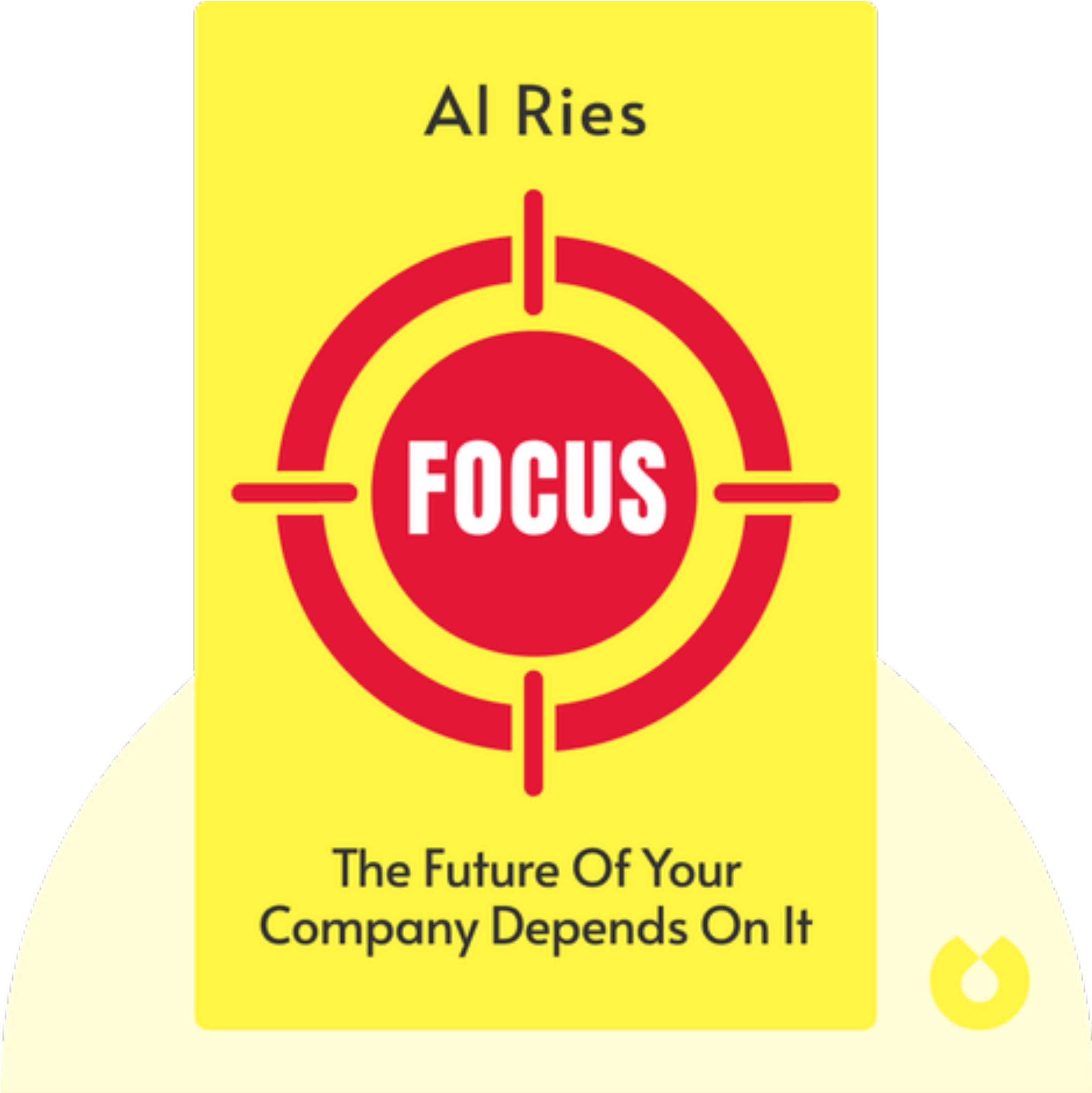

Focus

The Future of Your Company Depends on It

By Al Ries

15-minute read

Synopsis

Focus (1996) describes how corporations in America lose profits by focusing on growth. It explains what the leading management strategies of corporations are and why they are wrong. Additionally, it elaborates on what strategies corporations should adopt instead, and how they can focus their company for greater success.

