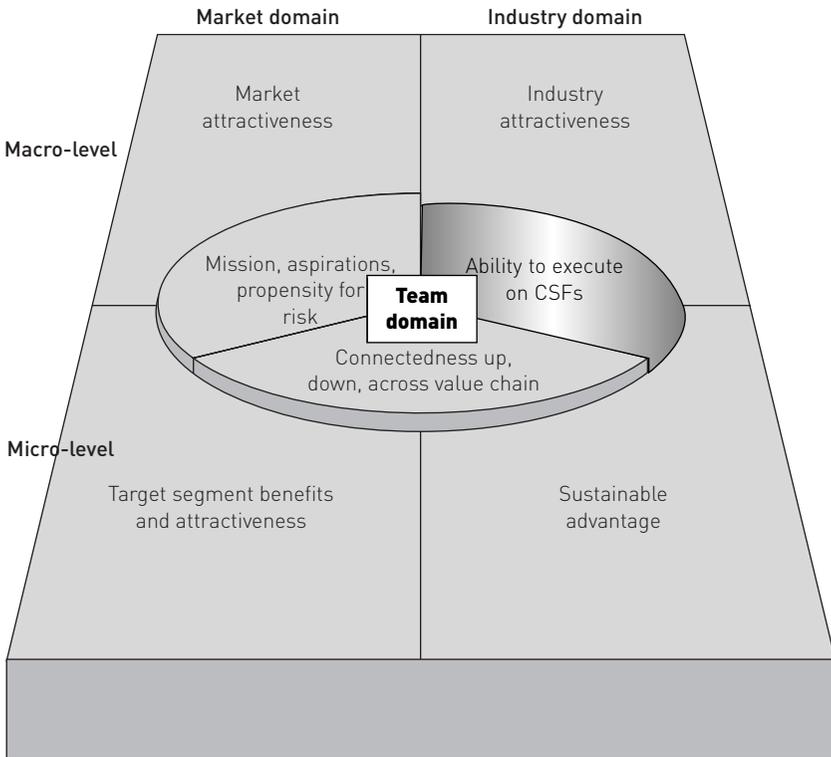


# 7

## Can you and your team execute?



What makes a sports team successful? It depends upon the sport. For most teams, the need for talented, conditioned, well-trained athletes and a competent coaching staff are obvious requirements. Yet, beyond these fundamental criteria, no two sports have the same critical success factors.

Take for example basketball, football and polo. Successful basketball teams must have players with the hand-eye coordination to shoot the ball accurately. Having tall players doesn't hurt, either, of course.

On the other hand, football (soccer) is played largely with the feet, so hand-eye coordination doesn't matter very much. Agility and an ability to control the ball while keeping one's head and eyes up are critical, however.

A polo team's success depends on both the athletes and the horses. As in basketball and football, the athletes need to have a good shot, but they must also be able to make this shot while riding a horse at high speed.

In all three sports, endurance also matters – the fittest team often wins. In each of these sports, different factors are critical to success. Height and shooting ability make a big difference in basketball. Foot skills and the ability to maintain possession of the ball are important in football. Well-trained horses and skilled equestrians separate winners from losers in polo.

## The sport of entrepreneurship

In the People was my trust,  
And in the virtues which mine eyes had seen.

**William Wordsworth (1770–1850)<sup>1</sup>**

Just as nearly every sport requires its athletes to be physically fit, so every entrepreneurial venture needs to have the fundamentals – a superior product or service, an efficient supply chain, motivated people and so on. These are the basics without which no business can survive for long. Returning to sport for a moment, all the world’s top tennis players, all the footballers in the World Cup, all the runners on the start line of an Olympic marathon are superbly fit. Fitness is a basic requirement. But it takes more than fitness, of course, to win a Wimbledon title or an Olympic medal.

So, what separates the great athletes from the very, very good ones? The great ones are the ones who consistently meet the critical success factors for their chosen sport, whether that be speed, strength, balance, tactical savvy or whatever. An ability to execute on these critical success factors is the difference between great and almost great. As in the World Cup or on the tennis circuit, where there’s significant difference in performance between the winners and those who don’t place, so the same is true in the business world. In mobile phones, Nokia thrived while Motorola and others struggled. In athletic footwear, Nike grew while the traditional athletic footwear makers just muddled along. What is it that causes such variation in performance within an industry?

We’ve already seen some sources of variation, such as patent protection and organizational processes and capabilities that are not imitated easily. But

there's something else that can account for such differences. That 'something else' is a management team's ability to execute against the few critical success factors – no more than a handful, usually – that tend to account for much of the difference in performance from one company to another within an industry. Just as in each sport there are a few key attributes that separate the winners from the losers, the same is true in entrepreneurship. A common difference between winners and losers is that the winners figure out the factors critical to succeeding in their particular industry, and then stack their

**“just as in each sport there are a few key attributes that separate the winners from the losers, the same is true in entrepreneurship”**

team accordingly. The losers either do not identify these critical success factors or do not possess a team capable of delivering on them.

So, what if your industry is extremely competitive, with one or more of the five forces conspiring against you and your prospective competitors? Can you still be successful? The answer to this question is 'Yes, *but* . . .'. This

chapter speaks directly to the 'but'. Even in relatively unattractive industries, at least some companies typically perform quite well. Others are left in the dust. So, the 'but' is this: yes, entrepreneurs can succeed in difficult industries, *but* they must be able to:

- identify the critical success factors specific to their particular industry;
- assemble a team that can execute on these factors.

Getting things right on the rest of the seven domains doesn't hurt either.

