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Recipes for success

No one has discovered a surefire ingredient for corporate profitability, it's true. But that's not to say companies haven't sought their own recipes—or best practices—to ensure the sweet taste of success.

By Carolyn Tang

There are no certainties, only probabilities on the search for success. You could spend hours studying literally hundreds of case studies involving thriving companies, foraging for the single factor that will guarantee a winner. But you just won't find it—there are too many variables. Whether launching a new product, improving operations or achieving a corporate turnaround, however, you can go a long way toward defining a set of best practices that will enhance—if not guarantee—your chances.

Success in corporate venturing In 2003, Dr. Stanley Stasch, Loyola University of Chicago School of Business, conducted a study of almost 30 new business ventures in a quest to identify characteristics associated with successful corporate product development. From there, a framework evolved, outlining keys to both success and failure. Each characteristic is slotted into one of five categories: organizational, market, product-related, environmental, and marketing and distribution. In this study, it was hypothesized that for every key success factor, there is a corresponding key success barrier.

To get a better idea of how the framework works, Stasch walks us through a case study—Hewlett Packard's (HP) introduction of the DeskJet printer—which hits at least one success factor in all five categories.

Under the category of "organization," the HP DeskJet venture collects two keys to success. First, the DeskJet operation was initiated as a skunkworks—the product was incubated not in Hewlett Packard's hometown of Seattle, but in Boise, Idaho.

A "skunkworks" is a group of people who, in order to achieve unusual results, work on a project in a way that is outside the usual rules. Often this is a team that assumes or is given responsibility for developing something in a short time with minimal management constraints. Typically, a skunkworks has a small number of members in order to reduce communications overhead, and is sometimes used to spearhead a product design that will later be developed according to the usual process. (Source: *Whatis.com*)

"Successful venturing seems to be associated with organizations that are spun off by the corporate parent, allowed to operate in a skunkworks remote from the corporate parent, or given much autonomy by the corporate parent,"

Stasch explains.

Second, the DeskJet venture had full management support, something that is often espoused, but not always in effect. “Upper management support appears to be a hallmark of successful venturing. Unsuccessful ventures appear to be characterized by the absence of such support,” Stasch contends.

Under the category of “market,” the DeskJet netted another success factor—leveraging Hewlett Packard’s knowledge of its target demographic. HP was well established in the desktop PC and peripherals market, and had extensive experience with DeskJet’s target consumer base.

What’s more, even though the DeskJet was treated as a skunkworks, Hewlett Packard protected its innovation by establishing barriers to market entry. “HP did that with a lot of patents that prevented Epson and others from trying to follow them into the inkjet market,” Stasch explains.

HP had an environmental advantage as well: At the time the DeskJet was introduced, the market was dominated by dot-matrix printers, an outdated technology easily unseated by the higher quality of the inkjet. Then, to seal the deal, Hewlett Packard again leveraged its market weight to obtain an advantage in the “marketing and distribution” category. The DeskJet secured merchandising placement on store shelves, right next to the leading Epson dot-matrix printer. “And HP had a better printer at a similar price. So they were able to convince retailers to put the inkjet side-by-side with the Epson dot matrix,” says Stasch.

While it’s not mandatory for a company to succeed in every category, Stasch explains, “If a company hits all or most of them, they probably have a good chance of successful, entrepreneurial new business venturing.”

	Keys to Success	Deterrents to Success
Organization	<ul style="list-style-type: none"> • Spinoff company/skunkworks • Management support/champion • Permissive development culture 	<ul style="list-style-type: none"> • Intra-company/sub-unit • Absence of management support • Change-resistant culture
Market	<ul style="list-style-type: none"> • Well-defined market segment • Accurate knowledge of consumers 	<ul style="list-style-type: none"> • Poorly defined or broad market segment • Poor knowledge of consumers
Product	<ul style="list-style-type: none"> • Product radical innovation • Meets consumer needs and expectations • Ability to recognize product • Establishing barriers to entry 	<ul style="list-style-type: none"> • Incremental improvement • Doesn’t meet consumer needs or expectations • Failure to recognize product potential • Failure to recognize potential competition
Environment	<ul style="list-style-type: none"> • First to market/new market • Established market infrastructure 	<ul style="list-style-type: none"> • Market follower • Lack of market infrastructure

