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—MARGARET PETERAF, Tuck School of Business at Dartmouth

BIG



WINNERS

THE 4 SECRETS OF LONG-TERM BUSINESS SUCCESS AND FAILURE

AND BIG



LOSERS

ALFRED A. MARCUS

BIG WINNERS
AND
BIG LOSERS

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BIG WINNERS AND BIG LOSERS

THE 4 SECRETS OF
LONG-TERM BUSINESS
SUCCESS AND FAILURE

Alfred A. Marcus

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*To my mother's family, the Freeds; to my grandfather,
who came to the U.S. in 1913 at the age of 36 looking
for opportunity; to my mother who came to the U.S.
in 1924 at the age of 14 and escaped the inferno
that engulfed relatives, known and unknown,
in Europe; to my Aunt Kate and Uncle Milton,
to their children and grandchildren and to my children,
all of them winners in very different ways.*

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CONTENTS

Preface xv

About the Author xxi

Part 1: Introduction 1

1

PERSISTENT WINNING AND LOSING 3

A Sweet Spot 5

Agile, Disciplined, and Focused 7

Managing the Tension 10

In Summary 13

2

COMPANIES THAT HIT AND
MISSED THE MARK 15

Characteristics of Winners and Losers 20

Time and Industry as Reference Points 21

Continued Outstanding Performance 22

How Market Leaders Create Shareholder Value 26

In Summary 27

Part 2: Winners 29

3

COMPANIES THAT KEEP WINNING 31

Amphenol 32

SPX 34

Fiserv 35

Dreyer's 37

Forest Labs 40

Ball 42

Brown & Brown 44

Family Dollar 45

Activision 47

In Summary 49

4

SWEET SPOTS 51

Co-Design 53

Embed 59

Broker 67

In Summary 75

5

AGILITY 79

Respond Swiftly to Threats and Opportunities 82

*Don't Get Too Big—With Smaller Size
Comes Greater Flexibility 85*

*Grow Your Business in Accord with
Your Customers' Changing Needs 87*

*Move Toward New and Promising Markets Where
Customers Have Specialized Needs Only You Can Meet 95*

*Be an Aggressive Acquirer, Taking Advantage
of the Opportunities to Broaden and
Enhance Your Product Offerings 101*

*Be Sufficiently Diversified So That You Can
Compensate for a Decline in One Segment with
Strengths in Another Segment 107*

In Summary 112

6

DISCIPLINE 113

*Maintain Ongoing, Effective Programs
That Reduce Costs and Raise Quality 116*

Control Distribution 124

Make for Smooth Transitions in Managing Your Acquisitions 128

Create a Special Culture to Get Your Employees Involved 133

*Monitor and Influence Regulatory Changes, and Promptly
Comply with Policies That Affect the Firm 136*

In Summary 138

7

FOCUS 139

Focus on Core Strengths—Stick to Your Mission 141

*Develop High-Growth, Application-Specific Products
for Markets with Growth Potential* 144

Extend Your Global Reach 147

In Summary 150

Part 3: Losers 151

8

COMPANIES THAT KEEP LOSING 153

LSI Logic 155

Snap-On 156

Parametric Technology 157

Campbell Soup 158

IMC Global 159

Goodyear 160

Safeco 162

The Gap 163

Hasbro 164

In Summary 166

9

SOUR SPOTS 167

Too Expensive 169

Too Cheap 174

Too Broad and Complex 180

In Summary 186

10

RIGIDITY 189

*Do Not Rely Exclusively on Expansion of
Your Core Products for Growth* 191

*Avoid Over-Reliance on Hard-to-Differentiate
Commodity Products Sold on the Basis of Price* 195

*Do Not Accumulate Additional Capacity at High Prices
When Demand Is Insufficient* 199

*Respond Vigorously When Experiencing a Decline in
Your Core Business Area* 207

*Don't Lag in Recognition and Reaction to
Changes in Your Customers' Tastes* 214

Bigger Is Not Necessarily Better 218

Move to Profitable Niches 218

In Summary 219

11

INEPTNESS 221

*Develop Capabilities to Provide Best-in-Class Service
and Customizable Offerings at Low Cost* 223

Gain Mastery Over the Supply Chain 229

Be Proactive in Managing Your Acquisitions 234

Make Sure Your Employees Are Motivated 236

*Maintain High Ethical Standards and Develop
Capabilities to Manage Regulation* 238

In Summary 240

12

DIFFUSENESS 241

*Maintain a Clear Strategic Direction—
Do Not Spread Yourself Too Thin* 243

Focus on Markets That Have Future Promise 248

Do Not Rely on a Global Focus to Fix Domestic Problems 253

In Summary 256

Part 4: Conclusion 257

13

WINNING AND LOSING PRACTICES 259

A Sweet Spot 260

An Example of the Search for a Sweet Spot:

The Market for Painkillers 263

Agility, Focus, and Discipline: Finding a Balance 271

A Diagnostic for Knowing if Your Company is

Focused, Disciplined, and Agile 286

In Summary 288

Dell's Focus and Discipline 289

14

TURNAROUNDS 293

Safeco 295

SPX 301

In Summary 305

Appendix A

BEST SELLERS COMPARED 307

Appendix B

USING THE STOCK MARKET AS AN
INDICATOR OF PERFORMANCE 319

Appendix C

ADDITIONAL DATA ON THE COMPANIES 321

Appendix D

PATTERNS OF WINNING
AND LOSING COMPANIES 329

Acknowledgments 339

Sources 345

Amphenol and LSI Logic Sources 345

SPX and Snap-On Sources 348

Fiserv and Parametric Sources 350

Campbell's and Dreyer's Sources 353

Forest Laboratories and IMC Global Sources 356

Goodyear and Ball Sources 360

Brown & Brown and Safeco Sources 362

Family Dollar Inc. and Gap Inc. Sources 364

Hasbro and Activision Sources 367

Endnotes 371

Index 381



PREFACE

Companies that keep winning are rare. What maintains their momentum and accounts for their ongoing success? This book compares firms that have achieved long-term success with firms that have experienced persistent failure. It provides four secrets that explain why the winning firms have done so well. From the history of the winners, I extract the critical attributes that contributed to their performance. Each firm had a distinct pattern. Being a big winner means carrying out (i) a well-executed niche strategy that achieves a balance between (ii) agility, (iii) discipline, and (iv) focus.

Managing the tension among such attributes is not easy. Big winners bring together opposing traits. Other firms can imitate the individual traits of winning companies, but they cannot match the overall pattern. Similarly, big losers do not fail because of one or two bad qualities. Their poor performance is a consequence of a combination of many bad attributes.

Each trait that this book brings to light provides a valuable lesson in itself. Practicing managers have much to learn from this breakdown of the qualities that contribute to the creation of long-term advantage and disadvantage. The main challenge that they face, however, is in managing the tension between contrasting traits—a sweet spot and agility on the one hand, and discipline and focus on the other. The degree to which you can manage this tension influences the extent to which you can achieve long-term success.

Being a long-term winner—a dynasty rather than a mere one-time victor—is hard. From 1992 to 2002, few firms hit this mark. Only about 3 percent of the 1,000 largest U.S. corporations outperformed their industry's average market performance. About 6 percent underperformed this average. More firms performed consistently poorly than consistently well. Companies that are big winners generally operate under the radar. They are relatively unknown. They include such firms as Amphenol, Ball, Family Dollar, Brown & Brown, Activision, Dreyer's,

Forest Labs, and Fiserv. Their story has yet to be told. In comparison, companies that suffer from sustained competitive disadvantage are better known. They include such familiar names as Goodyear, the Gap, Safeco, Hasbro, and Campbell Soup.

This book reveals the secrets of the long-term better-than-industry performance of the winners. It shows distinct patterns in the 1992 to 2002 results. The differences in outcome are not random or a matter of mere chance. The circumstances that the big winners and big losers faced were similar. What explains the differences in performance is that the winners pursued and executed different strategies than the losers. In this book, I reveal how the traits of the big winners came together into larger patterns made up of a sweet spot, agility, discipline, and focus. Firms that achieved advantage wove together these elements into larger wholes. The positive aspects of the separate components supported and reinforced each other. Similarly, the negative traits of the losing firms supported and reinforced each other.

The takeaway for managers is to build your advantage one by one in a planned and logical way in which you start by understanding your company's existing traits. But you cannot stop there. You must continue with an awareness of how these separate traits fit together in broader and more comprehensive patterns. Do not lose sight of the fact that the more comprehensive patterns that create advantage and disadvantage bring together contradictory elements. You have to combine a sweet spot, agility, discipline, and focus, and you must avoid a sour spot, rigidity, ineptness, and diffuseness. This book highlights these patterns—on the one hand, a pattern of advantage that consists of a well-defined market niche achieved through agility, discipline, and focus; and, on the other hand, a pattern of disadvantage that rests on a poorly defined market niche sustained by rigidity, ineptness, and diffuseness.

How This Book Was Written

I enlisted the support of more than 500 practicing managers to write this book. They worked for such well-known multinational companies as Target, Best Buy, Guidant, Cargill, General Mills, Medtronic, Wells

Fargo, American Express, 3M, Ecolab, Boston Scientific, Honeywell, U.S. Bancorp, Piper Jaffray, Carlson Companies, West Group, Northwest Airlines, St. Paul Companies, Seagate, ADC, Intel, United Defense, Johnson Controls, Deloitte Touche, Supervalu, Polaris, Rosemount, Eaton, RBC Dain Rauscher, Unisys, Home Depot, Allina, Toro, United Health, Thrivent, Donaldson, and Ernst and Young.¹ The managers had more than seven years of work experience. Teams of five to six managers wrote reports on two firms. They compared characteristics of companies that achieved long-term success and companies that endured long-term failure. One of the companies substantially outperformed the average stock market performance of its industry for 10 years, and the other underperformed the average stock market performance of its industry for the same period. (See below for a list of these firms.)

