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JIM CHAMPY

DELIVER!

HOW TO BE FAST, FLAWLESS, AND FRUGAL

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How to Be Fast, Flawless, and Frugal

JIM CHAMPY

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This book is dedicated to my dear friend and colleague, Tom Gerrity, from whom I have learned so much about what's important in life and work.

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ABOUT THE AUTHOR

Jim Champy is one of the leading management and business thinkers of our time. His first best seller, *Reengineering the Corporation*, remains the bible for executing process change. His second book, *Reengineering Management*, another best seller, was recognized by *Business Week* as one of the most important books of its time. Champy's last book is *Reengineering Health Care: A Manifesto for Radically Rethinking Health Care Delivery*.

This book, *DELIVER!*, is a part of a series that examines new business models. The earlier books in the series are *OUTSMART!* and *INSPIRE!*. Champy has filled these books with examples of how companies are outsmarting their competition, engaging customers, and operating in fundamentally new ways.

Champy is also an experienced manager and advisor. He is the Chairman Emeritus of Dell Services Consulting Practice and serves on several private and public sector boards. He speaks and writes with the authority of real business experience and brings pragmatism to the world of business. Champy observes that there is not much new in management, but there is a lot new in business—and a lot to learn from what's new.

IF YOU'RE ENMESHED IN A CORPORATE TURNAROUND, I KNOW OF NO BETTER PLACE TO LOOK FOR INSPIRATION THAN THAT AMERICAN ICON, THE CAMPBELL SOUP COMPANY. A HUMBLE CAN OF SOUP IS A DECEPTIVELY SIMPLE IMAGE FOR A COMPANY WHOSE RECIPE FOR REVIVAL INCLUDED SOME OF THE BEST BUSINESS PRACTICES AROUND. THEY EXPLAIN WHY CAMPBELL'S AWAKENED FROM WHAT LOOKED TO SOME LIKE A TERMINAL SNOOZE.

CHAPTER 5

GETTING BACK TO FOCUS AND DISCIPLINE: CAMPBELL'S SOUP IS M'M M'M SMART

I've studied the company and its 58-year-old CEO, Douglas R. Conant, for some time now. To ignite a turnaround, he brought to the table two characteristics that are crucial to delivering: focus and discipline. Today, they're what the company is all about.

To ignite a turnaround, he brought to the table two characteristics that are crucial to delivering: focus and discipline.

When he took over at Campbell's in 2001, Doug Conant promised the company's stakeholders that there would be better times ahead. As of January 2009, total return on Campbell's stock since his arrival, given dividend reinvestment, was 31.5 percent—as compared to the S&P 500's 14.4 percent loss for the same period.

Here's how Doug describes the Campbell's advantage: "The soup business is the largest, most profitable, fastest-turning category in the entire center of a grocery store. We have a leadership position to the point that we are the category manager for every customer in the country. There is no other company of any kind that has that kind of leverage in a category in the United States."

In 2001, though, the company was in the doldrums after one of the most amazing knee-bone-connected-to-the-thigh-bone sequences I've ever encountered. As Doug describes it to me, the downward spiral was kicked off in 1990 or so with the decision to raise prices. Over the next seven years, for example, the EBIT margin for canned soup more than doubled, creating a large price differential with supermarket private labels. When that triggered a sales decline, it was blamed on poor promotion, and the ad budget was slashed, after which sales took another hit. By now, earnings were hurting, so the company embarked on a major cost-cutting campaign, up to and including a reduction in the amount of chicken in Campbell's chicken noodle soup.

At that point, as Doug puts it, "After taking the pricing up, cutting the marketing support, and compromising on product quality, we started to cut the overhead including hundreds of R&D people, the lifeblood of a consumer-products company. By then, 9 out of 10 of the best people left on their own." Between 1997 and 2000, sales of condensed soup, which accounted for more than half of Campbell's soup sales, dropped by more than 20 percent.

Within the ranks, inertia ruled. A former executive recalls, only half in jest, that she used to carry a mirror to "make sure everyone was breathing." When someone proposed that less heat in the cooking process would improve the soup's texture and flavor, the notion was vetoed; retooling for the change would have cost $100 million. But then, when the rival Progresso brand, owned by General Mills, pioneered the lower-heat process, Campbell's was forced to follow—and the net result was that it spent the money anyway, but lost the edge of being first.

