PRIVATE EQUITY – TURNAROUNDS THAT ACCELERATE CHANGE

During this month's unprecedented economic challenges, it makes sense to discuss the proven turnaround strategies that leading Private Equity firms use to turn around businesses. PE funds are sticking with their winning formula for generating big returns from dramatic improvements in operations. The results speak for themselves: The top 25% of North American funds raised from 1987 and 2006 have earned internal rates of return above 20%, through good and bad markets. Upper quartile overseas funds have performed even better. Private Equity masters follow six disciplines that any senior executive can employ for similar results.

1. Define full potential. Top PE firms begin their quest for operating value by building an objective fact base - scrutinizing demand, customers, competition and details of how money is actually made. Only then do they pursue a few core initiatives to reach full potential. After Bain Capital LLC and Charlesbank Capital Partners LLC bought Sealy Corp., they learned that product differentiation, not complexity, was crimping margins. Shelving plans to expand midpriced offerings, Sealy modified its core mattress line from a costly, two-sided design to a "no-flip" technology and concentrated on premium price points. Result: Ebitda improved by 22%.

2. Develop the blueprint. PE blueprints choreograph actions to turn the few core initiatives into results. TPG Capital affiliate Newbridge Capital used this approach to transform Korea First Bank, now Standard Chartered First Bank Korea Ltd., from a bankrupt industrial creditor into a world-class financial institution by converting the bank's costly institutional branch structure into a network to serve retail customers. Mapping a plan to consolidate branches, Newbridge closed some locations, removed back-office functions from the rest and refocused them on customer sales. Result: Profits jumped $50 million within a year.

3. Accelerate performance. Top firms mold the organization to the blueprint and monitor a few key metrics. Such urgency helped CVC Asia Pacific Ltd. and CCMP Capital Advisors LLC reinvigorate Yellow Pages (Singapore) Ltd. (SYP). With an 87% market share, the telephone directory publisher had grown complacent. Advertisers were defecting along with demoralized salespeople. Revenue tumbled 40%.
Revamping sales, SYP began tracking customer retention rates and new-account sign-ups. It also introduced incentive-heavy compensation for top performers. Result: an IPO within a year of the deal yielded a gain exceeding 2.6 times the owners' investment.

4. Harness talent. Top PE firms create the right incentives for employees to act like owners, and they assemble hands-on boards. So do some smart companies. Nestlé SA introduced short-term bonuses paid out against clearly defined targets, increased the variable part of its compensation package and moved 1,400 key managers into long-term incentive plans that made them shareholders. Result: Shareholder returns have exceeded 15% annually since 1996, more than twice the industry average.

5. Make equity sweat. Top firms embrace leverage. Scarce cash compels managers to tackle working capital aggressively, discipline capital expenditures and work the balance sheet hard. DLJ Merchant Banking Partners purchased Mueller Water Products Inc., a U.S. maker of fire hydrants, high-pressure valves and fittings, for $938 million--including just $231 million of equity. Closing uncompetitive foundries and establishing leaner manufacturing methods freed up cash to fund growth and establish a presence in China. Result: DLJ earned a 4.6 times return on equity when it sold Mueller for $1.9 billion.

6. Foster a results-oriented mindset. PE owners create repeatable processes that spur performance improvements again and again. Nike Inc. has achieved such PE-like repeatability. Beginning as an athletic shoe company, it has become a lifestyle company. Nike revisits a formula with each sport, from running to golf and now cricket. Nike first establishes a leading position in shoes, then launches a clothing line endorsed by the sport's top athletes. This category expansion forges new distribution channels and locks in suppliers. Result: "Swoosh"-branded products have become ubiquitous.

Companies that are not clear industry leaders cannot afford to ignore how the best PE firms are transforming the business landscape. But our experience has shown even leaders often perform below their true potential. Heeding lessons from private equity can benefit them greatly. Trindent can help you execute the six strategies above, by getting ‘into the weeds’ and engineering the change from within.

LEAN MARKETING – IS YOUR MARKETING A WASTE OF MONEY?

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Why Lean Manufacturing and Marketing go Together

"And whenever a workman proposes an improvement, it should be the policy of the management to make a careful analysis of the new method, and if necessary conduct a series of experiments to determine accurately the relative merit of the new suggestion and of the old standard. And whenever the new method is found to be markedly superior to the old, it should be adopted as the standard for the whole establishment" (Frederick Winslow Taylor, Principles of Scientific Management, 1911).

Malcolm Gladwell, Seth Godin, and Geoffrey Moore are wonderful thinkers in the field of marketing. The concepts and methods that they promote have done a lot to further marketing thinking while shaping strategic approaches that produce more effective outcomes for their followers. However, when it comes to the challenge of measuring marketing there is still a hole in the field of marketing waiting to be filled.