Sector	Winner	Loser
Technology	Amphenol	LSI Logic
Manufacturing/appliance	SPX	Snap-On
Software	FiServ	Parametric
Food	Dreyer's	Campbell Soup
Drugs/chemicals	Forest Labs	IMC Global
Manufacturing/industrial	Ball	Goodyear
Financial	Brown & Brown	Safeco
Retail	Family Dollar	Gap
Entertainment/toys	Activision	Hasbro

The managers explained the reasons for the former company's sustained success and the latter company's sustained failure. To explain this difference, they examined the evolution of the companies' strategies. They obtained information from annual reports—in particular, the first section where executives discuss their strategy—and consulted other sources. A list of the sources on which they drew is found at the end of this book.

Five groups of managers were assigned to each of the nine company pairs. They addressed the following questions:

- What were the external challenges the companies faced?
- What were the internal strengths and weaknesses the companies had to meet these challenges?
- What moves did the companies make?
- Why were the moves of one of the companies more successful than the moves of the other?

The managers prepared 42 reports of about 30 pages each on nine company pairs. Following is an outline of a typical report.

Typical Report Outline

Explaining Sustained Competitive Advantage and Disadvantage: Strategies for Prolonged Business Success

- The Executive Summary states what you found. What distinguishes the companies? Why has one done so much better than the other?
- The Introduction should include a brief description of the companies, including details about their history, mission, goals, objectives, location, number of people employed, and main products and markets.
- Relevant performance statistics should be provided. Relevant is the important word.
- Identify the critical competitive challenges that the companies faced. How do the challenges differ?
- Identify the key internal strengths and weaknesses the companies had. How do these differ?
- Summarize the main moves the companies made. How did the companies choose to respond to the challenges they faced and why?
- Do an analysis of why, based on the strategies carried out, one company performed so much better than the other.
- Conclude and speculate on what you think will happen in the future.
- A reference page is required.
- Appendixes are permitted.

The managers made oral presentations based on initial drafts of their reports. During these sessions, they were subject to criticism. They were challenged to sharpen their conclusions about the traits that contributed to sustained competitive advantage and disadvantage.² Their

reports were supposed to be analytical, not descriptive. The aim was to develop a theory of why some multinationals thrived in the long term, whereas others did not.

This project started in the fall of 2002. By the spring of 2003, I had listened to three rounds of oral reports and felt I was hearing similar themes—that the big winners did much better than the big losers because (i) they occupied sweet spots, (ii) they had the agility to move into these spots, (iii) they had the discipline to protect these spots, and (iv) they had the focus to exploit and extend these spots. The big losers had the opposite characteristics. (i) They were in sour spots, (ii) they were too rigid to move out of these spots, (iii) they were inept at defending positions in which they found themselves, and (iv) they were not able to extend and exploit positions they occupied. I asked the last two groups of managers for challenges to this theory so that I could fine-tune and improve it.

The reports the managers wrote were the raw material I used to write this book. I carefully read the reports again and again and searched for consensus views. Recall that for each company pair, I had five reports.³ I considered the reports the managers wrote to be reliable because they were written by competent practitioners who had been trained in the concepts and methods of strategic management. As a check on the findings, I did not accept information from a single report as valid unless I had additional confirmation. Through these means, I tried to eliminate errors of fact or interpretation.

Most of the insights in this book derive from the reports that the managers wrote. Their names and the companies they analyzed are listed in the Acknowledgments. The reports pointed me in certain directions, but I take full responsibility for where I ended up. The conclusions are my own. I presented the results and obtained feedback at a number of venues: Business Policy division sessions at the Academy of Management and seminars at the University of Minnesota, Arizona State University, Hong Kong Technical University, Hebrew University, the Technion, and Tel Aviv University. Both Prentice Hall and Wharton provided detailed critiques of early drafts of this book, to which I responded with substantial rewrites.⁴

This book is organized as follows. The first chapter explains why some firms continuously win and others regularly lose. Chapter 2 gives details on how the winning and losing companies were chosen. Chapters 3 through 7 provide an in-depth analysis of the winners—the sweet spots they occupied and the ways in which they exhibited agility, discipline, and focus. Chapters 8 through 12 are a parallel analysis of the losers—the sour spots they found themselves in and how they showed rigidity, ineptness, and diffuseness. Chapter 13 summarizes the main lessons. It is a code of best practices. Chapter 14 is essential reading if you want to achieve a turnaround. It tells you what to do to start a take-off and avoid a nosedive.

All along, lessons are learned and specific advice is given on what a company can do to become a big winner and avoid being a big loser. This advice is concrete, specific, and actionable. It is among the most important takeaways you will get from this book.

ABOUT THE AUTHOR



Alfred A. Marcus is currently the Edson Spencer chair of strategic management and technological leadership at the University of Minnesota, Carlson School of Management, where he has been on the faculty since 1984. From 1995 to 2001, he was the chair of the strategic management and organization department. He is the author or coeditor of 12 books and numerous articles in journals like the *Strategic Management Journal*, *Academy of Management Journal*, *Academy of*

Management Review, *Organization Science*, and *California Management Review*. Professor Marcus received his Ph.D. from Harvard and undergraduate and graduate degrees from the University of Chicago. He has consulted or worked with many major corporations including 3M, Corning, Excel Energy, General Mills, Medtronic, and IBM.

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COMPANIES THAT HIT AND MISSED THE MARK

To choose the companies that were big winners and big losers, I used the stock market as an indicator of performance (See Appendix B, “Using the Stock Market as an Indicator of Performance,” for my reasons).¹ For a company to be a big winner, its ten-, three-, and one-year average annual market return had to exceed the average of its industry, and its five-year average annual return had to be more than double the industry’s average.² Companies that missed the mark had the opposite characteristics. Their ten-, three-, and one-year average annual market returns were below their industry’s average, and their five-year average annual return was less than half the industry average.

Using these criteria, neither being a big winner nor being a big loser was common. Missing the mark was easier than hitting it.

The winning and losing companies are listed in Tables 2.1 and 2.2. Of the 1,000 companies in the Wall Street Journal Shareholder Scorecard, only 32 were big winners. The losers had double the number of firms (64) as the winners. That means that 3.2 percent of the firms listed on the Wall Street Journal Scorecard achieved sustained competitive advantage (SCA), and 6.4 percent endured the opposite. Most companies fell in the middle. Their prior five-year average annual returns were neither outstanding nor terrible.

Table 2.1 Winning Companies: 1992 to 2002

Firm	5-Year Average Return(%)	Industry	5-Year Average Return(%)	Firm	5-Year Average Return(%)	Industry	5-Year Average Return(%)
1. Titan	49.2	Aerospace	10.7	17. Concord EFS	39.2	Industrial service	14.3
2. Alliant Tech	25.9	Aerospace	10.7	18. Fiserv	31.2	Industrial service	14.3
3. Skywest	49.8	Airlines	10.9	19. Lincoln National	16.3	Insurance life	6.1
4. Southwest	33.7	Airlines	10.9	20. Brown & Brown	45.7	Insurance property and casualty	14.7
5. Gentex	21.6	Auto parts	4.7	21. Gallagher	38.5	Insurance property and casualty	14.7
6. Johnson Controls	16.4	Auto parts	4.7	22. White Mountain	30.5	Insurance property and casualty	14.7
7. Commerce Banc	32.0	Banks	14.1	23. Murphy Oil	14.2	Oil secondary	5.8
8. IDEC	77.1	Biotech	37	24. Forest Labs	58.5	Pharmaceutical	27.9
9. Int Game Tech	30.5	Casinos	10.5	25. Donaldson	19.6	Pollution control	9.5
10. Cabot	21.7	Chemicals specialty	6.3	26. Harley-Davidson	36.3	Recreational	7.9
11. Amphenol	34.0	Communication technology	14.0	27. Family Dollar	36.1	Retail, broad line	12.3
12. Ball	23.9	Containers and packaging	3.7	28. Best Buy	94.8	Retail, specialty	23.0
13. Bemis	8.5	Containers and packaging	3.7	29. Activision	24.8	Toys	12.2
14. SPX	28.8	Electronic components	14.2	30. Semtech	75.5	Semiconductor	25.4
15. Dreyer's	22.4	Food products	8.8	31. RGS Energy	22.1	Utility electric	10.4
16. Stanley Works	14.5	House products durable	5.9	32. Equitable Resources.	21.9	Utility gas	10.4

