

## OnLine Case 14.1

### Amstrad

*The story of Amstrad is really the story of Sir Alan Sugar who in recent years has become a business celebrity through his involvement with the BBC TV series 'The Apprentice'. His story is that of an entrepreneur who has been very successful but who, with the wonderful benefit of hindsight, has maybe not always made the 'best' decisions'. The question arises: where things haven't worked out quite as they should, was it the strategy or the implementation that should be discussed.*

Amstrad, the UK-based producer of personal computers and other electrical and electronic products, was run from 1968 until 2008 by its founder, entrepreneurial businessman Sir Alan Sugar, who, until he stepped down in 2001, was also the chairman and leading shareholder of Tottenham Hotspur football club for some ten years. Sugar has since commented that his involvement in football in the 1990s caused him to 'take his eye off the ball at Amstrad' at a critical time in its development. Amstrad was floated in 1980 but, when Sugar tried to buy it back in 1992 – offering investors a lower price per share than they had paid originally – he was frustrated by the company's institutional shareholders. Corporate and competitive strategies have changed creatively over the years, but Amstrad has experienced a number of implementation difficulties.

Amstrad's real success began when Sugar identified new electronics products with mass market potential, and designed cheaper models than his main rivals were producing. Manufacturing was to be by low-cost suppliers, mainly in the Far East, supported by aggressive marketing in the West. Expenditure on high-profile marketing was possible because little or no capital was tied up in plant and machinery. Central overheads were kept low and potential suppliers were 'played off against each other in order to reduce direct costs'. Sugar was innovative though, launching the first stacker hi-fi system that required only one single plug – typically each part of the stack had its own plug attached. Once he broke into the word processor market he was extremely successful.

Sugar did not have a background in engineering, and when he bought Sir Clive Sinclair's computer business in 1986 he is reported to have said: 'For God's sake, Clive, I don't care if they have rubber bands in them as long as they work'. Instead, Sugar has a flair for understanding the *external* design requirements of electronic products and the price points that will attract large numbers of customers.

In 1988 the flexibility that Amstrad had built into this strategy turned from a strength to a weakness – for one thing Amstrad had to recall large numbers of PCs – with a consequent impact on the company's reputation. There were five main reasons for this:

- In 1987 there was a worldwide shortage of memory chips, essential components for Amstrad. Some chip prices were doubled and others trebled, and in order to maintain production Amstrad had to pay whatever

suppliers asked. The production of certain products was cut back deliberately.

- The launch of a new personal computer was delayed because a sophisticated chip, designed by Amstrad, failed to work when full production began.
- Labour shortages in Taiwan led to a reduced supply of audio products.
- A joint venture with Funai of Japan for the production of videos in the UK took off more slowly than anticipated. Previously all Amstrad's videos had been manufactured for them in Japan, by Funai.
- Amstrad established its own distribution network in West Germany, replacing an existing agreement with a third party. However, the previous distributor was left with surplus, unwanted, stock which it sold off cheaply, undercutting Amstrad's own price.

### **Changing strategies**

As a consequence Sugar began to move production to higher cost locations in Europe and Amstrad became a manufacturer. However, the recession of the early 1990s affected Amstrad's sales and the company traded at a loss for the first time in 1991–92; it was to record three consecutive years of losses. Sales of personal computers suffered when manufacturers of higher quality and more expensive machines, including IBM and Compaq, slashed their prices to try and stimulate demand and Amstrad's competitive edge (its price advantage) was lost. Alan Sugar's dilemma was that if he withdrew from the market he had nothing really new to replace PCs.

Amstrad had earlier withdrawn from computer games, unable to compete successfully with the aggressive Nintendo. Satellite dishes (introduced in 1988), however, seemed safer with continental sales buoyant; and the increasing involvement of BSkyB in major sporting activities (exclusive coverage of the cricket world cup and live football from the Premier League) augured well for the 1990s. Amstrad's word processors and fax machines (introduced in 1989) were continuing to sell satisfactorily; and although demand for video cassette recorders (VCRs) had fallen, Amstrad had successfully innovated a new double-decker machine which allows users to edit their own tapes and to record from two television channels at the same time. The company had launched a new lap-top computer in 1991.

