Shock and Awe

“Disruption strikes. A new competitor with a rabid following in the B2C market has launched a new offering that subsumes your functionality. It has brilliant aesthetics and a completely new logic converting a pedestrian product into a ‘smart’ offering. The market will explode as it taps into underserved customers with different values and offers an infinite range of options. Can you compete? The Executive Committee is paralysed unsure whether this is a real problem or a passing phase and whether customers will be loyal. The B2B-dominant culture cannot react to a B2C attack as it lacks the underlying technical and aesthetic competence. **But you must act.** The share price is tanking. Collapsing consumer demand for LegacyCo’s offering drags down the B2B offering too. The Board is furious. It blames management for its failure to anticipate this disaster. Heads must roll…”

Attached is a selection of notes and memos to support your decisions

Daily Tribune

Dateline: xx/xx/2-xx

LOCAL EMPLOYER'S BUSINESS SHAKEN

Rumors of a major disaster are emerging from people in the know at XYZ Ltd. Hard on the heels of our story last week on the intense disruption going on in industry it has now arrived at our doorstep. Disruption driven by technology and market changes has hit a major local employer.

XYZ Ltd is a maker of digital devices for business and consumers. Today comes news that a new competitor has entered the consumer end of their market. Pear Inc., a multi-billion dollar, high end manufacturer of electronics with a cult following and global reputation for design and quality has announced a directly competitive offering. Peter Townsend an analyst with Wood Inc. (brokers) says: "Pear's new offering is simply beautiful, I anticipate it will be the next big thing, turning a clunky offering aimed at business markets into consumer art and a fashion statement." Townsend points out that things are even worse for XYZ Ltd. As the consumer market for their products and the business market are tied together. Most consumer purchases are subsidized by the person's employer. If one market collapses they both do.

Technical experts tell us that underpinning the Pear design is a slew of incredibly sophisticated technologies and that catching up by the five competitors who used to share this market will be exceptionally difficult and costly. This means that the outlook for the hundreds of local employees of XYZ Ltd is very poor. Rumors of downsizing are already filling the offices and resumes are being polished.

Disasters such as this raise profound questions about us as human beings. Why did people at the heart of an industry not see this coming? XYZ Ltd is not alone. The list of famous companies that have collapsed due to blindness or denial is long. The effects on employment are profound as few firms recover as their best people leave and infighting destroys the organization. The only excuse seems to be that Pear Inc is out of the vision of XYZ and was not seen as a competitor because of its focus on consumer versus the XYZ focus on business.

UPDATE

In what one employee described as an incandescent rage the CEO of XYZ Ltd has fired most of the senior team of the Division affected by the Pear initiative. Her ire was raised, it is reported, by the failure of these long-time and market-facing employees to 'see this coming'. As an anonymous employee put it; "It is a disaster. There have been rumors of someone disrupting the market for years. Market Watch (an investment publication) called XYZ "fat and happy" four periods ago. I can fully understand the rage, though the cynical may say the CEO was trying to assign blame quickly to save her own skin."

MUNRO INVESTMENTS GROUP

FROM THE DESK OF THE CHAIRMAN

Mary,

Just to let you know, the Board met this evening and has decided to retain your services as CEO of XYZ Ltd for the immediate future.

My advice to you is to act swiftly while you retain the Board's confidence.

1. *Make a big statement – I would fire all the people who should have seen this coming*
2. *Calm the organization and identify the people you really need to retain – make sure they stay!!!*
3. *Get your costs in line with likely revenue. Remember getting costs in line in a declining/collapsing market is extremely difficult as you can never be sure how fast or far it will fall and costs are 'stickier' than you think.*
4. *Once the shock wears off, look around the company to see what assets you may have. I am aware of work being done by Product Development in the consumer side of AR. It may be a lifesaver.*
5. *I would anticipate that the LegacyCo team will lose its cohesion. The best way to recover cohesion and to align people is by involving them in any solution.*

I would be remiss if I did not tell you that the Board vote on your retention was very narrow: basically my tie-breaking vote. You must produce results within a period or at most two.

Frank

AGENDA

EXECUTIVE COMMITTEE MEETING

PERIOD 4

Below are the subjects for discussion at the upcoming Executive Committee Meeting. The decision on hiring a new a Compliance Officer has been moved to the front as it is time sensitive.

1. Open Discussion of the current status: maximum one hour. See CEO Memo and notes from Finance, Human resources, and Legacy Marketing
2. New Opportunities: Project Vole memo from Jack Horner.
3. Transformation: see the list of Leadership Initiatives accumulated by Strategy that could underpin the kind of transformation needed. Functional recommendations are also included
4. Headcount: HR has revised its recommended numbers by function. Start the conversation on downsizing
5. The Development Projects Review: see Jack Horner Memo and Revised Project Listing
6. Hiring: Our departed brethren need to be replaced. Comments on the memo from the head-hunters are welcome.
7. Budgeting: decisions will be needed on projected revenue, Marketing and Sales expenditure.

Copies of all relevant memos etc. are attached.

MEMORANDUM

From: Mary Gerhardt

To: Executive Committee

Subject: Disruption

The regular Executive Committee meeting will take place as usual. I expect the designated alternates to join us in the absence of the departed executives.

As you are aware the long-denied disruption has happened. It has come from a place we never considered. However, the market and our owners do not see that as an excuse. For those of you wondering, I have been asked by the Board to stay on. But, we all are under the microscope and absent a recovery or a new approach no job is safe.