Table 2.2 Losing Companies: 1992 to 2002

Firm	5-Year Average Return (%)	Industry	5-Year Average Return (%)	Firm	5-Year Average Return (%)	Industry	5-Year Average Return (%)
1. Goodrich	−5.1	Aerospace	10.7	33. FMC	−3.2	Industrial diversified	10.2
2. Raytheon	−5.5	Aerospace	10.7	34. Consec	−31.7	Insurance life	6.1
3. AMR	3	Airlines	10.9	35. Safeco	−1.0	Insurance, property, and casualty	14.7
4. Delta	−3.6	Airlines	10.9	36. CNA Financial	−3.9	Insurance, property, and casualty	14.7
5. TRW	−3.1	Auto and parts	4.7	37. American Financial Group	−5.2	Insurance, property, and casualty	14.7
6. Goodyear	−11.5	Auto and parts	4.7	38. Bausch & Lomb	3.8	Medical supplies	17.8
7. Dana	−12.5	Auto and parts	4.7	39. Amerada Hess	2.7	Oil secondary	5.8
8. Old National	6.6	Banks	14.1	40. Kerr-McGee	−2.1	Oil secondary	5.8
9. Bank One	3.3	Banks	14.1	41. Forest Oil	−4.4	Oil secondary	5.8
10. KeyCorp	3.2	Banks	14.1	42. Burlington Resources	−4.4	Oil secondary	5.8
11. Alkermes	17.8	Biotech	37	43. Halliburton	−14.2	Oil drilling	4.8
12. VerTex	4.1	Biotech	37	44. Merck	10	Pharmaceutical	27.9
13. Disney	−1.5	Broadcasting	32.3	45. Pharmacia	4.4	Pharmaceutical	27.9
14. Mandalay Resort	−9.0	Casinos	10.5	46. Waste Management	0.1	Pollution control	9.5
15. IMC Global	−18.7	Chemical specialty	6.3	47. Belo	2.8	Publishing	11.5

Table 2.2 Losing Companies: 1992 to 2002

16. Broadwing	-4.7	Communications fixed	8.9	48. Reader's Digest	-8.8	Publishing	11.5
17. Compaq	-7.7	Computers	16.6	49. Eastman Kodak	-15.7	Recreational	7.9
18. Franklin Res, Inc.	9.8	Diversified financials	26.2	50. Wendy's	8.5	Restaurants	20.1
19. Country Wide	8.5	Diversified financials	26.2	51. McDonald's	3.8	Restaurants	20.1
20. Cooper Industries	-0.7	Electronic components	14.2	52. Gap	9.8	Retail apparel	23.7
21. Conagra	2.1	Food product	8.8	53. Nordstrom	4.1	Retail apparel	23.7
22. ADM	-2.3	Food product	8.8	54. Saks	-12.7	Retail apparel	23.7
23. Campbell Soup	-2.8	Food product	8.8	55. Kmart	-12.0	Retail broadline	12.1
24. Tyson	-11.9	Food product	8.8	56. T. Rowe Price	11.3	Securities	26.3
25. Winn-Dixie	-11.7	Food retail	15.1	57. Coca-Cola Co.	-1.1	Soft drinks	4.3
26. Georgia Pacific	3.5	Forest product	7.2	58. Novell	-13.5	Software	18.4
27. HealthSouth	-5.2	Healthcare	13.1	59. Parametric	-21.2	Software	18.4
28. Humana	-9.1	Healthcare	13.1	60. Hasbro	-0.1	Toys	12.2
29. Snap-On	1.7	House products durable	5.9	61. Mattell	-8.0	Toys	12.2
30. Newell Rubber	-0.3	House products durable	5.9	62. LSI Logic	3.4	Semiconductors	25.4
31. Honeywell	1.7	Industrial diversified	10.2	63. Constellation Energy	4.6	Utilities electricity	10.4
32. Textron	0.6	Industrial diversified	10.2	64. CMS Energy	-2.4	Utilities electricity	10.4

Characteristics of Winners and Losers

The big winners and the big losers that I found in this way were a surprising lot. Many of the companies that I identified as big winners are not well known. The most recognizable are Southwest Airlines, Harley-Davidson, and Best Buy, but they also include Brown & Brown, IDEC, and Family Dollar. In contrast, the big losers are more well known. They include such familiar names as Disney, Bank One, Halliburton, Merck, Kodak, McDonald's, Nordstrom, and Coca-Cola.

Following are some findings about the winning and losing firms:

- Big winners and big losers are found in 41 industries. In another 37 industries, no firm stands out as being especially better or worse than the pack. (See Appendix C, "Additional Data on the Companies.")
- Industries that have companies that are big winners or big losers are larger than those that do not have them. The industries that had big winners or big losers had on average 19.4 companies compared to 6.2 companies in industries that did not have big winners or big losers. In large industries, there is more room to find sweet spots. There is more empty space for differentiation and the creation of special industry subcategories and niches where the competition is less stiff. In large industries, it is also easier to hide under the radar.
- Big winners were smaller than big losers (about a third the size). They employed an average of 14,496 people compared to 48,032 persons in big losers. Their average revenue was \$3.49 billion compared to \$10.66 billion in the losing companies. Being small makes it easier for a firm to escape detection and avoid competitive retaliation. Smaller firms are more agile.
- The industries that had big winners and big losers had higher average market returns than the industries that did not have these firms—15.1 percent in industries with big winners or losers compared to 12.7 percent in industries without these companies. Thus, the potential for profit and loss was somewhat greater in the arenas in which the big winners and losers were competing.

Overall, large industries with small firms and more risk—more potential for profit and loss—were more likely to have highly successful and unsuccessful firms. Small industries with large firms had less potential for profit and loss and were less likely to have big winners or big losers.³ Indeed, 17 industries had no big winners, just losers.⁴ Five industries had the opposite characteristics.⁵ They only had big winners. Eight industries were evenly divided with one big winner and one big loser.⁶

Time and Industry as Reference Points

The reference points I used in selecting the big winners and big losers were time (1992 to 2002) and the *Wall Street Journal* Scorecard designation of industry.⁷ But the selection of 1992 to 2002 as the time period and the use of the *Wall Street Journal*'s classifications are somewhat arbitrary.⁸ Many anomalies exist. Is Eastman Kodak in the recreational business, with its competitors being Harley-Davidson and Polaris, in accord with the *WSJ* classification?

Tables C.4 and C.5 in Appendix C rely on *Fortune*'s classification rather than the *WSJ*. The time period is 1993 to 2003, not 1992 to 2002. *Fortune* has 71 industry groups as opposed to the *WSJ*'s 78. Not all the big winners or the big losers in the *WSJ Scorecard* are large enough to make the *Fortune*1000. To be included, revenues have to exceed \$1.1 billion. Because the big winners are smaller than the big losers, 14 winning companies are not on the *Fortune* list, and six losing firms are missing. In addition, some firms such as Compaq, which merged with HP in 2002, and IDEC, which merged with Biogen, are not on the *Fortune* list.

Nonetheless, when relying on the *Fortune* list, nearly 90 percent of the big winners and the big losers I chose continued to outperform or underperform their industry averages. There were three ties—on the winning side, Lincoln National, and on the losing side, AMR and Conagra.⁹ These results suggest that hitting and missing the mark are rare no matter how performance is measured, and performance is fairly persistent regardless of the classification scheme or the period considered.

Continued Outstanding Performance

To determine whether a company should be subjected to further analysis in the chapters that follow, I applied another test. Did the performance differences observed from 1992 to 2002 persist after that point? The companies analyzed in subsequent chapters had to outperform or underperform their industries in the six months following January 1, 2002.

This test was stringent because the market declined sharply from January 1 to June 1. The performance of most companies dropped off, including that of the big winners. They were not immune to the bust in the stock market. Johnson Controls and Harley-Davidson, for instance, did not survive this test of continued sustained competitive advantage. However, Amphenol and Family Dollar did. Of the 32 firms in Table 2.1, more than half (18) dropped out due to the application of this criterion.

Nine big winners that survived this test are the subject of further analysis in this book. (See Table 2.3.) Big losers had opposite characteristics. (See Table 2.4.) Big winners consistently beat their industry averages, and big losers consistently lagged behind not only in the ten-year period but in the immediate six months following it. With regard to five-year returns, the superiority of the big winners was most marked, double that of their industry, as was the weakness of the big losers, which was just half that of their industry.

Keep in mind that big winners and big losers were not necessarily best or worst performers overall. They exceeded or fell behind an industry target at one-, three-, five-, and ten-year intervals. Nonetheless, in comparison to all companies, some big winners subject to further analysis in this book did do extremely well. The three best in terms of overall performance were Activision, Forest Labs, and Brown & Brown.

- Among all companies on the *Wall Street Journal* Scoreboard, Activision had the second best 10-year average return (63.7 percent) and the ninth best 1-year (158 percent) average return.
- Forest Labs had the twenty-first best 5-year average return (58.5 percent).

- Brown & Brown had the forty-fifth best 10-year average return (31.9 percent) and the forty-sixth best 5-year average return (45.7 percent).
- In comparison to industry averages, Ball had the best 5-year mark. The average return in the packaging and container industry was 3.7 percent, but Ball scored an average return of 23.9 percent.

Big losers were among the poorest performing firms.

- Among all companies on the *Wall Street Journal* Scoreboard, Parametric had the fourth worst 5-year average return (−21.2 percent) and the thirty-fifth worst 3-year average return (−21.7 percent).
- IMC had the fifth worst 10-year (−6.4 percent) average return and the sixth worst 5-year average return (−18.7 percent).
- The Gap (−65.2 percent) had the twenty-third worst 3-year average return.
- Goodyear (−18.9 percent) had the forty-eighth worst 3-year average return.

Note the well-known names among big losers—Campbell, Goodyear, Safeco, and the Gap—and the absence of well-known names among big winners. The winning firms were more likely to fly under the radar than the losers.

