

EXPLORING CONTEMPORARY MANAGEMENT CHALLENGES: Closing Underperforming Operations

UCSD EPSE-LAMP Student
Research Assignment 2009-10;
Combined Findings

OUTLINE

- The Assignment
- Information Received
- Combined Findings

THE ASSIGNMENT

- Understand the challenge
 - *criteria and measures by which decisions are made to close/end business unit/efforts, including how these criteria and measures differ by industry or marketplace*
 - *best practices to mitigate risks – customers, talent, knowledge, market position – when closing a product line*
- Gather information
- Look for common themes
- Document findings, give personal analysis and recommendations

INFORMATION RECEIVED

- Twelve team reports
 - 66 researchers
 - 25 science and technology companies
 - 117 interviews
 - 529 survey respondents
 - Extensive literature review – 231 citations
- Swift and professional effort in completing the project and producing coherent and useful reports (five-eight weeks)

COMBINED FINDINGS

■ Criteria for Closure

- Financial criteria dominate, but not as much as generally thought
 - Strategy/strategic fit is important (incl. consideration of competitors and alternatives)
 - Potential often counter-balances performance
- Cannot avoid qualitative factors
 - Political bias or interests (constituents)
 - Emotion (resistance, pride, guilt, etc.) ,

COMBINED FINDINGS

■ Metrics for Guiding Decisions

● Financial

- *Revenue measures* as an indicator of both potential – confirmation of market assumptions – and performance (sales execution)
- *Cost and cash flow measures* as an indicator of quality of execution, and confirmation of business model assumptions
- *Investment/longitudinal/net measures* as an indicator of extracted value

● Other

- Market change, technology change, customer perception, change in corporate operations or image, “fit” (generally vague/qualitative metrics)

COMBINED FINDINGS

- Tradeoffs/Differences Between Sectors
 - Level of capitalization or barriers to entry/exit
 - Larger capitalization/barrier to entry will endure a loss much longer, not because of “deeper pockets” but because of more investment in people, knowledge and relationships to protect (they often take on longer-horizon projects)
 - Market or industry life cycle
 - Positioning/potential more important than performance in early stages of a life cycle
 - Customers
 - Customers with leverage can influence the timeline for the decision

COMBINED FINDINGS

■ Best Practices With Regard to Decisions

- Know exactly what you want to achieve (and why) and decide ahead of time how to measure it
- Monitor a *full set* of metrics regularly
 - Monitor markets and technology and customers and image
 - Don't confuse weak markets or business ideas with inability to execute (both result in poor performance)
- Act on what the indicators say promptly – redirecting, reallocating, refining, repositioning, reinforcing can all avoid eventual closure
- Once a decision has been made, close quickly

COMBINED FINDINGS

Mitigating Implementation Risk

- The best practices for dealing with customers are the same as those for dealing with employees, or for dealing with suppliers, distributors, partners, etc.

- Key Practices:
 - Give them attention (communicate, personal touch)
 - Give them alternatives (another product, job options)
 - Give them support (services, incentives, parts, etc.)

COMBINED FINDINGS

- Further implementation nuances:
 - Use the situation as a unique, positive opportunity (for example):
 - Strengthen relations with key customers
 - Re-allocate resources
 - Learn more about a market
 - Put renewed effort behind a potential new initiative
 - Identify who is most important to keep; plan and act accordingly

COMBINED FINDINGS

■ Worth Sharing

- Closing a line is less of a concern for large/diversified companies, they also follow their closure plan more closely; smaller companies are more willing to accommodate customers /partners during transition. The same practice is true with especially large customers – be willing to accommodate them.
- Employees often view closure of a marginal line as a very positive thing as long as they know their jobs are secure.
- Communicate *reasons* and well as actions; people like to know (or believe) that actions are not based solely on profit.