Taiichi Ohno, the innovator of the Toyota Production System which is popularly known as Lean Manufacturing, may not have ever considered himself one of the great minds of marketing. But we believe he would be interested to learn why. Lean manufacturing is a management philosophy aimed at eliminating waste from the production process. The philosophy has helped thousands of corporations around the world improve productivity in their manufacturing processes. However, today the growth of more companies is being constrained by their ability to plan, execute, and manage their sales process which is leaving capacity in production that has most businesses under $100 Million stalled.

It was Taiichi Ohno from Toyota that offered that the scheduling of work should not be driven by sales or production targets but by actual sales. When it comes to measuring and making the marketing operation more effective and efficient at driving actual sales, CEOs who want to win instead of waste should be looking to new applications of long standing lean manufacturing concepts and other process improvement methodologies like Six Sigma and the Theory of Constraints to help them win more control over their marketing operations and sales process.

The number one complaint from CEOs of companies who are trying to rapidly generate shareholder value is that they can't measure their return on marketing investments and that the sales process performs unpredictably. When considering the poor habits and waste that they allow to exist in marketing and sales planning, execution, and management it is barely any wonder why there is so much money, time, and resources thrown indiscriminately at the sales process and marketing operation. The sales process terminology may be different from those words that keep production managers up at night like transportation, inventory, motion, waiting time, over-production (some of the

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Henry Ford (1922, My Life and Work) summarizes the entire concept of waste in the following way. "I believe that the average farmer puts to a really useful purpose only about 5% of the energy he expends. … Not only is everything done by hand, but seldom is a thought given to a logical arrangement. A farmer doing his chores will walk up and down a rickety ladder a dozen times. He will carry water for years instead of putting in a few lengths of pipe. His whole idea, when there is extra work to do, is to hire extra men. He thinks of putting money into improvements as an expense. … It is wasted motion—wasted effort— that makes farm prices high and profits low." How many companies instead of putting a strong sales process in place have their sales people (farm hands) identifying, qualifying, selling, closing, and even servicing customers? How many companies under $50 Million don't even have a formal marketing department or function inside of the company?

Yet, the marketing department should be the very function supplying leverage to operations of the sales and production processes. After all it is the sales and production relationship that is supplying the core functioning of the overall business system. The reason that the sales and production processes are considered "core" when compared to other high level business processes is because when one of them fails it tends to get all of top management's attention immediately. The basic reason is because continued failure even for short periods of time in these functions can mean death.

Using Science in Management Is Not a New Idea

Ever since the industrial revolution science has been applied to improve efficiency and achieve quality outcomes in production. Yet, the sales process has remained one of the least scientifically approached business processes, and its leveraged counterpart, marketing - even more so. As a result, companies endure feast and famine revenue fluctuations which in turn put major strains and pressures on smooth production. The boons produced by the good times are eaten up by the downturns of the bad times, and business growth remains stagnant, management teams confused, and ultimately customers unhappy.

In an attempt to combat the stagnation and unpredictability of the ups and downs CEOs are looking to their marketing departments for plans and programs that will increase sales more effectively and predictably, but instead are getting the same old songs about branding, customer listening, and numerous other "strategic initiatives" which amount to nothing more than disconnected outcomes in specialized vertical segments of the company that further the waste because marketers are not stepping back and considering the map of the whole sales and production operation end to end in relationship to one another. Still it is the logical and value building steps, and moreover the critical link ups in these processes that marketing managers are ultimately responsible for activating and supporting with their budgets and programs. But without some sort of management philosophy targeted at measurement for the purpose of eliminating waste and to guide effective program design and support management teams drift. They don't know what to keep or what to throw away so they throw a bunch of ideas at the market and hope for the best.

Applying Six Sigma to the Marketing and Sales Process Can Be One Rudder

A sales process is just like a production line. A sales process is a series of value added steps to a pre-determined goal – the sale. If marketing is going to bring leverage to that process, it needs a good grasp of what the steps are, and how specifically the actions being taken are going to influence those steps toward the desired outcome. In short, marketing needs to know why the sales process works (functions) which will naturally lead them to figuring out which steps in that process are necessary and which are not in pursuit of the ultimate overall goal which is sales. By taking a function-focused approach to marketing program design to support the sales and production process, a more predictable and improved outcome to the overall business system can be achieved that a limited approach focusing on specialty areas such as advertising, communications, or research initiatives can never produce. These approaches just produce waste and cause management to throw more "hands" at the problem of failing sales because they were never designed to achieve a specific outcome in the sales or production process that would have been valued by the overall business system or the customer.

