CHAPTER ELEVEN

Leveraging the Business

Results are gained by exploiting opportunities, not by solving problems.
—Peter Drucker

The more opportunities I seize, the more opportunities multiply before me.
—Sun Tzu

The most dangerous moment comes with victory.
—Napoleon

Ultimately, growth avenues outside the existing business need to be explored. While it is risky to leave the comfort of the familiar and the tested, it also removes the ceiling on the firm's growth potential. There is virtually unlimited potential when you agree to extend the business.

The goal discussed in this chapter is to leverage the existing business into new product markets. The assets and competencies of the business, in particular, are potential sources of advantage in a new marketplace. The capabilities around marketing skills, distribution clout, developing and manufacturing products, R&D, and brand equities are among the potential bases for advantage for a new growth business. The idea is to build on the core business to create a synergy. The challenge, though, is to achieve real synergy with real impact on the customer value proposition, costs, or investments. Too often, apparent synergy is not realized.

The spectrum of available choices can be categorized generally as to how removed they are from the core business. Those that are close will represent less risk and have the greatest chance of leveraging business assets and competencies to achieve a real advantage. As more distance is allowed from the current business, opportunities become more plentiful but the risk goes up as well. It can be difficult to gain the necessary knowledge and operational competence to run a business successfully that is far removed from one's core abilities. Of course, creating a new core business can have a huge upside, and taking the risk of moving far from the core business may pay off. But the risk should be visible and part of the analysis.

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There are many ways to generate growth options that leverage the core business. Creative thinking processes, introduced in Chapter 10, can help. Good outcomes more often come from having good options on the table rather than making optimal decisions among mediocre ones. The creative-thinking exercises can best be engaged around the following series of questions, which have proved to be a good source of options.

- Which assets and competencies can be leveraged?
- What brand extensions are possible?
- Can the scope of the offering be expanded?
- Do viable new markets exist?

After these questions have been discussed, some option evaluation issues will be addressed and, finally, the critical concept of synergy will be analyzed.

WHICH ASSETS AND COMPETENCIES CAN BE LEVERAGED?

A focus on assets and competencies starts by creating an inventory in order to identify the real strengths of the business. In doing so, the discussion in Chapter 3 around identifying and evaluating assets and competencies can be helpful. What are the key assets and competencies that are supporting the core business? What are their characteristics? How strong is each?

The second step is to find a business area where the assets and competencies can be applied to generate an advantage. A line of greeting cards sold through drugstores might have an artistic capability and a distribution asset that could be leveraged. What other items are in drugstores that might employ artistic talents? Are there items in the drugstore that the retailers have difficulty sourcing, for whatever reason? A retailer problem might suggest an opportunity.

One fruitful exercise is to examine each asset for excess capacity. Are some assets underutilized? A legal firm that considered this question took advantage of excess office space to offer tax services. A supermarket chain with obsolete sites went into the discount liquor business. A cookie plant began making muffins. If a growth initiative can use excess capacity, a substantial, sustainable cost advantage could result.

The final step is to address implementation problems. Assets and competencies may require adaptations when applied to a different business. Further, new capabilities may have to be found or developed. Existing core businesses are sometimes best leveraged by making an acquisition, because developing the business internally may not be economic or even feasible. When acquisitions are involved, two organizations with different systems, people, and cultures will have to be merged. Many efforts at achieving synergy falter because of implementation difficulties.

As the partial list profiled in Chapter 3 suggests, there are a wide range of exportable assets and competencies. To give a flavor of the opportunities, consider the following: marketing skills, sales and distribution capacity, design and manufacturing skills, and R&D capabilities.

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Marketing Skills

A firm will often either possess or lack strong marketing skills for a particular market. Thus, a frequent motive for expanding into new product markets is to export or import marketing skills. Black & Decker had developed and exploited an aggressive new-products program (e.g., cordless screwdrivers and HandyChopper), effective consumer marketing (for brands such as Spacemaker, Dustbuster, and ThunderVolt cordless tools), and intensive customer service and dealer relations. The acquisition of Ernhart, with its branded door locks, decorative faucets, outdoor lighting, and racks, provided Black & Decker with an opportunity to apply its marketing skills and distribution clout to a firm that lacked a marketing culture.

