



THE CONFERENCE BOARD



Executive *action* series

No. 244 September 2007

Mid-Market Management Trends

Unlocking Speed and Agility

by Theresa Sullivan Barger

If mid-market companies want to remain strong competitors and avoid complacency, they need to rediscover the speed and agility they had as start-ups. This doesn't just mean being fast—they also must continue taking chances and remain in touch with their customers' needs.

Start-ups are in a race to make a profit and grow, so they have to know what their customers want and provide it or risk falling behind. But once they grow to mid-size, comfort and complacency can set in. As companies become more complex, structures are established to keep operations running smoothly, and somewhere along the line they may find it harder to be quick and agile.

According to the most recent CEO Challenge Survey by The Conference Board, of the 247 mid-market CEOs participating, 17.4 percent list “speed, flexibility, adaptability to change” as one of their businesses' greatest challenges—ranking it eighth out of more than 76 potential challenges.¹

While several experts agree with these survey participants that speed and agility are crucial to seizing opportunities and anticipating customers' needs, there is disagreement over whether it is essential to all companies or just to those in the start-up and growth phases.

How to Embrace Change and Let Go

Companies face speed and agility challenges when they grow from a point where management has its fingers on everything to the point where management has to delegate decision making to others, according to Elan Amir, Ph.D., CEO of Bivio Networks, a seven-year-old global company that supplies businesses and government agencies with hardware and software tools to deeply monitor and inspect computer networks. “The only thing that holds back scale is centralization of decision making and operations. You need to let go,” Amir says.

¹ Allison Rea, *Mid-Market CEO Challenge 2007*, The Conference Board, Research Report 1403, which will be published later this year.

Ken Esch, a partner with PricewaterhouseCooper's Private Company Services group, cites a general merchandise retailer with about \$200 million in annual revenue as a model for how to successfully delegate power. Entrusting control helps the company respond quickly and remain competitive, he says. The firm empowers fairly low-level purchasing managers to spend up to \$10 million with autonomy, allowing them to act fast and move the product through the distribution channel swiftly. They avoid being late to the table and finding that the supply has decreased and the price has risen.

But do inexperienced purchasing managers make the wrong call? Sure. One purchasing manager made a mistake after a month on the job. Not only does the company acknowledge that people make mistakes, its leaders actually care about how managers handle their mistakes and learn from them, Esch says.

Taking risks sometimes leads to failure, but that failure is not necessarily a bad thing. It's all part of the learning process, and companies need to feel comfortable learning from their mistakes. "Change is going at such a high pace," says Tom O'Shea, a principal of Agility Consulting and Training of Greensboro, N.C. "The paradigms that we used to use to run our business don't often apply any longer. In that kind of environment, you're going to have more failure. If you're afraid of failure, you can't survive."

"When you look at small to mid-size companies," he continues, "it's that ability to respond and change quickly that really reduces your risk factor."

Leaders Need the Right Team

While good strategies and ideas are a successful business' car and driver, speed and agility are part of the pit crew. Business leaders can have innovative ideas and a clear strategy, but mid-size companies need people who can execute the leader's vision, not put up roadblocks.

Mid-market companies can retain the energy and excitement integral to start-ups by having a strong team, according to Elan Amir. "We talk about companies and products and market. There is nothing in a business besides its people. Having the right people at every stage

of the company is crucial," he says. CEOs move on and management teams get replaced because they are not able to transition to the next level, he adds.

"The key to scaling really is empowering people that work for you," Amir says. Since joining Bivio four years ago, Amir has increased the customer base 20-fold, expanded the geographic reach from North America to include Asia, Europe, and the Middle East, and doubled the workforce to 60 people.

Anticipate Customers' Needs

In addition to embracing change and employing the right people, businesses need to know and understand their customers. "The idea that you have to be agile in order to respond to customers' needs is probably incorrect and inappropriate. What you really have to do is anticipate the customer's needs. If you don't anticipate those needs, you're always going to be a day late," says Bob Bloom, former CEO of Publicis USA and author of *The Inside Advantage: The Strategy that Unlocks the Hidden Growth in Your Business*.