Six Sigma can be understood as a methodology for improving business processes. It was originally developed by Motorola to systematically improve processes by eliminating defects. A full explanation of Six Sigma goes beyond the scope of this article. However, for the purposes of this article it can be understood basically as a "way of thinking". Historically, it would probably not be too much of generalization to say that marketing has been thought about and approached more programmatically than holistically through the process lens in the context of the overall business system. So this way of thinking has a lot of insight to offer management stuck on getting marketing to bring cause and effect leverage to sales and production that will lead to less waste and more results.

Six Sigma has two key methodologies: DMAIC and DMADV. Since the DMAIC is used to improve existing business processes, and since most companies reading this have a sales and production process in place and are working in relationship to one another we will focus on this here.

DMAIC
The basic methodology consists of the following five steps:

• Define
• Measure
• Analyze
• Improve
• Control

Let's say you define your sales process as the process by which you identify customer opportunities>qualify these opportunities> engage with these opportunities >close these opportunities. Executing the process well leads to orders flowing into your company at an optimal rate for your production process to be able to fulfill those orders in a way consistent with the customer's expectation. When there is a change for example either up or down in the rate of your sales process, then there is an impact on both the production process, and if allowed to continue, ultimately the customer. These processes work in relationship to allow the overall business system to function. Favorable changes bring about happy results and defects bring about unhappy results.

Six Sigma can offer marketing management a more systematic way to understand, plan, and manage execution in aligning the sales process with the marketing and production operations. Bringing a philosophy and method to process improvement helps to contain the complexity of these interrelated core functions. There is a great new book on applying Six Sigma to the marketing and sales process titled “Sales and Marketing the Six Sigma Way” by Michael Webb (and Tom Gorman).

In the book, Webb makes the clear case that sales is becoming tougher in the today’s domestic and global environments observing that “In 2004, more than 50 percent of sales people in the United States were under sales quota.” He theorizes that companies that don’t get as much control over their sales process and their production process will not have to worry as much about fulfilling orders because they simply will not be there. His book obviously is promoting Six Sigma as a possible avenue for course correction, but there are others available to CEOs looking to improve their sales process.

Even though Six Sigma has been around for years, the idea of using Six Sigma to improve the sales process and marketing operation is a new and innovative idea. Basically, proposing the re-pointing of commonly used concepts traditionally used to improve production processes to improve the inner workings of marketing - a business process that many still confuse with advertising.

But it makes total sense. A process is related and ordered steps to a predetermined goal, and a system is just related process. Process improvement is all about defining defects. But improving the sales process and marketing operation by approaching them like an assembly line to manufacture customers is a lot different than building an automobile providing management teams dedicated to improvement and measurement some unique and significant challenges.

Right away there are new obstacles. For example, right away the definition and measurement phases of the DMAIC method on which the analysis and improvement phases depend can seem to be more difficult at the outset, because one of the biggest problems that you encounter is not one you would anticipate. It is a problem of language. It is very hard to manage a process without clear and unambiguous operational definitions for the process components. And this is no small challenge when it comes to marketing and sales which spans functions and departments across a company. Getting everyone across top management and even the entire company to agree what a hub cap is, and how it is made, and why it performs, and what it costs can be a lot easier than arriving at a common definition for “marketing” in your organization (in this lifetime). Just stop ten people in your company and ask them what they think marketing is, and how your company should use it to win. You will get 15 different answers. You will get 30 answers if you ask more senior people.

A good way around this is not to attack the problem by trying to work from or agree on some abstract or theoretical definition of marketing. Instead, take a practical approach to what you want from your sales and production process, and then begin to map how they work right now. Once you have a high level sales process map, and production map that you can “see” it will be a lot easier for everyone to agree what marketing is “functionally” there to do and arrive at a company specific definition. This is now a definition rooted –

not in industry theory – but in your specific organizational challenges.

The Sales/Production Relationship Once you understand that without sales there is no need for production, and that actually it is the feast or famine sales fluctuations that is a large factor in creating demand for lean production to begin with, you start to realize that if you applied the same principles to the sales process and marketing operations that are common to production management that you would actually compound the effectiveness and leverage of the improvements that you have built into production.

When you start to actually measure your sales and production processes in relationship through a stronger marketing operation that is closely tied to the customer through better measurement and monitoring, you begin to realize that just like organizing and prioritizing defects in your production process based on impact to the company the sales process is not much different. It all comes down to defects and the consequence of occurrence. In the sales process one way to look at a major defect would be a lost customer – or a customer that was available but never one - this is lost opportunity!