Applying marketing skills is not always as easy as it appears. Philip Morris, a successful marketer of Miller Lite and other brands, failed with 7-Up, which it attempted to position as a caffeine-free soft drink in response to health interests of consumers. After a seven-year battle, Philip Morris gave up and sold the line. The problems that beset Philip Morris included the reaction of competitors who rushed caffeine-free drinks to the market, the power of existing distributors, and the limited appeal of lemon-lime drinks. Coca-Cola made a similar misjudgment when it created Wine Spectrum and failed in its efforts to overcome Gallo, in part because of Gallo's control over distribution.

Capacity in Sales or Distribution

A firm with a strong distribution capability may add products or services that could exploit that capability. Thus, Black & Decker's distribution strength helped provide a boost to the Ernhart lines. A joint venture between Nestlé and Coca-Cola in the canned tea business combined Coke's distribution strength with the product knowledge and name of Nestlé.

E-commerce firms such as Amazon or Wine.com often have operations that can add capacity just by adding a button to access another product group. The result can be additional sales and margins to offset the fixed costs of the operation.

Design and Manufacturing Skills

Design and manufacturing ability can be the basis for entry into a new business area. The ability to design and make small motors helped Honda succeed in the motorcycle business and led to its entry into lawn-care equipment, outboard motors, and a host of other products. The ability to make small products has been a key for Sony as it has moved from product to product in consumer electronics. Schwinn's experience with bicycles provided a basis to market the stylish Tailwind electric bike that features a 30-minute fast charge.

R&D Skills

Expertise in a certain technology can lead to a new business based on that technology. GE's early research has spawned very successful businesses. For example, its research on turbines for electricity generation provided the basis for its aircraft

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engine business, and its light bulb research provided the foundation for what became the medical instrumentation business. P&G has actively applied technology from one business area to another such as fragrance technology applied to detergents to create both incremental and game-changing innovation. In general, breakthroughs in a business area tend to come from technologies owned by other industries. Creativity, often in short supply, is needed to provide opportunities for basic technology and the R&D capability that supports it.

Achieving Economies of Scale

Product-market expansion can sometimes provide economies of scale. Two smaller consumer-products firms, for example, may not each be able to afford an effective sales force, new product development or testing programs, or warehousing and logistics systems. However, the combination of these firms may be able to operate at an efficient level.

BRAND EXTENSIONS

One common exportable asset is a strong, established brand name—a name with visibility, associations, and loyalty among a customer group. The challenge is to take this brand asset and use it to enter new product markets. The name can make the task of establishing a new product more feasible and efficient, because it makes developing awareness, trust, interest, and action all easier.

Lenox, a maker of fine china, exploited its traditional, high-quality image and its distribution system by expanding into the areas of jewelry and giftware. H&R Block added legal services to its chain of income tax services, hoping to gain synergy by exploiting (and enhancing) its brand. A ski boot manufacturer leveraged its brand into skis and then ski clothing.

Many firms have built large, diverse businesses around a strong brand, including Sony, HP, IBM, Mitsubishi, Siemens, GE, Schwab, Virgin, and Disney. More than 300 businesses carry the Virgin name, and all gain from the public-relations flair of Richard Branson, its owner. Mitsubishi has its name on thousands of products, each of which contribute two benefits that are often underappreciated, name exposure and cumulative new-product vitality.

Disney, founded in 1923 as a cartoon company with Mickey Mouse (made famous in the cartoon "Steamboat Willie") as its initial asset, might be the most successful firm ever at leveraging its brand. In the 1950s, the company built Disneyland and launched a long running TV show (*The Wonderful World of Disney*), dramatically changing the brand by making it much richer and deeper than before. Particularly after extending the theme parks to Florida, Paris, and Japan and establishing its own retail stores, resorts, and a cruise line, Disney can deliver an experience that goes far beyond watching cartoons. As a result of this brand power, the Disney Channel has become a strong, differentiated TV network, an incredible achievement if you consider what others have put into that space.