Table 2.3 Winning Companies Used in the Analysis: 1992 to 2002 Performance

Company	Industry	Sector	One-Year Return (%)	3-Year Average Return (%)	5-Year Average Return (%)	10-Year Average Return (%)	Continues to Beat Industry Average (January Through June 2002)
1. Amphenol	Communications technology	Technology	22.6	47.1	34.0	26.7	Yes
	Industry Average		−40.1	5.1	14.0	26.0	
2. SPX	Electronics components	Manufacturing/appliance	26.5	26.9	28.8	27.9	Yes
	Industry Average		2.6	9.3	14.2	13.8	
3. Fiserv	Industrial services	Software	33.8	22.8	31.2	23.9	Yes
	Industry Average		12.3	8.3	14.3	18.0	
4. Dreyer's	Food products	Food	20.4	37.5	22.4	9.2	Yes
	Industry Average		15.2	3.8	8.8	8.4	
5. Forest Labs	Pharmaceuticals	Drugs/chemicals	23.3	45.5	58.5	23.0	Yes
	Industry Average		−5.7	21.1	27.9	17.4	
6. Ball	Packaging and containers	Manufacturing/industrial	55.3	17.3	23.9	10.2	Yes
	Industry Average		37.6	−1.1	3.7	7.6	
7. Brown & Brown	Property and casualty insurance	Financial	57.1	47.8	45.7	31.9	Yes
	Industry Average		1.8	11.9	14.7	16.7	
8. Family Dollar	Retailers, broadline	Retail	41.1	12.0	36.1	20.0	Yes
	Industry Average		29.2	1.5	12.1	11.1	
9. Activision	Toys	Entertainment/toys	158.0	51.9	24.8	63.7	Yes
	Industry Average		68.0	15.2	12.2	25.5	

Table 2.4 Losing Companies Used in the Analysis: 1992 to 2002 Performance

Company	Industry	Sector	One-Year Return (%)	3-Year Average Return (%)	5-Year Average Return (%)	10-Year Average Return (%)	Continues to Lag Industry Average (January Through June 2002)
1. LSI Logic	Semiconductors	Technology	-7.7	25.1	3.4	22.8	Yes
	Industry Average		7.5	28.4	25.4	29.3	
2. Snap-On	Durable household products	Manufacturing/appliance	24.9	2.1	1.7	7.6	Yes
	Industry Average		27.2	2.8	5.9	8.1	
3. Parametric Technology	Software	Software	-41.9	-21.7	-21.2	7.6	Yes
	Industry Average		-5.5	15.3	18.4	16.9	
4. Campbell Soup	Food products	Food	-11.3	-16.3	-2.8	6.3	Yes
	Industry Average		15.2	3.8	8.8	8.4	
5. IMC Global	Chemicals, specialty	Drugs/chemicals	-15.9	-13.9	-18.7	-6.4	Yes
	Industry Average		21.2	6.7	6.3	10.3	
6. Goodyear	Automobiles and parts	Manufacturing/industrial	8.0	-18.9	-11.5	1.3	Yes
	Industry Average		26.2	-4.7	4.7	12.9	
7. Safeco	Property and casualty insurance	Financial	-2.3	-6.1	-1.0	6.1	Yes
	Industry Average		1.8	11.9	14.7	16.7	
8. Gap	Retailers, apparel	Retail	-45.1	-65.2	9.8	6.6	Yes
	Industry Average		20.2	3.9	23.7	11.6	
9. Hasbro	Toys	Entertainment/toys	54.1	-11.2	-0.1	4.1	Yes
	Industry Average		68.0	15.2	12.2	25.5	

How Market Leaders Create Shareholder Value

As argued in Chapter 1, “Persistent Winning and Losing,” being in a sweet spot means that you can carve out a niche that is nearly uninhabited.¹⁰ The big winners showed investors that they had the agility to move to a sweet spot, the discipline to protect it, and the focus to exploit it. (See Figure 2.1)

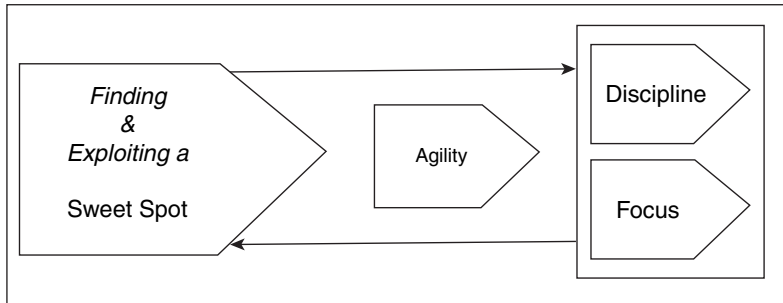


Figure 2.1 Showing investors that you are in a sweet spot and that your firm has agility, discipline, and focus.

Performance reflects investors’ understanding of your accomplishments and what you intend to do. Although based on fact, it is a socially constructed reality. To be successful in influencing the perceptions of investors, you must define a competitive space into which you move and show how you can protect and achieve dominance within it. If you can convey what you are trying to do and manage the performance expectations of analysts, you can build confidence that translates into ongoing success.¹¹ This type of confidence depends on these factors:

- **Strategic intent**—Strategic intent is what you would like others to think your company is doing. It is expressed in public documents like annual reports, especially in the company’s 10K, and in other pronouncements that come from you and your top management teams.

- **Evidence of feedback and reconsideration**—You must show that you have a good grasp of what your company has done and the results it has achieved. Do your explanations suggest that you really know what you are doing?

You have to be a credible communicator. Do you possess the qualities shown in Figure 2.1 and the evidence to back it up? That is your challenge.

In Summary

This chapter has shown that firms that are big winners and firms that are big losers are hard to find. Being a big winner is harder than being a big loser. Some industries have no firms that are big winners or big losers. Firms that are big winners are concentrated in large industries; in large industries, there is more open space for finding a sweet spot. Big winners are smaller than big losers. Small firms are more agile than large firms. Their smallness makes it easier for them to escape detection. They are more likely to avoid competitive retaliation. Big winners and big losers are in industries with higher market returns. The potential profits are greater. There is more risk and more opportunity.

The next chapter examines big winners that have been selected for further analysis. (See Table 2.3.) Chapters 4 through 7 show how executives in these firms demonstrated that their companies were in sweet spots and had agility, discipline, and focus. These firms built up patterns of effective managerial traits, each by itself of some value, but when combined of infinitely greater worth. The combined traits of the sustained competitive disadvantage firms, on the other hand, were evidence of their being in sour spots and their being rigid, inept, and diffuse (Chapters 9 through 12).

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INDEX

A

- ABB, 35
- Abercrombie & Fitch, 182
- Acamprosate, 90, 109
- accommodating major retailers, 233
- accountability, sales forces, 237
- accounting scandals, avoiding, 239
- accumulating additional capacity, 199
 - buying, 199, 202-204
 - expansion and growth in sales, 205-206
 - incurring substantial debt, 200-202
 - overpaying for acquisitions, 204-205
 - royalty payments, 206
- achieving synergies, 234
- acquisition management, 128
 - consolidation process, 129-130
 - target evaluation and integration, 130
 - target identification and integration, 132-133
 - target screening, 131-132
 - target selection, 129
- acquisitions. *See also* aggressive acquisition
 - diversification through, 111
 - establishing long-term plans for, 245-246
 - focus on global reach, 148
 - global acquisitions, avoiding failure, 253
 - managing, 234-235
 - overpaying, 204-205, 235
- Activision, 47
 - acquisition for talent and efficiency, 105
 - alliances, 91-92
 - broker for customers, 73-75
 - cost reduction and quality enhancement programs, 120
 - distribution control, 125
 - diversification, 110
 - focus on core strengths, 143
 - leverage, 86
 - movement to creative people, 98
 - pattern of success, 334
 - performance, 22
 - regulatory changes, 138
 - response to powerful industry players, 83
- Adaptec, 155
- Advanced Circuit Technologies, 125
- advantage, positioning for, 264-266
- Aerobid, 41
- Aerospan, 109
- Afni Insurance Services, 91
- aggressive acquisition, 101
 - best-of-breed companies, 106
 - of competitors, 103
 - consolidation, 101
 - diversity, 101
 - geographic scope, 103
 - for talent and efficiency, 105
- aggressive employees, 134-135
- Agile, 158, 174
- agile giants, 7
- Agilent, 155
- agility, 7-10, 272-273, 277-278
 - aggressive acquisition. *See* aggressive acquisition
 - balancing with discipline and focus, 13
 - creating future options, 11
 - diversification. *See* diversification
 - growth in response to customer needs. *See* growth, in response to customer needs
 - movement to promising markets. *See* movement to promising markets
 - rapid responses. *See* rapid responses
 - small size. *See* small size
 - turnarounds, 300-301
- Agrium, 160
- Albertson's, Inc., 94
- Alcan, 42, 85, 141
- Alcatel, 32
- Alcoa, 42, 85, 141
- Aleve, 263
- alienating distributors and dealers, 231
- alignment, avoiding misalignment, 268

- alliances, 91-92
- Alltrista, 141
- alternative markets and suppliers, moving to, 97-98
- American Eagle Outfitters, 182
- American States Financial Corporation (AS), 204
- Amphenol, 22, 32-33
 - acquisition management, 129
 - co-designing with customers, 54
 - consolidation, 101
 - cost reduction and quality enhancement programs, 116-117
 - distribution control, 124-125
 - diversification, 107
 - focus on global reach, 148
 - focus on high-growth, application-specific products, 144
 - movement to specialty markets, 95
 - pattern of success, 330
 - product design and delivery, 88
- AMR, 21
- Anacin, 263
- Anrx, 40
- Ann Taylor, 183
- anticipating demands, 219
- Aon, 98
- application-specific products, focus on, 144
 - collaborative solutions, 144
 - customer service, 146
 - customer solutions, 145
 - niche markets, 147
 - sales of high-demand products, 146
 - solutions versus patents, 145
- AS (American States Financial Corporation), 204, 235
- Atari, 73, 186
- automotive industry, 12
 - Goodyear, 160
 - cheap products and services, 176-178
- avoiding
 - accounting scandals, 239
 - bureaucracy, 219
 - complications of different brands, 253
 - concentrating R&D on limited user groups, 250
 - failure in global acquisitions, 253

