EXPLORING CONTEMPORARY MANAGEMENT CHALLENGES:
Closing Underperforming Operations

UCSD EPSE-LAMP Student Research Assignment 2009-10;
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

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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

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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.
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.

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