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HOW A.T. CROSS REWROTE ITS FUTURE

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By Professor Seán Meehan and David Gray – March 2014

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The story

The recent \$270m acquisition by Essilor of Costa Inc, which owns the sports sunglasses brand Costa del Mar, was the culmination of a remarkable and unlikely transformation of AT Cross, the 165-year-old US company known for making fine writing instruments.

Back in 1999, when David Whalen became chief executive of AT Cross, the company was contemplating a sea of red ink. Revenues had fallen by nearly half from a decade before and attempts to catch the digital wave with products such as a digital notepad had failed. The market value of the company had slumped to \$65m from a peak of more than \$440m.

The challenge

AT Cross's pens had long been coveted status symbols and popular gifts worldwide. But the company was stuck in a low-growth category and remained a fourth-quarter business, heavily dependent on year-end gift-giving. Its traditional distribution channels of stationers and speciality shops were also under pressure from the rise of office superstores. Stabilising the core writing instruments business and extending the Cross brand into personal accessories – such as business card holders, day planners and watches – helped end a string of yearly losses.

These moves alone, however, were unlikely to sustain growth or fulfil Mr Whalen's commitment to build shareholder value.

The strategy

Seeking to diversify into new growth areas and redress the imbalance of the seasonality of sales, Cross launched a search for acquisitions that culminated in 2003 with the \$10m purchase of Costa del Mar, the US-based maker of high-end polarised sunglasses. Founded 20 years earlier by a group of fishermen, Costa had a small but loyal following among people out on the sea in boats.

It was a sector that Mr Whalen, formerly head of Ray-Ban's North American division, knew well. The market for high-performance sunglasses was highly fragmented, and he saw an opportunity to expand the undercapitalised Costa outside its traditional market in the southeast of the US and to a wider range of customers.

Mr Whalen brought in industry veteran Charles McDonald to run the resulting Cross Optical Group and to establish new regional and national distribution channels. Implementing a strategy of narrowly focused segmentation – that is, specialised market niches rather than going after the whole "sport/performance" category – Cross bought Native Eyewear for its line of high-performance sunglasses for mountain sports enthusiasts. The company expanded into prescription sunglasses, as well as branded apparel such as caps and shirts, while continuing to seek opportunities for additional, growth-oriented acquisitions.

In 2005, Mr Whalen asked chief finance officer Kevin Mahoney to lead Cross's restructuring and acquisition efforts and to strengthen the balance sheet to enable investment in new growth.

Writing instruments and other Cross-branded products were consolidated in the Cross Accessory Division. Using its well-known and respected brand, Cross expanded its online retailing, pushed into new emerging markets, and pursued licensing agreements for accessories sold under the Cross name. Meanwhile, the new team relentlessly took costs out of the business – for instance, by moving pen production to Asia, freezing the employee pension plan and even selling its Rhode Island headquarters in 2007.

The results

Strong double-digit revenue growth in the optical business fuelled steady improvement in earnings per share. Targeted investment, diversification and cost management meant it was well placed to weather the global recession and even to sustain growth in the sunglasses business throughout 2008 and 2009, vastly outperforming the category. The company repurchased nearly a quarter of its stock from shareholders in the depths of the recession at less than \$4 per share.

Despite the turnaround, stock price performance remained lacklustre: Cross shares received scant analyst coverage and were thinly traded. The management team sought to shed the historic pen business – which by now accounted for half of revenues – to focus on the high-growth optical group.

In September 2013, the writing products and accessories division, along with the Cross name, was sold to a private equity firm for \$60m.

At the end of 2013, the company – renamed Costa Inc – accepted an unsolicited offer by French eyewear maker Essilor at \$21.50 per share.

The lessons

If the rules of the game change, companies need to add strategic capital redeployment to their playbook.

When faced with constrained, low-growth prospects in traditional businesses, leaders have more options than merely slogging it out head-to-head, copying someone else or simply folding. But shifting into new areas requires steely nerves, deft negotiation, and tremendous trust among the management team in order to demonstrate the growth logic to investors.

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