In this chapter, we'll first discuss how you can determine the critical success factors for your industry. Then we'll examine the case histories of two companies: Palm Computing, a highly successful start-up in handheld computing, and Schwinn, a long-time bicycle manufacturer. In each case, the stories identify the factors critical to success in the relevant industry and look at the degree to which the company's team – the key people in whom investors had placed their trust – was able to execute on these factors.

We then consider what investors look for in the entrepreneurs and entrepreneurial teams they invest in, and we examine the lessons an entrepreneur should learn from this chapter. In doing so, I remind you that the industry you may enter is unlikely to be as attractive as pharmaceutical drugs. The lessons of this chapter, in concert with those already learned in Chapter 5, can provide a way around any shortcomings your opportunity may have in industry attractiveness terms.

## Identifying the critical success factors

**“are the answers found in the trade press, on the Internet or in strategy textbooks? unfortunately, no”**

How do I work out what the critical success factors (CSFs) are for my industry, you may ask. Are the answers found in the trade press, on the Internet or in strategy textbooks? Unfortunately, no. Knowledge of the CSFs for any industry resides in the experience of those who have learned – often the hard way – which things

absolutely must be done right. Whether you have such experience or you must access that of others who have it, there are two key questions to ask to identify your industry’s CSFs.

- Which few decisions or activities are the ones that, if gotten wrong, will almost always have severely negative effects on company performance?
- Which decisions or activities, done right, will almost always deliver disproportionately positive effects on performance?

In retailing, the industry where I spent much of my business career, the CSFs are, as they say, location, location, location. Retailers in great locations can get other things wrong and still perform well, at least for a time. Those in poor locations, despite doing most other things right, will struggle to survive. That’s how powerful CSFs are. As Starbucks’ Howard Schultz said, ‘Our process of site selection was enormously time-consuming, but we couldn’t afford a single mistake. One real estate error in judgment would mean . . . a minimum of a half million dollars at stake.’ The Starbucks team demonstrated such skills, for ‘Of the first 1000 stores we opened, we opted to close only 2 locations because of site misjudgments’.<sup>2</sup>

To identify the CSFs in your industry, ask the two questions above of 15 or 20 thoughtful, successful entrepreneurs and executives in your industry. You’ll get various answers, of course, but some will converge on the same few themes. That’s what you are looking for.

## Palm Computing: Jeff Hawkins’ innovation catches on

It is rare today to sit in a business meeting and not see at least one person tapping away at a handheld organizer. While these little battery-operated

gadgets have been on the market since 1993, it was not until 1996 that the concept really caught on. Introduced to the public in April 1996, the Palm Pilot was a near-instant success, selling 1 million units in its first 18 months. Palm's little invention had been accepted faster than any other computer – even faster than televisions, video recorders, mobile phones or almost any previous consumer electronic product.<sup>3</sup> In just two years, the company sold more than 1.5 million Pilots. What made Palm so successful, beating out the earlier Apple Newton and Microsoft's Pocket PC?

## Learning the hard way

The Palm story began with Jeff Hawkins, an electrical engineer and inventor who was more interested in the human brain than starting a multibillion-dollar company. In the late 1980s, Hawkins was working for GRiD Systems, a computer company in the San Francisco Bay area. It was at GRiD that Hawkins worked on pen computing. With this new technology, users could write directly on the computer screen with a stylus (it looked like a pen but contained no ink); theoretically, the user's handwriting could be recognized. The key word was 'theoretically'. The concept depended heavily on the computer's handwriting-recognition capability.

Hawkins had already developed PalmPrint, a software program that could recognize hand-printed characters. In 1989, with Hawkins' software under licence, GRiD developed and marketed a tablet computer called GRiDPad. While it was a modest success as the only pen computer available commercially, it was too big and heavy, at 4.5 pounds, and too expensive, at \$2500, for use outside the specialized markets for which it had been designed.<sup>4</sup>

In 1991, Hawkins set out to create a pen computer that would be more appealing to everyday consumers. He was convinced a pen computer would be appealing to customers and pitched the idea to Tandy, GRiD's parent and the operator of some 7000 consumer electronics stores. As Hawkins saw it:

Palmtop computing devices will be as ubiquitous as calculators by the end of this decade . . . To get an idea of the market size for these computers, consider the possibility that most high school students, nearly all college students, and most professionals will own one. With prices starting at \$200, it is entirely conceivable, and I believe likely, that 50 per cent of those people will own or use a portable handheld computer at some time in their life.<sup>5</sup>

Tandy and two venture capital firms liked Hawkins' idea, and in January 1992 Palm Computing was financed with \$1.3 million in exchange for 40 per cent of Hawkins' company. Hawkins' proposed product, the Zoomer, would consist of hardware and an operating system that allowed the

computer to serve as an address book and a diary. Hawkins knew he could not develop the Zoomer alone, so in early 1992 he hired three talented engineers and set to work.

**“Palm was a living example of too many cooks in the kitchen”**

Hawkins and the Palm Computing team immediately faced pressures from the project’s various partners. By autumn 1992, there were six partners on the Zoomer project, including Casio, Tandy, AOL and Intuit. Palm was a living example of too many cooks in the kitchen. These partners wanted everything and the kitchen sink included in the product. Palm’s Engineering Director Monty Boyers said, ‘They had the longest, longest list of features they wanted to put into the device. And it would not make any difference to them at all whether these things made sense or not. Our point of view was: “Gee, we don’t need all these things. Let’s make this other stuff work really well”’.<sup>6</sup> With Hawkins at the helm, the Palm team tried to stave off the idea that ‘more is better’, focusing instead on simplicity and functionality. But the battle wasn’t easy.