Turning this ship around would be a challenge for anyone, and there were those who doubted that Doug Conant could do it despite his 25 years as an executive in the food business. Born in Chicago, he received both his BA and MBA at nearby Northwestern University. There his professors included Philip Kotler, whom Doug describes as "the godfather of consumer marketing as we know it today." Kotler pioneered brand management." He went straight into brand management at General Mills after graduation and then on to Kraft, where Doug said he was "turned on to the whole concept." Then it was on to Nabisco, which had just gone through its notorious leveraged buyout. He was president of Nabisco when Campbell's came calling.

But Doug is a far cry from the classic extrovert-on-steroids CEO. He calls himself an introvert who needs his "alone time," dislikes chit-chat with strangers, and vacations in places like the mountains of Utah or the Michigan woods for tranquil reflection. Doug reads at least four hours a day, largely books of management advice, making use of the long commute from his home in northern New Jersey to Campbell's headquarters, the length of the state away in Camden, near Philadelphia. He keeps scores of books in his office, on shelves and stacked in corners. And when he finds one he likes, he buys extra copies and hands them out to his colleagues. He greets both triumph and disaster with quiet self-possession. One of his colleagues calls him "an Eagle scout."

But Doug Conant is no pushover. He has had his share of hard knocks, including the loss of his job as head of marketing for Parker Brothers when General Mills decided to get out of the toy and games business. Doug was out of work for a year, a turning point in his life, he says. When he re-launched at Kraft, he was ready to learn the hard disciplines of cutting costs, trimming staff, launching new products, and revamping marketing plans. He turned around the margarine division and then the Planters and Life Savers brands.

In his first months at Campbell's, Doug moved decisively with similar focus and discipline. Convinced that most of the executives he inherited were at Campbell's only because they couldn't find other jobs, he began to replace them, eventually firing fully 300 of the company's 350 top people. One of the greatest weaknesses of the company as he found it, Doug tells me, was its focus on quarter-by-quarter earnings. It had taken long years to get into trouble, and he knew it would take long years to get out of it. He lowered earnings expectations and slashed the dividend by 30 percent. As he expected, the stock plummeted, hardly manna for the Dorrance family, heirs of the Campbell chemist who invented condensed soup, who still control about half of the company's shares. But they backed his play, which was designed to free up funds for long-term growth and innovation. Jim Kilts, the one-time Gillette CEO who was Doug's boss and mentor at Nabisco, calls him "the guy with an iron fist in a velvet glove."

As a long-term turnaround strategy, Doug limned a 10-year plan he called "the Campbell's Journey." It focused on changing the corporate culture and embracing mission-driven innovation. In the first phase, 2001 through 2004, the company would regain its competitiveness by upgrading the management team, increasing employee engagement, and working on innovative product improvements. In the next three years, Campbell's would achieve quality growth by enhancing the overall value proposition for customers. And beginning in 2008, the plan predicted the company would chalk up unprecedented rates of growth and become nothing less than "the world's most extraordinary food company."

The first and biggest transformation Doug had to make at Campbell's was to reform the sluggish culture. "We had to win in the workplace," he tells me, "so we could ultimately win in the marketplace." That was a monstrous task, given its 23,000-person payroll, but Doug saw no alternative. A new product or technology can give you an edge, but it would be fleeting. He understood that the real competitive advantage is the ability, the agility, and the willingness of your workforce to cope with dynamic markets and situations.

The first and biggest transformation Doug had to make at Campbell's was to reform the sluggish culture. "We had to win in the workplace," he tells me, "so we could ultimately win in the marketplace."

In turning the Campbell culture around, Doug used a concept developed by the Gallup Group called the Engagement Ratio—a measure of how many employees are fully engaged in their jobs. According to Gallup, to have a team dedicated to the company vision and mission of total customer satisfaction, the majority of the employees must be fully engaged. To reach world-class levels of productivity and efficiency, there must be 12 engaged people for every indifferent one. Doug says Campbell's engagement ratio in 2003 was no better than 2 to 1.

