THE STOKELY LETTER

BUSINESS GROWTH SPECIALISTS

Strategy, Marketing, Mergers & Acquisitions

# Still the Three Secrets of Success:
# Focus, Focus, Focus

The more things change, the more things stay the same.

AT&T has made a sweeping announcement that they will restructure the company into four parts to *"combine the power of a common vision with the focus and flexibility of separate companies"*, according to Chairman C. Michael Armstrong.

Just five years ago AT&T, under Chairman Robert T. Allen, made a similar dramatic announcement as they eliminated 40,000 jobs and broke into three parts to "zero in on communications services."

The company then spent more than $100 billion buying cable companies in an effort to use cable wires to reach customers directly with a full package of local, long-distance, high-speed Internet and cable services, according to the Wall Street Journal. But upgrading the newly acquired cable lines for such services has turned out to be more costly and complicated than anticipated.

In addition, AT&T's core business continues in a "systemic decline" with long-distance revenue falling by double-digit percentages.

*"Each of the four new AT&T business units will move faster in meeting customer needs, as employees will be even more motivated because they'll be working for industry-leading companies that don't have to compete internally for capital or attention."* C. Michael Armstrong, Chairman AT&T

AT&T's reconfirmation of the benefits of FOCUS is shared by many leading companies. Just look at these other well known examples:

- Black and Decker decided to abandon the household products category despite such strongly recognized products as Dustbuster vacuums and SnakeLight flashlights.
- RJR Nabisco elected to split its food business and tobacco business into separate units, recognizing that mixing Oreo cookies and Winston cigarettes didn't work.
- PepsiCo spun off its fast food restaurant business including Taco Bell and Kentucky Fried Chicken even though these brands were leaders in their categories and served Pepsi soft drink products.
- Sears returned to its retailing roots by spinning off Allstate insurance and Dean Witter Discover Card.
- Ford Motor Company spun off its consumer finance and auto parts divisions.
- Hewlett-Packard split itself into two parts, the computer and imaging company and the testing and measuring devices, chemical and medical segment.
- American Airlines sold its AMR Services, which provides ground-handing services to airlines, AMR Combs, a chain of operations for private aircraft, and TeleService Resources, a telemarketing and reservations concern.

In each case the company leaders initially expected terrific synergies and enhanced critical mass in order to accelerate growth through these related businesses.

And why not?

1. It could be a great way to leverage company expertise and market presence with new <u>and</u> existing Customers.
2. It could provide entirely new avenues for growth.
3. In some cases it could be an excellent way to help cushion typical business cycles and seasonality in the core business.
4. There could also be significant cost savings from greater control over sourcing products and services for the core business.

## The Synergy Myth

These are all well managed companies. Many are viewed as market leaders.

What went wrong?

In each case, the hoped for leverage and synergy simply did not prove to be real.

What is interesting is that on the surface each of these ancillary businesses seemed so logical and attractive.

- Why not leverage AT&T's technology and brand awareness leadership?
- Why not build on the manufactured small consumer product and branding expertise of Black and Decker in mass market channels of distribution?
- Why not gain from the proven brand building successes of Oreo cookies and Winston cigarettes, which are both sold through mass market outlets to millions of consumers?
- Why not capitalize on the food and beverage marketing expertise of PepsiCo and assure that the important fountain portion of the Pepsi beverage business would be "safe" in these leading fast food franchises?



*(Continued)*

- Why not sell Sears' huge customer base the insurance and financial products they were buying elsewhere?
- Why not capture the profitable consumer financing when a new Ford automobile is sold, as well as retain the profit opportunity from vertical integration of production of many of the parts used in the vehicles themselves?
- Why not extend the technology leadership of Hewlett-Packard into areas where, along with the HP brand, it can provide a compelling point of difference vs. competition?
- Why not extend the services already offered by American Airlines as new profit centers themselves, since they are clearly related to passenger air travel?

Because, in each instance, these affiliated businesses caused the firm to lose **FOCUS**.

*"There's no reason for these businesses to be under the same roof. They are very different enterprises, with different problems, different challenges and different investor groups."*
Steven F. Goldstone, Chairman RJR Nabisco

### The Challenge of Maintaining Focus

But the need to maintain FOCUS is far from just a big company challenge.

We see the need for FOCUS in companies of all sizes and in all segments of business.

Much of our strategy and marketing consulting work is with privately held manufacturing, retail and direct marketing companies across America.

- In every case the firm wants to grow sales and profits.
- In every case there is tough competition for the firm's existing product and service offering.
- In almost every case there are "adjacent" products and services which the firm does not presently offer that appear to be large and growing market segments with interesting potential.
- In almost every case there is limited experience and expertise within the company regarding these new growth areas.

Too often the attraction of these "greener pastures" diverts management time and energy, and financial resources into chasing what turns out to be under-performing and disappointing new ventures.

And why is this?

We find it is frequently because the firm does not have a clear and objective picture of the real Core Competencies that it possesses.............the Core Competencies that have created the success that it presently enjoys.

Understanding what truly makes the firm successful today, we believe, is the place to begin in creating an effective growth strategy for the future. Certainly firms can "reinvent" themselves. Constant renewal is a requirement in our rapidly evolving global economy. But getting at the essential Core Competencies, or reasons for success, is essential.

Identifying these Core Competencies can be elusive. It requires a candid, open and honest effort.

There are many obstacles that can get in the way of such an appraisal.

We will discuss some of these obstacles and a solution for overcoming them in our next issue of *The Stokely Letter*.

### Summary

Firms of all sizes appear to continue to learn the lesson that a clear FOCUS is a prerequisite for success in today's business environment.

Understanding the Core Competencies of the firm is the essential first step in gaining the full benefits of FOCUS.

While this can be challenging to accomplish, the benefits are compelling.

We welcome your observations and experiences with FOCUS and this article.

Craig Stokely

*"There's no reason why someone shouldn't go into a Sears store and buy a shirt and coat, and then maybe some stock."*
former Sears executive in 1981

*"We're going to focus on what really matters."*
Alan Lacy, CEO Sears in 2000

*"The issue we're focusing on is focus."*
Christopher Galvin, CEO Motorola

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