In August 1993, Apple began shipping its Newton. Palm’s Zoomer followed in October. Neither of the two products was terribly successful. Of his own product, Hawkins said, ‘When I personally used the product, I felt it was usable, but a lot lacking’.<sup>7</sup> At \$700, this somewhat heavy and cumbersome handheld device was equipped with only a mediocre handwriting-recognition tool. And by then, the Palm team realized the need for PC connectivity, which the Zoomer lacked. They wanted to find a way to move data back and forth from the Zoomer to the PC.

Working quickly, Palm brought to market in November its PalmConnect, an add-on to the Zoomer that allowed information to be moved from the handheld to the PC, and vice versa. While PalmConnect was a useful and successful add-on, it did not save the fate of the Zoomer. Both the Newton and the Zoomer failed to gain momentum. After selling 20,000 units in its first two months, Zoomer’s sales slowed to a crawl.<sup>8</sup>

## What does it take to win in high-tech?

Hawkins, a tenacious sort, was not about to give up hope after the less than successful Zoomer project. The first thing he did was to strengthen his team by hiring Donna Dubinsky as his CEO. She had a proven track record of managing high-tech teams and delivering results. More importantly, her appointment also released Hawkins from a managerial role he had never wanted to play, leaving him free to concentrate on learning from the

**“Hawkins and Dubinsky learned some important lessons about what it takes to be successful with high-tech innovation”**

mistakes made on the Zoomer in order to develop a handheld that had real market appeal.

Hawkins and Dubinsky learned some important lessons about what it takes to be successful with high-tech innovation.

- First, they learned that developing new technology was the easy part. Many high-tech entrepreneurs could do that.
- Second, and far more important, they learned that what was crucial in the high-tech world was linking the promise of technology with genuine customer needs so that real customer problems are solved.

As we’ve already seen in Chapter 2, satisfying customer needs is nothing new – it’s important in any industry. In high-tech, though, doing so or not doing so turns on three CSFs. Getting these CSFs wrong dooms the business. Getting them right gives it a good chance of success. What are they?

- Anticipating and understanding customers’ real problems or needs – or, more graphically, the customer pain.
- Understanding deeply an area of technology and what it can and cannot deliver, both today and tomorrow.
- Finding ways to harness the technology to resolve these problems or needs. Can the customer’s pain be relieved?

For high-tech ventures, sometimes the technology comes first and customer pain must be found that can be relieved by the new technology. At other times, the customer need comes first, driving the engineers to develop a solution. Either sequence works, as long as the meeting of the two – the third CSF – occurs. Let’s look at each of these CSFs and see how they played out at Palm.

## What did customers really need?

With Dubinsky now on board, Hawkins and the Palm team went to work on understanding what needs customers had that could be resolved by a handheld device. But which customers?

The Palm team decided to target the growing number of PC users. Within this large market, their target was professionals who were not necessarily experts in computers but who were unafraid of technology. Refining the target market further, the Palm team focused on the segment of profes-

sionals who worked away from their offices, whether locally or at large distances. What did these mobile professionals who were comfortable with technology really want in a handheld device?

Let's ask the customers what they really want, thought Hawkins. Their answer was clear: don't try to replace our desktop computers; just replace our pocket and desk calendars. People wanted an accessory to their PCs,

**“I realized my competition was paper, not computers”**

some means of carrying around some of the data already on their hard drives – especially contact and appointment data. Eureka! ‘I realized my competition was paper, not computers.’<sup>9</sup> Most of the PC functions that

Palm had painstakingly built into the Zoomer served only to clutter the screen with options that the customer didn't need.<sup>10</sup> Hawkins' realization allowed him to focus his attention on the features and functionality that his prospective customers really wanted. Instead of developing a handheld PC, Hawkins and Dubinsky pushed their engineers to design a straightforward, portable, easy-to-use organizer.

Hawkins knew what was on the drawing boards at other companies and was sure that every one of them was missing the boat. What everyone was doing was not what the customers wanted.

Peter Skillman, who worked with Hawkins as a consultant for IDEO, the engineering firm that teamed up with him on several of the Palm products said, ‘Jeff understands the user experience and instinctively knows what's important to them. He has a real empathy for customers’.<sup>11</sup> In other words, he was able to execute on the first of his industry's CSFs.

Hawkins identified the characteristics most important to his market. Customers required simplicity, small size, reasonable price, attractive design and connectivity: ‘We knew people would want something that's reliable and intuitive and quick, very quick. Faster and easier to carry than paper. Products can do complex, sophisticated things. But the user experience has to be simple’.<sup>12</sup> A Forrester Research study concurred, finding that people used their handheld organizers to manage calendars and to-do lists far more than they used them for complex tasks like retrieving and sending emails.<sup>13</sup> ‘It had to be easy to use for the average consumer’, said Hawkins, ‘not a product for techno geeks, but as easy and fast to use as the millions of Day-Timer and Filofax paper organizers that were sold each year.’<sup>14</sup>

## What could (and couldn't) technology deliver?

In order to keep the product small, fast and convenient, Hawkins realized that Palm would need great handwriting-recognition technology. The problem was that, at the time, the technology was not good enough. More importantly, Hawkins, who knew this technology arena intimately (CSF number two in high-tech), knew it would not be good enough any time soon. He needed to come up with a better handwriting-recognition tool. His invention was ingenious. Instead of asking the computer to recognize everyone's handwriting, as Apple's Newton and Palm's Zoomer had tried to do – ineffectively, as it turned out – Hawkins decided to create a standard alphabet and characters that people could learn to use. He would train people in a new, but easy way to write.