He began by upgrading his management team, establishing a leadership standard against which every executive could be judged. Over his first two years, six out of seven top executives failed to measure up and departed. Significantly, however, he replaced at least half of them with company insiders, sending a positive signal amid the mayhem. The other half he recruited from blue-chip packaged-goods companies, go-getters who wanted to have “a little Don Quixote in their lives” by tilting against the windmills that were crippling the grand old brand.

Doug encouraged a group of employees to draw up the so-called Campbell’s Promise, which established the basic equation the company has sought to live by ever since: “The company values its people, and its people value the company.” But to begin with, he understood, Campbell would have to “tangibly demonstrate” its side of the equation. Soon, leaders’ evaluations were based, in part, on the grades they received from the people who worked with them.

On a personal level, Doug has gone to great pains to show how much he values the associates, as he calls employees. He emcees an annual awards ceremony to honor staffers’ accomplishments and ideas. Every six weeks, he has lunch with about a dozen employees to get their feedback and advice. In business, he says, “We’re trained to find things that are wrong, but I try to celebrate what’s right.” And he sets aside time every day to send hand-written notes of appreciation to staffers who have delivered in extraordinary ways, from executive vice presidents to the receptionist at a remote field office. In his first eight years at Campbell’s, more than 16,000 thank-you notes went out. “I’m ‘all in’ in terms of moving this company forward,” he tells me, "and every associate gets it. You can ask any one of them and they would say, 'He's all in.'"

Doug also generates engagement and improves operations by deflecting praise and sharing credit. He has the discipline to own up readily to his mistakes, saying simply, "I can do better." In a conference call with Wall Street analysts early in 2009, for instance, he came under fire for not fighting harder when retailers cut their inventories of soup, presenting at least some shoppers with bare shelves. Doug acknowledged that it had been a "frustrating experience," and that in hindsight both he and the retailers would have behaved differently. "We were up eight percent in the first half," he says. "And quite frankly, it should have been more. I wish it was, and it wasn't. But I am not embarrassed by eight percent growth."

Campbell Soup employees also appreciate the company's commitment to sustainability and corporate social responsibility—one of the seven "core strategies" that Doug set out for the company early on. "We had been making some compromises no one felt good about," he tells me. "Now, we decided that we were going to win with integrity."

Doug sponsored green initiatives at Nabisco long before they were fashionable. He has always been a "forward thinker," according to his former boss Kilts. At Campbell's, he promised sustainable farm and manufacturing practices. Campbell's also has a major commitment to Camden, the economically depressed industrial city where it was founded. It is now building a $70 million corporate campus there and has a dozen or more programs to educate and train the city's young people, prepare renters for home ownership, revitalize neighborhoods, support health clinics, and provide meals, job search assistance, and health services for the needy.

As a result of all these patient efforts throughout the company, the engagement ratio at Campbell's climbed to 9 to 1 in 2007. And in July 2008, Doug proudly announced that the ratio had hit "a world-class 12 to 1," and that the Gallup Group "has recognized Campbell's as one of the best places to work in America in each of the last two years."

While the culture at Campbell's was being transformed, of course, the rest of the business couldn't sit still. Doug decreed that it would be based on four pillars that he considers "musts" for any food enterprise: quality, value, convenience, and wellness (healthy nutrition). It was obvious that Campbell's had a long road to travel in each category. "You can't talk your way out of something you behaved your way into," Doug told his troops. "You have to behave your way out of it." Campbell's would have to learn to do more with less. Following are the problems, and the focus and discipline, he used to address them:

- At a time when consumers increasingly focused on health issues—more than 65 million Americans suffer from hypertension—wellness was perhaps Campbell's most pressing concern. Sales of the staple condensed soup were dropping at least partly because customers worried about its high levels of sodium and flavor-enhancing monosodium glutamate (MSG). But repeated efforts to market low-sodium soups had been stymied by their bland, unappealing taste.

That problem was finally solved when the Campbell's research labs found a sea salt with relatively little sodium, making possible full-flavored low-sodium soups. The line was the hottest new supermarket product of the year when it came out in 2007, hitting sales of $101 million. These days, low-sodium soup accounts for $650 million in annual sales, and Doug says that one day soon, sodium will be a nonissue in all the company's soups.