Sugar's initial reaction was to consolidate and to minimize inventories in order to strengthen Amstrad's balance sheet. He commented: 'we have no intention of moving into technology-led businesses or the high end of the market. Our vocation is always in the lower end of the market'.

The appropriateness of the strategy for the 1990s was questionable. Although new electronics products were in the development pipeline, Amstrad's basic problem was that the markets in which it competed were already crowded. It needed to find new market niches with real growth potential. It was at this stage, and faced with these issues, that Sugar attempted unsuccessfully to reprivatize Amstrad.

Late in 1993 Amstrad acquired Viglen, a rival manufacturer of personal computers, but a company which focused on direct sales and corporate customers. Within a year Amstrad had reduced its high-street sales by withdrawing its products from Dixons, whose margins, it claimed, were too

low. To compensate, Amstrad began a direct-selling operation, using the expertise that it acquired with Viglen.

Amstrad bought two other businesses. First, it acquired the loss-making Danish manufacturer of cellular telephones, DanCall, and entered this fast-growth market. DanCall was a high-technology business; Amstrad could offer complementary skills in mass production. Second was a controlling interest in Betacom, another telephone equipment company.

## **Restructuring**

Also in 1994, Sugar recruited David Rogers from Philips to be his new chief executive and to take over some of the strategic leadership responsibilities. Rogers was mainly responsible for the new businesses, but his brief was to:

- help to introduce more robust management systems
- integrate the new acquisitions to achieve synergies
- help determine new growth areas, and
- foster new strategic alliances that would reduce Amstrad's dependency on personal computers. One alliance was with an IBM subsidiary that manufactured ink-jet printers, and which Amstrad later bought.

Amstrad was restructured into three divisions: ACE (Amstrad Consumer Electronics), personal computers and telecommunications. By early 1995 Amstrad was again profitable, but ACE was making losses. ACE was then split into two divisions, one which would focus on buying-in and trading low-price products, mainly from South-East Asia, and one whose main role was to spot and develop new opportunities. ACE was cut back at the beginning of 1996 with a number of job losses.

Late in 1995, history also repeated itself in one respect – new DanCall products were delayed. At this time, after just 18 months with the company, Rogers resigned.

In June 1996 it was reported that Amstrad had been having discussions with Psion, and that Psion was likely to launch an acquisition bid. Psion, founded in 1980 by an academic turned entrepreneur, David Potter, was best known for its palm-size computer diary/organizer. Psion's products were typically high added value and high margin, and the real synergy was thought to be between Psion's data management competencies and DanCall's competencies in mobile telephone technology. New opportunities for combining data and voice technologies were believed to exist. Commentators assumed that Viglen would be retained as a stand-alone subsidiary but that ACE would be divested. David Potter commented: 'Psion has no interest in the consumer electronics side'.

The proposed acquisition of Amstrad by Psion foundered when Alan Sugar refused to accept a price below 'that which he believed Amstrad was worth'. Psion was offering 200 pence per share.

## **Corporate split**

In April 1997 Amstrad sold DanCall, the Danish mobile telephone business that it had acquired in 1993, to the German company Robert Bosch. Just one month earlier, DanCall had announced the launch of a typical Amstrad

product. Its new and innovative mobile phone could be used interchangeably in Europe and America; previously, separate handsets had been required to cope with different transmission systems.

Two months later, in June, Alan Sugar announced that Amstrad would be split up during the summer and two separate companies formed. Viglen Technology would be focused on personal computers; Betacom (which had already absorbed the limited remains of Amstrad's consumer electronics activities, its original business), and which was now built around telecommunications, would comprise (and be known as) the new Amstrad.

Shareholders would be given:

1. One Viglen share for every existing Amstrad share. Because Viglen had no direct competitor in the UK it was a difficult business to value. Analysts' preliminary predictions varied between a value of 50 pence and 110 pence per share. When they opened in August 1997 the early price was around 70 pence
2. A pro-rata distribution which reflected Amstrad's 70% shareholding in Betacom. Assumed value: 28 pence per existing Amstrad share
3. Loan notes, convertible for cash in June 1998, worth 163 pence per share
4. 'Litigation vouchers' which would entitle holders to a proportion of any court awards arising from outstanding cases against two suppliers. The estimated worth at this time was 110 pence per Amstrad share, but the eventual settlement was 43 pence per share. The litigation concerned two suppliers of disc drives; Amstrad blamed faulty parts for the demise of its PC business at the end of the 1980s.