- involvement at too many ends of value chain, 246
- misalignment, 268
- snags in acquisitions, 234
- sour spots, 270-271

B

- B&B. *See* Brown & Brown
- back office, moving to, 99
- balance, 277
 - knowing your levels, 284-288
- balancing agility, discipline, and focus, 13
- Ball 42
 - acquisition management, 130
 - acquisition of competitors, 103
 - co-designing with customers, 58-59
 - corporate culture 133
 - cost reduction and quality enhancement programs, 118-119
 - diversification, 108
 - focus on core strengths, 141
 - focus on global reach, 148
 - focus on high-growth, application-specific products, 145
 - joint ventures and long-term contracts, 89
 - movement to new concepts, 96
 - pattern of success, 331
 - quality versus growth, 85
 - regulatory changes, 136
 - response to overcapacity, 82
- Ball Aerospace and Technologies Corporation, 108
- Banana Republic, 163, 183
- Ben & Jerry's, 84, 94
- Benefit Planners, 106
- Benicar, 69, 86, 90, 109
- Best Buy, 74, 83
 - agility 272
- best practices, sharing, 118-119
- best-of-breed companies, acquisition of, 106
- best-selling books, comparing, 307-309
 - books that emphasize agility, 309-312, 316
- Biovail Corporation, 69, 97
- Black & Decker, 157
- Blockbuster, 74
- Blue Bell, 38

- Blystone, John, 96, 302
 - Boeing, 42, 109
 - books, comparing, 307-309
 - books that emphasize agility, 309-312, 316
 - Bosch, 35
 - brand differentiation, Ball, 58
 - brand exploitation, 143
 - brand identity, Campbell Soup, 182
 - brand-building, Dreyer's, 64-65
 - brands
 - avoiding complications of different brands, 253
 - noncore brands, ignoring, 194-195
 - Bridgestone, 176-177
 - broad business models, 180-186
 - Broadcom, 155
 - broker for customers, 52
 - Activision, 73, 75
 - Brown & Brown, 71-73
 - Forest Labs, 68-70
 - brokering with customers, 267-270
 - Brown & Brown (B&B), 44
 - acquisition management, 131-132
 - broker for customers, 71-73
 - corporate culture, 134-135
 - cost reduction and quality enhancement programs, 119
 - customized products and services, 91
 - distribution control, 125
 - diversification, 110
 - focus on core strengths, 142
 - focus on high-growth, application-specific products, 147
 - geographic scope in acquisitions, 103
 - movement to underserved niches, 98
 - pattern of success, 333
 - performance, 22
 - response to large company threats, 82
 - Brown, J. Hyatt, 131
 - Bufferin, 263
 - bureaucracy, avoiding, 219
 - buying commodity businesses, 202-204
- C**
- Cadbury Schweppes, 158
 - Campbell Soup, 48, 158
 - broad business models, 180-182
 - changes in customers' tastes, responding to competitors' innovations, 216
 - coping with powerful retailers, 232
 - cost-cutting, neglecting R&D and innovation, 227-228
 - global expansion and domestic weakness, 254
 - ineptness, 222
 - maintaining focus, 245-246
 - pattern of failure 337
 - R&D, 228
 - responding to declines in core business areas, changes in demand, 210-211
 - rigidity, 190
 - ignoring noncore brands, 194-195
 - supporting product lines, 252
 - capitalizing on competitors' mistakes, 218
 - Catapult Technology Ltd., 106
 - Celebrex, 263
 - Celexa, 41, 68-70, 86, 89, 97, 109
 - CentreSoft Ltd., 75
 - challenging niche market, Dreyer's, 62
 - changes in customers' tastes
 - customer service, 214-215
 - losing touch with core customers, 217
 - preparing for, 217
 - recognizing, 303
 - responding to competitors' innovations, 216
 - changing market needs, Ball, 58
 - characteristics of winners and losers, 20-21
 - cheap products and services, 174-179
 - Chinese Enterprise Ltd., 161, 176
 - Chrysler, 96
 - Cipramil, 97
 - Circuit City, 74, 272
 - Cisco, 171
 - CITIC Industrial bank, 149
 - Clear Air Act, 239
 - client service as best-in-class, 120
 - closeness to customers, 51-52
 - broker for customers. *See* broker for customers
 - co-designing with customers. *See* co-designing with customers
 - embedding with customers. *See* embedding with customers
 - CMB Industries, 88
 - co-designing with customers, 52-53, 267-269

- Amphenol, 54
- Ball, 58-59
- SPX, 56, 58
- Coke, 89
- collaborative solutions, 144
- Collins, Jim, 307
- Columbia Pictures, 75
- commodity businesses, buying, 202-204
- commodity products, over-reliance on, 195-198
- Commscope, 32
- comparing best selling books. *See* books
- competitive advantage, 319
- complex business models. *See* broad business models
- complying with regulations, 239
- ConAgra, 21, 38, 87, 89, 94, 158
- Concord EFS, 35
- concurrent management, 12
- connections among main businesses, 243
- consolidation, 101
- consolidation process. *See* industry consolidation
- containers and packaging industry, Ball. *See* Ball
- Continental, 176
- contingency plans, lack of (Safeco), 179
- continued outstanding performance, 22
- Cooper, 161, 176
- Coors, 89
- coping with powerful retailers, 232
- core strengths, focus on, 141-143
- CoreWare, 196
- corporate culture, 133-135
- cost reduction programs, 116
 - client service and volume-driven efficiency, 120
 - differentiation, 119
 - direct store delivery (DSD) system, 121-122
 - formal project review process, 120
 - process controls, best practices, pruning inefficiencies 118-119
 - productivity in manufacturing, 116-117
 - store design, 123
 - value improvement process (VIP), 117-118
- cost savings, eroding levels of service, 225-226
- cost-cutting, neglecting R&D and innovation, 227-228
- Costco, 67
- costs, reducing, 298
- creative people, moving to, 98
- Crown Cork, 42
- culture. *See* corporate culture
- customer needs, growth in response to, 87
 - alliances, 91-92
 - customized products and services, 91
 - distribution, 94
 - innovation, 89-91
 - integration with customer infrastructure, 93
 - joint ventures and long-term contracts, 89
 - product design and delivery, 88
 - special projects, 88
- customer service
 - focus on, 146, 149
 - lack of, Parametric, 173
 - recognizing need for enhancements, 214-215
- customer solutions, 145
- customers
 - closeness to. *See* closeness to customers
 - co-designing with, 269
 - developing long-term ties with, 229-230
 - distance from. *See* distance from customers
 - embedding with, 269
 - losing touch with, 217
 - loyalty, creating, 267-268
 - maintaining direct customer contact, 250-251
 - misalignment with, 268
 - positioning for advantage, 264-266
 - understanding, 261-262
- customized products and services, 91

D

- Danaher, 157
- Darvon, 263
- dealers, alienating, 231
- Dean Witter, 274
- debt, incurring substantial debt because of acquisitions 200-202
- defending positions, 8
- Delhaize Group, 232

- Dell, 171, 276
 - discipline, 289-291
 - demands, anticipating, 219
 - DeZurik, 88, 129
 - Dielectric, 129
 - Differentiation, 119
 - lack of, Snap-On, 172
 - diffuseness, 241, 278
 - turnarounds, SPX, 301-302
 - direct store delivery (DSD) system 121-122
 - discipline, 7-10, 274-275, 278
 - acquisition management. *See* acquisition management
 - balancing with agility and focus, 13
 - corporate culture. *See* corporate culture
 - cost reduction and quality enhancement programs. *See* cost reduction programs
 - Dell, 289-291
 - distribution control. *See* distribution control
 - regulatory changes. *See* regulatory changes
 - turnarounds, Safeco, 296-299
 - Disney, 75, 91
 - distance from customers 167-168
 - broad business models. *See* broad business models
 - cheap products and services. *See* cheap products and services
 - expensive products and services 169-174
 - distinct patterns, 279, 282
 - distribution, 94
 - Dreyer's, 63
 - distribution control 124
 - global sourcing, 125
 - globalization, 124-125
 - inventory management, 127-128
 - negotiation, 125
 - system upgrades, 126-127
 - distributors, alienating, 231
 - diversification, 107
 - through acquisitions, 111
 - in generic products, 109
 - in multiple platforms, 110
 - in new markets, 107
 - in new technology, 108
 - in niche markets, 110
 - in varied products, 108
 - diversity, 101
 - divestitures, establishing long-term plans for, 245-246
 - Dollar General, 46, 67, 100, 123
 - DreamWorks SKG, 75, 92
 - Drexler, Millard, 205
 - Dreyer's, 37-39
 - corporate culture, 135
 - cost reduction and quality enhancement programs, 121-122
 - distribution, 94
 - distribution control, 126-127
 - embedding with customers, 62-65
 - flexibility, 87
 - focus on core strengths, 143
 - pattern of success, 332
 - Driven to Deliver, Snap-On, 224
 - DSD (direct store delivery) system, 121-122
 - Dungeons & Dragons, 164
 - Dunlop, 161
 - Goodyear, 231
 - durable household products industry, Snap-On, 156
- ## E
- earnings, restating, 320
 - economic value added (EVA), 117
 - EDS, 158, 174
 - Edy's, 84
 - efficiency, aggressive acquisition for, 105
 - electric components and equipment industry, SPX. *See* SPX
 - Electronic Arts, 91, 185
 - Eli Lilly, 85
 - embedding with customers, 52, 267-269
 - Dreyer's, 62-65
 - Family Dollar, 65-67
 - Fiserv, 59-60
 - EMC, 155
 - employee involvement in corporate culture, 133-135
 - employees, motivating, 236-237
 - engineering and systems design, SPX, 34
 - Entertainment Arts, 73
 - environmental challenges, dealing with, 239
 - environmentalism, 136
 - establishing long-term plans for acquisitions and divestitures, 245-246

ethics, 137-138
EVA (economic value added), 117
Excedrin, 263
expanding international presence to meet market needs, 255
expansion
 expecting global expansion to overcome domestic weaknesses, 254
 keeping in line with growth in sales, 205-206
expensive products and services, 169-174
export markets, policy changes in, 255