It is instructive to see why Disney has done so well with an aggressive brand extension strategy. First, from the beginning the company has known what it stands

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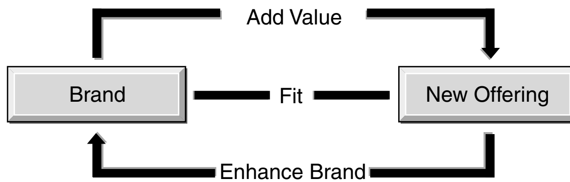

Figure 11.1 Brand Extension Logic

for—magical family entertainment, executed with consistent excellence. Everything Disney does reinforces that brand identity; when it went into adult films, it did so under the name Touchstone rather than Disney. Second, Disney has a relentless, uncompromising drive for operational excellence that started with Walt Disney's fanatical concern for detail in the earliest cartoons and theme parks. The parks are run so well that Disney holds schools for other firms seeking to learn how to maintain energy and consistency. The cruise line was delayed, despite ballooning costs, until everything was judged perfect. Third, the organization actively manages a host of subbrands that have their own identities, including Mickey Mouse, Donald Duck, a mountain (the Matterhorn), a song ("It's a Small World"), film characters such as Mary Poppins or the Lion King, and on and on. Fourth, Disney understands synergy across products. *The Lion King* is not only a film but supports a Broadway musical and an exhaustive set of promotions at fast-food chains and elsewhere.

Brand extension options can be created by determining the current brand image and what products and services would fit these associations (see Figure 11.1). In what arenas would the brand be considered relevant? McDonald's has associations with fun and kids, fast delivery of consistent food, Big Macs, and fries. The fun and kids might suggest a theme park, a line of toys, or a day-care center. The brand, of course, will evolve over time in part by the brand extensions. So the addition of a healthy submenu to McDonald's may allow the firm to venture into areas that would have not made sense before. Virgin was a record company, and an airline under that brand name made no sense. But after the organization became not only successful but known for an over-the-top attitude, customer service and innovation, and an ability to face up to large, established competitors, its new associations provided the basis to go into a host of business areas.

The evaluation of each extension alternative is based on three questions. Each must be answered in the affirmative for the extension to be viable.

1. *Does the brand fit the new product context?* If the customer is uncomfortable and senses a lack of fit, acceptance will not come easily. The brand may not be seen as having the needed credibility or expertise, or it may have the wrong associations for the context. In general, successful extensions will have one or more bases of fit such as a:

- Companion product—Coppertone sunglasses, Duracell Durabeam flashlights
- Common user—Gerber baby clothing, The Mint Cookie (Girl Scout) Blizzard

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- Distinctive attribute/benefit—Arm & Hammer Carpet Deodorizer, Sunkist Vitamin C
- Expertise—Mr. Clean Performance Car Washes, Zaget Physician Rating, David Beckman (Soccer) Academy
- Personality/self-expressive benefits—Pierre Cardin Wallets, Hooter's Airline

In general, a brand that has strong ties to a product class and attributes (for example, Boeing, Netflix, or Kleenex) will have a more difficult time stretching than a brand that is associated with intangibles such as a brand personality. Thus, brands like Disney, Virgin, and Gucci have permission to extend farther. In a TippingSprung survey of brand extensions, consumers were not enthused about Burger King men's apparel, Kellogg hip-hop streetwear, Allstate Green insurance, and Playboy energy drink in part because of a fit problem.[1]

2. *Does the brand add value to the offering in the new product class?* A customer should be able to express why the brand would be preferred in its new context. Despite the fact that cruise ships are difficult to tell apart, nearly anyone could verbalize rather clearly how a Disney cruise ship would be different from others—it would have Disney characters aboard, contain more kids and families, and provide magical family entertainment. Coppertone sunglasses, the top rated extension in the TippingSprung survey, would be expected to benefit from the years of experience that Coppertone has with activities in the sun.[2] Mr. Clean Performance Car Washes, the second rated extension in the same survey, offers the credibility of the Mr. Clean brand to an area that can have high variability of service. Hooter's airline promises a particular on-board experience for golfers flying to a resort.

If the brand name does not add value in the eyes of the customer, the extension will be vulnerable to competition. For example, Pillsbury Microwave Popcorn initially benefited from the Pillsbury name but was vulnerable to the entry of an established popcorn name. Thus, although Orville Redenbacher entered the microwave category late, it still won with a name that meant quality and authenticity in popcorn. Rice-a-Roni's Savory Classics did not fit the consumer's notion of the role of Rice-a-Roni in the kitchen. The Arm & Hammer name also spawned two failures—a spray underarm deodorant, for which the Arm & Hammer name may have had the wrong connotations, and a spray disinfectant.

