THE STOKELY LETTER

BUSINESS GROWTH SPECIALISTS

Strategy, Marketing, Mergers & Acquisitions

Getting It Right the First Time

Most companies want to grow and prosper.

In our last issue of *The Stokely Letter* ("Still the Three Secrets of Success") we offered examples of leading companies who have stretched for growth, lost their FOCUS along the way, and subsequently made the decision to REFOCUS on their core business.

- In each case they were attracted to what initially appeared to be promising expansion opportunities.
- In each case they believed their expertise was transferable to these expansion areas.
- In each case they ultimately made the difficult decision to prune back to their original core business.

I was fortunate to observe and actively participate in these events first hand early in my career with General Mills. As a premier manufacturer and marketer of packaged foods (I initially worked on marketing Wheaties, Trix and Nature Valley cereals), General Mills was looking for new growth avenues, presumably where its marketing expertise could leverage results. It had achieved considerable success with Gold Medal flour, Betty Crocker mixes and cereals. These areas were growing nicely, but management wanted faster growth.

The company initiated an aggressive acquisition program. It acquired companies related to food.......Red Lobster and later Olive Garden restaurants.....and companies which didn't relate to food.....including Eddie Bauer, Talbot's and LeeWards retailers, Kenner and Parker Brothers toy and game companies.

This was an exciting time at General Mills. The sky was the limit! And it was great to be a part of it.

We achieved dramatic successes at Kenner where I was Vice President of Marketing, with the Six Million Dollar Man and Star Wars toy lines. We quickly became the recognized toy market leader in movie and television licensed properties.

Later at LeeWards craft stores, where I was Vice President of the Retail Store Division, we successfully sharpened our customer focus, product offering and presentation, streamlined logistics, and executed an aggressive national expansion program with an exciting new store format.

The other General Mills' acquisitions also produced generally favorable results.

What went wrong?

Differing Success Requirements

The success requirements of the acquired businesses were very different from those that were a part of General Mills' core offering.

- Toys is mostly a "fashion" business with shorter product life cycles and a high risk/reward environment for quick and accurate (sometimes lucky!) decision making. This is far different from the more disciplined and methodical packaged goods approach relying on market research, lengthy product development, and brand building programs.
- Store and mail order retailing is largely a detail oriented, execution business. It rewards complex logistics excellence, having the right product at the right time of year, and merchandise presentation....far different from manufacturing and marketing cereal and cake mix.
- And both retail and restaurant operations are heavily dependent on excellent retail locations, each of which have their own distinct life cycle. Both also require continual store enhancements to assure an up-to-date and welcoming customer experience.
- A packaged goods management orientation has an understandably difficult time grappling with the critical differences and nuances of each of these separate types of businesses in making capital allocation and strategic decisions. While General Mills' senior management was exceptionally strong and deep, trying to understand and effectively manage the food and "non-food" parts of the company on an ongoing basis proved to be too difficult.

Ultimately, General Mills decided to spin off each of these different business units to enhance shareholder value. The Red Lobster and Olive Garden restaurant division was the last to be divested.

More recently General Mills has acquired the Chex cereals from Ralston, and is presently acquiring Pillsbury, the company's major Minneapolis based cross-town rival.

General Mills stock is near an all time high, as the company has FOCUSSED on the packaged food business which it understands and has consistently operated well.

This very personal business experience conveyed to me a clear and powerful understanding of the benefits of FOCUS. The Stokely Partnership's assignments since we founded our firm

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in 1992 have also led to insights about why managers in companies of all sizes tend to lose FOCUS, and what to do about it.

The Foundation for Effective Growth

The first step in developing an effective growth strategy is to create an objective and honest picture of the real Core Competencies that the firm possesses, those that have created the success that it presently enjoys.

We have found that this is true for firms of all sizes and types........from a privately held manufacturing business to a multi-store retailer to a regional service firm.

Understanding the strengths (and opportunities for improvement) of the company is the essential foundation upon which a FOCUSSED growth strategy can be constructed.

Identifying these Core Competencies can often be elusive. It requires candor and openness. There are many obstacles that can get in the way of such an appraisal.

- We tend to have personal biases and blind spots (don't we?).
- We tend to affirm generally accepted wisdom and our own experiences.
- We tend to think of our business as more challenging than others.
- We tend to look at other businesses as "greener pastures".

As a part of our strategic planning work for our clients, we support the management team in clearly defining and agreeing on the Core Competencies of their firm.

In this work, we often ask a representative group of the company's Customers to tell us what they think the company does well, and what they would like to see the company do better. This is a surprisingly simple and straightforward way of getting at the firm's key strengths and opportunities for improvement. After all, isn't it basically about satisfying Customers?

When such an appraisal is conducted and accepted by the management team, we find that the company can confidently begin to create a vision and action plan to grow the business effectively.

Understanding and acknowledging the firm's Core Competencies, and areas for improvement, may be compared to getting a physical examination. The review addresses the vital measurements and functions which reflect the overall health of the organization.

Sometimes when the results are in, a firm may decide to "reinvent" itself, and build a new Core Competency. This can be inspired by changing market conditions and requirements for continued success.

Which brings us back to FOCUS.

Because we find that the real leverage in business is a FOCUS on making sure that the firm is emphasizing the right Core Competencies in growing its business.

Good things can happen with FOCUS.

With FOCUS everyone in the company has a clear understanding of:

- What the firm does well.
- What needs to be improved upon.
- Where the firm is going in order to effectively grow.

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.

Craig Stokely

"Customers, not technology companies, will decide what technologies will succeed. It's all about Customers."
Michael Dell, Chairman Dell Computers

"We must think local and act local, taking our business to where our business is. This will allow us to sell more products." Douglas Daft, Chairman Coca-Cola

"In this age, which believes that there is a shortcut to everything, the greatest lesson to be learned is that the most difficult way is, in the long run, the easiest." Henry Miller

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