Who is it for?

- Anyone managing a company that they want to perform better
- Anyone interested in why certain companies succeed and others fail

About the author

Al Ries is a marketing professional and author. He founded a successful consulting firm and has written a number of bestselling books, such as *The 22 Immutable Laws of Marketing* and *The Fall of Advertising and the Rise of PR*.

What's in it for me? Learn why the strongest asset of a company is its focus.

It seems to make perfect sense that the primary objective of most companies is growth. However, being a large, ever-growing company won't increase the odds of success – in fact, it often reduces them.

In *Focus*, Al Ries explains how a company's emphasis on growth can be its Achilles' heel. The book will show you how "going global" with your company can be the death of it, and how keeping in step with technological changes is often essential to a company's survival.

Drawing from a wealth of examples, Ries presents the many common ways in which a company can develop its focus – for instance, by *specializing* – and in doing so increase its chances of succeeding in an increasingly crowded marketplace.

The primary objective of companies is usually growth.

Whether it's a family-run bakery wanting to open a second location or a massive fast-food company aiming for total market domination, it seems that the one thing common to all businesses is their desire to grow.

But have you ever questioned why companies are so fixated on growth?

One reason is that growing will give them cost advantages.

Certain company costs are fixed – they don't change if the company increases its production – so the costs per unit decrease as the amount of units produced increases.

For example, a bakery has variable costs for flour, yeast and other ingredients, and they vary according to the amount of bread it produces. It also has fixed costs, like the money it spent on its oven.

Let's say the oven cost $500 and the ingredients for one loaf of bread cost $1. If the bakery produces 100 loaves of bread, the fixed costs per loaf of bread are $500/100 = $5. So with the variable costs of $1, one loaf of bread would cost the bakery $6 if the total amount of loaves produced was 100. If the amount of loaves produced was 500, the costs for one loaf would sink to $2.

Obviously, such cost advantages give companies a competitive edge. With lower costs, their products can be sold at more attractive prices, thus more customers are likely to buy them.

Another reason that companies seek growth is that managers want to exploit the benefits that size brings (e.g., cost advantages). Naturally, managers want their company to make big profits, so it's only logical they'd aim to increase revenues and decrease costs.

This is why managers make growth the primary objective of companies. Take, for example, Wayne Calloway, who said during his time as CEO of PepsiCo that they're fully committed to high (15 percent) long-term growth. To this end, PepsiCo focused on growth, and Calloway and his predecessors worked towards this goal by buying a number of companies.

Being a large, ever-growing company doesn't guarantee success.

It's a popular belief that the larger the company, the more value it has. But is that really true?

Sometimes, in fact, big companies with higher revenue have a lower value on the stock market than their smaller counterparts.

For example, when you compare PepsiCo to Coca-Cola, PepsiCo is clearly the larger company. It recently made $28.5 billion in sales in one year, whereas in the same year Coca-Cola made only $16.2 billion. Yet Coca-Cola's worth on the stock market was $93 billion and PepsiCo's worth was only $44 billion.

How is that possible?

In a word, *focus*.

Those large companies are handicapped by not having a clear focus. For instance, Coca-Cola focuses solely on beverages. PepsiCo, on the other hand, produces several beverage brands, including Pepsi, Mountain Dew and 7UP, owns a number of fast-food chains including Taco Bell, Pizza Hut and KFC and also the snack food company Frito-Lay.

Furthermore, an unfocused company isn't easily managed, which inevitably leads to performance issues and, ultimately, to less success.

The notion that a professional manager can manage anything isn't true. In addition to people skills and conceptual skills – applicable in any industry – management requires a deep knowledge of and experience in the specific field of the company.

If a company operates in several fields, its management will run into problems, as the managers have insufficient expertise.

PepsiCo, for example, has a hand in three different fields: beverages, snacks and fast-food restaurants. And, predictably, it also has an inherent management problem.

The company tried to solve this problem by shuffling promising managers through every division. The manager that comes out of this process is supposed to have "well-rounded" experience in all fields, but actually has, usually, only one third of the experience of his counterpart at Coca-Cola.

Companies become unfocused by management strategies aimed at growth.

