

Chapter One Case Teaching Notes: Sunseeker International Ltd.

Industry context and learning focus

Competitive, high-value, low-volume, transnational industry. Sunseeker has three main UK motor yacht competitors but there are significant others in many other countries. Focus on introducing strategy and its implications.

Major themes that can be introduced in lectures or class discussions

- How industries start, emerge and grow
- The nature of demand for prestige products that sell only a few thousand a year worldwide
- The nature of enterprise-level strategy for enterprises in such industries (e.g. using the 5P or process frameworks outlined)
- Critical factors for continuing success in the yacht industry
- Characteristics of enterprises exemplified by Sunseeker
- Why and how the strategy of a particular enterprise such as Sunseeker might have to change over time
- Perspectives (frames of reference) that inform strategic management

Suggestions for prior preparation by students and class review

Questions linked to the above themes and the specific questions posed in the case.

Strategic issues particular to the enterprise(s) and context described

- Entrepreneurial foundations: major yacht-building enterprises generally began as start-ups founded by enthusiasts who were later obliged to operate in a more formal, organised way as their businesses grew. Some are still quite small and remain privately-owned, others are (part of) public corporations or consortia (shared corporate ownership).
- Factors critical in the survival and growth process include:
 - Sustainability of long-term demand
 - Degree of competition to satisfy this demand
 - Leadership and strategic management styles and processes.
 - Stakeholder issues including ownership and sources of influence. Companies can be owned by families that pass management succession through the generations, ensuring greater continuity than is often seen in public companies.
- The market for new super-yachts is only a few thousand sales a year. Individual firms may build only tens or hundreds a year. Private buyers are relatively or ultra wealthy, although many yachts are actually financed by loans. Very large yachts are often acquired by corporations rather than individuals.

- Sales distributors are key intermediaries, cultivating interest with potential buyers and encouraging repeat business.
- Yachts have long life-spans, creating supply of cheaper pre-owned yachts. To a significant degree the latter therefore compete with new yachts for buyers' attention, especially in recessionary times.
- The economic component of the macro environment, notably the current stage of the economic cycle, is a critical determinant of new and pre-owned demand. Levels of inflation, currency exchange rates etc also affect demand and the competitiveness of individual suppliers.
- Demand has been rising significantly in the BRIC countries (Brazil, Russia, India, China) whose large populations are characterised by extreme wealth differences and a rising number of dollar millionaires and billionaires.
- Yacht-building has tended to remain craft-based and labour-intensive, given the comparatively small units of output. An enterprise would need to make substantial capital investment to mass produce of (tens of) thousands of smaller boats a year. Efficiency leads to lower costs and competitive prices. If successful, such investment could be a very profitable outcome.

Brief notes on the specific questions posed at the end of the case

1. Why has Sunseeker survived so long and grown so consistently?

Sunseeker has survived so long and grown very consistently up to the time of the case (2008/9) for a number of reasons, arguably:

- A clear focus on its basic purpose allied to ambitious, but realistic future intent (vision)
- Buoyancy of demand during the 2000s
- Consistency of strategy in support of its mission
- Predictable behaviour of competitors – stable industry context
- The long-term strategic perspective provided by Robert Braithwaite's leadership, protected by private ownership

2. What arguments would there be for and against Sunseeker changing its long-standing strategy to, for example:

- a. Compete more aggressively at the 'budget' end of the market?
- b. Concentrate on Europe or aim for global leadership in the motor yacht industry, perhaps by merging with a major rival?
- c. Become a public company (plc)?

The main arguments for Sunseeker **not** changing its long-standing strategy include:

- The considerable evidence of its past success deriving from continuity and consistency

- Anticipated medium and long-term rising demand, not only from established markets for high quality, high value yachts, but also from the BRIC nations and other pockets of wealthy, status-seeking demand around the world
The main arguments for **change** include:
- Vulnerability arising from dependence on a single demand segment that can be extremely volatile in the short term
- Increasing competition from the biggest worldwide players and potentially from new enterprises in the BRIC nations to meet local demand
- The age of the CEO with whom the present strategy is associated (raising unanswered questions about succession planning).