Marketing & Distribution

- Independent sales force
- Proper distribution network
- Effective marketing strategy
- Appropriate pricing
- Existing sales force
- Poor distribution network
- Ineffective marketing strategy
- Inappropriate pricing

Source: *“Characteristics of Successful Corporate New-business Venturing: A Case Study Approach.” Presented at the 17th Annual UIC Research Symposium on Marketing and Entrepreneurship, August 14, 2003.*

Success in operations Operational efficiency is often defined as “doing more with less.” However, as Ronald Johnson, a partner with CSC National Supply Chain Solutions, points out, “Less of what?” Labor, capital or cash?

Johnson explains that for many years, efficiency was measured by the difference between the cost of labor or assets and the cost of capital. However, today’s CEOs and CFOs are savvier. They are recognizing the long-term advantages of investing in labor as opposed to operational assets.

“The traditional labor-versus-capital equation is dissipating in today’s global economy, where the cost of labor is significantly more variable,” says Johnson. “Labor is the ultimate flexible commodity. I can train someone to do a task today, and I can turn around and train them to do another tomorrow. But, when I invest in capital to do something, then that’s a sunk cost. And if technology evolves, or the market shrinks, my investment is suddenly outdated.”

This point is especially pertinent now as domestic companies are better equipped to tap into cheaper labor markets in geographical locations such as India, China and Mexico. “Throwing bodies at things, which in many respects seems a regression, is oftentimes just as cost-effective, or more cost-effective,” says Johnson.

However, operational efficiencies also exist outside the company and higher up the supply chain. To illustrate, Johnson looks to Cisco.

Formerly, Cisco Systems conducted a quality assurance process termed “assemble, load and test.” At the time, Cisco viewed this quality assurance check as one of its core competencies. However, when it realized that its third-party suppliers were better positioned, and even better qualified to fulfill this function, it relinquished this standing.

“They were able to stop doing it because their third-party suppliers were able to do it as effectively. That’s streamlining the process even more,” Johnson explains.

The third-party electronic contract manufacturers have since expanded their services to provide not only manufacturing capabilities, but also logistical management and quality assurance testing. In line with the theory of competitive advantage, these third-party suppliers added value without significant cost output. As a result, companies like Cisco took a closer look at what their core competencies were. And, as Johnson says, “If my manufacturing operation is no longer a competitive advantage, and I can produce it as competitively outside as I can inside, then why wouldn’t I do that?”

So how does a company go about streamlining its own internal processes? Two words: “Cost decomposition.” Boiled down, this means a company outlines its entire operational process, end-to-end, and examines the cost of each of the decomposed elements.

“Fundamentally, I have each element scattered out on a table or a whiteboard, and there could be 50, there could be 100, there could be 5. And I force-rank each element against the potential value of improvement,”

Johnson explains. You then utilize a traditional two-by-two matrix, he continues. One axis measures "opportunity" in terms of dollars, while the other measures "difficulty" against the same metric. "And basically, you do what we call the 'big easies,' which are the elements that are going to give you the biggest bang with the least amount of effort or obstacles, organizational change, or whatever it may be," Johnson explains. "And I don't meander from that quadrant." Once you've performed the initial run-through, the elements are re-plotted and the process continues.

Success factors for efficient operations management

- A clear and common understanding of the current process.
- A consensus on the process components that can yield improvement.
- Support for improvement teams that removes obstacles, while holding the team accountable for stated objectives.
- Top-to-bottom visibility of the actions planned.
- Top-to-bottom involvement on the improvement teams.
- Clear, simple measurement of the objectives, and of the contribution made to the total objective.

Source: Ronald Johnson, Partner, CSC National Supply Chain Solutions.

