ECONOMICS, LABOR & BUSINESS

How to Succeed in Business

"Survival Strategies in a Hostile Environment" by William K. Hall, in *Harvard Business Review* (Sept.-Oct. 1980), Subscription Service Dept., P.O. Box 9730, Greenwich, Conn. 06835.

The U.S. tire industry is losing out to foreign competition, but Goodyear has rolled up respectable annual revenue gains of 10 percent since 1975. Though the American cigarette market has stagnated since 1950, Philip-Morris's 20 percent annual revenue growth since 1975 has eclipsed IBM's by nearly 8 percentage points.

These success stories show that the right management strategies can yield profits in even the most troubled industries, says Hall, professor of business administration at the University of Michigan.

Hall surveyed 64 companies in eight U.S. industries struggling with rising labor and materials costs, foreign producers, and sluggish growth prospects: steel, tires and rubber, heavy-duty trucks, construction equipment, autos, major appliances, beer, and cigarettes. In each industry, the leader (including Goodyear, Inland Steel, and General Motors) averaged a healthy 20.2 percent return on equity from 1975 to 1979. A group of corporate superstars (e.g., Texas Instruments and Phillips Petroleum) in boom industries averaged only 18 percent.

Each of the prospering firms in slumping industries chose one of two courses: lowering production costs while maintaining quality, or stressing exceptional products and services. Philip-Morris, for example, built the world's lowest cost (per unit), most fully automated cigarette manufacturing operation. Caterpillar, the construction equipment maker, combined efficient manufacturing with expensive but outstanding distribution networks and maintenance service to distinguish its line and become the 39th most profitable U.S. company.

Contrary to the prevailing view, diversifying products or markets is no panacea, especially if done hesitantly. Tappan turned out a greater variety of kitchen ranges at the expense of product improvements. Now it has lost the gas range market to Caloric, the electronic range market to Jenn-Air, and the microwave range market to Raytheon. General Tire, on the other hand, focused on making one kind of tire—low-cost models for commercial vehicles—while moving into select, high growth fields such as communications and aerospace.

These corporate success stories have violated some long-standing business maxims. Rather than turn their earnings into high profits and dividends and easy acquisitions, some firms reinvested heavily in equipment. Some proved that costs in saturated markets can be reduced even before one dominates those markets. And others showed that concentrating on making a few components well can be more profitable than seeking control over all phases of manufacturing and assembly.