F

Facilities and Services Corp., 106
FACT 400, 106
failure, 337. *See also* patterns of failure
Family Dollar, 22, 45
 avoiding large firm competition, 87
 cost reduction and quality enhancement programs, 123
 distribution control, 127-128
 embedding with customers, 65-67
 focus on core strengths, 143
 movement to low-income consumers, 100
 pattern of success, 332
fashion, losing touch with, 232-233
FDA (Food and Drug Administration), 137
feedback, 27
Firestone, 176
Fiserv, 35
 acquisition management, 132-133
 acquisition of best-of-breed companies, 106
 cost reduction and quality enhancement programs, 120
 diversification, 111
 embedding with customers, 59-60
 focus on global reach, 149
 focus on high-growth, application-specific products, 146
 integration with customer infrastructure, 93
 movement to back office, 99
 pattern of success, 331
 response to industry consolidation, 83
Flair, 88
flexibility, 85. *See also* agility
 in focusing on core strengths, 142
focus, 7-10, 276-278
 balancing with agility and discipline, 13
 on core strengths, 141-143
 on global reach, 147-149
 on high-growth, application-specific products, 144-147
 turnarounds, Safeco, 295-296
focusing on markets with promise, 248
 avoiding complications of different brands, 253
 avoiding concentrating R&D on limited user groups, 250
 emphasizing markets, 249
 identifying promising markets, 251-252
 maintaining direct consumer contact, 250-251
 supporting growing product lines, 252
Food and Drug Administration (FDA), 137
food products industry
 Campbell Soup. *See* Campbell Soup
 Dreyer's. *See* Dreyer's
Ford, 96, 178
foreign prescription drugs, Forest Labs, 69-70
Forest Labs, 40-41
 broker for customers, 68-70
 corporate culture, 134
 diversification, 109
 focus on core strengths, 142
 focus on high-growth, application-specific products, 146
 innovation, 89, 91
 lack of R&D, 85
 movement to alternative markets and suppliers, 97-98
 pattern of success, 333
 performance, 22
 regulatory changes, 137-138
formal project review process, 120
Fortune 1000 Industry Classification April 14, 2003, 326-328
Franco American, 158
full integration, Amphenol, 55
future, agility, creating future options, 11

G

Gallagher, 44, 98
Game Boy, 47
Game Cube, 110
games. *See* toys industry

- Gamespy.com, 86
 - The Gap, 163
 - accumulating additional capacity, expansion and growth in sales, 205-206
 - anticipating demands, 219
 - avoiding complications of different brands, 253
 - broad business models, 182-184
 - changes in customers' tastes, losing touch with core customers, 217
 - fashion, losing touch with, 232-233
 - ineptness, 222
 - pattern of failure, 338
 - rigidity, 190
 - simplifying instead of expanding, 247
 - Gates, Bill, 8
 - GBA (Game Boy Advanced), 110
 - GE, 129
 - General Mills, 158, 181
 - General Motors (GM), 96, 178
 - General Signal, 88, 102, 108, 129-130
 - General Systems, 155
 - generic products, 261
 - diversification in, 109
 - geographic scope in acquisitions, 103
 - Glass Steagall Act, 61
 - GlaxoSmithKline, 41, 85
 - global acquisitions, avoiding failure in, 253
 - global expansion and domestic weaknesses, 254
 - Global Integration, Hasbro, 228
 - global opportunities, pursuing, 256
 - global reach, focus on, 147-149
 - global sales, increasing by maintaining service levels, 254
 - global sourcing for distribution control, 125
 - globalization for distribution control, 124-125
 - goals, common goals among divisions, 247-248
 - Godiva, 158
 - Goodrich, 176
 - Goodyear, 160
 - accumulating additional capacity, buying commodity businesses, 202-204
 - alienating distributors and dealers, 231
 - cheap products and services, 176-178
 - Dunlop, 231
 - failure to capitalize on competitors' mistakes, 218
 - ineptness, 222
 - international presence, 255
 - over reliance on commodity products, moving further toward products sold to OEMs, 197
 - pattern of failure, 336
 - related holdings, 244-245
 - relationships with unions, 237
 - rigidity, 190
 - synergies, 234
 - turnarounds, 226
 - government oversight, managing, 240
 - government-subsidized competitors of IMC, 175
 - Gramm Leach Bliley Act, 61, 82
 - Grove, Andy, 7
 - growth
 - expansion and sales, 205-206
 - in response to customer needs, 87
 - alliances, 91-92
 - customized products and services, 91
 - distribution, 94
 - innovation, 89, 91
 - integration with customer infrastructure, 93
 - joint ventures and long-term contracts, 89
 - product design and delivery, 88
 - special projects, 88
 - versus quality, 85
 - relying on core products, 191-195
- ## H
- H. Lundbeck, 41, 68, 86, 97
 - Haagen Dasz, 84
 - Hain Celestial, 158
 - Harley Davidson, 22
 - Hartford Financial Services Group, 45, 162
 - Hasbro, 48, 164
 - accommodating major retailers, 233
 - accumulating additional capacity, royalty payments, 206
 - broad business models, 184-186
 - bureaucracy, 219
 - changes in customers' tastes, preparing for, 217
 - goals among divisions, 247-248

- ineptness, 222
 - over reliance on commodity products, venturing from core strengths, 198
 - pattern of failure, 338
 - price fixing, 240
 - pursuing global opportunities, 256
 - repeated restructuring, 228
 - responding to declines in core business areas, entering new marks, 213
 - rigidity, 190
 - Healthy Request, 181
 - Heekin Can, 141
 - Heinz, 158
 - Hershey, 158
 - high potential niches, SPX, 56
 - high risk of failure, reduced exposure to, 142
 - high-demand products, sales of, 146
 - high-growth products, focus on, 144-147
 - Hitachi, 155, 158, 170, 174
 - hitting the mark, 3
 - holdings, related holdings, 244-245
 - Home Cookin', 181
 - Honeywell, 42, 109
 - Hoover, David, 134
 - Hormel, 158
 - HP, 155, 170-171
- I**
- i2 Technologies, 158, 174
 - IBM, 155, 170-171
 - IBM/Dassault, 174
 - Ibuprofen, 263
 - ice cream market, Dreyer's, 38
 - identifying promising markets, 251-252
 - identity, lack of, Goodyear, 176-177
 - IKEA, 6
 - Imbalance, 285
 - IMC (International Minerals and Chemicals), 159-160
 - accumulating additional capacity, incurring substantial debt, 200-202
 - allowing cost savings to erode service, 225-226
 - cheap products and services, 174, 176
 - environmental challenges, 239
 - ineptness, 222
 - over reliance on commodity products, moving further toward commodities, 197
 - pattern of failure, 336
 - policy changes in key export markets, 255
 - products, withholding, 231
 - Project Profit, 225
 - responding to declines in core business areas, 209
 - Rightsizing, 225
 - rigidity, 190
 - Six Sigma, 225
 - synergy, 243-244
 - independence, Fiserv, 61
 - individualizing products and services, 262
 - industrial services industry, Fiserv. *See* Fiserv industries
 - automotive industry, 12
 - securities industry, 274-275
 - industry consolidation, rapid responses to, 83
 - ineptness, 221, 278
 - turnarounds, SPX, 302-304
 - Infogames, 47, 74
 - innovation, 89, 91
 - insurance industry. *See* Brown & Brown (B&B)
 - Integrated Loan Services, 106
 - integration with customer infrastructure, 93
 - Intel, 171
 - International Minerals and Chemicals. *See* IMC
 - international presence, expanding to meet market needs, 255
 - inventory management for distribution control, 127-128
 - investors, performance, 26
 - Inwood Laboratories, 41, 109
 - Ivory Snow, 273
- J-K**
- J. Crew, 182
 - J.C. Penney's, 183
 - Johnson Controls, 22
 - Johnson, David, 227
 - joint ventures, 89
 - Keegan, Robert, 227
 - Kefauver-Hams Amendments, 137
 - King, 40
 - KKR (Kohlberg Kravis Roberts & Co.), 101, 129