As we've seen, managers want to expand their companies so they can exploit the benefits of size. Luckily for them, there are several strategies to achieve exactly that.

One of these strategies is *line extension*. This means that a company expands to sell a variety of other products while using an already established brand name.

Virgin Atlantic, for example, is an airline company owned by Richard Branson's Virgin Group. Since it was founded, the Virgin Group has put its brand name on several very different products, including Virgin Cola, Virgin Vodka and Virgin Financial Services.

Another growth strategy is *diversification*: it aims at increasing the company's sales volume by expanding into new markets or products that are not related to the company's existing markets or products. For example, in the early 1980s, Xerox – a company known mainly for their photocopiers and printers – diversified into financial services.

While such practices are very common, the problem with these strategies is that they cause companies to lose focus.

For instance, when a company branches out into new markets, they will have to deal with an increased variety of products to manage, and they'll also have an increased number of competitors to be aware of. For example, as a result of the Virgin Group using the line extension strategy, not only do they have British Airways and American Airlines as competition, but also Coca-Cola and Smirnoff.

As this demonstrates, expanding a company can cause it to lose focus and this decreased focus can actually greatly damage a company.

Globalization helps companies to expand their business on a global scale, but this can cause a company to lose focus.

Nowadays it's rare to find companies which operate only in one national market. Increasingly, most companies, big and small, follow the trend of globalization.

This is not surprising, as it's now easier than ever for companies to trade globally. One reason for this is that globalization dismantles trade barriers. Treaties such as the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation (APEC) effectively eliminate high tariffs and other trade barriers that can make importing and exporting expensive for companies. For example, NAFTA is an agreement between the United States, Canada and Mexico that lifts tariffs on trade and enables companies to trade freely.

However, there is a downside: trading on a global scale magnifies the forces that can unfocus a business.

Companies that go global become unfocused by the possibilities that the world market offers. Even if the company is a focused business in their home market, as soon as they enter the global market they try to diversify and, in doing so, take on too many competitors at once. Very often those competitors are hard to outdo because they're already established on the world market.

Olivetti, for example, used to be a typewriter and (later) mainframe company in its home market. When they started to go global, they tried to match up with all the companies in the personal computer business and expanded into services, telecommunications and multimedia.

The result? They haven't had a profitable year since 1990.

Just because a company is successful in its home market doesn't guarantee that it will be successful in a global one. Some might even argue that those companies should have stayed at home.

Specialization is an effective strategy to focus your company and improve performance.

So by now you've learned about how companies become unfocused and how that's bad for them.

But is there a remedy? In other words, how do you *re*focus a company?

When diversification and line extension unfocus a company, doing the exact opposite will focus it – and the opposite of extending your product range is reducing its size. Or, to put it another way, to refocus, a company should *specialize* in one product field.

This is because a specialized company tends to attract more customers than a diversified one. Indeed, over the last decade department stores like Bloomingdale's and Macy's have been in and out of bankruptcy and perhaps the main reason for this is that they've lost many customers to speciality stores like Toys"R"Us.

Department stores have a very wide product range running the gamut from food to clothing. On the other hand, speciality stores like Toys"R"Us usually have only one specialist product field, and this attracts more customers.

It follows that companies that are trying to focus their company in order to be more successful should narrow that focus by specializing in one field only.

Consider Toys"R"Us, for example. The famous toy store started out as Children's Supermart, a children's furniture store. Later, its founder, Charles Lazarus, added toys to the concept. The store, however, didn't become hugely successful until Lazarus threw out the furniture and gave the store a clear and narrow focus: they would specialize in selling discount toys only.

Specialized companies perform better because customers view them as providers of high quality.

If you had a medical problem, like heart disease, would you go to a general practitioner or a cardiologist? Most people would chose the cardiologist of course, because medical specialists usually know more about their specialty than a general practitioner would.

And the same thing happens in business: customers prefer to use specialized companies because they trust their products to have the best quality.

This is because most people don't have the knowledge required to make an informed decision on which product has the best quality, so they depend on other factors in their decision-making process – such as experts.

And in the business world, the experts of a particular field are those companies which *specialize*.