Graffiti, Hawkins' new alphabet, mimicked traditional Roman letters with just simple modifications. The result was a near-perfect technological solution with two key benefits. First, anyone could learn to print characters that the product could recognize, thus eliminating the handwriting-recognition issue. Second, the handheld no longer needed a keyboard, thus facilitating a smaller product.

Yet another problem with technology was the limited screen space. When writing long words or sentences, the user would run out of room on the small screen. Hawkins' solution was to have users write one letter on top of another, forcing the software (rather than the user) to display the letters and characters in sequential order. Again, Hawkins came up with an inventive and practical solution that was technologically feasible.

The team also realized the importance of data exchange between the handheld and the PC. Palm engineers wrote software that could import and export data to and from a number of desktop software programs, like Microsoft Outlook and Lotus Organizer. With this functionality, pertinent daily information usually stored on a PC suddenly became portable.

## Matching the two – harnessing technology to meet customer needs

With Hawkins' criteria in mind and the key technologies in place, the Palm crew set out to develop a superior handheld organizer. The team was meticulous when it came to the product's features and functionality. They knew the machine had to be simple to operate. Keeping it simple meant fewer features. When deciding what features to include in Palm's handheld, Vice-president of Marketing Ed Colligan asked, 'Is this feature going to sell one

more unit?'.<sup>15</sup> If the answer was no, then the Palm team dropped it. Colligan's discipline was a key factor that helped execute on CSF number three. What the engineers designed would be what the customers wanted – no more, no less. In the end, the team decided on four basic features: a calendar, an address book, a to-do list and a memo pad. Palm's competitors, on the other hand, missed the boat, cramming far too much functionality into their little handhelds.

Hawkins also realized that existing operating systems wouldn't work for the simple and sharply focused device he had in mind. A better operating system was needed, and Palm's Ron Marietti was the engineer who delivered it, another instance of Palm's ability to execute on harnessing technology to meet customer needs.

While the Palm team was busy sticking to its simple features, the company did allow for software add-ons for customers who might want them. The company relied on outside software developers to provide these applications. Independent software developers could obtain a Palm software development kit and create add-on shareware and commercial programs for Palm's handheld. Anxious to get their hands on a big audience, these developers designed everything from financial calculators and video games to astrological charts and news updates.

## Results – a hit from day one

Palm Computing demonstrated their new Palm handheld at a trade show in January 1996. Half of the more than 400 trade show attendees took Palm up on its \$149 pre-order offer. In April of that year, Palm began shipping. *PC*

**“the company knew it had a hit when computer columnists failed to return its review units”**

*Computing* magazine wrote: ‘The Pilot 1000 is an outstanding product: It's fast, easy to use, and inexpensive . . . If you're searching for the ultimate palm-size organizer, look no further'.<sup>16</sup> Throughout the remainder of 1996, Palm's Pilot organizer gained popularity. By the end of the

Christmas season, Palm's Pilot won over 70 per cent of the US handheld market. That year, the Pilot received 21 ‘best product’ awards from the press, consistently beating Microsoft's handheld launched in the autumn of that year.<sup>17</sup> The company knew it had a hit when computer columnists failed to return its review units.<sup>18</sup>

It took Palm only 18 months to sell 1 million Pilots. But Hawkins and Dubinsky refused to rest upon their laurels. To maintain momentum, Palm

worked vigorously to develop newer, better versions of its handheld. Palm III hit the market in March 1997. This version was slimmer than the original Pilot, and weighed only 6 ounces. Gartner Group said, 'The product delivers exactly what existing users want'.<sup>19</sup> A still thinner version, the Palm V, was next. While the Palm V had no functional difference from the Palm III, it was a far more attractive product. As Hawkins said, 'The goal was beauty. Beauty, beauty, beauty. I didn't want any distraction with other things'.<sup>20</sup> The Palm V sold for \$449, weighed 4 ounces, and was equipped with rechargeable batteries. Palm VII took a jump into the wireless world. Equipped with an antenna, it could send and receive emails and Web clippings. By 1998, however, Hawkins, Dubinsky and Colligan departed to form a new company, having struggled for years under corporate oversight that, in their eyes, limited their progress.

For a time, the rest of the Palm team continued to deliver impressive results. By the end of its fiscal year ending May 2000, Palm had reached over \$1 billion in sales. During the next six months, it sold another \$922 million. It had taken Palm three and a half years to sell 5 million handhelds.

But profits were another story. Amid rampant innovation across the category and fierce competition – including the new Visor from Hawkins and team's new company, Handspring – PalmOne, the portion of the old Palm that marketed devices, had by mid-2003 chalked up nearly \$900 million in losses over three very difficult years.

In October, Hawkins and team returned to Palm, bringing together Handspring's engineering and design prowess with Palm's manufacturing and sales expertise. The reunited companies launched the Treo 600 to rave reviews, as combination devices like Treo and the Blackberry, which combine PDAs and mobile phones into a single unit, became the next must-have device for on-the-go business people. In 2005, with Colligan holding the reins as CEO, Palm announced its first annual profit since 2000.<sup>21</sup>

What made Palm a high-tech success? Palm's success did not result from proprietary technology that was patent-protected, although Palm did win some patents and it did develop its own operating system. The story wasn't superior organizational processes that others could not match. The key element in Palm's ability to win in a business where other companies and products – including Palm's own Zoomer – had failed was the ability of the entrepreneurial team to execute on the three factors that were – and still are – critical to high-tech success. Let's recap how Palm's entrepreneurial team – Hawkins, Dubinsky and Colligan – executed on these three CSFs:

