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Today's Peacock Is Tomorrow's Feather Duster

For how long will your company thrive?

by Brian Woolf (February 23, 2015)

One cold winter's afternoon, almost 40 years ago, I was leafing through a pile of Annual Reports in the Business School Library to see which companies I might enjoy a career with. "Aha", I thought, "here's a company grounded in realism," as one cover caught my eye. On it, in bold print, were six unforgettable words: *Today's Peacock Is Tomorrow's Feather Duster*.

The Retail Stage
In 1963, the ten largest US supermarket chains were A&P, Acme, First National, Food Fair, Grand Union, Jewel Tea Company, Kroger, National Tea, Safeway, and Winn Dixie. This year, 52 years later, only one of them, Kroger, is still intact and independent and will feature in this year's Fortune 500 listing of the US's largest companies. Others of the ten have appeared on the Fortune 500 list but since have gone through bankruptcy, been absorbed by others or disappeared.

Reflect on non-food retailers such as Circuit City, Kresge, Woolworths, Montgomery Ward, Radio Shack, Kmart, Sears, and J. C. Penney. These once great proud peacocks strutted across the American retailing stage in the past but are now sadly seen with their plumage plucked, either partially or fully. Think about this month's business headline: Staples has offered to buy Office Depot who, only 18 months ago, bought Office Max—now three proud competitors will now be represented by one survivor in an industry that was born only 29 years ago with Staples' first store.

Even the biggest and the best are not exempt from decline as a skim through the Fortune 500 listings since its 1955 debut assures us.

Thirty (30) years appears to be the average lifespan of US companies before they are overtaken, taken over or taken out. *The Economist* (Sep 20, 2014) tells us that over half of American startups are gone within five years. On a grander, long-term scale, a landmark study by John Sexton, the President of New York University, found that only 10 companies in the world have lasted intact for 500 years, along with 75 non-religious organizations (mainly universities). The oldest of the ten is Stora, which began, in 1288, as a Swedish mining company.

The reality is that most businesses have a sell-by date: our challenge is to elongate that sell-by date. Some will last intact for five years; others for 20, 50 or even 100+ years. Why the difference? As in life, longevity goes hand-in-hand with being "healthy". And, yes, along the way corporate cancer does appear and does shorten a company's life unless successfully fought. Here are some of the warning signs.

Types of Corporate Cancer

Looking at companies we know, three common corporate cancers appear:

1. Technological and Format Changes
2. Competitive Advantage Fades, and
3. Numbers Obsession Prevails

1. Technological and Format Changes

In 1930 did John A. Hartford, head of the world's largest retailer, A&P, with its 16,000 stores, think that its beautiful feathers might start molting during that decade? Probably not; instead, he was hoping that the competitive innovations around him might fail and disappear. New high-volume, self-service supermarkets in diverse formats were popping up across the landscape. It took seven years of anguish before A&P even started testing an investment in the future by opening 300 supermarkets—then followed by many more. By 1950, it had 4,000 larger stores. But A&P, with its investment and profits locked in stores of the past and its slow start to enter the future had lost its momentum. It had failed to keep pace with competitors opening their larger, modern supermarkets with customer-appealing features. By the 1970s, A&P stores were out of date and its efforts to combat its high operating costs (due to lower sales) had resulted in poor customer service.

William I. Walsh, an A&P "lifer" describes, in his excellent book, *The Rise & Decline of the Great A&P Company*, its loss of tail feathers. By 1973, A&P's store count had dropped from 16,000 to 3,614—of which over half were still on the smaller side (under 10,000 square feet). Thus, more than half of A&P's stores were ineffective in the supermarket environment of the 1970's. Then, in 1973, no doubt aided by A&P's lack of adaptation to the technological and format changes in food retailing, A&P's sales leadership was overtaken by a West Coast retailer, Safeway.

For 114 years, A&P had been the preeminent US food retailer; it had been the driving force that molded and improved the nation's distribution. It had been a peacock for a long, long time—but, now, no longer. When did A&P start molting? When technological and format change came to the industry. Sitting on a profit-generating huge investment, the company lagged in responding to the new competitive changes and then never caught up. It was Baumol's Law confronting A&P—and A&P blinked and delayed.

Today, new technologies—such as the web, WiFi, email, smart phones, and computerization's quantum leaps in all directions—are different—but nevertheless competitors are using them to change the dynamics of retailing. Some companies will gain; others will fall behind.

2. Competitive Advantage Fades

All competitive advantage is eventually neutralized. Every business school student learns this piece of corporate wisdom. Successful companies are copied and mimicked and when that happens the differences between the leader and its competitors are narrowed and, over time, become insignificant. So new differences, new gaps, have to be created if the leader wishes to retain its title. Warren Buffet pithily describes the requirement for on-going success: *Keep widening and deepening your moat.*

Consider the fast food industry. It's unlikely that Ray Kroc, who opened his first McDonald's outlet 60 years ago, had any idea of the revolution he would create. It's unlikely he imagined all the copying, mimicking, variations, gap closings, spin-offs, and innovations—all to create new competitive gaps— that would follow from the simple walk-up burger, fries & shake stand he opened.