Each of the options for strategic change has pros and cons. Becoming a public company is not really a strategy, but a means to acquire new sources of equity funds for future investment and expansion. What that expansion might be remains a crucial question. Moreover, as many entrepreneurial individuals and families have found (e.g. the Haas family that owns Levi Strauss Inc. and Sir Richard Branson, founder of the Virgin empire) publicly-owned enterprises dilute and may even eliminate their control, sometimes with disastrous consequences.

Sunseeker has developed an enviable reputation as a prestige supplier that has moved progressively ‘upmarket’ over many years, so a more ‘downmarket’ could significantly damage its perceived high status. It would probably require investment in different production facilities to enable it to compete on price with other high volume, budget suppliers. Global leadership in high value yachts is a strategy more consistent with its history, its skills and present status, though it too has risks. A merger could provide greater scope and scale, but many questions over ownership and future management would need to be settled. To be acquired by a much bigger, resource-rich enterprise wishing to diversify might be even more plausible, although Braithwaite would need to be convinced.

Factual update on subsequent developments

The case describes the circumstances just prior to the global financial crisis. In 2008 Sunseeker featured in the Sunday Times top 100 list of most profitable private companies. The global financial crisis from mid 2008 quickly changed that. Many yacht owners’ wealth depended on their financial investments, which suffered badly. Survival for the yacht companies was the main priority as industry sales declined substantially to mid 2010 (see: an article by Tom Bawden at Guardian Online 29/12/2010).

Sunseeker invested £6.8million in a key sales distributor, resulting in a 2008/9 loss of 9.1million. The distributor later entered voluntary liquidation and was bought by two other Sunseeker distributors. In June 2010 a consortium of investors bought Sunseeker International for £25m, including £40m of debt refinancing, with Braithwaite still at the helm. Can he (and will he want to) retain control of the enterprise and what will happen if he goes?

Fairline, owned by private equity investment house 3i, also saw its sales drop from £132 million in 2008 to £90-100 million in 2010 when it was thought only to be breaking even. Princess Yachts, was sold in June 2008 to a consortium headed by Bernard Arnault, the French billionaire who runs the LVMH luxury goods empire, saw its pre-tax profit fall from £26.6 million in 2008 to £18.4 million in 2009.

By late 2010 a modest recovery seemed a possibility in 2011, although fears of ‘double-dip’ recession remained. Yachts are purchases that can be deferred, especially if one wishes to avoid being labelled as a ‘fat cat.’ Still, there are hopes in the industry that the worst is over and that the boat manufacturers are starting to enjoy a period of greater stability.

Chapter One Case Teaching Notes: Friends Reunited

Industry context and learning focus

Fast-changing and fast-growing, web-based ‘social networking.’ Focus on the challenge of finding and implementing a sound ‘business model’ (a sustainable basis for profitable revenue-generation), addressing enterprise direction, capabilities, competitiveness over the medium/long-run.

Major themes that can be addressed in lectures or class discussions

- Start-ups and the value (or otherwise) of prior research into future prospects
- Applying the ‘design-plus’ framework
- Using the 5 Ps framework to distinguish longer-term from shorter-term strategies
- Critical factors for medium/long-run viability/sustainability, including first-moving; branding; investment in and upgrading/enhancing of the revenue-generating business model over time
- Ethical and other issues arising in the shift from entrepreneurial to professional frame of reference and plc. ownership
- Capabilities needed to run successful enterprises and whether they can be acquired or have to be developed patiently over time.
- The reasoning behind and wisdom (or otherwise) of DC Thomson’s acquisition
- Possible future strategies for Friends Reunited (FR) as part of DC Thomson.

Suggestions for prior preparation by students

- Any of the above themes and the questions posed at the end of the case.
- Reflections on the link (if any) between the functionality for users and the success of leading social network sites such as Facebook and Twitter.