Pear Inc. is a major player that has played to its strengths. We are smaller with fewer resources and a culture not aligned to the likely rising segment of the market. The risk right now is that we become paralysed by denial and anger. There is more than enough blame to pass around. . There is nothing to stop Pear's march through the market and we can expect other consumer electronics firms to join them further intensifying the competition. The argument that the new market will grow but our B2B market will stay with us is likely to be a false one. As we all know the corporate market will respond to the preferences of its employees and we can be sure that our competitive advantage in security will be soon under pressure from offerings that are 'good enough' for all but the most threatened of our customers. We need to assume disaster.

If we are going to survive we must act quickly to calm the organization, review our strategy, find new opportunities, and deal with the upheavals that will occur as we downsize and restructure. Luckily, there are some new opportunities and we funded NewCo before this disaster occurred. The biggest risk is the rapid erosion of our workforce competence as our best people abandon us. We need to find ways of involving those we must keep. Financially, it is unlikely the market will collapse instantly. We need to run a rearguard action to squeeze cash out of the legacy business to fund new opportunities.

We will discuss this at the Excom. Meanwhile I attach a copy of the crowing of the local rag, who apparently saw all this.

Mary

Email

To: Mary Gerhardt. Barbara Williams

From: David Hulk CFO XYZ Ltd

Subject: Downsizing

In response to your notes this AM I have the following quick remarks.

1. We must not panic. This is an announcement of **intent** to launch in two markets. We do not know how the new offering will be received by the market or how fast Pear can scale up. Massive downsizing now will spook the employees guaranteeing a huge loss of talent.
2. We are at the start of the launch of the NewCo offering. We do not know how successful that will be. We could be firing critical talent only to rehire almost immediately with the consequent loss of face.
3. Firing employees triggers redundancy payments that on average are 100% of salary. This is a huge hit to cash as it has to be paid immediately. This could cripple our cash flow and cramp any chance of recovery.
4. LegacyCo cash was depleted last period by the funding of NewCo. Should we be returning some to LegacyCo?
5. Without marketing, sales, and support leadership we can anticipate a weakening of our market stance. It will take us 6 months to recruit and onboard new leadership. We need interim leaders NOW, preferably respected people. This weakening may compromise revenue.
6. Not my area but as to senior, talented people joining us – would you? We need a good-news story quickly.

More thoughts as they occur to me

David

NOTE

From: John Rouse VP HR XYZ Ltd

To: Mary Gerhardt, Sarah Hughes

Subject: Transforming Culture

Thank you for forwarding David's note. Essentially, I agree with him, particularly his last point on hiring.

This crisis brings up a few points related strictly to our culture.

1. The current culture
   A. The current culture is tilted to managing a mature business. To meet Munro's strategy, our actions for the last three periods have been in the direction of efficiency gains rather than creativity making us even more rigid in our systems and as a culture. The fundamental reality of our inward-looking, product-oriented culture has not changed from when we were described as "fat and happy". We are just a little thinner! It is this lack of external sensitivity that landed us in this mess.
   B. The big change we need is to become market and customer-oriented as we were in our very early days. However, many of our employees joined after we were already successful and joined for the security of a stable business or the people-orientation of our professed values. Those values will be severely tested if we are forced into mass downsizing. In short, we have developed a bureaucratic core supported by a strong people orientation that biases us away from aggression and toward avoidance of risk. Most of the early creatives left long ago squeezed out by the drive to exploit rather than explore.
2. As I see it, there are three overarching strategic options each with implications:
   A. **Stick with the current markets –** perhaps ending up as a residual legatee and tweaking the offering. We have some strength there, notably our reputation for security. We would have NewCo, which luckily (or not) you funded in full, before this disaster.

      Under this scenario there would be a gradual dissolution of the culture as people leave and we shrink. We may be able to stave that off dependent on how the market works, what our development people can do and how fast the market transfers to Pear and others that will follow them. This may or may not include closing NewCo and returning the money.
   B. **Collapse LegacyCo** (quickly or slowly) and transfer people to NewCo risking our future on AR as we would be overloading NewCo with people used to optimizing an offering rather than rapidly changing the functionality as the market and

technology options develop at high speed. . Our current culture is built around managing and optimizing a mature business. It is singularly maladapted to managing a fast adapting firm just entering the growth phase. Suffocating NewCo with a massive influx of the ‘wrong types’ of employees would be to likely kill the possible golden goose. I firmly believe this would kill NewCo’s competitive spirit, demotivate the staff and further exacerbate the problems it already has integrating its latest hires with the original team that developed the offering. There is considerable evidence of tension.

Additionally, this would mean stripping LegacyCo essentially ending the Munro strategy. Though as earlier, NewCo is funded.

C. **A new offering for LegacyCo**. Try to find a new offering for LegacyCo and use the declining Legacy free cash flow to fund a new major initiative. This would be hugely difficult. It would require taking an inward-looking, rigid culture and making it outward-looking and flexible, conducting an operational and cultural transformation in the face of almost certain major downsizing, finding a new offering, and essentially repeating what Henry has done and is about to embark on – inventing and driving up the secular growth curve.

   This is my preferred option. There are rumors of such an offering in product development. If this option exists we will have to reshape the employee base, but we have time for that (perhaps one period). A full, urgent, high involvement transformation process should be considered to align and get commitment out of the leadership. Henry is leading the way in NewCo in terms of transferring back knowledge of how to get up the secular growth curve.

These are my immediate thoughts

John