- *Understanding customers' real problems or needs:* Hawkins, Dubinsky and Colligan focused relentlessly on building the small and simple product that they knew customers wanted. 'Delight the customer', was Colligan's mantra for design decisions.<sup>22</sup>
- *Understanding deeply an area of technology and what it can and cannot deliver, both today and tomorrow:* Hawkins knew the limitations of handwriting-recognition technology and what it could and could not do well. With Graffiti, he found a better way to resolve the technical problem.
- *Finding ways to harness technology to resolve these problems or needs:* 'He was really anal about a lot of stuff', recalls Karl Townsend, who designed the electronics for the first Palm Pilot. 'He said, "Look, it's really important how thin it is; it's really important how the buttons feel." All the other products I had worked on, people didn't have the same passion that Jeff had, and the product then becomes a huge gigantic compromise.'<sup>23</sup>

Of these three CSFs, the first and third are often overlooked in technology-driven companies, where engineering elegance sometimes takes precedence over customer needs. The Palm team, however, executed superbly. At the end of the day, it's execution – not design brilliance or engineering elegance alone – that counts. Hawkins and his team executed. They delivered cutting-edge products that worked and that customers wanted and would pay for – all things easy to say but difficult to do in the high-tech world.

**“at the end of the day, it's execution that counts”**

## Schwinn hits the skids

We now turn our attention from a company that executed superbly on its industry's CSFs to a company that succumbed in the bicycle industry by failing to do so. In the USA, Schwinn is a brand that rings nostalgia. American baby boomers remember the classic Schwinn models and reminisce fondly about riding their Schwinns around town. So, what was it that caused a venerable company with a widely recognized brand to fail? The sad reality is that the company's team did not execute on its industry's CSFs.

Before we begin the Schwinn story, let's first identify the CSFs in the bicycle industry. Sometimes, those factors depend on the nature of the strategy a

company pursues. In bicycles, as in most mature manufacturing industries, there are three broad strategic approaches, as Treacy and Wiersema<sup>24</sup> point out.

- *Operational excellence*, i.e. ‘providing customers with reliable products or services at competitive prices and delivered with minimal difficulty or inconvenience’. Such a strategy seeks to lead the industry in price and convenience.
- *Customer intimacy*, i.e. ‘segmenting and targeting markets precisely and then tailoring offerings to match exactly the demands of those niches’. This strategy is focused on individualized service to each customer, based on an intimate understanding of what that customer needs.
- *Product leadership*, i.e. ‘offering customers leading-edge products and services that consistently enhance the customer’s use or applications of the product, thereby making rivals’ goods obsolete’. Product leadership companies seek to provide a continuing flow of state-of-the-art products or services to remain at the cutting edge of their industry.

What CSFs are required to effectively carry out each of these strategies? According to Treacy and Wiersema,<sup>25</sup> here’s what each strategy requires.

- Operational excellence:
  - minimize costs in every regard;
  - optimize business processes for extreme efficiency and effectiveness.
- Customer intimacy: gather detailed information about each customer so that they may be assigned to a micro-segment in which the offering is tailored carefully to that segment’s needs. Sometimes, the segmentation is so precise that offerings are tailored to market segments of one.
- Product leadership:
  - creativity, to recognize and embrace ideas that may originate outside the company;
  - optimize business processes for speed, in order to bring these creative ideas to market quickly;
  - relentlessly pursue new solutions that may obsolete those that the company has just introduced. If anyone is to render the product leader’s technology obsolete, then the product leader prefers to do so itself.

In addition to the one or two CSFs pertinent to each strategy, another CSF applies to manufacturers regardless of strategy.

- Effective, efficient value-chain relationships. Without effective and mutually beneficial relationships with suppliers and resellers, any manufacturer will face an uphill battle. From suppliers, manufacturers need reliability, quality and on-time delivery at an affordable price. From resellers, they need commitment and sell-through – a commitment that a manufacturer wins by being a reliable supplier of quality products itself.

Let's see if Schwinn executed on any of these CSFs.

## A changing American market for bicycles<sup>26</sup>

One day in the late 1970s, a group of Schwinn engineers paid a visit to a small California bicycle factory called Fisher MountainBikes. Back in 1974, Gary Fisher had built a dozen 'klunkers', as he called them, bikes cobbled together from sturdy bike frames found in thrift shops, but fitted with the latest European parts – fancy ten-speed gears, thumb shifters, motorcycle brake levers, knobby dirt-grabbing tyres and so on. The purpose? To enable Fisher and his buddies to ride their bikes up and down the dirt tracks among the hills along Northern California's dramatic coast.

Fisher, though still not 30 years of age, now had a real company, and he and others like him were building bikes like none built before (see Case Study 7.1). The engineers from Schwinn, long the leading bicycle brand in the USA, were there to take a look at the mountain bikes Fisher had crafted, including one made from an old Schwinn Excelsior. As Fisher recalled the scene some 15 years later, 'This guy in his 50s was looking down at me like I was some jerk kid who didn't know anything. The Schwinn engineers are going, "We know bikes. You guys are all amateurs. We know better than anybody"'.<sup>27</sup>

It was Fisher who knew bikes, not Schwinn. As had happened in the 1970s, when Europe's lightweight ten-speed road bikes invaded the American bicycle market, and later with motocross-inspired BMX bikes, Schwinn was left in the dust. By the end of the 1980s, mountain bikes like Fisher's would account for 60 per cent of a booming American market for bicycles, and Schwinn would be on its way toward bankruptcy court. Was the Schwinn team able to execute on the CSFs entailed in any of the Treacy and Wiersema strategies in the 1970s and 1980s? Consistently not. Let's see how Schwinn fared on the success factors that characterize them.