Strategic issues particular to the enterprise(s) and context described

- Need for any new website to gain wide awareness and popularity to drive membership numbers (‘critical mass’) and continued usage if it is to thrive.
- Long-term sustainability seems to depend on fulfilling a specific (specialized?) purpose: for example, Lastminute.com provides discounted travel and other tickets; WAYN is self-styled as the ‘largest travel and lifestyle dedicated social platform,’ which has attracted millions of young, travel-minded people around the world who want to keep in touch while on the move and meet new friends. By contrast, FR might be considered a solution to essentially a one-time ‘problem’ of reconnecting with old school friends – after initial contact they can continue to be touch directly or via Facebook (indeed they can now find each another that way).
- However, in social networking first-moving is of questionable importance, given that well-resourced, relatively early followers can succeed by developing a better understanding of what users value and by learning from the shortcomings of the pioneers (e.g. Expedia?).

- ITV's takeover of FR failed to add real value, so did not lead to sustained growth. The link with TV shows in particular did not create the expected 'synergy' (beneficial interdependence), for reasons that can be debated in class.
- Strategies for the future have to start with objective assessments of current realities, not idealised perceptions. Was DC Thomson guilty of over-idealising both FR's position and prospects and its own capabilities in the new media?
- Many commercial websites offer evidence that the business model often changes and indeed has to change in order to survive. Thus FR cannot be considered stable, let alone durable until it establishes a robust, defensible business model.

Brief notes on the questions posed at the end of the case

1. Analyse the competitive position of the DC Thomson social network websites using currently available facts and your own knowledge of recent developments by other social networking sites.

DC Thomson is a privately-owned Scottish company operating as a rather traditional, newspaper and (down-market) magazine publisher, with (according to the Financial Times) a secretive culture. In recent years the parent company's advertising revenues have declined, circulation on some magazines has reduced and it has closed a printing works. By 2007 it had embarked on a process of updating and expanding its portfolio of business activities through internet services, via a subsidiary called Brightsolid, formerly Scotland Online (founded 1995). In the year to March 2007 Brightsolid incurred a net loss of almost £2 million on sales of £4.66 million. A new chief executive Chris van der Kuyl, who described himself as a 'digital media entrepreneur' joined in October 2007. The declared intent was to develop a profitable business beyond niche market genealogy services (FindMyPast.co.uk) in online and hosting services for the financial, oil and gas sectors. The subsequent acquisition of FR could suggest unwarranted opportunism and a reaffirmation of intent to maintain both consumer and business-to-business (B2B) activities.

In short, the competitive position of the DC Thomson parent company seems comparatively weak, dependent on the Scottish market with an 'old media' portfolio of regional newspapers and tired magazine titles. Its foray into web services remained unprofitable in 2009. D.C. Thomson's apparent lack of progress in (and arguably, poor understanding of and capabilities to run) the 'new media' may be compounded by a misguided belief that it can succeed concurrently in consumer social network websites and professional web services. While the core technological knowledge may be the same, they are very different propositions with no obvious marketing synergies. The US-owned Ancestry website poses a significant threat to Brightsolid's genealogy offerings, being better known and much better resourced.

2. What creative insights could you offer DC Thomson regarding a strategy for social networking?
What strategic options would you recommend considering further?

A tough question! FindMyPast and Genes Reunited appear to have much in common. They rely on a variety of public records that serious genealogists can access in other ways, both online and via inspection of paper records. The FindMyPast originators in particular did considerable work before enabling online access by others, which represents a sunk investment cost. Its main offices are in London (others are outside London and in Scotland). It presents itself as serious, but (in marked contrast to other parts of D.C. Thomson) friendly and accessible. Both websites have a charging business model that in principle makes them viable. Given Ancestry.co.uk, however, it is debatable that both brands can prosper. Nor is it obvious to the casual observer which service offers the most. The identification of a USP (unique selling proposition) seems vital, although rationalisation of the user interfaces as well as back offices functions and locations are a priority to reduce costs. Because Friends Reunited failed to offer a compelling reason to subscribe, ITV scrapped user fees, but to rely on advertising revenue is a high risk in an increasingly crowded online marketplace. Moreover, many schools, universities and colleges whose members FR aims to attract now offer equivalent services.

It is difficult to believe that directors of the parent company really understand what all these apparently similar, but differing web activities need for sustained success. Just as the entrepreneurial founders of websites usually aim to ‘cash out’ after a time, it may be D.C. Thomson’s best option will be to rationalise, enhance as far as possible and sell the consumer portfolio to another web-savvy operator, perhaps retaining a minority stake in the hope that a new owner takes it on to greater heights.