The war over MSG has gone even better. The battle was joined when rival Progresso ran ads taunting Campbell's about its sodium and flavor-enhancer addictions. Campbell's waited until its products caught up with its wellness goals and retaliated with a campaign boasting that 124 of its soups were MSG-free, whereas Progresso was loaded with the stuff. Within a few years, Doug maintains, there won't be MSG in any Campbell soups.

The nonsoup brands were part of what he calls the "better-for-you" commitment. V8 branched out into citrus mixtures and, with V Fusion, a full serving of fruit plus a full serving of vegetables in every glass, offering vitamins A, C, and E with no added sugar. The Pepperidge Farm brand switch to whole grain baked goods has been "wildly successful," Doug says. Campbell's also moved strongly into organic products. The 2008 acquisition of the Wolfgang Puck line of organic soups gave the company further breadth and credibility in the organic market and an opening to many potential entries in natural foods.

- For Doug's second pillar, quality, read upscale marketing—a field Campbell's started to plow with its ready-to-serve Chunky line of soups well before he arrived. Chunky has been upgraded, with quality ingredients and lean meat, and promoted heavily with an ad campaign featuring NFL running back LaDanian Tomlinson. The line is also being beefed up with two extension brands, Healthy Request and Fully Loaded.

  The Select Harvest and Wolfgang Puck lines add to Campbell's upscale offerings, and its Swanson line is adding beef and chicken stock aimed to help gourmet cooks enrich their sauces. The company has also tested a line of refrigerated soups with gourmet flavors, such as crab and sweet corn chowder, to be sold at premium prices—perhaps $5.50 for 24 ounces, compared to about $2.50 for 19 ounces of Chunky soup.

  Perhaps surprisingly, Doug recently sold off an upscale brand that had been doing well: Godiva chocolates. His admirers give him full credit for recognizing that however hip the brand and its $500 million in sales seemed, the company would do better to focus on its core business.

- Convenience, Doug's third "must," was the original selling point for condensed soup: Just add water, heat, and serve. In the fast-food age, however, that process no longer seemed simple enough. Ready-to-serve soups were more convenient, especially when Campbell's began packaging them in pop-top cans. And under Doug, the company finally saw potential in the microwave oven. "The microwave was invented in 1947," he marvels, "but we were so good at putting soup in cans that it took us until 2002 to put it into a microwaveable container. Meanwhile, we lost a whole generation of people who weren't interested in making a can of soup."

Convenience is also an issue in supermarkets, where it's often difficult to find the soup you're looking for on crowded shelves. Research shows that shoppers get impatient if they can't find an item in 20 seconds, but it was taking more than a minute for them to locate the Campbell's flavor they wanted. The company came up with an answer in the form of gravity-fed racks that deliver one can after another to the front of the rack, each flavor in its own well-marked line. As of early 2009, the racks had been installed in 23,000 stores.

- The final pillar, value, has also been a constant for Campbell's, and it looks especially good in a time of rising unemployment, worried homemakers, and pinched pennies. Prices of most food items have risen sharply since 2003, but a serving of Campbell's condensed soup has gone up by only nine cents; you can savor a bowl for just 52 cents. Since the recession struck, Doug says, he has "opportunistically" increased advertising for condensed as "the original dollar menu" and, with a Kraft grilled-cheese sandwich, a "wallet friendly" meal. As Campbell's most popular soup, condensed is the company's anchor to windward in this economic storm.

On the way to delivering "the world's most extraordinary food company," Doug means to stay focused on his core business of soup. There are already six cans in the typical U.S. household, and Campbell's soups are sold in 120 countries around the globe, but to Doug, plenty of room exists for expansion. With \$3.5 billion of its \$8 billion annual sales in soup, he says, Campbell's is the world's largest soup company—but it's still competing in just 6 percent of the world's soup markets. So the company is moving to enter the two largest markets in the world, accounting together for half of all the soup sold: China and Russia. Americans consume 15 billion servings of soup a year, compared to the Russians' 32 billion and China's 300 billion. As another Campbell's executive jokes, the Russians and the Chinese "are professional soup eaters and the rest of us are part-timers."