Kmart, 46
Kohl's, 183
Kozlowski, Dennis, 303
Kraft, 158
Kroger Co., 94

L

large company threats, rapid responses to, 82
Lercanidipine, 109
Lessons, 277
leverage, 86
Lexapro, 41, 86, 89, 146
licensing, Forest Labs, 68-69
Lightnin, 88
The Limited, 182
Lincoln National, 21
Lockheed Martin, 42, 109
long-term contracts, 89
long-term plans for acquisitions and divestitures, 245-246
Lorcet, 41
losers
 according to Fortune 1000 Industry Classification, April 14, 2003, 327-328
 accumulating additional capacity, 199-206
 allowing cost saving to erode service, 225-226
 characteristics of, 20-21
 cost-cutting, neglecting R&D and innovation, 227-228
 ineptness, 221
 managing acquisitions, 234-235
 missing changes in customers' tastes, 214-217
 motivating employees, 236-237
 over-reliance on commodity products, 195-198
 productivity challenges, 223-224
 relying exclusively on core products for growth, 191-195
 repeated restructuring, 228
 responding to declines in core business areas, 207-211
 revenue and employees of losers: 2002, 325-326
 rigidity, 218-219
 Snap-On, productivity challenges, 223-224
 standards, 238-240
 supply chains. *See* supply chains
 support and services, 225
 turn arounds, 226
 underpricing products, 227
losing touch with core customers, 217
low-income consumers, moving to, 100
loyalty, creating, 267-268
LSI Logic, 155-156
 connections among main businesses, 243
 CoreWare, 196
 emphasizing on R&D, not markets, 249
 expensive products and services, 170-171
 ineptness, 222
 over reliance on commodity products, moving toward standard, low-end products, 196
 pattern of failure, 334
 responding to declines in core business areas, 207-208
 rigidity, 190
 snags in mergers and acquisitions, 234
 supply chains, developing long-term customer ties and power over suppliers, 229-230
LucasArts Entertainment, 75, 91, 185

M

M.C. Packaging, 148
Madiget, Leon, 134
maintaining
 clear strategic direction, 243
 avoiding involvement at too many ends of value chain, 246
 common goals among divisions, 247-248
 creating synergy, 243-244
 long-term plans for acquisitions and divestitures, 245-246
 maintaining connections among main businesses, 243
 related holdings, 244-245
 simplifying, 247
 direct customer contact, 250-251
 service levels to increase global sales, 254
 strategic direction, 301

- managing
 - acquisitions, 234-235
 - tension, 10-12, 282-283
 - manufacturing, productivity in, 116-117
 - market growth, focus on global reach, 148
 - market segment, dedication to, 143
 - market share, obtaining, 178
 - markets
 - emphasizing, 249
 - focusing on markets with promise. *See* focusing on markets with promise
 - policy changes in export markets, 255
 - Mars, 158
 - Marsh & McLennan, 98, 179
 - Marvel Comics, 75
 - Marvel Enterprises, 91
 - MatrixOne, 174
 - Mattel, 165, 185
 - McGavick, Mike, 194, 295-296
 - McGovern, Gordon, 227
 - Meadows, Thomas C., 197
 - Merck, 85
 - mergers, 234-235
 - Mervyn's, 183
 - Metlife Inc, 45, 162
 - Michelin, 161, 176-177
 - Microprose, 186
 - Microsoft, 8, 83, 185
 - Micturin, 97
 - Miller Brewing Company, 89
 - Milton Bradley, 164
 - misalignment, avoiding, 268
 - mission plan for focusing on core strengths, 143
 - missions, 11
 - sticking to, Safeco, 295
 - Mississippi Chemical, 160
 - Modernization Act, 137
 - Molex, 32
 - Monopoly, 164, 186
 - Moore, Geoffrey, 319
 - Morgan Stanley, 274-275
 - Morrison, Dale, 228
 - motivating employees, 236
 - implementing new systems, 236-237
 - relationships with unions, 237
 - Safeco, 297
 - sales forces, 237
 - movement to promising markets, 95
 - alternative markets and suppliers, 97-98
 - back office, 99
 - creative people, 98
 - low-income consumers, 100
 - new concepts, 96
 - new industries, 96
 - specialty markets, 95
 - underserved niches, 98
 - movement, 191. *See also* rigidity
 - Mueller Steam, 88
 - multiple growth platforms, SPX, 57
 - multiple platforms, diversification in, 110
 - Mylex, 196
- ## N
- Nabisco, 158
 - Namenda, 90
 - NBG Distribution, 75
 - NCSI, 106
 - NEC, 155
 - negotiation for distribution control, 125
 - neighborhoods, Family Dollar, 66
 - Nestlé, 38, 87, 94, 158
 - Netscape, 7
 - new concepts, moving to, 96
 - new industries, moving to, 96
 - new markets, diversification in, 107
 - new technology, diversification in, 108
 - niche markets
 - Amphenol, 54
 - Brown & Brown, 72
 - diversification in, 110
 - focus on, 147
 - niche services, Fiserv, 60
 - niches 260. *See also* sweet spots
 - out of favor niches, 192-193
 - Nintendo, 47
 - noncore brands, ignoring, 194-195
 - Northrop Grumman, 42, 109
 - NXS Acquisition, 101
- ## O
- OEMS (original equipment manufacturers,) 197
 - Old Navy, 163, 183, 253
 - old-fashioned neighborhood experience, Family Dollar, 66

- Oswal Chemical and Fertilizer, Ltd., 175
- outsourcing, Fiserv, 61
- overcapacity
 - focus on global reach, 148
 - IMC, 176
 - rapid responses to, 82
- overdesigned products, LSI Logic, 170
- overpaying for acquisitions, 204-205, 235
- Owen Illinois, 42

P

- P&C (property and casualty), 204
- Pace, 158
- pace of new product offerings, 207-208
- packaging. *See* Ball
- pain relievers, 263-264
- Parametric, 157
 - accounting scandals, 239
 - changes in customers' tastes, customer service, 214-215
 - customer contact, 250-251
 - expensive products and services, 173-174
 - ineptness, 222
 - pattern of failure, 335
 - Pro/ENGINEER, 193
 - responding to declines in core business areas, skills in new product development, 208-209
 - rigidity, 190
 - staying in niches that are out of favor, 192-193
 - service and support, 225
 - service levels and global sales, 254
 - Windchill, 193
- Parker Brothers, 164
- patents versus solutions, 145
- patterns, distinct patterns, 279, 282
- patterns of failure
 - Campbell's, 337
 - Gap, 338
 - Goodyear, 336
 - Hasbro, 338
 - IMC, 336
 - LSI Logic, 334
 - Parametric, 335
 - Safeco, 337
 - Snap-On, 335
- patterns of success

- Activision, 334
- Amphenol, 330
- Ball, 331
- Brown & Brown, 333
- Dreyer, 332
- Family Dollar, 332
- Fiserv, 331
- Forest Lab, 333
- SPX, 330
- Paxil, 41, 70, 98
- Pepperidge Farms, 158
- Pepsi, 89
- Pepsico, 158
- Percodan, 263
- performance
 - Ball, 59
 - continued outstanding performance, 22
 - investors, 26
 - winning companies (1992-2002), 23
- performance indicators, stock market, 319-320
- Peters, Tom, 307
- Pfizer, 40-41, 70, 85
- pharmaceutical industry, Forest Labs. *See* Forest Labs
- Phillips, 170
- Pillsbury, 181
- Pirelli, 32, 176
- Play-Doh, 165
- Playskool, 164
- PlayStation, 47, 83, 110
- policy changes in key export markets, 255
- Porras, Jerry, 307
- positioning for advantage, 264-266
- powerful customers, 171, 184
- powerful industry players, rapid responses to, 83
- Prego, 158
- preparing for changes in consumer tastes, 217
- price, Ball, 59
- price fixing, 240
- pricing products, 227
- prime audience, Activision, 73
- Pro/ENGINEER, 193
- process controls, 118-119
- Proctor & Gamble, 273
- product design and delivery, 88
- productivity challenges, 223-224

productivity in manufacturing, 116-117

products

- individualizing, 262

- maintaining skills in new product development, 208-209

- pace of new offerings, 207-208

- supporting growing product lines, 252

- underpricing, 227

- withholding, 231

Profit Enhancement Program, Hasbro, 228

programs, reducing costs and raising quality, 298

Progresso Soup, 181

Project Profit, IMC, 225

Project Simplify, Snap-On, 224

property and casualty (P&C), 204

property and casualty insurance industry,

- Brown & Brown. *See* Brown & Brown

- Safeco. *See* Safeco

Prozac, 41, 68, 98

pruning inefficiencies, 118-119

pursuing

- global opportunities, 256

- promising markets, 251-252

Putnam, 179

Q

quality

- Ball, 59

- versus growth, 85

- raising, 298

quality enhancement programs, 116

- client service and volume-driven efficiency, 120

- differentiation, 119

- direct store delivery (DSD) system, 121-122

- formal project review process, 120

- process controls, best practices, pruning inefficiencies, 118-119

- productivity in manufacturing, 116-117

- store design, 123

- value improvement process (VIP), 117-118

R

R&D (research and development)