Factual update on subsequent developments

The Competition Commission consented to the acquisition of FR only in 2010, so DC Thomson (via Brightsolid) has had comparatively little time to consolidate a strategy for its consumer web businesses. Inspection of the respective websites offers some indications of shared ownership, but no obvious synergies and little evidence of enhanced appearance or functionality. Much may be going on behind the scenes, but progress in the marketplace may be proving elusive.

Chapter One Exercises and Questions for Further Study and Discussion

1. Create a word list that expresses your perceptions about strategy. Would this list have looked different before reading the chapter?

Most classroom responses in our experience tend to focus either on long range planning, tactics (as in game plans, rather than frameworks and conceptions to secure longer term survival sustainability) and (short-term) competitive gambits. The 5Ps offer other insights. Possible others include pioneering/prospecting; direction-setting/path-finding; various sporting metaphors. The 5Ps and the alternative frames of reference should make readers aware of the depth and variety of strategic conceptions.

2. Henry Ford’s strategy was essentially the product of his ‘single brain.’ Much more recently, the incoming chief executive of a struggling global corporation told his senior management team that ‘from now on, I will decide the strategy and you will do the implementing.’ Is this even a remotely realistic proposition?

Like many other aspects of organizational life, it seems that strategic management exhibits polar opposite postures (dichotomies), with periodic reversals or oscillations occurring between them, usually in response to changing external circumstances or changes in the top management team. This particular instance is the shift from decentralised to centralised managerial decision making and control, typically the result of (perceived) crisis.

3. Academic strategy research aims to describe observed phenomena, but also to develop theoretical principles with predictive use. To what extent does the complexity and unpredictability of human behaviour make this aim unrealistic? Discuss.

From a (scientific) research viewpoint, difficulty is no reason not to try to develop useful explanatory and predictive theories. Among the more rigorous attempts was the so-called Aston research into the determinants of organizational structures. Aldrich (1999) provides a more recent overview of theories of organizational behaviours and structures and how they evolve, with potential strategic relevance (Organizations Evolving: Sage). The question also raises the issues of the multiple levels and units of analysis that research may study. As a generalization, the broader the scope, the less detailed and the more generalised the findings, which may also be less obviously practical.

4. Explain the key differences between business level and corporate level strategies. What kinds of management skills does each require?

This question is treated in detail in chapter 10. The ‘business’ or enterprise level is intended to refer to a single organizational unit having relatively tightly-focused activities. In practice, this judgement is an empirical matter, though as a general proposition one would expect that the focal enterprise is operating within a single, defined industry sector or related sectors (as per chapters 3, 7 and 10). The essential differences are that corporate strategic management is concerned with determining the

portfolio of activities, (what domains are we – should we - be in) whether and how they interact to mutual benefit or synergy: what chapter 5 is refers to as ‘architecture’, a significant potential source of corporate advantage.

5. What reservations might you have about the ‘design-plus’ model of strategic management?

It is obviously a simplification and it has a clearly prescriptive or normative quality, i.e. it implies that this is how strategic management should be done. In particular, it seems to be grounded in the rational-planning frame of reference, which most enterprises of any size espouse, but do not necessarily practice. Even those academics who have concentrated on studying other frames of reference (e.g. Andrew Pettigrew on organizational power) may still emphasise essentially rational decision-making within that framework. The challenge for mainstream teachers of strategic management is that most students are current or aspirant managers who generally perceive the senior executive role being to plan and to control strategy; therefore they want and expect a clear framework that will help them ‘do’ strategy well. Another shortcoming of the ‘design-plus’ model is that it tends to appear as linear-sequential, well structured and orderly. We address this issue further in chapters 4 and 6.

6. How likely are an enterprise’s size and age to influence its dominant frame of reference? What evidence can you find?

7. Obtain more facts about BBC activities and organization from its website. The Commercial Businesses group engages in for-profit activities. How compatible is this with the BBC’s status? What key issues should its executives address to help decide if they should sell it or invest further in it?