## Trouble at Schwinn

While Schwinn had been a trendsetter in the bicycle industry for 80 years, by the 1970s the family-run company had lost its ability to gauge the market. In October 1979, Ed Schwinn, aged 30, took over the presidency of Schwinn Bicycle Company from his uncle Frank V. Schwinn. At the time, Schwinn had a 12 per cent share of the American market and was by far the most trusted name in bicycles.

### case study 7.1

#### Entrepreneurial newcomers remake the bicycle business<sup>28</sup>

In 1979, ten years after the mountain bike craze began in earnest, Gary Fisher's Fisher MountainBikes was selling 15,000 bikes annually at prices up to \$1200 each. Fisher was on his way towards being a millionaire. There were more than 5 million mountain bikes on the trails in the USA alone.<sup>29</sup> Fisher's was among the best-known of the new companies that had built thriving businesses from what Schwinn had overlooked. Steve Potts, at the smaller but high-priced end of the scale, offered tailor-made bikes built to order for customers willing to pay \$3400 for his signature craftsmanship.

Specialized, another newcomer, having seen the mountain bike trend and knowledgeable about low-cost manufacturing in Asia, sold a broad line of mountain bikes at half Fisher's prices. Even the European makers like Raleigh finally got into the game.

Like Phil Knight of Nike, John Mackey of Whole Foods Market and Pierre Omidyar of eBay, these entrepreneurs had changed the way consumers live and play. That's what entrepreneurs do.

After just a few months in his new job, Ed decided that the long-time executives who had led Schwinn for years weren't what the company needed. In April 1980, he arrived unexpectedly at Schwinn's western sales office in California and said to Max Scott, Schwinn's Vice-president for Sales and Marketing, 'Max, I'm here to ask for your resignation. We'd like for you to leave the company right now. You can come tomorrow to get your belongings. That's all I have to say'.<sup>30</sup> Marketing Director Ray Burch was also replaced. The veteran number-two man, Al Fritz, was banished in

1980 to Excelsior Fitness, a small Schwinn division selling exercise equipment. As the veterans left, in came younger family members lacking in business experience. Schwinn's old guard may have lacked the ability to develop cutting-edge products but they had presided over decades of operational excellence. Would the new team be able to match them?

The year that Ed Schwinn took over, Schwinn's Chicago factory employees voted to unionize. Rather than continue to work with his experienced but now unionized factory workers, Ed decided to close Schwinn's Chicago factory. In its place, the youthful Schwinn decided to open a new factory in Greenville, Mississippi. Things went downhill quickly from there.

As Chris Travers, one of Schwinn's California dealers, said later, 'Greenville was quickly branded as having an inferior product.' Other dealers complained that the Greenville-manufactured bikes had parts that did not

**“some bikes even arrived without seat posts”**

fit together, wheels that weren't true, or frames that had mismatched colours. For a while, some bikes even arrived without seat posts. There were delivery issues as well. Long-time Schwinn dealer Joe Russell said, 'We just couldn't get the right

bikes when we needed them'.<sup>31</sup> Clearly, Schwinn failed to execute on the CSFs for an operational excellence strategy and in doing so was beginning to do irreparable damage to the company's relationships with its resellers, a major shortcoming on one of the CSFs.

The manufacturing problems in Greenville led to significant operating losses, exacerbated by write-offs of obsolete inventory, equipment and buildings in Chicago. The severance costs associated with laying off all of the Chicago factory employees also proved financially damaging to Schwinn, as did the habitually free spending of Schwinn's management team, itself a further difficulty in maintaining operational excellence. The result was that the Schwinn Company's net worth plunged from \$43.8 million in 1980 to \$2.7 million just three years later.

Seeking to resolve its continuing manufacturing problems, Schwinn transferred most of its production to Taiwan-based Giant Manufacturing Corp.

**“the odd-looking boat was a reminder to all of Schwinn's free-spending culture”**

Ed Schwinn was soon captivated by doing business in Asia, even bringing to Chicago a Chinese junk that he would sail on Lake Michigan. The odd-looking boat was a reminder to all of Schwinn's free-spending culture.

Schwinn's globetrotting executives enjoyed other finer things in life, too: 'It doesn't cost that much more to eat well', commented Vice-president of Finance John Barker, after one of his regular trips to China.

Despite the free spending on overheads, the lower Asian manufacturing costs boosted unit profit margins from losses of \$5–20 per bike to gains of \$20–30. Margins on Al Fritz's exercise bikes were even better, in the 50 per cent range. Sales of Fritz's new Air-Dyne exercise bikes doubled, but Schwinn's corporate team didn't believe the optimistic forecasts that Fritz was making. As a result, according to Fritz, 'We never had enough exercisers'.<sup>32</sup> This time it was the new management team who proved unable to deliver on the CSFs required for product leadership. Indeed, the fact that Schwinn didn't miss the exercise craze completely was due largely to the experienced Al Fritz.

In 1984, Schwinn turned its first profit in four years, earning \$3 million on sales of \$134 million, due mainly to the booming exercise business. By 1986, Schwinn's earnings peaked at \$7 million, its best in a decade, on sales of \$174 million, and they opened swanky new offices.

## Schwinn's troubles go global

Alas, the good news was only temporary. Schwinn's network had grown to include suppliers in mainland China and Hungary, leading to reduced reliance on Giant, their established Taiwanese supplier, which in 1986 had been producing some 80 per cent of Schwinn's bikes. What did those decisions do to their value-chain relationships?