Campbell's did both extensive and intensive research into the two markets, even sending ethnographers to live with families and probe their eating and cooking habits. It soon became clear that in both countries, soup is central to cooking and intensely personal to the cooks—a fact that explained why earlier attempts to market ready-to-serve and even condensed soups had gone nowhere. The new strategy: Sell broths, some of them containing large chunks of meat and vegetables, that home cooks could use as a base for their own distinctive finished soups. As President Larry McWilliams of Campbell International explains, this provides a short-cut that saves a homemaker at least two hours of soup-making time, but the result "is still Mom's finished soup, with Campbell's simply giving her a helping hand." That's another classic example of a smart company focusing on real conditions and having the discipline to deliver what the market wants and needs.

Campbell's Russian brand is *Domashnaya Klassica* (home classics), in basic flavors so far of chicken, beef, and mushroom. Promotion is built around a *domovoy*, the mythical elf who lives in every Russian household and looks after the family. "Our *domovoy* is a very skeptical rascal, who is horrified to learn that his Mom is going to use broth from a pouch," McWilliams explains. Naturally, the elf is reassured and converted after a taste of the soup.

In China, where Shanghai alone matches the entire U.S. market for soup, Campbell's is marketing similar broths under the Swanson label (*Siyongsong* in Mandarin). In both China and Russia, the brand launchings have featured lots of in-store samplings and cooking demonstrations—good marketing tactics for any company introducing a new concept. And in both markets, says Doug, the launches have been successful, and consumers are coming back for more. "We're getting great traction," he notes. "We're bullish about it."

It remains to be seen how the current slump in Russia and reduced growth in China will affect these bold ventures. Whatever the outcome, Doug insists that the company is in both markets for the long haul.

By one count, the company has come through 28 recessions and the Great Depression in its 139 years; it sells to 85 percent of American households, and many of them are already serving more soups—and substituting soups for costlier items, both in lunchboxes and at home, where more people are taking their meals as fewer go to restaurants. "There will not be a recession in eating," according to Harry Balzer, a market researcher with the NPD Group in Port Washington, New York. "There will only be winners and losers."

Doug predicts that Campbell's will be one of the winners, but he is, as usual, realistic. He reminded me of a day in the fall of 2008 when 499 of the S&P 500 stocks were down; only Campbell's was up. "That was because people were thinking we had the perfect recession food," he says, adding, "Well, it's good but not perfect. And the marketplace is too frenetic. We've had to manage our cost differently, our pricing and quarterly spending differently." He has also had to temporarily manage expectations—"down from 'this is the best thing since sliced bread' to 'this is going to be a very productive company.'" Still, because Doug Conant has built the company for the long term, I have every confidence that expectations will soon, once again, be on the rise.

STAND AND DELIVER

- *Start with a vision and a plan and recognize that success won't come overnight.* There is much to admire and emulate in Doug's presentation of a 10-year plan, "The Campbell's Journey," for getting Campbell's out of the soup. It announced that the new boss recognized that the turnaround was going to take a while, and that employees were not expected to transform themselves and their company overnight. It let them know that he would do whatever it took to win their full participation. And it showed them an inspiring vision of the future along with a roadmap for getting there.

The plan's initial focus on innovation spoke to the apprehensions of all the company's stakeholders. Employees and shareholders alike had watched Campbell's rivals gain ground and even overtake the company with new products and technologies. If the new CEO was going to devote serious resources into research and development, that only made sense. It signaled the kind of forward-looking willingness to deliver that had been lacking for so many years.

By emphasizing the value proposition Campbell's offered customers in the second phase of the plan, Doug was alerting employees, long accustomed to the company's insular ways, to his outward-facing focus—while, at the same time, alerting retailers to his intention to make life better for them and their customers, the consumers.

With his plan, Doug showed employees an inspiring vision of the future along with a roadmap to get there. And they responded. One of the key lessons of the Campbell's transformation is this: It took a lot of energy, intelligence, and persistence on everyone's part, but it all started with a substantive vision and a plan.

- *Layoff the cultural misfits.* On the face of it, Doug Conant's decision to dismiss 300 of Campbell's 350 top people may seem extreme, even though he first gave them a chance to prove themselves over many months. But drastic action was needed to right the company. What ails many organizations is the commitment of current management to dysfunctional behaviors and to discredited ways of doing things. Often, that commitment is so strong that it is virtually impossible for its believers to embrace new ways of operating. They offer a dozen reasons for the company's troubles, ranging from unlucky choices to macroeconomic forces, without recognizing that, as Lucy told Charlie Brown, "The whole trouble with you is that you're you!" The weight of disapproval and foot-dragging such employees can bring to bear on a turnaround is enough to bury it. They cannot be happy under a drastically new regime. It is often a hard decision, because these people may have served the company well in past years. But the action is clear: They must go.

