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ONCE UPON A TIME IN TRANSFORMATION

A Learning Opportunity

Much has been written about turnarounds at places like General Electric and IBM, where heroic, high-pressure, time-constrained transformation saved the dying business. What is missing from the literature is the less-publicized but still heroic stories of organizations that changed before they got to the brink of disaster. Although studying train wrecks can shed light on how train wrecks happen and how to clean them up, the value of such study is limited if you are seeking to make changes before disaster happens. In this case, the best set of lessons comes from organizations that changed before it was too late.

American Power Conversion, ALLDATA (a subsidiary of AutoZone), A123 Systems, and portions of Monsanto represent the full spectrum of pre-IPO to large, mature companies that have been proactive in creating transformation. Although all these companies are at different stages of transformation, they have a remarkably similar set of challenges.

In this chapter, we provide a brief profile of these companies and lay out the issues of transformation they face or have faced. In each case, the company has undergone change proactively, and each has faced the issues associated with being forced “out of the box.” Table 1.1 illustrates how the level of integration of a company’s offer combines with the level of customization of an offer and suggests where incremental change stops and where transformation becomes an imperative.

In Table 1.1, box A represents companies that offer a single product or service. Their next stage of development is to sell combinations of parts, represented by box B. Companies in

Table 1.1

| <i>Level of Integration</i> | <i>Level of Customization</i> | | |
|------------------------------------|-------------------------------|--------------------------|---------------|
| | <i>Standard</i> | <i>Modified Standard</i> | <i>Custom</i> |
| Full System (Computing system) | | | |
| Subsystem (Computer) | | | |
| Assembly of Parts (Motherboard) | C | | |
| Group of Parts (Kit of components) | B | | |
| Detail Parts (Components) | A | | |

box B, seeking new growth opportunities, are tempted to offer assemblies, which are companies in box C. Consider Intel as an example of a company that grew from box B to box C. It started out selling microprocessors, then grew to sell chip sets and eventually motherboards for computers.

Once companies grow beyond the confines of these three boxes—that is, once customization reaches the modified standard level or full customization—the business requires significant transformation. The same applies moving in the direction of subsystems and full systems. Organizations will find that many of the success factors that made them a high performer in box A will become limiting factors as they attempt to take the company outside the box. In other words, the core competency of the original product-focused company isn't the same competency needed for system-level thinking and consultative market approaches. Although transformation is sometimes difficult and problematic, it is necessary for companies that have run out of market to capture or that are facing commoditization of their products. American Power Conversion is one example of a company faced with this scenario.

American Power Conversion

American Power Conversion (APC) started the way that many companies do: a collection of brilliant technical minds began to explore how to convert a technology into a useful product. In

APC's case, Neil Rasmussen, Emmanuel Landsman, and Irving Lyons got together to develop solar power conversion products. When the market for solar power products failed to materialize the way they envisioned, they orchestrated their first transformation. Their company produced a set of technologies used to create products for protecting computing devices, such as the personal computer, from suffering data loss as a result of power loss. Their basic product is known as an uninterruptible power supply (UPS).

A small New England-based company, APC grew from making a limited number of power-related products to providing a wide range of power solutions ranging from mobile power to data centers. Its transformation was enabled by its ability both to deliver a broad range of high-volume standardized products and to bundle products into solutions for highly complex enterprise applications. Critical to its success was its creative use of supply-chain design, sourcing strategy, global manufacturing capability, and the management of channel conflict in an all-channels strategy.

By 2003, the time had come for APC to get out of the box. Growth in the organization required a shift from its being a products-based company to one focused on bundled solutions. APC wanted to be ambidextrous, able to deliver both discrete products and bundled solutions. This goal threatened the organization's DNA as a products company—its roots, goals, metrics, structure, culture, and brand. Initial attempts to define a strategy for achieving such ambidexterity left the organization in a two-year stalemate.

What affected APC—and other companies in its situation—is that transformation required the company to continue to function productively in its base business while simultaneously building capability in other areas. APC's challenge was to take a company of thousands of employees distributed across sixty-seven countries, with expertise in volume production, and transform it into a company that could maintain this business while also providing systems made up of power conditioning subsystems,

cooling subsystems, and software. In addition, the company had to respond to the concerns raised by analysts, customers, and consultants, and successfully manage its subsequent acquisition. The opportunity for confusion to take over was growing, people's cheese was being melted, leadership skills were being tested, and the HR people had their hands full, just to name a few challenges. Three of us worked inside APC, and one of us worked as a consultant. Our firsthand experience of assisting APC through its transformation inspired many of the lessons in this book.

ALLDATA

ALLDATA is an independent business unit owned by AutoZone, one of the largest distributors of automobile parts in the United States. ALLDATA creates repair information for the use of service personnel when making repairs to automobiles. When you take your car into a service center, the technician can use the ALLDATA subscription service to look up the part content and repair action for your specific car. This in turn allows for better service by repair facilities as well as greater confidence in estimating the time and cost of the repair.