"Customer' is the most important word in the language of business," says Bloom, who grew the small, regional advertising business his father started into a large national company. "You can't talk to statistics—[like] women 18 to 45 in the suburbs. Have a vision in your head of your most important customer." Businesses should know why that individual or business is a customer, why that customer remains loyal, and what they need to do to retain that customer, he says.

Bloom maintains that the world is changing so fast that companies concentrating on speed and agility rather than customer service will always be playing catch-up. "Don't spend your time trying to run faster or be more agile," he says. "Use your time and your mind to determine what those things are in advance [that you offer], and then do those effectively so you don't have to be more agile and faster."

Finally, don't take customers for granted. Charles Revlon, founder of the cosmetics company, used to anonymously answer calls monthly in the company's call center to find

out what wasn't working at his company, says Mark Stevens, CEO of MSCO, a management consulting and marketing firm. Revlon knew there was no better way to learn the unvarnished truth.

Breaking Through Roadblocks

Business leaders can have innovative ideas and a clear strategy, but to realize their goals, they need people who can execute their vision, not resist change. At mid-market companies, stagnation issues often rest with a few senior leaders, experts say. With family-run businesses, the CEO may be the child or grandchild of the founder and he or she may lack the entrepreneurial spirit of the founder. Or perhaps the company has had such tremendous success with one line of business that, even though evidence shows diversification and broadening to new markets will likely fuel growth, the CEO doesn't want to take a risk.

For example, Plantronics Inc., a mid-market firm that historically manufactured high-end headsets to commercial clients, such as call centers and IT centers, faced an uphill climb when the leadership suggested branching out. When Bluetooth technology emerged, CEO Ken Kannappan says he saw growth potential in using the technology to create headsets for consumers. But after years of using one type of technology for a business customer, some of the California-based company's engineers resisted the change.

"It's hard to change quickly when there's not an external source of urgency," he says. "Our core business was doing real well." Today, that core business accounts for only 15 percent of the business. Diversification has been good for the bottom line.

To deal with the challenge of managing good people who hadn't bought into his strategy, Kannappan brought in new people through hiring and an acquisition and put the new business in their hands. Because of his company's size, he couldn't completely keep staff separate, but he minimized the number of people who had to work on both the core business and the new business. Last year, sales were up 80 percent in the new business and that division is profitable, he says.

Case Study:

A Slipper Company Finds Its Footing

R.G. Barry Corp. hadn't given its staff a raise in five years. The slipper company hadn't fixed the leaky roof at its Pickerington, Ohio headquarters. The \$125 million company had lost \$21 million in one year, had exceeded its credit limits, and its lender was ready to pull its loans.

The bank forced the company to bring in a turnaround specialist. When Tom Von Lehman, Ph.D., of The Meridian Group arrived at the 56-year-old firm, he found an out-moded company that wasn't listening to its employees and didn't know its customers.

"The whole business model was in a death spiral," says Von Lehman, a managing director with the Pittsburgh-based investment banking and turnaround consulting firm. The Meridian team had six weeks to identify what the company was doing wrong and set a new course.

"You literally don't have time to study things to death. You have to move quickly. We're not consultants when we go in. We're emergency room doctors," he says. If R.G. Barry had waited another month, it would have failed, says Von Lehman. His team conducted an in-depth financial analysis. He suggested R.G. Barry outsource its manufacturing operations to Asia and focus on design, marketing, and sales of Dearfoams slippers. He wanted to invest time and money into finding out what the customers wanted and give it to them.

The existing CEO balked, so he retired, and the board appointed Von Lehman as interim CEO. With help from Agility Consulting, Meridian conducted extensive focus groups with its customers, 75 percent of whom were women. They learned their customers' attitudes toward their slippers, heard what their customers want in a slipper, and began designing leisure footwear that met those needs.

In the first year of restructuring, \$19 million of the \$20 million in losses were attributed to writing off the losses caused by the sale of manufacturing plants and equipment in Mexico. The second year, the company turned an \$8 million profit, and in 2006, Von Lehman and Margaret Good—The Meridian Group president, founder, and Lehman's wife—shared the Turnaround of the Year Award-Mid-Size Company given by the Turnaround Management Association.