**“both efficiency and effectiveness had gone out the door”**

Giant retaliated with higher prices, cutting into Schwinn's margins and forcing it to raise prices. Schwinn bikes were suddenly priced \$10–20 higher than competing models. 'When people came in here and saw the price – boom, out the door they went', said John Pelc, a Schwinn dealer for more than 40 years.<sup>33</sup> To compound the problem, Schwinn had quality problems once again, this time with its new Chinese supplier. Both efficiency and effectiveness had gone out the door.

Once again, Schwinn's manufacturing and supply problems showed up on the bottom line. In mid-1989, Controller Don Gillard came to Ed Schwinn with an analysis that showed Schwinn was losing money on bikes, and that only the Air-Dyne cash cow was keeping it afloat. Gillard was asked to resign soon after. Ed Schwinn just didn't like hearing bad news.

Meanwhile, Giant decided to expand its own brand and reduce its reliance on Schwinn. When Schwinn bought a \$2 million stake in its Chinese

supplier, China Bicycles Company, Giant's President Tony Lo was furious. Lo hired Bill Austin, Schwinn's recently departed marketing chief. Austin shrewdly offered dealers a better profit margin than Schwinn was offering, along with a compelling story – Giant bikes were made by the same factory that made Schwinn! By 1992, Giant would sell more than 300,000 bikes in the USA, more than half of Schwinn's 543,000.

## The end of Schwinn's road

By the end of the 1980s, Schwinn was back in the red, losing \$2.9 million in 1990 and \$23 million in 1991, when it shut down the Greenville factory. The Air-Dyne cash cow disappeared, as its sales plunged by one-third due to lower pricing by competitors. Al Fritz, after complaining of the lack of payraises for his

**“ the most respected name in the American bicycle business brought a paltry \$2.5 million ”**

division's staff, had been dismissed years earlier.

By 1991, Schwinn's lenders were applying pressure once again and Schwinn family members, long accustomed to fat dividend cheques, were growing restless. In 1992, Schwinn's banks began sweeping cash from Schwinn's revolving line of credit to pay overdue loans, leaving Schwinn with little money with which to pay Giant and China Bicycles. Schwinn's debt to these two suppliers ballooned to some \$30 million, and Schwinn's net worth was wiped out. 'It was like being on a runaway train', said Dennis O'Dea, Schwinn's attorney in the bankruptcy that soon followed. 'It was horrific'.<sup>34</sup> In October 1992, Schwinn filed for bankruptcy. Soon after, its remaining assets were sold to a group of investors. The most respected name in the American bicycle business brought a paltry \$2.5 million.

## Execution, not

At the beginning of this section, we identified the CSFs entailed in the strategies that Schwinn might have chosen. Let's summarize how the Schwinn team executed on the industry's CSFs.

- Did it minimize costs? Hardly. A free-spending culture. A Chinese junk on Chicago's Lake Michigan. And a swanky new office building.
- Were business processes optimized for efficiency and effectiveness? Certainly not. Severe quality and delivery problems were recurring events.
- Were there detailed customer data for targeting small or expanding segments? None. We saw no evidence of any attempts to tailor the offering to meet small segments' individual needs.

- Creativity and a willingness to accept new ideas like mountain bikes and bring them to market quickly? No way. From all appearances, Schwinn's leadership appears to have been about as backward-looking as a management team can get.
- What about organizational processes? Relentless pursuit of new solutions? Were they geared to speed, to support a product leadership strategy? Except for Air-Dyne, Schwinn's days as a product leader were long gone.
- Value-chain relationships? Cutting out a reliable supplier? Supplying its dealers with faulty products. Inadequate product delivery. Not exactly what most observers would call effective execution.

Sadly, the Schwinn story is a textbook example of 'management missteps, global mishaps and the pitfalls peculiar to family-owned businesses by third- and fourth-generation executives'.<sup>35</sup> There are lots of phrases one could use to describe the Schwinn debacle, but effective execution on CSFs is not among them.

## What investors want to know

### “ what does great management look like? ”

Do investors care about execution? Absolutely, they do. It's what keeps them awake at night. It's the best protection they have after they've made a decision to invest in a nascent entrepreneurial venture. Once

they've made the decision to invest in your venture, your ability to execute on your CSFs is the best – maybe the only – protection they have for their money. No wonder they'll fixate on it before they settle up.

*We really dig into the management team. We want to be totally confident that this team can deliver on the promises they have made. We do that by looking at their experience, by assessing how well they understand their industry and their customers. We want to know about their leadership in terms of the CEO and the heads of engineering, R&D, and marketing [or whatever the most important functions are for any given opportunity].*

OD, USA

Execution is why the refrain 'management, management, management' is heard so often in venture capital circles. But what does great management look like, when viewed from up front, before events have unfolded? Is it about character? Chemistry? Drive or motivation? Perseverance in the face of adversity? Is it industry experience? Is it glib salespersonship? Is it techno-

logical expertise? Is it ‘having done it before’, as Louis Borders had done in book retailing before his ill-fated Webvan adventure?

In the research that led to this book, I learned that great management is about all of these things and something more. Do character, drive and perseverance matter? Sure. Is industry experience relevant? Of course. But not just as a line on a CV. Does the ability to sell matter? Absolutely: it’s what successful entrepreneurs do with much of their time. But successful selling is not to be confused with a dynamic personality, as the naturally introverted Jeff Hawkins will attest. Most of these elements are like fitness to the athlete. Necessary, but not sufficient for greatness. What do astute investors look for?

What astute investors look for in people they back – and ‘people’, plural, is the right word here – is simple, really, but not very obvious to most aspiring entrepreneurs.