A concept test can help determine what value is added by the brand. Prospective customers can be given only the brand name, then asked whether they would be attracted to the product and why. If they cannot articulate a specific reason why the offering would be attractive to them, it is unlikely that the brand name will add significant value.

3. *Will the extension enhance the brand name and image?* With the focus on the extension, its impact on the brand can be overlooked. An extension that fails or has inappropriate associations can damage the brand. The ideal is to have extensions that will provide visibility, energy, and associations that support the brand. Coach was a successful but a bit stodgy maker of leather bags until it hired a new

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designer and extended the brand to hats, shoes, sunglasses, coats, watches, and even straw beach hats, all with the signature "C" in leather. The extensions provided energy to the brand and helped attract younger customers, who are vital to the firm's long-term future. Sunkist's associations with oranges, health, and vitality are reinforced by the promotion of Sunkist juice bases and vitamin C tablets, while Sunkist fruit rolls may be a risk. Coppertone sunglasses, Mr. Clean Performance Car Washes, and Hooter's airline (with its name prominently displayed on the aircraft) all provide meaningful visibility to the brand. These extensions need to deliver on the brand promise to avoid harming the brand. Coppertone sunglasses need to have sun protection and not just be a stylish design and Mr. Clean and Hooters need to deliver the experience that will be expected.

If an extension will damage the brand but represents a viable business opportunity, another brand option needs to be found. When Gap introduced a value chain and called it Gap Warehouse, the Gap brand was in danger of being confused and tarnished. Gap quickly reconsidered and protected its namesake brand by changing the name of the new chain to Old Navy. The use of subbrands and endorsed brands provide alternatives to creating a new brand with all its costs and risks.

Subbrands and Endorsed Brands

Subbrands and endorsed brands become options when two unfortunate realities exist. First, the existing brands are judged to have the wrong associations or to have a risk of being damaged by the extension. Second, the organization does not have the size or resources to build a new brand, perhaps because the task is too difficult in a cluttered context or because the business does not justify the needed investment.

In such a situation, the answer may lie in the use of subbrands or endorsed brands. The GE Profile subbrand allowed General Electric to stretch into a premium segment in order to participate in the energy and high margins afforded by that submarket. Similarly, the Pentium Zeon subbrand allowed Intel to offer a high-end server microprocessor. A subbrand lets the offering separate itself somewhat from the parent brand, and it offers the parent brand some degree of insulation.

An endorsed brand offers even more separation. The Schwinn brand name in bicycles has given its Johnny G. Spinner bike an edge with its endorsement. And Marriott needed to enter the huge and growing business hotel arena. Because it would have been extremely expensive to create a stand-alone brand in that area and the existing brands were all too messy to buy, the company created Courtyard by Marriott. The endorsement indicated that Marriott as an organization stood behind the Courtyard brand, so visitors could be confident that the chain would deliver a reliable experience. Leveraging a brand by using it to endorse other brands provides a trust umbrella.

EXPANDING THE SCOPE OF THE OFFERING

A firm may look to its in-depth knowledge of and access to a market segment as an underleveraged asset. Dometic, a Swedish company that pioneered absorption refrigerators characterized by silent operation, built a business selling them to hotels for use as minibars and to the RV industry.[3] The RV industry success led Dometic to add

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other products directed at the RV industry, such as air conditioning, automated awnings, generators, and systems for cooking, sanitation, and water purification. The product scope was broadened from refrigeration to RV interior systems, enabling Dometic to create a direct-to-dealer distribution system that became an ongoing competitive advantage. The Dometic experience illustrates how success in a market can be leveraged.

Considering the broader use context is a powerful idea. Thus, instead of being in the orange juice business, be in the breakfast business. Instead of selling only basketballs, consider making baskets and courts. GE's Jack Welch was quoted as saying that dominant companies in slow-growing businesses should redefine their markets, looking at a broader scope that will have more opportunities.

Slywotsky and Wise make a similar suggestion in their book *How to Grow When Markets Don't.*[4] They recommend identifying and serving the customer needs that emanate from the use of existing products. Cardinal Health, for example, moved beyond distributing drugs to pharmacies to managing hospital drug dispensing and related record-keeping and creating medical-supply kits for surgeons. Clarke American Checks went from check printing for banks to managing their customer relations, including running call centers and helping banks come up with incentives to increase customer retention. John Deere, the equipment manufacturer, decided to offer a one-stop shop for landscaping.

