LESSONS LEARNED FROM MONOPOLISTIC UPHEAVALS

By Julie Ryan

Utilities are considered natural monopolies, where government has provided certain market protections because of the critical service provided and the large capital investment required to provide the service. Companies operating in competitive markets view a monopolistic position with envy. But even monopolies can fail.

Two fatal missteps are inefficiency and inability to innovate. After its founding by JP Morgan in 1901 through a merger of Carnegie Steel and two other steel companies, US Steel had 67 percent of world market share. With its initial capitalization of $1.4 billion (approximately $41 billion in current dollars), it was the largest corporation in the U.S. However, its market share gradually was eroded because smaller steel companies were more efficient, operated at a lower cost, and were quicker to innovate. While US Steel prospered during WW II as a result of lucrative government contracts, in the decades that followed, it lost market share in its core steel business. It tried to diversify by investing in oil and gas, freight shipping in the Great Lakes, and a number of smaller regional railroad companies, but these subsidiaries were later sold in the 1980s. It was delisted from the Dow Jones Index in 1999 and from the S&P 500 in 2014. Today US Steel's market share represents only 8 percent of U.S. domestic consumption, and its market cap is reduced to $4.9 billion.

Another mistake is to not anticipate customers' changing needs and tastes. Sears & Roebuck was the preeminent retailer from the late 1800s until the 1980s. At the beginning of the 20th century, approximately two-thirds of the U.S. population lived in rural communities and the local general stores carried a limited number of goods. Through its catalogue sales, Sears was able to reach an underserved customer base. In its early catalogues, Sears offered everything from tools, to the latest fashions, hunting equipment, bicycles, sewing machines, automobiles, and even pre-fabricated home kits.

In the 1930s, Sears adapted as workers migrated to cities for industrial jobs. The company opened retail stores in working class neighborhoods, as opposed to siting stores in downtown centers where higher-end retailers were located. Additionally, Sears was unique in attracting both men and women in their stores, with tools and appliances departments in the same stores with clothing and home goods. They carried durable and reliable goods, with store brands such as CRAFTSMAN Tools and Kenmore appliances.

But they failed to update their 1970s model in response to changing customer tastes. Their shopping malls were aging and unattractive; and they found it difficult to compete with the big box stores like Walmart and Target (they were too late to the game when they opened Sears Grand stores). They were also laggards in online retailing. They eventually sold the attractive subsidiaries, such as Allstate Insurance, Dean Witter, Coldwell Banker, Lands' End, CRAFTSMAN Tools, and Discover Card, to prop up the failing core retail business. Sears was acquired by another struggling retailer, Kmart, in 2004. Finally, they sold off or shut down most of their stores beginning in 2010. Once a giant in innovative retailing, they simply faded slowly into oblivion in the shadow of more innovative 21st century modern retailers. They declared bankruptcy in October 2018 and later won in bankruptcy auction. Today only 400 stores are operating, from a peak of 3,500 stores in 2010.

Another lesson to be learned is that technology drives change. An excellent example is the technology shift from landline to cellular telephones (some people draw analogies to a possible shift from utility-scale generation and transmission grids to microgrids and distributed energy resources). In the late 19th century, the landline telephone was the preeminent communication channel, beating out the telegraph. Popularization of the telephone occurred in the early 1900s, with pay phone kiosks and home landline installation. But today, only 29 percent of Millennials, 44 percent of Generation X, and 60 percent of Baby Boomers still have landlines. In another decade, we may see the demise of the landline telecom service.

The monopoly landline company was AT&T (American Telephone and Telegraph), which served about 80 percent of the national market by the 1930s. It was deemed a natural monopoly under government regulation, providing "universal services." In 1985, AT&T was forced to divest of its regional Bell carriers and it remained just the long-distance carrier. Further, AT&T had to offer free use of its infrastructure to other carriers.

This might have been the death knell for the company, but it entered into the growing mobile phone market. The company acquired cellular spectrum in the early 1980s, and in 1987 the AT&T Wireless subsidiary started as McCaw Cellular Communications. The company was sold to Cingular, but then later reacquired when AT&T merged with a former Bell subsidiary (SBC) in 2006. Since 2013, AT&T has held a steady 30-percent market share of cellular sector, second behind Verizon and ahead of Sprint, T-Mobile, and regional service providers. In addition to holding an attractive cellular market share, AT&T has expanded to become a media conglomerate, acquiring satellite television operator Direct TV in 2015 and Time Warner in 2016.

There are interesting lessons to be learned from the internet of things (IoT) upheaval. As we look at the modern tech giants, we observe constant change and growth. Companies such as Apple, Amazon, Microsoft, and Google are known for adaptation. If they can't build something quickly enough to execute their vision, they acquire smaller innovative companies that can. Their focus is on the customer experience and they deliver products and services that customers feel they must have. They have strong brand recognition with such items as the Amazon smile, the Google G, and the Apple apple logos.

In summary, important lessons can be learned from past monopolistic upheaval. Failure to operate efficiently, innovate, or adapt will eventually topple even the biggest monopolies. Creating strong vision, unleashing new technology, and anticipating customers' needs can create long-lasting value and customer loyalty. NWPPA

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