- Investors want to know that the lead entrepreneur has identified and understands the CSFs in the industry they propose to enter, as well as the market and competitive environment they will encounter. A credible understanding of the seven domains can provide the evidence here. That’s step one.
- Step two, the crucial one, is that the lead entrepreneur has then assembled a team that can demonstrate in past *deeds*, not words – that its players taken together can execute. On what, you may ask? Execute on each and every one of the CSFs that the venture’s industry and strategy therein will require. Or, alternatively, and equally satisfactorily, the entrepreneur has identified what’s necessary and also what’s lacking on their team and acknowledged the need to fill that gap, perhaps with the investor’s help.

So, if you want investors’ backing for your new venture, make the effort to understand the CSFs that your venture will face. If you’ve not worked in the industry you plan to enter, you’d better find someone who has. There are always just a few factors that are crucial. It’s the ones that make the

**“look in the mirror  
and ask what you  
bring to the party”**

difference between who wins in your industry and who are the also-rans. Next, look in the mirror and ask what you – demonstrably, in past deeds, not just words – bring to the party.

Finally, fill out your team with people who can deliver what you yourself do not have or cannot do. Fill it with people who are different from you – diverse teams generally perform better than look-alikes.

## Lessons learned

As I noted in the first pages of this book, the majority of entrepreneurial ventures fail. They do so for many reasons, lots of which are opportunity-based. Some pursue poor markets. Others choose unattractive industries where almost no one can win. Some offer no real benefits to their prospective customers, offer benefits no better than what is already available, or have no way to sustain their initial advantage. At least some of these errors, however, can be overcome through effective execution.

If you were to ask the successful entrepreneurs whose case histories have graced the chapters in this book about the mistakes they have made, they would smile. Then they'd probably ask with a chuckle, 'How long have you got?' My research team and I chose each of the stories in this book to bring to life just one of the seven domains. In reality, though, most of these world-class entrepreneurs got more than just one domain right. They got most of them right, but not always on the first attempt, as we saw with Jeff Hawkins' Zoomer. But they would be the first to tell you that they also made lots of mistakes along the way. Having the right team – a team that can execute on the important things, the CSFs – is a crucial element in recovering and learning from those mistakes. Let's see what we've learned from this chapter.

### Lessons learned from Palm Computing

In the case of Palm Computing, Jeff Hawkins not only knew what it took to succeed with a high-technology firm; he also made certain that his company had the right people to fulfil these necessary criteria. When Hawkins resolved that Palm would produce a simpler handheld, he knew 'the most critical employee to the project . . . was Ron Marietti'.<sup>36</sup> He needed an engineer of Marietti's calibre to write the operating system, otherwise the product simply would not work.

Earlier, Hawkins had agreed with his venture capital backers that he should hire a CEO to run the company. It took about a year, but when the time was right that's exactly what Hawkins did. Donna Dubinsky, Hawkins thought, could execute, and she could do things he could not.

To his credit, Hawkins knew his strengths and weaknesses, having never claimed to be a good manager.<sup>37</sup> He knew the CSFs that his business faced, and he built a team that could meet them. Execution mattered. Contrast Palm's execution with that of other early entrants into handheld computing – Apple's Newton and Microsoft's Pocket PC – which simply failed to under-

**“ execution mattered – contrast Palm’s execution with that of other early entrants into handheld computing ”**

stand the limits of the technology and to marry it with customer needs.

Hindsight tells us that, at least at its early stages, the handheld computing industry was a tough game to play. There were numerous entrants and quite capable substitutes – pen and paper, principally – that led most entrants to fail. Arguably,

Palm’s superior execution – Hawkins, Dubinsky, Colligan, Marietti and the rest of the team – made the difference.

## Lessons learned from Schwinn

To be fair, the bicycle industry when Ed Schwinn took his family company’s helm was not all that attractive. But there were segments – like mountain bikes – where the prospects were bright. But unlike the new mountain bike pioneers like Gary Fisher, Schwinn failed to respond to the trends sweeping the industry.

And, unlike Palm’s Jeff Hawkins, Ed Schwinn seemed not to understand the importance of a good team. Instead of surrounding himself with the best and the brightest, he eliminated key veterans (flawed to be sure, but the newcomers didn’t shine either) and replaced them with young relatives. Al Fritz, who latched on to the fitness trend, was demoted. Don Gillard, the bearer of bad news, was terminated. Family ties are no substitute for a team’s lack of ability to execute on the CSFs.

Worse, Schwinn antagonized key partners – Giant and, later, China Bicycles – apparently not realizing that one’s team includes more than one’s employees. Bankers, suppliers and dealers count, too. Arrogance, rampant at Schwinn, does not breed cooperation and teamwork.<sup>38</sup> Business – as with entrepreneurship – is a team sport, and Ed Schwinn was not a team player.

**“ one’s team includes more than one’s employees – bankers, suppliers and dealers count, too ”**

As we’ll see in the next chapter, there’s one more dimension of your entrepreneurial team we’ve yet to address, and it addresses an important issue in completing your team. The team issues are crucial ones, especially if your venture requires external capital. As William Wordsworth noted in opening this chapter, it’s in you and your *people* – not your *idea* – that investors will ultimately place their trust.

## The new business road test: stage six – the ‘can you execute?’ test

- What are the few – only a handful, please – critical success factors in your industry? What support can you provide to show that you’ve identified them correctly?
- Can you demonstrate – in past deeds, not mere words – that your team taken together can execute on each and every one of these CFSs?
- Alternatively, have you identified which CSFs your team is not well prepared to meet, for which you need help in filling out your team?