For example, if you wanted to buy a computer mainframe in the 1970s, you'd go to the leading specialist, IBM, whose products were regarded by experts as being of the highest quality.

When it comes to selling quality products, it doesn't matter too much that the product is of a higher quality, from a technological point of view. It matters only that the customers *perceive* that quality, because it's they who'll make the decision to purchase a product.

But keep in mind that high-quality products *do* sell better, and this leads to better company performance.

Consider, for example, the world's best-selling soft drink: Coca-Cola. When people are asked why they prefer it to Pepsi or other soft drinks, most of them answer that Coke simply tastes better.

So, specialized companies perform better compared to unspecialized ones, because they have the advantage of being regarded as experts in their field.

New technologies change the market, so you should be prepared to adapt your company's focus accordingly.

Have you ever noticed something in your life that remained completely the same, forever?

No?

Well, the economy is no exception, and the changes that an economy undergoes are in large part due to changes in technology.

And technology changes constantly, so with each new wave of technology that's introduced a new economic demand is created; gradually, the new technology begins to replace the old.

For example, two decades ago photography depended mostly on analog technology. So if you wanted to take a photograph, you needed to buy photographic film and get that film developed at a lab. Then came a major technological advance: the now ubiquitous digital camera was introduced.

If companies don't change with the economy they are going to be left behind. Consider George Fisher, the CEO of Kodak in the 1990s, who was convinced that analog photography wouldn't be replaced by digital – at least not for a substantial number of years. Soon after, of course, digital photography took over most of the market.

In 1992, Kodak was a $20 billion corporation and the market leader in analog photography. But as technology changed, the company began to struggle. By 1995, Kodak was reduced to a $13 billion company.

Why?

Because sales of photographic film dropped; consumers wanted to buy the new technology – digital cameras that didn't require film.

Since Fisher was so invested in analog photography, Kodak was unfortunately one of the last companies to market and sell digital cameras, therefore allowing other companies to become the market leaders in digital photography.

Fisher's reluctance to embrace a new technology cost his company dearly.

Adapting a company to changes in the economy means shifting the company's focus onto something that is needed in the "new" economy. To avoid the struggle Kodak found itself in, George Fisher should have paid more attention earlier to technological developments and adapted the company's focus from analog to digital photography in time.

A single company needs a single focus, while a conglomerate needs a multi-step focus.

So far we've only discussed companies which have a single focus and perform excellently.

But there are also large conglomerates, with several brands, that don't have a single focus and are still well positioned.

What's their secret?

In contrast to companies with a single focus, operating in a single market, conglomerates actually operate in several markets at once.

Consider General Electric, for example. With sales of $64.7 billion and profits of $4.7 billion, GE are one of the most successful conglomerates, ranking fifth on the Fortune 500 in 1993 (the annual list of the world's 500 most successful enterprises).

Or look at Dover Corp., 361st on the list, with sales of $3 billion. It has 54 operating companies engaged in more than 70 diverse businesses.

But why doesn't this diversityresult in a critical loss of focus?

The reason is that successful conglomerates separate their many different markets and build a focus for each one – a *multi-step* focus.

This allows them to specifically target different customer segments and avoid any internal competition.

Consider, for example, that in the early years of General Motors, the conglomerate was an unfocused mess. It had seven different brands, including Chevrolet and Cadillac, that were established in different markets. Their main problem was that some of the brands' markets overlapped, because the price ranges of those brands weren't clearly separated.

This led to competition between the brands, who snatched at each others' customers – which, for the conglomerate, meant a decrease in profits.

When Alfred Sloan took over General Motors in 1921, he built a multi-step focus for the company.

He selected five of GM's automotive brands – Chevrolet, Pontiac, Oldsmobile, Buick and Cadillac – and distinguished them from each other clearly. Each brand had its own specific price range and would thus appeal to a different customer segment. The result? The brands wouldn't compete against each other, and therefore the conglomerate's profits wouldn't decrease.

Final Summary

The key message in this book:

Although growth is usually the main goal of a company, it can often cause a company to lose its most important asset: its *focus*. Globalizing a company can diminish its focus, but specialization can often save a company. Also, specializing will help a company to succeed, because consumers are more likely to perceive that company's service or product as being of higher quality.