareholders were in no mood for Lipton's usual lighthearted guise. D'Antonio describes the closing of the meeting as follows:

Standing before the crowd of unruly men, Thomas Lipton decided he had endured enough. With several shareholders still on their feet demanding to be heard, he called for a vote to close the meeting. Although hardly anyone responded, Lipton announced that his motion had passed unanimously, declaring the meeting over, and walked out.

This move was symbolic. In walking out of the shareholders' meeting, he pretty much lost interest in Lipton Limited altogether, despite the fact that he was its founder and largest shareholder.

By July the details of Lipton's fourth challenge for the *America's Cup* had been finalized. A wounded Thomas Lipton promptly set sail to America aboard *Erin*, accompanied by his new challenger, *Shamrock IV*. It was the perfect antidote to the depression that plagued him in the aftermath of the canteen bribery scandal. But the challenge that was to take place that fall was interrupted by the geopolitical repercussions following the assassination of Archduke Franz Ferdinand.

Everything was put on hold. For the next five years, *Shamrock IV* remained dry-docked in Brooklyn, New York. In spite of new wartime demands for supplies, Lipton Limited remained permanently banned from military catering. But that did not deter Lipton from direct involvement in the war effort.

Perhaps in an effort to redeem his image, and perhaps simply to selflessly support the suffering wounded, Lipton outfitted *Erin* as a floating hospital and accompanied her to the war zone. When fighting intensified, *Erin* was commandeered by the Royal Navy and fitted with guns, only to be torpedoed on the last

day of April, 1916. Six of her original crew perished.

The culmination of the war brought new prosperity for America, as well as for Lipton's tea empire. In 1919, a fire destroyed his Manhattan headquarters and he moved operations to an expansive eleven-story complex in Hoboken, New Jersey. That same year, he established a large packing and distribution facility in San Francisco, assuring him of continued dominance of the American market.

By the fall of 1920, *Shamrock IV* was lowered into the water in anticipation of a 1920 challenge. With that, the canteen scandal became a distant memory. Although he had noticeably aged, Lipton resumed his role as congenial sportsman and raconteur. His popularity in America had never been greater.

To the delight of American spectators, Lipton's *Shamrock IV* won the first two of the best-of-five races. Lipton needed to win only one of the next three races and the coveted *Cup* would return to Great Britain.

At the start of the third race, *Shamrock IV* gained an early lead and kept it throughout the race. When she crossed the finish line nearly thirty seconds ahead of the defender, many spectators cheered loudly, assuming that Lipton had finally captured his trophy.

Under the rules of the race, the ratio of sail area to length at the water line determined the power of the boat. The calculated power of Lipton's *Shamrock IV* cost her over seven minutes of handicap. Even though the challenger had crossed the finish line first, she needed to win by over seven minutes to be declared victor. *Shamrock IV* was badly beaten in the final two races and, once again, Sir Thomas was declared America's favorite loser.

When *Shamrock V* was handily defeated a decade later, Lipton somberly declared, "I will not challenge again. It's no use. We cannot win." Sir Thomas Lipton died one year later at the age of eighty-three.

Our series on *Reversals of Fortune in the Tea Industry* will continue in the next issue of the *Upton Tea Quarterly*.