As the industry grew, the loss of one advantage created the urgency for another—be it in service, store design, product range, advertising or promotions. The drive-through, for example, was not created by McDonald's, but by Wendy's, but was quickly copied by all. No competitive gap was allowed to stay open for very long. As menus expanded so did the outlets; from walk-up to sit-down restaurant, and competition copied. Even Ronald McDonald was mimicked by another character, The Burger King.

Besides copying, differentiating (widening the moat) is an effective way to neutralize. In menu items for example, Chick-Fil-A offers a limited menu of chicken items rather than beef patties; its crinkle-cut fries are deliberately distinctively different. Five Guys—top rated in a 2012 poll for its food quality and taste—offers a simple menu comprising (bigger) hamburgers, hot dogs, and fries along with its different-flavored sweeter, "eggier" buns. Shake Shack, with US sales per outlet twice that of McDonalds, is famous for its Angus beef burger (quality is a great differentiator) and great shakes (paradoxically, one of McDonald's original differentiators).

There seems no end to copying and differentiating. Not just in the burger business but also in competitive sectors such as pizza and fried chicken that echo the burger sector's operational methods while offering a completely different core menu.

Neutralization does close competitive gaps. Over the past year, McDonalds has experienced comparable sales declines in the US (and elsewhere); a new CEO has been announced. His challenge will be close the gap with his better competitors, put "faster" back into fast food, and create a new set of differentiations. And so the cycle will continue. Some players will succeed; others will fade.

Competitive advantage can be neutralized by copying (gap-filling) or differentiating. It applies to every industry. In food retailing, for example, successful differentiated companies have been built by focusing on just an aisle (eg, PetSmart) or a lifestyle (eg, Whole Foods).

Few leaders sleep peacefully at night; they all have their competitive concerns.

3. Numbers Obsession Prevails

Armed with retailing's most comprehensive customer database, its unique competitive advantage, when sales started to flatten and fall instead of using its amazing customer knowledge, Tesco focused its attention on "numbers" to grow its gross profits, pay bonuses, and increase its reported profits and stock price. One-off promotions were cut, store labor was cut, the timing of promotional allowances was fudged, and the inventory range was increased (to gain slotting allowances) without a compensating sales increase. Such a frenetic focus on numbers can have a disappointing outcome. And so it was at Tesco when new management discovered to its dismay that its make-everyone-happy numbers were false. It found that not just sales were down but so too were customers and profits.

A curious comparison is the other biggest user of the dunnhumby customer database system, Kroger. It has experienced same store sales growth for the past 44 consecutive quarters—11 years! How? By quietly focusing on an internal strategic program they developed called *Customer 1st*™ which builds sales as the team obsesses about customers, using its customer information as an active ingredient. Of course, Kroger carefully monitors its numbers, but customers are its first priority.

When a company allows a numbers obsession to trump its customer obsession only disappointment—and sometimes disaster—follows. Another food retailer with which I am familiar found that its costs had increased due to the addition of a new department and other significant on-going charges. Rather than adjusting its bottom line expectations and advising shareholders, it became obsessed with "delivering the usual numbers". Profit pressure was exerted—resulting in employees compromising quality in its Perishable Departments. Employees considered it better to placate their boss rather than their customers—most they did not know—and who, they thought, may not notice. But the numbers-focused mindset blew up when their actions were publicly disclosed causing a significant loss of customer trust and resultant long-term corporate damage.

A numbers obsession, rather than a customer obsession is, indeed, a corporate cancer. It will be interesting to see how successfully Tesco fights the disease and whether it ever regains the health it had when its share of the UK grocery market was 31.8%. Today it lingers close to 28.0%.

Closing Thoughts
This is not meant to be a "What to do" article but rather a "Be aware of" article. Its primary purpose is to paint a broad but real background to the world of business, the pressures and counter-pressures that reside on the outskirts of quarterly successes and annual plans. While it talks of corporations we should, as marketers, understand that our products and promotions have lifecycles, too.

Even though it usually comes at a slow pace, we need to understand that significant change is normal. We need to understand that advantages possessed are in time eroded, minimized or eliminated. We need to always be working at widening and deepening our company's moat to offset the erosion of current advantages. Our work as marketers never ends.

About the author...

Brian Woolf is a global leader in loyalty marketing and has written three definitive works on the subject, Measured Marketing: A Tool to Shape Food Store Strategy, Customer Specific Marketing, and Loyalty Marketing: The Second Act. He devotes his time to helping retailers develop, critique and strengthen their loyalty programs.

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