In recent years the BBC has been criticised from various quarters, notably private sector competitors and government for the breadth of its activities and its extension into commercial operations, exploiting its market power and captive income. Although the proceeds of commercial sales may be reinvested in programme making, it has reined back on some of these to avoid continued criticism of creating unfair competition. In the period of recession and austerity it has also been obliged to refocus on core activities and how these may be accomplished more efficiently. The result has been relocation of some activities outside London, headcount reductions, curtailing of the pay of top performers and executives, streamlining and refocusing on what it defines as core activities. Inevitably many of these have proved highly controversial with viewers or other constituencies.

8. Why were the respective strategies of General Motors and Swissair not challenged more effectively well before they failed? (It may help here to consider the identity of their main stakeholders and their respective beliefs and interests).

Obviously shareholders such as the large pension funds cannot have been impressed with GM's performance for a long time. But for both GM and Swissair, their respective governments have been key stakeholders. Of the former it was said for many years that 'what is good for GM is good for America', while Swissair was the Swiss national airline or flag carrier, responsible for maintaining the nation's prestige abroad. Understandably, then, these key stakeholders were perhaps much too slow to criticise and kept anticipating improvements that did not materialise. Given the tough, international competitive circumstances in motor vehicles and airlines, governments rarely have the answers to declining commercial performance. Their subsidies and other 'soft' forms of support they may choose to provide merely suppress the need for reform while they often obstruct tough managerial initiatives progress when other stakeholders such as employees' trade unions protest and threaten to create other problems such as strikes, loss of electoral popularity etc..

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Major themes that can be introduced in lectures or class discussions

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- Factors critical in the survival and growth process include:
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- The economic component of the macro environment, notably the current stage of the economic cycle, is a critical determinant of new and pre-owned demand. Levels of inflation, currency exchange rates etc also affect demand and the competitiveness of individual suppliers.
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The main arguments for Sunseeker **not** changing its long-standing strategy include:

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Each of the options for strategic change has pros and cons. Becoming a public company is not really a strategy, but a means to acquire new sources of equity funds for future investment and expansion. What that expansion might be remains a crucial question. Moreover, as many entrepreneurial individuals and families have found (e.g. the Haas family that owns Levi Strauss Inc. and Sir Richard Branson, founder of the Virgin empire) publicly-owned enterprises dilute and may even eliminate their control, sometimes with disastrous consequences.

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Suggestions for prior preparation by students

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- Reflections on the link (if any) between the functionality for users and the success of leading social network sites such as Facebook and Twitter.

Strategic issues particular to the enterprise(s) and context described

- Need for any new website to gain wide awareness and popularity to drive membership numbers (‘critical mass’) and continued usage if it is to thrive.
- Long-term sustainability seems to depend on fulfilling a specific (specialized?) purpose: for example, Lastminute.com provides discounted travel and other tickets; WAYN is self-styled as the ‘largest travel and lifestyle dedicated social platform,’ which has attracted millions of young, travel-minded people around the world who want to keep in touch while on the move and meet new friends. By contrast, FR might be considered a solution to essentially a one-time ‘problem’ of reconnecting with old school friends – after initial contact they can continue to be touch directly or via Facebook (indeed they can now find each another that way).
- However, in social networking first-moving is of questionable importance, given that well-resourced, relatively early followers can succeed by developing a better understanding of what users value and by learning from the shortcomings of the pioneers (e.g. Expedia?).

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1. Create a word list that expresses your perceptions about strategy. Would this list have looked different before reading the chapter?

Most classroom responses in our experience tend to focus either on long range planning, tactics (as in game plans, rather than frameworks and conceptions to secure longer term survival sustainability) and (short-term) competitive gambits. The 5Ps offer other insights. Possible others include pioneering/prospecting; direction-setting/path-finding; various sporting metaphors. The 5Ps and the alternative frames of reference should make readers aware of the depth and variety of strategic conceptions.

2. Henry Ford’s strategy was essentially the product of his ‘single brain.’ Much more recently, the incoming chief executive of a struggling global corporation told his senior management team that ‘from now on, I will decide the strategy and you will do the implementing.’ Is this even a remotely realistic proposition?