Seize Opportunities

Mergers and acquisitions are an adept way to get around the complacency and stagnation of older leaders as well as branch into new markets, and they have become a major means of growth for mid-markets. However, it's imperative that companies don't spend too long pondering their next move.

Ken Esch, with PwC's Private Company Services, cited one client, a mid-size company headed by a CEO who planned to grow the business through mergers and acquisitions. He had a team of advisors in place, both in the United States and elsewhere, who were ready to analyze any potential deal. When he located a company for acquisition headquartered in Taiwan, his team of bankers, accountants, and lawyers mobilized to conduct a due diligence analysis. His client ended up buying the firm for a more competitive price than he would have if the deal had dragged on or if it had been purchased in an open auction, Esch says.

"Because we were quick and we made a decision," he says, "we saved a lot of time and expense."

Naysayers Can Impede Larger Firms

While resistance to change is a given, it's more difficult to manage the larger a company gets. For example, a Canadian-based resort firm had grown to a 22,000-person company that owned and operated several ski areas across North America. But the company's vast size hindered its ability to make decisions, so it brought in Mark Stevens, author of *God Is a Salesman* and *Your Management Sucks*.

The resort company's founder had relinquished day-to-day control, and Stevens told him, "Your company is now a 22,000-person debating society. You give people a channel to communicate a great idea. But you can't throw out an idea and have 52 meetings about it and then have the person in charge say, 'I'll just put off the decision. Not everybody agrees and I don't want to [alienate] anybody.'"

Stevens suggested the founder resume a more active role or sell the business. After the founder was unable to turn the ship around, Stevens says, he sold the company.

"When you get a group of people together, things tend to bog down unless there's a leader who has an entrepreneurial spirit. [Apple co-founder] Steve Jobs doesn't get up in the morning and say, 'I wonder if I can build consensus on an iPhone,'" says Stevens.

Leaders have to lead. "Companies are made up of idea generators and idea killers. For every 10,000 idea killers, there's one idea generator. Idea killers hate the idea generators," he says. "The only way you can have agility is if you have an aggressive, determined senior management who is willing to go through a bad day."

Keep It Simple

A key indicator of a high-performing business is preparedness: Successful companies have a vision for their future, a strategy for how to get there, and the support systems to make it happen.

Regardless of the complexity of a business, the principles of identifying the customer and being willing to adapt and be open to growth opportunities are fairly simple. One hospital administrator, after attending a strategic agility conference offered by Agility Consulting, devised a creative—and effective—method to get staff buy-in to change.

Falls Memorial Hospital, a 25-bed critical care facility in International Falls, Minn. was shrinking. Laurie Whitfield-Trautlein, vice president of ancillary services at the hospital, knew that growth through new business had to come from some of the areas she managed: radiology, rehab, and labs. To convince staff to change, she wrote a story about a third-generation donut shop.

In her parable, the shop owner gets several suggestions from customers, (e.g., requests for “to-go” cups for coffee and healthier menu options). His employees squelch any new ideas, nothing changes, and his customers gradually leave. After many sleepless nights, the donut shop owner visits several area competitors to see what they’re doing. He comes back with new ideas and enthusiasm, and his employees are willing to try them because they know their jobs are on the line.

After reading her story during staff in-service sessions, she and her staff talked about what went wrong at the donut shop, as well as the importance of being able to change and see new opportunities.

They developed a growth plan for each area of potential business and asked themselves: What kind of identity do we want to portray to the community? The rehabilitation unit members decided to change their uniforms, their logo, and the name of their department. Staff members received training so they could offer added services, such as treating pregnancy-related back pain. It worked.

“Teamwork is absolutely essential,” Whitfield-Trautlein says. “The only way you’re going to get that is if your employees understand what you’re trying to tell them.”

The Conference Board's Programs for Mid-Market Firms

For more information contact:

Martin Cohen
Director of Associate Service
U.S. Development
212 339 0242
martin.cohen@conference-board.org

In addition to the benefits available to firms of all sizes, The Conference Board offers a number of special initiatives exclusively for mid-market companies. Through their corporate membership, senior executives from hundreds of mid-sized firms learn from their peers while developing business relationships with firms across a broad spectrum of industries. Membership benefits include conference discounts, research reports, access to our Members Only website, compensation studies, Business Information Service requests, and regional briefings and webcasts on topics such as the maturing workforce, leadership development, executive compensation, and CEO challenges.

