

Effective business adjacencies for growth

**How Stellar® identified the gap
between Centrica and AA**

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**Centre for
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The Centre for Integrated Marketing has been funded by industry to research best practice and develop intellectual and other tools on behalf of leading marketers and their agencies.

Corporate growth has increasingly been achieved through mergers and acquisitions, by moving existing product brands into adjacent markets, or by developing brand extensions and new products that extend the franchise. Together these can be referred to as 'adjacencies'.

The low success rate of mergers and acquisitions is now notorious, and research suggests that the in-house development of adjacencies fares little better. Setting aside the (usually one-off) savings from synergies, the issue comes down largely to the fact that the proposed adjacencies, whether bought in from outside or generated internally, are often not adjacent enough. They simply fail to align congruently enough with the core value of the 'parent' company. The demerger of AA from Centrica illustrates a tool that can help. Stellar enable our research team to identify the lack of fit and recommend a demerger months before it went public in 2004.

What is Stellar®?

Stellar® is a new strategic tool that promises to increase the success rate of M&A as well as other major adjacencies, like brand extensions and new business divisions.

It identifies the 12 key identity dimensions that uniquely differentiate the company and form the foundation of value with great accuracy. These vary from the idea at the heart of the brand (or brand essence), cultural values and business model, through to the differentiating product design concepts that meet customer need, as well as what those needs are. The 12 dimensions form a progressive circle (like a clock or colour wheel) that defines a precise relationship between the strategic elements of identity. Together, these codifiers offer powerful direction for business strategy, and can be used to align, integrate and focus the company with both rigour and efficiency.

Thus Stellar® offers an in-depth ongoing process for guiding and aligning decision-making at all levels of the company, constantly reinforcing and refining employees' awareness and application of core business strategy. Stellar® also offers fast, accurate mapping of both the parent company and any proposed adjacency. It portrays the degree of adjacency with a clarity that confidently establishes its potential viability within core business strategy. These are obviously extremely useful tools for corporate strategy and brand marketing.

Centrica and the AA

A case in point is Centrica, the British Gas group company that expanded to embrace electricity, water, telecoms, credit cards and roadside assistance. The logic behind that expansion was that as British Gas held a trusted relationship with a majority of households throughout the UK, then Centrica should exploit this access to the home by supplying a broader selection of home services. However, this was shown to be a superficial perspective.

Centrica core identity

Stellar® identified the core value of Centrica, because of its roots in British Gas, as 'managing the supply of enriched energy', with core competency in networks, grids and pipelines (and not actually as 'supplying home services'). Centrica was moving towards something like 'managing the supply of utility services' (with a continuing emphasis on networks etc.). This can be seen to be easily congruent with the supply of electricity and water, but maybe less obviously so with telecoms. (This, by the way, has nothing to do with British Gas excellence in customer services. British Gas service in the home and to its customers is an expression of its core identity).

If it were not so much larger than Centrica, Vodafone, for example, with a core value of 'connecting high-speed routing networks', could well represent an easily congruent adjacency, whereas Orange, similarly a telecoms network provider but with a core value of 'the joy and pleasure of communication', could hardly be considered congruent. Onetel, a telecoms reseller owned by Centrica, has a core

value of 'managing easy telecommunications', which although concerned more with managing access to others' networks and grids, nevertheless probably has sufficient congruence to make adjacency viable.

Identity is thus the core strategic powerhouse from which service, brand, competency, key measures and the like flow.

Centrica's credit card company Goldfish was early on recognised by Centrica itself as an unviable adjacency, and they rapidly disposed of it.

Centrica and the AA

And they later disposed their automobile services and roadside assistance company, the Automobile Association, some months after we pointed out the lack of fit. Stellar® analysed the AA in relation to Centrica, identifying its core value as somewhere in transition between 'safety in the face of danger' and 'rescuing people from uncertainty'. Such a core value clearly fails to align viably with Centrica, and more appropriately sits adjacent to an insurance company, or maybe even to a security company such as Chubb. And indeed it became clear that the AA should be sold.

Conclusion

Adjacencies are fraught with opportunity and danger to growing companies. On the one hand they are often vital if the company is to continue to grow, but if they are not very clearly true adjacencies, then the company will be at significant risk of financial loss and wasted time and energy. Stellar® can quickly and easily illuminate the relationships between potential adjacencies in a way that clarifies their viability within the company's core business strategy, and facilitates reliably and potentially effective decision-making.