An analysis of the total set of tasks surrounding the customer use experience is a good way to begin determining whether there is a viable growth option in expanding the view of the offering. The use experience can be modeled by walking through exactly what the customer needs to do in order to use the product or service. This task set for a Healthy Choice frozen meal could include buying, paying, transporting, storing, preparing for use, using, and disposal. Can any of these tasks be made easier or eliminated by adding a feature or service to the product strategy? P&G, for example, has worked with Wal-Mart to provide a seamless integration of the two firms to determine what product is needed where and arrange the shipping so that administrative expenses, store outages, and inventory costs are all reduced. The net result is that P&G has an expanded scope beyond its products and a strong link to a customer.

The analysis of a consumption system may not result in an end-to-end solution. But even if two parts can be combined, replaced by an alternative, or made to work better, the result may have added value or a point of differentiation for the customer. Annie Chun created a meal kit whereby the sauce and noodles are combined into an easily microwaved dinner dish. In doing so, several steps for the cook were eliminated or combined, and the easy cook/serve features were appealing.

Another perspective on expanding the offering scope is simply to serve additional needs of the customer. What other products or services do existing customers buy that could be provided by the firm's operations? Fast-food chains have expanded their offerings to attract customers in a time slot for which they have capacity. McDonald's, for example, has gourmet coffee for afternoon snack needs. Jamba Juice and Starbucks both added oatmeal so that they would be appealing as a breakfast location. Dometic added products RV owners bought.

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NEW MARKETS

A logical avenue of growth is to move existing products into new markets by duplicating the business operation, perhaps with minor adaptive changes. With market expansion, the same expertise and technology and sometimes even the same plant and operations facility can be used. Thus, there is potential for synergy and resulting reductions in investment and operating costs. Of course, market development is based on the premise that the business is operating successfully; there is no point in exporting failure or mediocrity.

Expanding Geographically

Geographic expansion may involve changing from a regional operation to a national operation, moving into another region, or expanding to another country. KFC, McDonald's, GE, IBM, and Visa have successfully exported their operations to other countries. Most of these companies and many others are counting on countries such as China, India, and Russia to fuel much of their growth for the coming decades. They realize that success will involve significant investment in logistics, distribution infrastructures, and organization building and adaptation. (Chapter 13 will elaborate.)

Moving from local to regional to national is another option. Samuel Adams and other microbreweries have generated growth by geographic expansion. Often, however, this expansion is best implemented by connecting, through an alliance or merger, to a partner that already has the capability to market more broadly.

Expanding into New Market Segments

A firm can also grow by reaching into new market segments. If the target segments are well defined, there are always a host of other segments to consider that would provide growth directions. Consider, for example:

- **Distribution channel.** A firm can reach new segments by opening up a second or third channel of distribution. A retail sporting goods store could market to schools via a direct sales force. A direct marketer such as Avon could introduce its products into department stores, perhaps under another brand name.
- **Age.** Johnson & Johnson's baby shampoo was languishing until the company looked toward adults who wash their hair frequently.
- **Home vs. office.** A supplier of office equipment to businesses might look to the home office market.

A key to detecting new markets is to consider a wide variety of segmentation variables. Sometimes looking at markets in a different way will uncover a useful segment. It is especially helpful to identify segments that are not being served well, such as the women's computer market or the fashion needs of older people. In general, segments should be sought for which the brand can provide value. Entering a new market without providing any incremental customer value is very risky.

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EVALUATING BUSINESS LEVERAGING OPTIONS

There will be no shortage of ways to leverage the existing business. Ultimately these need to be evaluated to see whether one or more should be pursued either immediately or within a planning horizon. This section proposes several questions that represent important criteria to consider.

These criteria are all supported by a series of studies of initiatives that leverage existing businesses conducted by Chris Zook of Bain and Company (as reported in two books, *Profit from the Core* with James Allen and *Beyond the Core)*.[5] In the first study, case studies were created of twenty-five companies that had achieved sustainable growth performance from 1992 to 2002 far in excess of their peers. In the second study, twelve pairs of firms were examined. Each pair was within the same industry and with a similar starting point but with very different financial trajectories over a ten-year period. The resulting database contained 150 attempts to leverage a business. The third study focused on 180 attempts to leverage a core business sourced from the United States and the United Kingdom. The focus of these studies was to attempt to determine what was associated with successful initiatives to leverage core businesses.

