

The Flexible Enterprise



*How to Reinvent
Your Company, Unlock
Your Strengths, and Prosper
in a Changing World*

David Gewirtz



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***To all my customers and all my clients. Without you
there would be no enterprise.***

—David Gewirtz

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Preface

It is change, continuing change, inevitable change, that is the dominant factor in society today. No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be.

—Isaac Asimov, 1978

Change is a tangible force of nature. Whether it comes in the form of erosion, evolution, entropy, or an economic action by a competitor, change is unavoidable. In business, numerous outside forces compel change. Whether it's the sudden drop in list price from a competitor, the introduction of a revolutionary new device that changes your market, the collapse of a previously secure business channel, or the fickleness of your customers, change is inevitable. Your relationship with the force of change will define your future. You can tap into this most elemental of forces, and use change as a tool to shape your business.

In most businesses, there is a detrimental though perfectly understandable tendency toward rigidity. It takes enormous effort and investment to make a business operational and profitable. Once you've got it working, why change? Change requires new training, new products, new investments, new sales techniques, and, above all, new risks.

On the one hand, we've got the entropic inevitability of change. On the other hand, we've got a highly reasonable philosophy best articulated by "If it ain't broke, don't fix it."

Our paradox lives in the age-old story of the unyielding force pressing against the immovable object. In the world of business, the unyielding force takes the form of external pressures, whether from

customers, competitors, government, or acts of nature. That leaves the rigid business enterprise as the immovable object. However, this is not a battle of equals. When faced with the pressures of external change, the business (your business?) will budge.

If your business is rigid, like the dried-out old stick in the Japanese proverb, the unyielding force will eventually cause your business to break. On the other hand, if your business is flexible, like the supple branch of a living tree, your business will bend to outside pressures, but rarely, if ever break.

Being flexible and responsive to outside pressures is important if your business is to survive. But you must still retain the ability to chart the course of your own destiny. Rather than changing your business solely due to outside influences, you can and must drive change creatively from within. You can leverage off those things you do exceptionally well—your strengths—to redefine your company. You can harness change as a proactive, planned, creative activity driven from inside yourself and your business.

Creating the Flexible Enterprise requires reinventing your business from the inside out with these steps: Identify your strengths; eliminate weaknesses; search out new opportunities; reposition appropriately; evaluate; and repeat. By being “strength driven” rather than technology, market, or sales driven, your company can work to maximum benefit within its own capabilities rather than pin all its hopes on the slim chances of attracting an outside “savior” or reacting with conventional approaches that have failed time and time again.

Reinventing your business from the inside out is a strategy that will help you manage growth and make your company work for the long haul. Best of all, everything you need to drive the change is within your grasp—your own strengths and the strengths of your company, your motivation, your willingness to change, and the tactics and principles described in this book.

HOW TO GET THE MOST OUT OF THIS BOOK

This book provides more than a description of how to change; it also provides a methodology for handling change again and again, while

each time improving the foundation of what works. Reinventing from the inside out is a powerful way to incrementally effect positive change that benefits the company, its management, and its owners more than it hurts. And it's the only way that takes into account real-world constraints of business owners and managers rather than blue sky theories and the assumption of an infinite cash war chest.

This book is targeted at owners, senior managers, and investors in small companies with revenues of \$1 million to \$20 million. Most of my experience comes from learning the hard way with my own technology companies. These lessons can benefit any manager in any small business.

The book is divided into three parts: Dynamics of Change, the Art of Reinvention, and Strategies and Tactics for Change.

Part I: Dynamics of Change

Part I will help you explore the business dynamic that is change. It opens with a detailed case study from my company's past that will help put business change into stark perspective.

Part II: The Art of Reinvention

While change can happen on its own, the successful business manager will guide and coach the reinvention process. Successful reinvention isn't just a matter of downsizing and delayering. Rather, reinvention is like an art form seeking a sense of synthesis, a balance of strengths, opportunities, and challenges. In Part II, you'll learn how to take control of change and use it to your advantage.

Part III: Strategies and Tactics for Change

If Parts I and II are the theory of the Flexible Enterprise, Part III is the practice. In these chapters, you get tactics, hints, and ideas for transforming your organization. We'll look at all the important aspects of your organization—products and services, marketing,

sales, cash management, operations, people management, and even positioning, planning, and managing your life in harmony with the business.

If you're impatient and unwilling to take the time to learn the dynamics of change, start with Part II and learn about the importance of strengths, and then go on to your specific interest areas within Part III. But remember: To really master this process for the life of your business, you need to understand the underlying forces driving change. So I recommend you do, sometime, read Part I with care.