- Ball, 59

Campbell, 228

concentrating on limited user groups, 250

lack of, 85

Rand Technologies, 250

rapid responses, 82

- to industry consolidation, 83

- to large company threats, 82

- to overcapacity, 82

- to powerful industry players, 83

recognition and respect for employees, 134

recognizing changes in customers' tastes, 303

recycling, 136

reducing costs, 298

reference points, 21

regulations, complying with, 239

regulatory changes, 136-138

relationships with unions 237

reliance on commodity products, 195-198

Remarketing Services of America Inc., 106

research and development. *See* R&D

respect and recognition for employees, 134

responding to competitors' innovations, 216

responding to declines in core business areas, 207-209

- changes in demand, 210-211

- entering new markets, 213

- pace of new product offerings, 207-208

- skills in new product development, 208-209

responses. *See* rapid responses

restating earnings, 320

restructuring Hasbro, 228

retail apparel industry, The Gap, 163

- broad business models, 182-184

- retail broadband industry, Family Dollar. *See* Family Dollar

- retail outlets, Brown & Brown, 71-72

- retailers, 232-233

Rexam, 42 103

Reynolds, 85

Reynolds Metals, 103

Riedman Corporation, 131

Rightsizing, IMC, 225

rigidity 278

- accumulating additional capacity. *See*

- accumulating additional capacity

- anticipating demands, 219

- bureaucracy, 219

- changes in customers' tastes, 214-217
- over-reliance on commodity products, 195-198
- relying on core products for growth, 191-195
- responding to declines in core business areas, 207-213
- taking advantage of competitors' mistakes, 218
- turnarounds, SPX, 304-305
- RJR Nabisco, 101
- Royal Ahold, 232
- royalty payments, avoiding, 206

S

Safeco, 162-163

- accumulating additional capacity, 204-205
- cheap products and services, 178-179
- government oversight, 240
- identifying promising markets, 251-252
- ineptness, 222
- motivating sales forces, 237
- over reliance on commodity products, 198
- overpaying for acquisitions, 235
- pattern of failure, 337
- rigidity, 190
 - weak business lines, 194
- Select Markets, 227
- Surety Online, 299
- turnarounds
 - agility, 300-301
 - discipline, 296-299
 - focus, 295-296
- underpricing products, 227

Safeway, Inc., 94

sales, global sales, increasing by maintaining service levels, 254

sales forces, motivating and holding accountable, 237

sales of high-demand products, 146

Sankyo Pharma, 69, 86

SAP, 158, 174

Sara Lee, 158

SCA (sustained competitive advantage), 307-308

scandals, avoiding accounting scandals, 239

SCD (sustained competitive disadvantage), 3

Schmalbach-Lubeca, 103, 149

Schmidtman, Waldemar, A., 197

Schwab, 274-275

Scott Company, 160

Scrabble, 164

Seal, 42

seamless integration, Fiserv, 60

Sears, 46

securities industry, 274-275

Select Markets, Safeco, 227

selective hiring, 133

semiconductor industry, LSI Logic. *See* LSI Logic

Senegor, 298

service levels, maintaining to increase global sales, 254

services

- eroding levels of service because of cost savings, 225-226
- individualizing, 262
- providing when losses mount, 225

shareholder value, creating, 26

shareholders, 319

simplicity, Family Dollar, 67

simplifying strategic direction, 247

Six Sigma, IMC, 225

skilled employees, 134-135

small size, 85

- avoiding large firm competition, 87
- flexibility, 87
- lack of R&D, 85
- leverage, 86
- quality versus growth, 85

Snap-On, 156

accumulating additional capacity, buying weak-performing firms in the same industry, 199

concentrating R&D on limited user groups, 250

Driven to Deliver, 224

expensive products and services, 172

failure in global acquisitions, 253

implementing new systems, 236-237

ineptness, 222

pattern of failure, 335

productivity challenges, 223-224

Project Simplify, 224

rigidity, 190-191

- software industry, Parametric, 157
 - expensive products and services, 173-174
 - Solomon, Howard, 68, 97, 137
 - solutions versus patents, 145
 - Sony, 74, 83, 185
 - Sony PlayStation, 171
 - sour spots, 167-168
 - avoiding, 270-271
 - broad business models, 180-186
 - cheap products and services. *See* cheap products and services
 - expensive products and services. *See* expensive products and services
 - specialized items, 261
 - specialty chemicals industry, IMC. *See* IMC
 - specialty markets, moving to, 95
 - specialty tools, SPX, 34
 - SPX, 34
 - acquisition management, 129-130
 - co-designing with customers, 56-58
 - cost reduction and quality enhancement programs, 117-118
 - diverse purchases, 101
 - diversification, 108
 - focus on global reach, 148
 - focus on high-growth, application-specific products, 145
 - movement to new industries, 96
 - pattern of success, 330
 - special projects, 88
 - turnarounds. *See* turnarounds
 - ST, 155
 - standards, 238
 - avoiding accounting scandals, 239
 - complying with regulations, 239
 - environmental challenges, 239
 - government oversight, 240
 - price fixing, 240
 - upholding high ethical standards, 302
 - Stanley Works, 157
 - stock market as performance indicator, 319-320
 - store design for cost reduction, 123
 - strategic direction, maintaining, 243, 301
 - avoiding involvement at too many different ends of value chain, 246
 - common goals among divisions, 247-248
 - connections among main businesses, 243
 - creating synergy, 243-244
 - long-term plans for acquisitions and divestitures, 245-246
 - related holdings, 244-245
 - simplifying, 247
 - strategic intent, 26
 - Strategic Markets, 155
 - streamlining, 141
 - success, 334. *See also* patterns of success
 - secrets of long-term success, 7
 - Sumitomo, 32, 161
 - Sun Microsystems, 155, 171
 - Super Soakers, 165
 - suppliers, increasing power over, 229-230
 - supply chains, 229
 - accommodating major retailers, 233
 - alienating distributors and dealers, 231
 - coping with powerful retailers, 232
 - developing long-term customer ties and power over suppliers, 229-230
 - fashion, 232-233
 - withholding product, 231
 - support, providing when losses mount, 225
 - supporting growing product lines, 252
 - Surety Online, Safeco, 299
 - sustained competitive advantage (SCA), 3, 307
 - sustained competitive disadvantage (SCD), 3
 - sweet spots, 5, 51-52, 196, 260-261
 - broker for customers
 - Activision, 73, 75
 - Brown & Brown, 71-73
 - Forest Labs, 68-70
 - co-designing with customers, 53
 - Amphenol, 54
 - Ball, 58-59
 - SPX, 56, 58
 - embedding with customers
 - Dreyer's, 62-65
 - Family Dollar, 65-67
 - Fiserv, 59-60
 - knowing if you are in sweet spots, 269-270
 - pain relievers, 263
- Symbiosis, 196
- synergy

achieving, 234
creating, 243-244
Syntax, 196
system upgrades for distribution control,
126-127

T

tables

2002 Shares of the U.S. Ice Cream
Market, 39
Big Winners Manage the Tension Among
Agility, Discipline, and Focus, 11
Competitors of Amphenol, 33
Competitors of Dreyer's, 38
Competitors of IMC, 160
Competitors of LSI Logic, 156
Competitors of Safeco, 163
The Four Secrets of Long-Term Business
Success and Failure, 7
Winning Companies Used in the
Analysis: 1992 to 2002 Performance, 23
talent, aggressive acquisition for, 105
Target, 46, 67, 74, 87, 183
target evaluation and integration in acqui-
sition management, 130
target identification and integration in acqui-
sition management, 132-133
target screening in acquisition management,
131-132
target selection in acquisition
management, 129
targeted sales force, Forest Labs, 70
telecommunication technology industry,
Amphenol. *See* Amphenol
tension, managing, 10-12, 277, 282-283
Terra Industries, 160
Texas Instruments, 155, 170
Thermo King Corporation, 126
Thyrolar, 90
Tiazac, 41, 69, 97
Tiger, 186
tire industry. *See* automotive industry
Tonka, 164
Toshiba, 155
total immersion, Dreyer's, 64
Toyota, 6
Toys "R" Us, 165, 184
toys industry
Activision. *See* Activision

Hasbro. *See* Hasbro
tradeoffs, 12-13
Transportation Recall Enhancement,
Accountability and Documentation
(TREAD) Act, 239
Trewit Inc., 106
Trivial Pursuit, 165
turnarounds, 293

Goodyear, 226
Safeco
agility, 300-301
discipline, 296-299
focus, 295-296
SPX, 293, 301
diffuseness, 301-302
ineptness, 302-304
rigidity, 304-305

Tyco, 32
Tylenol, 263

U

UDI (United Dominion Incorporated), 88,
102, 108, 129
underpricing products, 227
underserved customers, Family Dollar, 66
underserved niches, moving to, 98
underwriters, 71-72
underwriting, 125, 179
Unilever, 38, 87, 94, 158
unions, relationships with, 237
Uniroyal, 176
United Dominion Incorporated (UDI) 88,
102, 108, 129
United States Agricultural Corporation, 197
United Technology, 35
upholding high ethical standards, 302

V

V8, 158
value, creating shareholder value, 26
value chains, avoiding involvement at too
many ends of, 246
varied products, diversification in, 108
Vioxx, 263
VIP (value improvement process), 117-118
visions, 11
volume-driven efficiency, 120

W

Wal-Mart, 46-47, 67, 74, 83, 87, 165,
183-184, 232
Wall Street Journal Scorecard, 21
Wall Street Journal's classifications, 21
Warner-Lambert, 70
Waterman, Robert, 307
Waukesha Electric, 129
weaknesses, domestic weaknesses, 254
Windchill, 193
winners
 according to Fortune 1000 Industry
 Classification, April 14, 2003, 326
 characteristics of, 20-21
 performance analysis: 1992 to 2002, 23
 revenue and employees of
 winners: 2002, 324
 sweet spots, 5-6
Wis-Pak Plastics, 119
withholding products, 231
WMC Ltd., 175

X

Xbox, 47, 83, 110
Xerox, 10

Y

Yokohama, 176

Z

Zoloft, 41, 98
Zosen Delcam, 158, 174