Just like once you begin to know what it costs you to make your product you begin to know what it costs you to make it incorrectly – which is typically a larger number. Once you know what a customer is worth to your company, then you also know what it costs you not to win that customer – again this number is typically much larger. Since it is either your ability to sell or your ability to fulfill that is keeping you from growing, a good first phase end of the line goal for marketing is to generate enough leverage in the sales process through their programs to meet capacity requirements in production.

After defining your sales process defects - mapping the sales and production processes, and building the marketing programs to stimulate these processes you will soon be able to implement the improvements and monitoring controls that will eliminate the waste from your sales process and marketing operation.

Theory of Constraints: Another “Way of Thinking” About Process Any resource invested anywhere but in the constraint returns you zero on that investment. Another methodology for continuous improvement of business process is the Theory of Constraints. Developed by Elijah Goldratt, the Theory of Constraints (TOC) is an overall management philosophy that aims to continually achieve more of the goal of a system. If that system is a for-profit business, then the goal becomes one of making more money, in the present as well as in the future. Well, if you set aside cutting costs, then the other avenue available to make more money is to sell more.

According to TOC, every profit making organization must have at least one constraint, which prevents the system from achieving a higher performance relative to its goal. Many CEOs like to relax in the idea that the thing holding them back is something outside of their control like the market or the economy. TOC can give you a way of thinking that can challenge the laziness of positions like this. For example, for all those CEOs blaming the economy for their poor performance, if there are more orders outside of your company than in it, then science says that it is not condition of the market or the economy that is constraining your growth. The bottleneck must by something inside of your company…in fact it might be you!

Just like Six Sigma, TOC was originally developed as a way to improve business processes that supported manufacturing and logistics. Yet, more executives are becoming interested in how TOC can help them to improve sales performance and win more control over the marketing operation. Executives who have used TOC to plan, execute, and manage their sales processes are discovering that the sales process is incredibly constrained. Removing these constraints in the sales process brings significant opportunities to top management teams to drive growth and to beat their competition.

Basically, the way the theory is applied can be seen in the example that you are trying to water your garden. But there are several kinks in your garden hose. If you start unraveling the kinks from the garden to the house you will not receive any movement of the water toward the garden (the goal) until you get to the kink that is actually closest to the house. Your effort gives you zero yield until you elevate the constraint. Of course, the reverse is also true. If you start unraveling from the house to the garden, you will see immediate movement of the water closer to the garden. Each unraveled kink will allow you to progress measurably toward your goal of getting water to the garden.

Imagine your sales process again to follow these steps: identify customer opportunities >qualify these opportunities > engage with these opportunities > close these opportunities. The TOC will show you that you can only move as fast as the slowest step. So if you can close really quickly, but you are engaging very slowly, then you will close business at the rate relative to the rate at which your sales people are engaging with customers. Moreover, anything you do to improve you already stellar ability to close, such as adopting a new sales training system, will return you absolutely zero until you improve your rate of engagement.

Implementing TOC Theory of Constraints is based on the idea that the rate of revenue generation is limited by at least one constraining process (i.e. a bottleneck). Only by increasing throughput (production rate) at the bottleneck process can overall throughput be increased.

The key steps in implementing an effective TOC approach are:

1. Identify the constraint (usually identified by inventory pooling before the process)
2. Exploit the constraint (increase its utilization and efficiency)
3. Subordinate all other processes to the constraint (others should serve the bottleneck)
4. Elevate the constraint (if required, permanently increase bottleneck capacity)
5. Rinse and repeat (after correcting, the bottleneck may shift or require further attention)

Conclusion for the Years Ahead

CEOs who want to be able to compete in a more efficient domestic and global economy will need to improve the effectiveness and efficiency of their marketing and sales process and operations to at least the levels of the production operations. To achieve the identification and elimination of waste from the sales process an entire management philosophy that focuses on measurement is desperately needed.

Until marketing gurus can put their thinking caps on to propose how marketing measurement should be approached for more than just tactical direct mail campaigns, web pages, or email blasts using lean manufacturing concepts can offer a step in the right direction for controlling the sales process.

Lean manufacturing concepts that consider what the marketing and sales functions and processes are there to do for the overall business system and strategy, and whether they are actually doing it can lead to better program and design solutions that drive performance.

Without leveraging these philosophies to eliminate the billions of wasted marketing dollars spent unproductively in this country each year, we can expect CEOs will continue to complain about no ability to measure ROI, the common problems of no defined sales process, poor leads, and weak customer connections will persist, and someday if we think throwing more people at the problem of sales will win us the day we will ultimately find ourselves behind the rest of the world who mathematically have more people to throw.