Marketing Megalomania: The Lure of the Information Business

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In 1960, Theodore Levitt published a paper titled "Marketing Myopia," in which he urged corporate executives to take a broader view of their basic business.[1] Railroads, Levitt argued, had erred fundamentally and strategically by failing to recognize that they were in the transportation business, not the railroad business. Since its publication, "Marketing Myopia" may have become not only the most quoted but also the most misapplied article in the history of business literature. In the next few pages, I explore "marketing megalomania," or the dangers of pursuing Levitt's advice to its logical but absurd end. The information business, among others, has frequently suffered the results.

Marketing Myopia

In "Marketing Myopia," Levitt emphasized the need for corporations to re-examine their basic business. He stressed the need for companies to define their businesses in terms of customers' needs, rather than in terms of the products they have available to sell. In addition to the railroads, his examples of those who had defined themselves too narrowly included Hollywood film companies, oil producers, and electronics firms. Despite its age, the piece still makes fascinating reading today, and many of Levitt's observations have a timeless quality.

In a 1975 retrospective, Levitt said that "Marketing Myopia" was "not intended as analysis or even prescription; it was intended as manifesto."[2] He also noted some of the "bizarre things" that have happened as a result of the article, including the development of "marketing mania," which he described as becoming obsessively responsive to every fleeting whim of the customer. "Marketing megalomania" is a different syndrome; I offer my description here in Levitt's spirit of manifesto, not (to use Levitt's own words) with "massive analytical reasoning that reads as though it were translated from the German."

Defining "Marketing Megalomania"

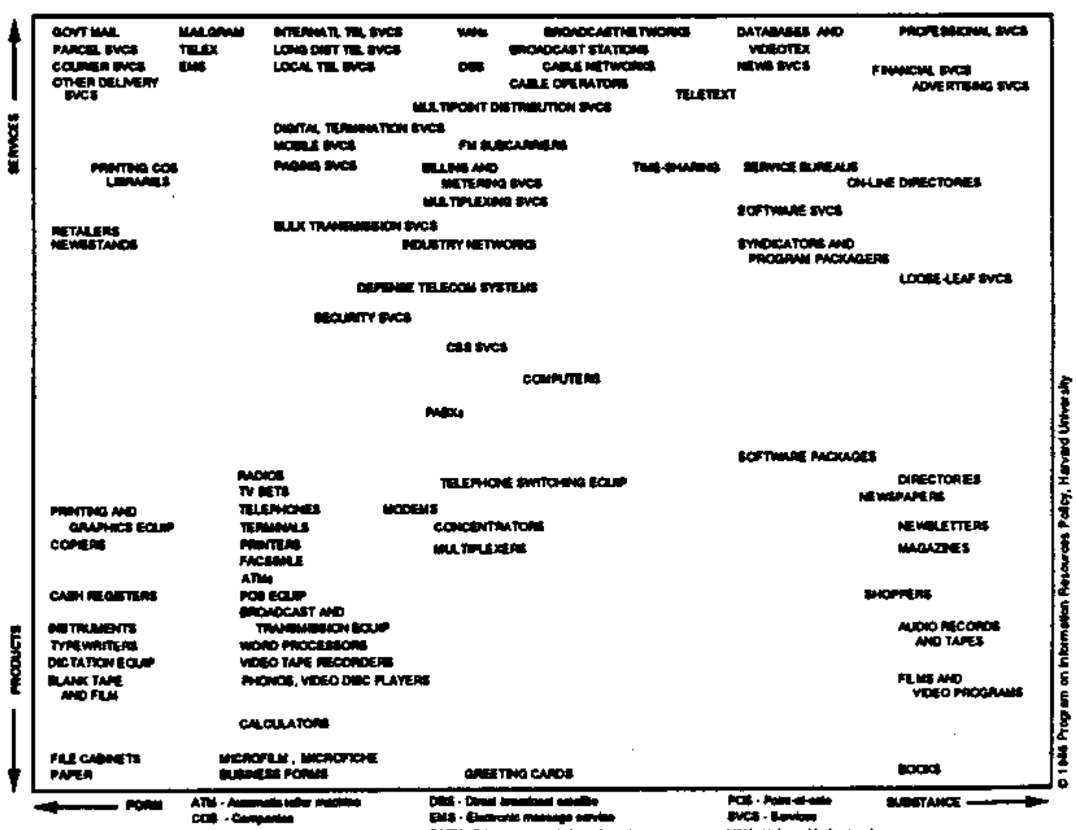
If "marketing myopia" is the error of defining your corporate mission too narrowly, "marketing megalomania" is the error of defining your business too broadly. (Megalomania — "obsession or mental illness characterized by delusions of grandeur.") "Marketing megalomania" also should be distinguished from another syndrome, perhaps best termed "management mindlessness," whereby corporate executives define their business as encompassing anything and everything. Examples of "management mindlessness" are easy to find: Exxon's and Volkswagen's forays into office equipment, Mobil's disastrous acquisition of Montgomery Ward, and, perhaps the supreme example, RCA's efforts to enter financial services (CIT), car rentals (Hertz), book publishing (Random House), and carpeting (Coronet). Management mindlessness was initially diagnosed during the late 1960s; today most stock analysts consider it a fatal disease.