Among the most important benefits available to mid-market members are the councils designed exclusively for mid-market leaders: the Executive Council for CEOs and Presidents of mid-market firms (founded in 1966), and two Mid-Market Human Resources Councils. For details on the application process and eligibility requirements for these Councils, contact Marty Cohen, Director of Associate Service, at 212-339-0242 or martin.cohen@conference-board.org.

Conference Board Research Devoted to Mid-Market Companies:

The Conference Board, Inc.
845 Third Avenue
New York, NY 10022-6600
United States
Tel +1 212 759 0900
Fax +1 212 980 7014
conference-board.org

The Conference Board Europe
Chaussée de La Hulpe 130, box 11
B-1000 Brussels
Belgium
Tel +32 2 675 54 05
Fax +32 2 675 03 95
conference-board.org/europe.htm

The Conference Board Asia-Pacific
22/F, Shun Ho Tower
24-30 Ice House Street, Central
Hong Kong SAR
Tel +852 2804 1000
Fax +852 2869 1403
www.conference-board.org/ap.htm

The Conference Board of Canada
255 Smyth Road
Ottawa ON K1H 8M7
Canada
Tel +1 613 526 3280
Fax +1 613 526 4857
conferenceboard.ca

Managing Growth in Small- and Mid-Sized Companies,
Report 1290, 2001

From Risk Management to Risk Strategy:
Mid-Markets, Report 1368, 2005

Mid-Market CEO Challenge, Report 1359, 2005

Mid-Market CEO Challenge, Report 1383, 2006

Cutting Healthcare Costs: Options for
Mid-Market Firms, Report 1384, 2006

Mid-Market CEO Challenge, 2007

Are They Really Ready to Work:
Mid-Markets, 2007

The Mid-Market Series of Executive Actions

Dedicated exclusively to the needs of mid-size companies

Brotherly Alliances, Engines of Growth
Executive Action 237, 2007

The Business Benefits of Security: Making the Case in
Mid-Market Companies, Executive Action 235, 2007

Growing a Business Niche by Niche
Executive Action 232, 2007

The Secrets of Midsize Success: An Interview with
Richard Cavanagh
Executive Action 229, 2007

Citizenship and Sustainability:
Doing Good Can Be Good for Business
Executive Action 226, 2007

Designing the High-Performance Compensation
Plan That Works
Executive Action 220, 2007

Stopping the Profit Drain from Higher Energy Costs
Executive Action 215, 2006

Philanthropy at Mid-Market Firms:
It Pays to Be Creative
Executive Action 211, 2006

How to Hire Top Performers
(Hint: They Already Have Jobs)
Executive Action 206, 2006

The Nuts and Bolts of Execution: Putting Ideas to Work
Executive Action 203, 2006

Growing a Family Company: An Exercise in Patience
Executive Action 196, 2006

Hispanics in the Workplace: Building Meaningful Diversity
Executive Action 185, 2006

Preparing for the Worst: A Guide to Business
Continuity Planning for Mid-Markets
Executive Action 179, 2006

Making It in Manufacturing: Becoming Lean to
Compete Globally
Executive Action 172, 2005

Globalization: Will Your Company Be Left Standing
Executive Action 171, 2005

How Smaller Companies Earn Customer Loyalty
Executive Action 157, 2006

How CFOs Carve Out Time for What Counts Most
Executive Action 143, 2005

Reaching the Goal Line on Good Governance
Executive Action 135, 2005

Succession Planning . . . Without Tears
Executive Action 124, 2004

Making Over Leaders and Leadership Styles
Executive Action 108, 2004

Conferences and Special Events

Copyright © 2007 by The Conference Board, Inc. All rights reserved. Printed in the U.S.A. The Conference Board and the torch logo are registered trademarks of The Conference Board, Inc.

The Conference Board's rich calendar of conferences, webcasts, and other special events provide hundreds of opportunities for mid-market firms to hear state of the art presentations from practitioners and leading experts in human resources, marketing, corporate communications, governance, and other disciplines. For a full list of conferences and special events, visit our website, www.conference-board.org. Members can register through the Members Only website to receive their discounts.