Is the Product Market Attractive?

Successful initiatives involve a foray into a market that has a robust profit pool going forward. Recall the five-factor Porter model introduced in Chapter 4. The most logical expansion will fail if there simply are no profits to be had because competitors control them or because the margins have been squeezed by overcapacity or the nature of the customer demand. The stampede of utility companies into telecommunications turned out to be a disaster because the profit pool was shrinking to the point that their ventures were uneconomic. In contrast, the controlled product expansion of EAS, the vitamin supplement firm, was always into areas in which the margins were healthy. Projecting a market forward, particularly a new one with potential new entrants, is difficult, but the risk of entering a hostile market can be significant. Recall the discussion of the risks of growth markets in Chapter 4.

Is the Core Business Successful?

There is no point in extending mediocrity. A weak business will seldom have either resources or assets and competencies to spin out to a growth initiative. The chances of success of leveraging a business has been estimated by the Zook studies to be around 25 percent.[6] And this falls to well under 8 percent when the core business is weak.[7] Budget Rent-A-Car, for example, attempted a host of strategies without success to improve on their also-ran status, including efforts to enter the travel arena and the truck rental business.

Can the Core Business Be Transferred to the New Product Market? How Much of a Stretch Is It?

The ability of the business to adapt to a new product market and the chances for success increase the closer the leveraged business is to the core business. Tesco, the United Kingdom grocery chain, refined its retail offering by improving the checkout

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experience, parking, and the fresh produce. They grew in part by expanding into in-store pharmacies, optical product stations, auto fuel, kitchen products, and coffee shops. Each of these leverage efforts enhanced their core business. Such synergy is healthy not only because the core business benefits but because the new business is more likely to draw on the strengths of the core as well. In contrast to this disciplined expansion, their competitor Sainsbury, whose performance lagged Tesco, strayed farther from its core, investing in a grocery chain in Egypt and two do-it-yourself chains in the United Kingdom.

This effect has been quantified by the Zook studies in which the new business initiative was separated from the core in terms of whether the involved customers, competitors, channels of distribution, cost structure, and assets and competencies were the same or different. The sum of differences could range from zero to five (there could be a partial match on some dimensions). The success probability sinks from over 25 percent to under 10 percent if the sum of differences was two or more.[8]

The task of adapting a business into a new market is easy to underestimate as illustrated by the experience of FedEx when it attempted to duplicate its concept in Europe. Setting up a hub-and-spoke system in Europe was inhibited by regulatory roadblocks at every turn. Attempts to short-circuit regulations by acquiring firms with related abilities resulted in something of a hodgepodge—FedEx at one point owned a barge company, for example. The firm also lacked a first-mover advantage in Europe because DHL and others had employed the FedEx concept years earlier. A reliance on the English language and a decision to impose a pickup deadline of five o'clock in Spain (where people work until eight o'clock) caused additional implementation problems.

Will the New Business Be Successful, Become a Market Leader?

The first question, which is not trivial, is whether the new business can avoid failure because it simply lacks market acceptance for whatever reason. The acceptance of new products is low. Even for firms with high levels of competence in a market and with real synergy to buttress the new entry, failure rates are extremely high. And we know the primary reason. Dozens of studies in very different contexts and in different markets have concluded that the main reason for failure is that the new products lacked a point of difference, a reason to succeed. Too often they were "me-too" products, at least as perceived by customers. There was in essence no reason to succeed, so they didn't. There should be evidence that customers will value the product or service and that the offering can withstand the response of existing and potential competitors.

Even real advances may not be so perceived by customers. They may even read an advance as a reason not to buy. Clairol failed with Small Miracle hair conditioner, which could be used through several shampoos, in part because customers could not be convinced that the product would not build up on their hair if it were not washed off with each use. Even the use of an established brand cannot guarantee success. The concept of a colorless cola, Crystal Pepsi, did not achieve acceptance, and the appearance had a negative flavor connotation.

The goal, of course, should not be simply to survive but to become a market leader at least with an attractive submarket. Simply becoming the fourth or fifth or

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even third player creates the danger that it will be impossible to keep up with the ongoing investment needed. Without substantial market and financial success, needed resources from the firm may be hard to justify. There is always a competition for resources even in "wealthy" organizations.