Like many other aspects of organizational life, it seems that strategic management exhibits polar opposite postures (dichotomies), with periodic reversals or oscillations occurring between them, usually in response to changing external circumstances or changes in the top management team. This particular instance is the shift from decentralised to centralised managerial decision making and control, typically the result of (perceived) crisis.

3. Academic strategy research aims to describe observed phenomena, but also to develop theoretical principles with predictive use. To what extent does the complexity and unpredictability of human behaviour make this aim unrealistic? Discuss.

From a (scientific) research viewpoint, difficulty is no reason not to try to develop useful explanatory and predictive theories. Among the more rigorous attempts was the so-called Aston research into the determinants of organizational structures. Aldrich (1999) provides a more recent overview of theories of organizational behaviours and structures and how they evolve, with potential strategic relevance (Organizations Evolving: Sage). The question also raises the issues of the multiple levels and units of analysis that research may study. As a generalization, the broader the scope, the less detailed and the more generalised the findings, which may also be less obviously practical.

4. Explain the key differences between business level and corporate level strategies. What kinds of management skills does each require?

This question is treated in detail in chapter 10. The ‘business’ or enterprise level is intended to refer to a single organizational unit having relatively tightly-focused activities. In practice, this judgement is an empirical matter, though as a general proposition one would expect that the focal enterprise is operating within a single, defined industry sector or related sectors (as per chapters 3, 7 and 10). The essential differences are that corporate strategic management is concerned with determining the

portfolio of activities, (what domains are we – should we - be in) whether and how they interact to mutual benefit or synergy: what chapter 5 is refers to as ‘architecture’, a significant potential source of corporate advantage.

5. What reservations might you have about the ‘design-plus’ model of strategic management?

It is obviously a simplification and it has a clearly prescriptive or normative quality, i.e. it implies that this is how strategic management should be done. In particular, it seems to be grounded in the rational-planning frame of reference, which most enterprises of any size espouse, but do not necessarily practice. Even those academics who have concentrated on studying other frames of reference (e.g. Andrew Pettigrew on organizational power) may still emphasise essentially rational decision-making within that framework. The challenge for mainstream teachers of strategic management is that most students are current or aspirant managers who generally perceive the senior executive role being to plan and to control strategy; therefore they want and expect a clear framework that will help them ‘do’ strategy well. Another shortcoming of the ‘design-plus’ model is that it tends to appear as linear-sequential, well structured and orderly. We address this issue further in chapters 4 and 6.

6. How likely are an enterprise’s size and age to influence its dominant frame of reference? What evidence can you find?

7. Obtain more facts about BBC activities and organization from its website. The Commercial Businesses group engages in for-profit activities. How compatible is this with the BBC’s status? What key issues should its executives address to help decide if they should sell it or invest further in it?

In recent years the BBC has been criticised from various quarters, notably private sector competitors and government for the breadth of its activities and its extension into commercial operations, exploiting its market power and captive income. Although the proceeds of commercial sales may be reinvested in programme making, it has reined back on some of these to avoid continued criticism of creating unfair competition. In the period of recession and austerity it has also been obliged to refocus on core activities and how these may be accomplished more efficiently. The result has been relocation of some activities outside London, headcount reductions, curtailing of the pay of top performers and executives, streamlining and refocusing on what it defines as core activities. Inevitably many of these have proved highly controversial with viewers or other constituencies.

8. Why were the respective strategies of General Motors and Swissair not challenged more effectively well before they failed? (It may help here to consider the identity of their main stakeholders and their respective beliefs and interests).

Obviously shareholders such as the large pension funds cannot have been impressed with GM's performance for a long time. But for both GM and Swissair, their respective governments have been key stakeholders. Of the former it was said for many years that 'what is good for GM is good for America', while Swissair was the Swiss national airline or flag carrier, responsible for maintaining the nation's prestige abroad. Understandably, then, these key stakeholders were perhaps much too slow to criticise and kept anticipating improvements that did not materialise. Given the tough, international competitive circumstances in motor vehicles and airlines, governments rarely have the answers to declining commercial performance. Their subsidies and other 'soft' forms of support they may choose to provide merely suppress the need for reform while they often obstruct tough managerial initiatives progress when other stakeholders such as employees' trade unions protest and threaten to create other problems such as strikes, loss of electoral popularity etc..