The value of this combined package clearly exceeded the value of Psion's offer. Interestingly, when Alan Sugar tried unsuccessfully to buy Amstrad back from its shareholders in 1992, he was offering just 30 pence per share.

Alan Sugar would remain as chairman of Amstrad but become a non-executive director of Viglen, which had been managed independently ever since its acquisition. Sugar retained a 34% shareholding in Viglen and he personally received over £100 million from the break-up.

A number of new products that Amstrad trialled during the 1990s – including keyboards and a body massager – were not successful.

All of Sugar's businesses – including his growing property portfolio and an aviation charter company (Sugar himself is a keen pilot and owner of his own aircraft) – were held in a holding company, Amshold.

### **The new Amstrad**

From the beginning, the new Amstrad seemed to have a logical growth path – digital television decoder boxes, a natural extension from satellite dishes, which Sugar had been asked to produce by Rupert Murdoch (Sky). But in February 1999 Amstrad launched a new generation of consumer products. Its 'Phone Book Databank' was a telephone with a QWERTY (computer) keypad – up to 500 numbers could be input and stored. The phone also had an integral palm-size organizer. It was priced at under £100.

A year later Amstrad followed this with a new e-mail business, called e-m@iler. The business was built around telephones with e-mail access, courtesy of an integrated screen and keypad. Dixon's bought a 20% stake in this new business. Alan Sugar's earlier disagreement with the retailer over prices and margins was no longer an issue. The phones were sold below their cost price – Amstrad had an agreement with British Telecom, through which it received a share of the call revenues.

In 2000 Amstrad opted to re-enter the mobile phone market with a range of pay-as-you-go telephones, which it would sell to just one network operator in any one country. Amstrad had sold its previous mobile phone business to Bosch in 1997, when it signed an agreement to stay out of the market for three years. However a supply delay meant the lucrative Christmas 2000 sales opportunity was missed.

Amstrad was profitable in 2001, but set-top boxes were subsidising the [e-m@iler](#). Things were different a year later when the company traded at a loss. Sales of set-top boxes had been adversely affected by the switch from analog to digital television. Sugar, however, was not one to walk away from a setback and a challenge. He launched an upgraded model in February 2002 and then, a year later, he halved the prices to under £50 per unit. By the end of 2003 the [e-m@iler](#) was making money. Moreover a third generation model was already in the pipeline. In 2004 Amstrad launched a new videophone – it was small, desk top size, providing email plus internet functions with a colour screen for video conference calls – priced at £99.00.

In 2005 sales of these various electronics products were disappointing, but Amstrad won a new contract for television set-top boxes from Sky Italia. Developments in personal video recorders linked to Sky Plus, where recording is straightforward and viewers can also pause live programmes – promised a healthier future. Later in 2005, and linked to the first Apprentice winner, Amstrad launched the Integra healthcare system – a home electronic beauty therapy.

In 2007 Sugar sold Amstrad, which was now largely set top boxes, to BskyB for £125 million. 75% of Amstrad's revenue came from BskyB. It has been commented that at its peak Amstrad had been valued at ten times this sum. Sugar would stay on for a period to secure the hand-over. He finally retired from Amstrad in Jly 2008.

## **Viglen Technology**

Viglen, meanwhile, was also progressing. In October 1997 an agreement was reached with Microsoft for jointly branded PCs to be sold through Dixons. This represented a first for both organizations. It was the first time that Microsoft had allowed its name to be linked with a particular PC, and it was the first time Viglen had used independent distribution rather than sold direct.

In December 1998 Alan Sugar made a bid for the remaining Viglen shares and he ended up with a 72% shareholding and control. In January 2000 Viglen announced the launch of an investment fund to support embryo start-up proposals for products directly linked to Viglen's business interests. At roughly the same time the name was changed to Learning Technology.

The company was taken private in 2002 when Sugar bought the remaining 28% of the shares. The business would now focus on computer services for the education sector.

**Question:** How might you judge the relative success of Amstrad's strategy – both ideas and implementation – over its 40 plus years of life?