Is the Leverage Strategy Repeatable?

There is great value in creating initiatives that are repeatable. Repeatability leads to learning curve effects, speed of execution, organizational simplicity, strategic clarity, and the ability to get the details right. In the Zook database, around two-thirds of the most successful, sustained growth companies had one or two repeatable formulas.[9] Nike, for example, has done much better over time than Reebok. While Reebok was buying a boat company, Nike was duplicating its success in basketball with a move into tennis, baseball, football, volleyball, hiking, soccer, and golf. In all these efforts the strategy was very similar, starting with a prominent credible endorser from Michael Jordan to Tiger Woods and systematically moving from shoes, to clothing, to equipment.

THE MIRAGE OF SYNERGY

Synergy, as suggested in Chapter 7, is an important source of competitive advantage. However, synergy is often more mirage than real. Synergy is often assumed when in fact it does not exist, is unattainable, or is vastly overvalued.

Potential Synergy Does Not Exist

Strategists often manipulate semantics to delude themselves that a synergistic justification exists. But when a packaged-goods manufacturer bought Burger Chef, a chain of 700 fast-food restaurants, the fact that both entities were technically in the food business was of little consequence. Because the packaged-goods firm never could master the skills needed to run restaurants, there was considerable negative organizational synergy. Laidlaw, a large school bus operator, bought into the ambulance business only to find that they lacked the ability to operate a more complex and highly regulated medical business. A supermarket chain struggled to expand into other countries because of the lack of common suppliers and the difficulty of creating an information system prevented synergies from emerging.

THE ELUSIVE SEARCH FOR SYNERGY

The concept of a total integrated communications firm that comprises advertising, direct marketing, marketing research, public relations, design, sales promotions, and Internet communications has been a dream of many organizations for two decades. The concept has been that synergy will be created by providing clients with more consistent, coordinated communication efforts and by cross-selling services. Thus, Young & Rubicam had the "whole egg" and Ogilvy & Mather talked about "Ogilvy orchestrations."

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Despite the compelling logic and considerable efforts, though, such synergy has been elusive. Because each communication discipline involved different people, paradigms, cultures, success measures, and processes, the disparate groups had difficulty not only working together but even doing simple things such as sharing strategies and visuals. Their inclination was to view other disciplines as inferior competitors rather than partners. Further, they were often reluctant to refer clients to sister units that were suspected to deliver inferior results, which created client-relationship ownership issues.

The firms with at least some success stories to their credit—Young & Rubicam, Denstu, and McCann Ericson—have a set of communication modalities such as direct marketing, public relations, Internet communications, and advertising in one organization, with shared locations and client-relations leadership. These firms make sure there is a strong, credible team leader with a dedicated space and a team-oriented performance measure. Even with such assets, sustained success is extremely rare. When a virtual team is formed with separate companies under one umbrella even if they are within the same communication holding company, success is even rarer.

The lesson here is that synergy does not just happen, despite logic and motivation. It can require real innovation in implementation—not just trying harder.

Potential Synergy Exists but Is Unattainable

Sometimes there is real potential synergy, but implementation difficulties—usually far greater than expected—inhibit or block this synergy from being realized. When two organizations (perhaps within the same firm) have different cultures, strategies, and processes, there are significant issues to overcome. The effort to combine United Airlines, Westin Hotels and Resorts, and Hertz into one organization was a classic case in which the operational problems coupled with presenting a confused brand face to customers doomed the idea. The efforts to create multiservice telecommunication companies and fully integrated entertainment companies in order to achieve synergies have struggled.

Even when progress occurs, the patience and resources may not last long enough to see success. And it can take a long time. The ultimate integration challenge occurs when a group of entities are integrated to provide a comprehensive customer solution. Lou Gerstner indicated that integrating the country, product, and service silos at IBM, in part in order to provide integrated customer solutions, was his most significant task and legacy.[10] He noted that it took five years to make this progress. The synergies expected from the merger of Daimler-Benz and Chrysler never materialized; they finally gave up and engaged in a costly separation.