ALLDATA's core business is acquiring data, arranging them in searchable fashion, and selling subscriptions to the database. There is limited bundling required, and it is not a subsystem or system-level sale. Aside from the occasional modified standard or custom application, the company's business model is primarily that of a product line.

ALLDATA's advantage is the quality of its data. It provides data that are true to the original equipment manufacturer (OEM), and has also developed the same service for companies that do body and frame repairs. The company has been very successful in the automotive repair world, and owns a large percentage of the market. Its share is so strong, in fact, that there is limited access to greater share. In order to grow, ALLDATA will need ongoing transformation. It will either have to find new markets

for its existing model or move into products and services that are closer to a subsystem or system-type sale.

Luckily, ALLDATA's offerings for shop management software and shop marketing applications can aid the company in its transformation. The shop management software allows businesses to integrate the repair order, work order, service record, and invoicing functions; the shop marketing applications can be used for client acquisition and retention. But even though shop management and marketing complement ALLDATA's central business of repair data offerings, the latter is sold and serviced very differently. It is a big step to move from supplying a standard product to every customer to offering a solution that is dependent on the specific customer. As is true for many companies there are changes required in every aspect of the organization: the core, context, capabilities, capacities, competencies, and customer outcome.

Monsanto

Suppose you have a tomato farm that has a 1 percent slope with a 23-degree south-by-southwest exposure at 14 degrees north latitude with semialkaline soil and water that contains a large amount of sulfur. Monsanto probably has a tomato seed for you. Or what if you have a weed problem, and you are seeking not more plants but fewer? Monsanto can also help you with that—its Round-Up™ is an iconic brand in the herbicide market.

Monsanto enjoys a level of differentiation from other plant seed and herbicide producers in that it has developed food seeds that are resistant to Round-Up. This allows entire crops to be sprayed, killing the weeds without affecting the crop. These seeds are such a unique differentiator for Monsanto that the company is currently suing DuPont for allegedly violating Monsanto's patents in this area. Without this advantage, Monsanto faces commoditization of its seeds and would need to find other sources of competitive advantage.

But Monsanto is ahead of the curve. The company has begun to create a system-level consultancy to help farmers maximize crop yields. It may sound simple to leap from selling seeds to helping farmers increase yield, but the business model required to make that happen is anything but simple. This is what makes Monsanto a prime example of transformation. The organization that is designed to optimize research and development for producing seeds is not the same organization that is designed to work collaboratively across business functions and agricultural systems and to develop a profit value chain based on services. Monsanto is about as far from APC, A123, and ALLDATA as can be, yet it faces the same questions about what to do about getting out of the box.

A123 Systems

A123 at the time of this writing is a pre-IPO company that has a phenomenally bright future in the business of producing products and systems based on a battery technology known as Nanophosphate™ lithium ion. A123 describes it this way:

A123 Systems is now one of the world's leading suppliers of high-power lithium ion batteries using our patented Nanophosphate™ technology designed to deliver a new combination of power, safety and life.

Our breakthrough technology, innovative multinational manufacturing model, team of tier-one investors, and experienced executives are providing the power to change the game for today's Transportation, Electric Grid Services and Portable Power manufacturers.

For larger projects that require volume manufacturing, we operate state-of-the-art manufacturing facilities in Asia which have the capacity to scale to millions of battery packs per year, and we are currently expanding our manufacturing capacity in the U.S.

Origin of Our Name

A123 Systems owes its name to the Hamaker force constant which is used to calculate the attractive and repulsive forces between particles at nano dimensions, and which begins “A123 . . .”

The scope of applications for this technology ranges from power tools to automobiles to buses to power grid applications. Because of the vast array of opportunities for a company with disruptive technology such as A123, the company needs to decide whether or not to change its business model—and it hasn’t even gone public yet. The lesson here is that transformation is an imperative not just for mature companies but for any company that faces the challenge of either moving on to something else or becoming irrelevant.

Summary

Business books are often written in an opportunistic way. At the time of this writing, there are countless books on how to cope with hard times, coinciding with current economic woes. Chances are, the titles would be different if the economy were in different shape. How convenient it is to jump on a bandwagon and ride as far as possible. This is not an opportunistic book. Nor is it the spinning of some business fable about a grand savior or a flaming defeat. The companies we refer to here are examples of transformation that provide valuable insight if viewed constructively and in their context. We intend none of the companies used here as illustration to be a subject of criticism or praise necessarily. They are all respected and respectable enterprises and, when taken collectively, represent examples of transformation that in our opinion form a valuable basis for learning. Although there are huge differences between the

companies we discuss, there are similarities in the underpinning issues they face. That is the key to understanding transformation. Although businesses may differ in market, product, or service, they all share a set of common lessons that can be of use to many companies because of the universal nature of the problems organizations face in transforming themselves.