Independent Director Digital Transformation/Disruption Case
Ed Marsh, Founder, Consilium Global Business Advisors, LLC

Between a business rock and a strategy hard place: Balancing the risk of sticking with the strategy that "got you here" as it decays vs. the risk of embracing a new disruptive model

It's time: you fish out the board meeting prep packet, open the airline seat tray table….and instinctively flip to a point about ¾ of the way through the charts.

You are looking for the sales pipeline data.

The same important capital equipment deals always remained just one quarter away from closing. Aftermarket revenue grew consistently as a byproduct of new machine sales, but those sales seemed to happen with little insight from the management team. And lately more and more of the "big" deals seemed to simply fall off the radar, neither won nor lost.

Last year you pushed the CEO for more granularity: not only in forecasting revenue but in specific accounts and deals, as well as digging deeper into the revenue growth operations and market strategy.

The deeper you dove into marketing and sales, the more uneasy you became. Revenue and profit numbers were OK. They were in line with industry norms. But no one seemed to know what levers to pull to control results.

The CEO expressed confidence that his team was driving growth.

You do not have confidence anymore.

Initial exuberance

When Lewis Franklin, the 60-year-old 2nd generation President and CEO of the family business Sigma Industrial Technologies decided to supplement the family and insider board with a pair of independent directors, it felt like a great fit for you.

Lewis knew the company had to deepen its talent and had hired non family members in key operations and accounting roles. That brought more rigorous management and freed him up for his passion - actively directing R&D like his father before him. Sigma's devices created the entire industry and are still considered the best; sought by food processors around the world. The Franklin family is as proud of its leading role in enhancing food safety as they are fiercely loyal to their global network of indirect channel partners.

The fact that the company was run like a business had appealed, and trends in the industry offered exciting opportunities for market extension. You had joined the board with enthusiasm, and your contributions, drawing on your tech industry foundation of refined digital-focused revenue growth tactics had been warmly embraced.

18 months in, however, you'd realized that the chitter chatter at board meetings was rather different than the pitter patter of the revenue growth team. Led by VP of Sales & Marketing, and 27-year veteran of the company, Tim Jackson, the team of marketing, field sales, channel management, and national accounts reps were always working on "huge" deals. When you'd asked increasingly pointed questions about reporting, you'd gotten concerning answers. "Our people are too busy on the road to spend all day fiddling around in a CRM" and "Our industry is different; our buyers don't use the internet like yours."

But it was more than just the digital naivete that worried you.

Buyers were changing. Lewis Franklin didn't seem to "see" it. You had gone through the agony of an industry transitioning to a subscription model. You saw it was happening around Sigma in their industry.

You watched as subscription powerhouse Zuora championed disruption of traditional industrial sales, and some of the world's largest capital equipment manufacturers were rapidly shifting to subscription models. That meant exciting new diverse revenue streams, growth opportunities, and new business models - not to mention stable, predictable revenue and the end of the manic capital investment cycles. The challenges, however, were daunting. Not only did mindset need to shift, but a business that had been built on working capital provided by down payments faced serious challenges in transitioning to a subscription model.

Could Sigma adapt? All development energy seems focused on Jackson's "market priorities." He is convinced that the next wave of innovation will relate to consumer food consumption preferences and is leading the creation of a product roadmap that will allow manufacturers to gradually adapt with more efficient changeovers between short private label runs, and has convinced Lewis to focus the R&D team on refining multi-axis servo technology to speed line changes.

Meanwhile, food traceability and organic validation are increasingly important considerations for Sigma Industrial's customers. Rising generations of process and quality engineers are accustomed to bundling machinery with monitoring, maintenance and performance, and product marketing has raised, and dismissed, rumors that FEI (Food Equipment International), Sigma's key competitor, is experimenting with aggregated and anonymous production data to inform advisory services to help production customers gauge shifting regional demands.

We're going with what got us here

For the last several meetings you've been diving deeper into what you believe are the two biggest strategic shortcomings the company has; the outdated revenue growth model and the cavalier attitude toward subscription related opportunities including data based revenue streams, subscription procurement models, and integrated cloud services to help customers meet the market's expectations.

You've found intellectual interest and agreement among some of the executive team. In fact, the CFO just yesterday emailed you and Lewis an article noting that companies with recurring revenue subscription-based models are growing 27% faster than their counterparts that retain transactional models.

When you chat 1:1 with Lewis he's eager to research and experiment with opportunities, but the sales team refuses to entertain selling them. In fact, they seem cavalier about their process for selling anything!

Things came to a head at the last meeting.

When you explicitly challenged Jackon's forecasts he grew prickly. "I need to be clear. We're not a tech company and we never will be. Our buyers are different, and so the way we sell is too. I've grown this company from $40 to 230MM, and we're going with what got us here."

The CFO told you in confidence later that Lewis' loyalty means he's unlikely to seriously challenge Jackson.

The battle of the bulge

The numbers don't lie. There it is again. The same distended pipeline, the same list of projected wins, and the same doubling down on incremental changes to equipment rather than a bold reengineering of the revenue growth and market strategy.

There's almost certainly a slow-down coming in capital equipment spending after the recent surge, more competitors are dabbling in IoT related programs, and you've seen more activity among industrial companies in implementing "predictable revenue" type growth programs.

And you keep thinking of the CFO's email.

You wonder briefly where you're supposed to meet the car they're sending, and then question whether you really belong on this board as you pack your briefcase to stow it for landing.

Ed Marsh

em@cgbadv.com / +1 (978) 238-9898

https://www.linkedin.com/in/edwardbmarsh/

www.ConsiliumGlobalBusinessAdvisors.com