"Marketing megalomania" is a more subtle, if no less serious, affliction. Unlike the obviously deranged victims of "management mindlessness," those suffering from marketing megalomania have seemingly plausible, Levitt-like rationales for their aberrant behavior. Boeing, defining itself broadly as being in the "transportation equipment" business, not aerospace, dropped a bundle when it pushed its Vertol Division into manufacturing subway cars. Grumman presumably was pursuing the same reasoning with its Fixble bus venture. Exxon's huge losses on Reliance Electric raised questions about the rationale that electric motors are a logical extension of the energy business. United Airlines decided it was in the "travel" business and acquired Hertz and Westin Hotels under its new Allegis banner, a banner since furled in defeat.

Marketing megalomania, like management mindlessness, probably has existed since the beginning of business itself, but we have been witnessing a particularly virulent form of the disease in many of those companies that inhabit what we have termed the "information business."

The Information Business?

Since our Program's inception in 1972, our research has been directed at the entire range of activities having to do with the generation, collection, processing, transmission, and distribution of information. The PIRP Information Business Map, for example, includes almost 90 discrete products and services, and we would add even more but for concerns of type size and legibility (see below).[3] We believe that this wide-ranging (and admittedly megalomaniacal)



approach is useful and manageable for a research institution such as ours. And, for computer manufacturers, publishers, and telephone companies, the concept of thinking of themselves as being part of a larger "information business" can be a useful antidote to marketing myopia. But what makes sense as an intellectual concept or analytical tool can become ludicrous when converted to corporate strategy.

Symptoms

The evidence that a company is suffering from marketing megalomania usually appears both in corporate strategic plans and in the pronouncements of its CEO. The affliction normally manifests itself in a collapse of logic marked by the following type of reasoning: "Books are part of the information business, and computers are part of the information business. We are a successful book publisher; therefore, we can expect to be a successful computer company."

Once the infected company has reached this conclusion, scores of subsidiary trains of thought emanate from corporate planning and marketing departments: "Both books and computers use paper, and as book publishers we sure know a lot about paper!" "Both books and computers are sold through stores so we already have a knowledge of the distribution channels." "Lots of the customers who buy our books also buy computers so we understand our market." "Our corporate name is recognized worldwide as representing a quality product in the information business so computer buyers will rush to acquire our new product." (Companies with large corporate staffs seem particularly prone to marketing megalomania, perhaps because so many enthusiastic and helpful staffers are available to reinforce the CEO's basic mistake.)

Once corporate megalomania reaches advanced stages, the only cure is exposure to the chilling reality of the marketplace. Probably all companies suffer an occasional bout of the disease, but serious or repeated cases can be fatal, especially when so many corporate raiders are searching for the sickly.

Offhand, I do not recall a book publisher that has made a serious run at the computer business, although I am sure that some have given it serious thought! (And IBM just recently sold its SRA publishing subsidiary.) I have heard the "both in the information business" reasoning applied to practically every other combination of products and services shown on The Information Business Map. Even a short list of the casualties is instructive:

- Time Incorporated lost more than $100 million trying to keep the *Washington Star* alive, insisting all the while that publishing newspapers was a natural extension of its magazine publishing business. (Besides, The Washington Post Corporation had successfully moved in the opposite direction with *News Week*!)
- Xerox, flush with profits from the copier business, decided that computers and telecommunications were a natural extension of its office equipment business. Its experience with Scientific Data Systems (later Xerox Data Systems), Western Union International, and other ventures convinced management otherwise. Xerox's Palo Alto Research Center created the basis for many modern personal computers, but the beneficiary of the research was Apple, not Xerox.
- Schlumberger's management decided that its core businesses of oil exploration and oil well monitoring placed the company in the "information business." From there it was

a short step to acquiring Fairchild Semiconductor, an acquisition that taught Schlumberger a new meaning for the term "dry hole."

- Federal Express concluded it was in the expedited communications business, not the courier business. This reasoning gave birth to the ZapMail facsimile venture and a flood of red ink on Federal's books.

- Warner Amex saw video games as a natural extension of the home entertainment business. Its Atari debacle proved the contrary.

The Compunications Swamp

While cases of management megalomania have been seen throughout the information business, it seems to reach its most virulent form in that treacherous zone where computers and telecommunications overlap and merge, christened "compunications" by Tony Oettinger and "telematique" by the Nora-Minc report. I would hypothesize that the delusionary snare of compunications stems from the fact that while the convergence of telecommunications and computing <u>technologies</u> is very real and important from a technological and manufacturing viewpoint, it has yet to be translated into meaningful <u>marketing</u> terms. Central office switches and PBXs have become digital computers. Computers have become networked. Networks have become computerized. This siren-song of all-pervasive, universally transparent digital technology has led one major corporate player after another into the financial swamp:

- Standard Telephone and Cable (STC) acquired Imperial Computers, Limited (ICL), pursuing the vision of seamless digital interconnectivity. After significant losses a new CEO has spent much of his time separating the businesses.