Potential Synergy Is Overvalued

One risk of buying a business in another area, even a related one, is that the potential synergy may seem more enticing than it really is. Perhaps carried away by its success with Gatorade, Quaker Oats purchased the Snapple business in 1994 for $1.6 billion, only to sell it two years later for a mere $300 million. Quaker had difficulties in distribution and was inept at taking a quirky personality brand into the mainstream beverage

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market (its program was based on pedestrian advertising and a giant sampling give-away). Moreover, the fact that Quaker paid several times more than Snapple was worth was a fatal handicap.

The acquisition of The Learning Company—a popular children's software publisher with titles such as *Reader Rabbit*, *Learn to Speak*, and *Oregon Trail*—seemed like a logical move by Mattel, the powerful toy company with Barbie among its properties. Yet less than a year and a half after paying $3.5 billion for it, Mattel basically gave The Learning Company away to get out from under mounting losses.

One study of 75 people from 40 companies that were experienced at acquisition led to several conclusions. First, few companies do a rigorous risk analysis, looking at both the least and the most favorable outcomes. When optimistic vibes abound, it is particularly wise to look at the downside: What can go wrong? Second, it is useful to set a maximum price that you will not exceed. Avoid getting so exuberant about the synergistic potential that you ultimately pay more than you will ever be able to recoup.[11]

KEY LEARNINGS

- Leveraging assets and competencies involves identifying them and creatively determining in what business areas they might be able to contribute.
- Brand extensions should both help and be enhanced by the new offering, in addition to being perceived to have a fit with it.
- The business can be leveraged by introducing new products to the market or expanding the market for the existing products.
- Entering a new product market is risky, as the new offering might lack market acceptance or needed resources. Success likelihood goes up if the core business is healthy, if the new product market is attractive (competitors will be profitable), if the business model is repeatable, if market leadership is possible, and if the stretch from the core is small.
- Synergy can be a mirage. Too often, it does not exist, or it exists but is unattainable or overvalued.

FOR DISCUSSION

1. Pick an industry and a product or service. Engage in a creative-thinking process, as outlined on pages 187–188 in Chapter 10, to generate an improved offering. Do the same to create an entirely new offering that uses one or more of the assets and competencies of the firm.
2. Evaluate the following extension proposals.

    Bank of America going into home safes

    Crest going into a chain of dentist offices

    Caterpillar going into automobiles

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Snackwells going into exercise clubs

Mr. Clean going into car washes

Hooters going into charter airlines

3. Pick a branded offering such as Southwest Airlines. Come up with 20 products or services that are alternative extension options. Include some that would be a stretch. Then evaluate each using the three criteria provided in the chapter.
4. Consider the following mergers or acquisitions. What synergy was or would be logically possible? What would inhibit synergy? Consider operations, culture, and brand equities.
   - **a.** Citicorp acquired Providian, a credit card firm serving low-income segments
   - **b.** Pepsi (the owners of Frito-Lay) acquired Quaker Oats
   - **c.** Toyota acquiring Jeep
5. Evaluate Starbucks' extension decisions: To put Starbucks on United Airlines, to open Starbucks in Barnes & Noble bookstores, to open Starbucks outlets in grocery chains such as Safeway, to license Starbucks ice cream to Dreyer's, to offer oatmeal, to sell soluble coffee in supermarkets.
6. Identify and evaluate a combination of businesses that have achieved synergy and another that has failed to do so.

NOTES

1. "TippingSprung Publishes Results for Fifth Annual Brand-Extension Survey," PRWEB, January 7, 2009.
2. Op. cit.
3. Chris Zook, "Finding Your Next Core Business," *Harvard Business Review,* April 2007, p. 70.
4. Adrian Slywotsky and Richard Wise, *How to Grow When Markets Don't*, New York: Warner Business Books, 2003.
5. Chris Zook with James Allen, *Profit from the Core*, Boston: Harvard Business School Press, 2001; Chris Zook, *Beyond the Core*, Boston: Harvard Business School Press, 2004.
6. Zook, *Beyond the Core*, p. 22.
7. Ibid, p. 112.
8. Ibid, pp. 87–88.
9. Ibid, p. 36.
10. Louis V. Gerstner, Jr., *Who Says Elephants Can't Dance*, New York: Harper Business, 2002, pp. 251–252.
11. Robert G. Eccles, Kirsten L. Lanes, and Thomas C. Wilson, "Are You Paying Too Much for That Acquisition?" *Harvard Business Review*, July–August 1999, pp. 136–143.

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