Success in corporate turnarounds In order to tell a good corporate turnaround story, you need to find a company that has previously failed. Ohio-based R.G. Barry Corporation (RGB), winner of the Turnaround Management Association's (TMA) 2006 Mid-size Turnaround Company of the Year award, and manufacturers of the Dearfoams® slipper, is just such a company.

RGB's 30-percent market share had deteriorated amid a tumultuous environment of department store consolidation. Further, the Dearfoams® brand had been increasingly displaced off store shelves by private label brands. "RGB also suffered from poor communications between the New York sales office, operations in San Antonio and administration in Columbus. In addition, its sales model was dysfunctional and outdated," reported a TMA press release.

RGB was not blind to what was happening, so the company created a three-year strategic plan, lowering labor costs by moving manufacturing to Mexico, broadening the product mix, selling non-core acquisitions and pulling out of the European market—all textbook survival strategies. Unfortunately, these efforts did little to help the balance sheet. "Revenues actually declined further, and RGB (had) operating losses of \$16.4 million during the three years," said the TMA.

But that was only the beginning of RGB's problems. In August 2003, an unexpected increase in inventory required a credit line increase. RGB's lender agreed, with the added provision that the company generate at least one dollar in 2003 earnings. An operating loss of \$8 million resulted in a loan default.

So, in January 2004, RGB retained The Meridian Group, a Pittsburgh-based private investment banking and management consulting firm. The turnaround team, along with the lender, visited the Mexican manufacturing plants and found them running at full capacity, despite full warehouses. "When the lender challenged the operations executive vice president, his reply was 'inventory was not his responsibility,'" according to the TMA release. With

that, the lender decided to call in the loan in five weeks, which itself led to a series of unfortunate events.

Mexican plant employees, fearful of dismissal without severance, took the plant manager hostage. RGB then prepaid the severance and the hostage was released. Simultaneously, there was a walkout strike during peak shipping season. Again RGB resolved the matter by posting a bond for the expected severance. However, the company's attorney in Mexico then absconded with the money. Given all the drama, RGB now required \$1 million a week to stay afloat.

Meridian stepped in with a dramatically different turnaround plan. The board realized that the current CEO and chairman, who had run the company for 40 years, was not the best candidate for the job. Consequently, RGB's board asked Meridian's Tom Von Lehman to step in as interim CEO to enact the plan, which set out to:

1. Establish a new marketing function guided by market research.
2. Focus on the 14 customers who generated 70 percent of sales.
3. Enforce limits on returns.
4. Move manufacturing from Mexico to China.
5. Simplify the product mix and reduce inventory.
6. Reduce highly paid vice presidents from 23 to 10.
7. Move all functions to Columbus with a showroom in New York.

"It was key for the company to understand where it really made its money," says Von Lehman. Historically, RGB's best brands were sold through major department stores like Federated-May, Lord & Taylor and Macy's. However, this market shrank as discounters like Target and WalMart started selling more slippers. Nevertheless, RGB continued to spend its time and money on department stores.

"When we did the profitability analysis, it was obvious RGB was losing money in the traditional department store segment of the market. Where they were really making the most profit were the large retailers like J.C. Penney, Sears or Kohl's. So we had to change the orientation of the company to go where the market is, and put our resources where we're making money rather than chasing the high-end of the market," Von Lehman explains.

Additionally, RGB tried to make different products for everybody. Before Meridian stepped in, there were 10,000 different SKUs and 500 different styles of slipper. "The world doesn't need 500 different styles of slipper," Von Lehman states adamantly. So part of the turnaround plan reduced the number of styles to fewer than 200. "We simplified the business. They had let it get more complex than it had to be by chasing after every little market. They were trying to grow their way out of the problem. We got them to focus on what they did best and sell that."

The strategy worked. By the end of 2005, RGB's turnaround had returned the company to profitability, with EBITDA of \$9.6 million. Market value increased from \$14 million in early 2004 to \$66 million just two years later.

Is there a surefire ingredient for success? Sadly, no. But there are tried-and-tested best practices that can enhance your chances of it. □

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