ACKNOWLEDGMENTS

The Flexible Enterprise largely reflects my experience growing and transforming the company that's the main character of this book. In the years since I struck out on my own, literally hundreds of people have become members of the extended family that was once Hyperpress and is now Component Software. Among them, of course, are those who believed in me and the company. These people deserve special mention and thanks:

- My parents . . . who from thousands of miles away, accepted the reality of my need and drive to do things my own way—even if it meant I gave up a cushy executive's job at one of the country's largest software firms.
- Jim Connor . . . who many times thought I was totally out of my mind—and then left his own important job to help us get through a pretty tough year. Jim's unique perspective has influenced my thinking and strategy throughout the history of the business. His friendship has been priceless as I struggled through good times and bad.
- Dan Shafer and James Paul . . . who put their trust in a wet-behind-the-ears entrepreneur with no office or products. Dan and James created the first two packaged products offered by the company and have continued to be mentors, contributors, advocates, sounding boards, and friends.
- Merrie Brown, Mary Medoff, Toni Erickson, Linda Lou Lehman, George Forrester, Matt Kwan, and Shannon Delfino . . . who

were among my first employees and who are all my own personal heroes. These people went way beyond the role of employee and were founders, if not in name, then in spirit.

- Denise Amrich . . . who's been heavily involved in more recent times and who's made strong contributions to the company, as well as substantial editorial contributions to this book.
- Tom Peters . . . who, while he and I have never met, has served as a virtual board of directors. His books have provided me with invaluable advice, wisdom, comfort, and the occasional dressing down.

There are many others who've made important contributions to the company. Although there's not enough room in this book to acknowledge everyone who's been there for me and the company, there's certainly enough room in my heart and head to remember and thank you all.

Contents

Part I Dynamics of Change

Chapter 1	The Winds of Change: A Case Study	3
Chapter 2	Reinventing from the Inside Out	17
Chapter 3	Change Drivers	25

Part II The Art of Reinvention

Chapter 4	The Reinvention Lifecycle	39
Chapter 5	How to Identify and Leverage Your Strengths	52
Chapter 6	Eliminate Your Obstacles to Success	66

Part III Strategies and Tactics for Change

Chapter 7	Becoming a Strength-Driven Company	97
Chapter 8	Reinvention Planning	112
Chapter 9	Revitalizing Your Product Line	125
Chapter 10	The Collected Crimes of Marketing	145
Chapter 11	The Science of Selling	163
Chapter 12	Cash Is Life	182
Chapter 13	Maximizing Operations Effectiveness	204
Chapter 14	The Flexible Workforce	221

Chapter 15 Get a Life! 238

Afterword 247

Appendixes

Appendix A Staying in Touch 248

Appendix B Flexible Enterprise Resource Guide 251

Index 257

PART I

Dynamics of Change

CHAPTER 1

The Winds of Change: A Case Study

In the future, everyone will be world-famous for 15 minutes.

—Andy Warhol, Stockholm, 1968

Sweat was dripping down my back. I was thankful my suit was dark blue so that no one could see the puddles of perspiration under my arms. The hall was packed with more than a thousand people. In five minutes, my presentation was due to begin.

The next hour would determine the fate of my company. If my presentation failed, our last, greatest chance to keep the company afloat would be destroyed. We would be forced to close our doors, lay everyone off, and join the unemployment lines.

But, if my presentation succeeded, we'd have a real chance at the brass ring.

Standing on the speaker's dais, another droplet of sweat landed squarely in my eye. I shared the stage with the big names in technology: Intel (creators of the chip inside most PCs), IBM, and Apple Computer. The pressure was intense.

This was the first-ever Multimedia Expo and the big players were out in force. Visionaries, treasure hunters, and practical business managers had started to see signs of a major transformation in the way we interact with computers, telephones, television. "Multimedia"

was the catchword that described this mecca of information-age future David O. Selznicks. While the entire movie industry is only about \$5 billion or so, the combined revenues of computers, communications, and entertainment would range in hundreds of billions of dollars. Multimedia was going to be *big*. Everyone could smell it.

Two minutes before my start time, a critical piece of equipment—a laser disc player—still hadn't arrived. I couldn't do the presentation without it. And the laser disc player—this last critical technical component of the presentation—was somewhere in San Francisco, in the unescorted hands of some taxi driver, winding its way from the Apple Multimedia Lab to Moscone Center.

I was on the keynote panel for the first Multimedia Expo. Apple had invited my tiny company to *take its place* and give the keynote address. It would have been heady stuff if it weren't for the fact that my company's life was on the line.

* * *

If, one month earlier, you had told me I'd be giving the keynote address at the hottest ticket in town, I'd have laughed in your face—and then sat down and cried. My company was in trouble. Our market had collapsed and we were out of cash. Our prospects were plainly bleak.

My company was then called Hyperpress. The name Hyperpress is no longer in active use. A number of years ago a few of its better products were folded into a new venture (my current company) called Component Software Corporation. You'll learn more about this in later chapters as we talk about positioning companies for particular audiences.

Hyperpress had based its business premise on selling add-on software for an Apple product called HyperCard. I'm not going to get overly technical, but it helps if you understand some of what this means.

HYPERCARD: HOW TO KILL A MARKET

HyperCard is a piece of software ordinary people (those who aren't programmers) use in building new pieces of software—sort of a “software erector set.” Before HyperCard, the task of building new

software fell primarily to experienced programmers and designers using tools of exceptional complexity. HyperCard was different. It made it much easier to build your own software.