- IBM thought its computer expertise translated into telecommunications expertise, but found out differently with its Antelope PBX venture and Satellite Business Systems. Many industry observers see IBM's acquisition of ROLM, now being divested through a joint venture with Siemens, as another lurch in the wrong direction.

- Northern Telecom has tried to convert its CO switch and PBX expertise into computer ventures more than once, with unenviable success to date.

- AT&T, freed to enter the computer business as a result of its antitrust settlement, has found that freedom to be an expensive commodity thus far.

- Ericsson lost a small fortune trying to translate its telephony skills into the computer and office equipment market before abandoning the effort.

The list could go on at considerable length.

Once More unto the Breach!

America's telephone companies — the ex-AT&T Regional Holding Companies (RHCs) and many independents — appear to be the latest likely victims of management megalomania in the information business. One strain of the disease that seems particularly prevalent these days might be summarized as: (1) "Our telecommunications network is a business information system, therefore we understand business information systems." (2) "There is a large market for business information systems." (3) "We will sell our expertise in business information systems to large customers and be rich and successful."

If the disease were not so harmful to telcos and their users, it would be funny to watch each of them chasing after the same dream market as the hopeful single-source systems integrator for the Fortune 100/Fortune 500 customers. While every telco (correctly) has made a fetish of changing its corporate culture to become "customer focused," "market driven," and so on, most are still not very good at hearing what customers say to them. The telcos are pursuing a market that has already escaped them; in doing so, they probably are forsaking attainable market objectives.

Even the largest American telco is not a credible candidate for a single-source systems integrator for Fortune 100 companies. Simply put, large, sophisticated corporate users know more about their own needs and capabilities than any telco can. These corporate customers have a wide choice of products and services available, and they have become knowledgeable and demanding in their procurement. The largest and most sophisticated of these users are running networks that are of central strategic importance to their corporations, networks too important to be left to telco people who these users see as amateurish outsiders.

The chief systems officer of a major multinational financial institution recently told me of his frustrations in dealing with the marketing efforts of his regional telephone company:

> They keep sending over a team of marketeers to tell me how they want to be our systems integrator; they'll take care of all of our information systems needs. Hell! None of those people knows more about our corporate needs than I did when I left an operating telco 25 years ago. I have 20 people on my staff who know more about international financial systems than the most knowledgeable person in that RHC! All I want them to do is provide me a dozen T-1's where and when I ask, or give me a decent price on Centrex for a branch office.

That's the unvarnished opinion of a targeted customer. If I were a "customer oriented" firm in the information systems business, I would re-read it, slowly. It is not a unique view in that customer community.

The foregoing is not meant to suggest that all telephone operating companies will fail in all their new ventures. Some of their parent companies have developed or acquired some capabilities which might make them viable players in the wider world of the information business. Some will succeed occasionally in a new business simply by chance, given enough acquisitions and new ventures over time. A few may prove that they have the wherewithal to play in more competitive leagues, but it will not be easy, given their heritage. Too many telephone executives still attribute their history of profits to management prowess rather than to a century of monopoly in a growth industry.

Back to Marketing Megalomania

When I hear corporate planners discuss a planned assault on a new market sector, I ask, "What do you (the XYZ Corporation) bring to the game?" Their answer, frequently, is "Money." I tell them, "Money is nice, but that is what every loser carries to the tables at Las Vegas. It is a necessary but not sufficient condition for success."

Companies in any business, including the information business, make money by being smarter, faster, or more economically efficient than their competitors. They do not have to be perfect — just a few percentage points better than their competitors. Some companies can successfully market multiple products and services in the information business, and some companies have even discovered the much sought "synergy," but their successes are based on factors beyond the rubric of the information business.

Students of corporate behavior probably should be looking at the few, but intriguing, success stories in various industries. In the "information business" these would include Dow Jones, TIME Incorporated, and Reuters. Dow Jones has created a major growth business by electronically delivering business information. TIME, Inc., frequently floundering in its core magazine publishing business, found a gold mine in the video field with HBO and American Television and Communications. Reuters transformed a stolid news agency into a bustling financial services business. Why are these companies the exception to the generally dismal rule?

As all of us who wear trifocals know, suffering from hyperopia (farsightedness) is not necessarily better than being afflicted with myopia (nearsightedness). Falling down a flight of stairs hurts just as much, whichever the cause. My colleagues and I can cite many examples of companies that died because they defined their current business too narrowly. We probably can cite even more examples of companies that died (or suffered eventually fatal wounds) because they overestimated their abilities to conquer unknown worlds. "Marketing megalomania" is at least as great a risk as marketing myopia.

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1. Levitt, Theodore. "Marketing Myopia," *Harvard Business Review*, July - August, 1960, pp. 45-56.

2. Levitt, Theodore. "Marketing Myopia," *Harvard Business Review*, September-October, 1975, (HBR Reprint No. 75507)

3. McLaughlin, John F. with Anne Louise Antonoff. *Mapping the Information Business*. Cambridge: Program on Information Resources Policy, Harvard Univ., 1986.

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