Apple originally included HyperCard on every computer it shipped. In typical Apple fashion, the hype exceeded the reality. HyperCard was a great tool. It did (and still does) wondrous things. But it wasn't useful for or needed by everyone—as Apple had promised. Although HyperCard made software development much easier, most computer users have better things to do than write programs.

When after a year or so, HyperCard wasn't being used by everyone (only about 1 in 150 people with HyperCard on their disks actually tried to write programs), the folks at Apple began to think of HyperCard as a failure. They cut their investment, they completely eliminated their marketing, and they stopped shipping it with every new computer.

HyperCard's failure became a self-fulfilling prophecy. This "reality distortion effect" gone bad nearly cost my company its life.

You see, the problem wasn't that HyperCard wasn't any good. It was very good—for its purpose. When HyperCard was originally introduced, many of us saw real quality and potential in the product and formed companies that provided support products for HyperCard.

THE DANGER OF BEING AN AFTERMARKET SUPPLIER

My company provided tools to help those building software with HyperCard. We had a tool that helped write computer programs (the incantations linking the little pictures on the screen), another tool that helped create the pictures (called "icons"), and others to help organize the process of building new software. We didn't expect HyperCard to be a tool for all computer users, just a nice tool for crafting new software.

It was a sound business premise. It was also an accurate reading of the market. By targeting end-user developers and hobbyists rather than, at the high end, professional programmers or, at the

low end, all users, we limited our total market size. But we had a coherent offering to a tangible, identifiable class of prospects.

Until Apple short-circuited HyperCard.

When Apple's management realized that HyperCard wasn't going to be used by every man, woman, and child on Earth, they lost interest, reduced funding, and moved HyperCard around between groups and subsidiaries like an unwanted stepchild. The trade press, of course, picked up on this and started calling HyperCard a failure, guessing that Apple might discontinue the product (eight years later, they still haven't). Many of those who actually had a use and need for HyperCard started to look elsewhere because basing computer software on a discontinued software environment is suicidal.

Those of us whose fortunes were tied to HyperCard felt the effects. Sales dried up overnight. Customer interest waned. Investors no longer were calling. Money stopped coming in. Yet there were still bills to pay and paychecks to sign.

Of the two hundred or so aftermarket companies that started after HyperCard's introduction, only about five (including mine) survived the first couple of months that followed HyperCard's bad press. Despite being survivors, all of us were in very bad shape—weeks or (at best) months from running out of cash.

So, a month before the Multimedia Expo, had you told me I'd be giving the keynote address (or at least be standing on the stage in a cold sweat hoping to be able to actually give the keynote address), I'd have either laughed, cried, or found a corner where I could park myself and suck my thumb. I certainly wouldn't have given it any credence. Hyperpress had no multimedia products. We had no funds to develop them, and we certainly couldn't have them ready in a month.

CHANGE HAPPENS

Ah, but the world is a very strange place. The least probable things can happen. And they do.

Here it was the middle of May. The Multimedia Expo would be in June (although that fact certainly didn't seem important at the time) and we were trying to make it through the fifth or sixth month of our near-death experience.

One of the survival tactics we had begun using was called “Anything for a Buck.” We talked to every company we could find and tried to sell them any (legal) service we could perform just so that we could stay in business until we figured out how to recover from HyperCard’s fall from grace.

We had managed to get a few contracts and, with extreme cost controls, were “hanging in.” In desperation, I visited with Bill Atkinson, creator of HyperCard (now a cofounder of General Magic), and asked for some ideas.

Over a gourmet meal of melting soft vanilla ice cream and french fries, Bill graced me with his wisdom. He told me that if HyperCard products weren’t selling, I should try doing something else. (Bill’s nothing if not practical!) He mentioned another company that was, apparently, doing successful custom HyperCard work. He suggested we call on them and see if we could get some subcontracting work. (For the sake of its founders’ feelings, I’ll call the company Bill referred us to by other than its real name. Let’s call it “Prosoft.”)

A few days later, I went down to see Prosoft. They had really pretty offices compared with our more workmanlike digs. Everything was color coordinated. They appeared to have lots of industrious people working hard. Outwardly, they looked vastly more successful than we were. Hats in hand, my sales manager and I sat in their president’s office, about ready to ask for any hand-me-down projects they could spare.

Boy were we about to be surprised!

Prosoft’s president told us about a new technology they’d been working on. They were able to take a moving image from a video source (like a VCR or a laser disc player) and play it on the computer’s screen—side by side or overlaid with computer-generated pictures. They could even control where on the screen the video image was placed. This was much more than just turning their computer screen into a glorified TV set. Since they could put both the video image and computer-generated information on the same screen and precisely and instantly control what video clip played when, they could create new and exciting kinds of software.

By using a laser disc player instead of a VCR, they could even control exactly what clip of video played—instantly selecting and playing a video clip appropriate in the current context. In this way, they could *interactively* control the video and computer images. The