- *Get clear on how to deliver more to customers.* It's easier to find ways to make a company more efficient that it is to add revenues to its top line. It takes ingenuity to figure out how to grow a business. It just takes discipline to shrink costs. But Conant clearly saw what it would take to deliver more value to consumers and get the company back on track. He would focus on quality, convenience, and wellness, and he would have programs to accomplish each of these objectives.

Conant's vision for Campbell's was not just a set of content-free words that could apply to any company. He set specific objectives that were easily understood and actionable by people inside the company. Consumers would experience more value through quality, convenience, and wellness.

The best objectives for delivering more value to customers are those that build on a company's brand and can realistically leverage a company's capabilities. Conant was pushing Campbell's, but he was always well aware of what the company could actually deliver. Delivering more to customers wasn't an abstract idea. Conant was clear about what to do, and he made sure everyone else was as well. How will you do the same?

- *Share the benefits.* Although I have always believed that customers come first, other stakeholders—your shareholders, in particular—can't be ignored. Conant saw ways to deliver more to investors by growing his business in new markets, with a particular emphasis on China and Russia. Entering new markets sometimes requires only a small amount of incremental resources. Other times, much more is required. New markets can be slow to develop. Also, consumers may have different tastes, to which you will have to adapt your product, as Conant experienced. Don't underestimate the resources you will need to grow.
- *Turn the page.* For any leader involved in a turnaround, tough decisions are an everyday occurrence. By definition, change only occurs by making a clean break with the past.

During the Campbell's turnaround, Doug took three actions that strike me as best practices for anyone looking to deliver big improvements. Probably it would be too much to call his behavior brave, but see what you think.

Early on, he cut the dividend, and as he expected, the stock plunged. The markets buzzed with negative reactions and predictions. Doug didn't enjoy all that, but he obviously was not surprised. He had a vital goal in mind, to find some cash to put into innovation and growth, and he wasn't about to let the analysts and Wall Street naysayers decide how he went about his business. He was preparing his company for the long term, and he was ready to take whatever short-term criticism came his way.

In December 2007, Doug agreed to sell Godiva to a Turkish holding company for $850 million. The chocolatier had been doing very well, contributing handsomely to profits, but Doug wasn't happy. Godiva was an outlier in the Campbell's list of 20 brands. It took resources away from the core business. Once again, the critics' chorus was heard. Once again, Doug ignored it.

In mapping the company's course in 2001, he had set its ultimate mission as the delivery of long-term value to shareholders, and he had analyzed the companies in the S&P food group to see which had the best record in that regard. He found that the top performers were not those running 60 brands ("things that looked like the U.S. Postal Service") but those that focused on their core products ("the Federal Expresses of the world"). He bet Campbell's future on the second option.

My third example is probably the bravest—and rarest—of all. When he makes a mistake, Doug Conant admits it. He doesn't pretend it didn't happen. He doesn't blame it on 10 other people. He essentially acknowledges failure and promises he'll do better. A trait of a truly great leader is that they understand that they, too, can cause problems.

A trait of a truly great leader is that they understand that they, too, can cause problems.

No one can avoid missteps in a turnaround. So many people are involved in so many changes, big and little, that error is inevitable. Admitting a mistake is admitting you are human. Under some definitions of leadership, still encountered, that is the worst mistake at all: Leaders are supposed to be above blame and reproach. Once they are reduced to human dimensions, so the theory holds, they lose their authority. In fact, just the opposite happens: A human dimension enhances a person's ability to lead.

Today, it is becoming ever more evident that the future of most companies lies with the experience and ingenuity of its people, not within the brain stems of the top management echelon. Leaders who can best tap that great resource and inspire a company to deliver are not authoritarians; they are people like Doug Conant who are sensitive to the needs and desires of his employees, who treat them more as partners than as serfs—and who admit to making mistakes.

You may have noticed that such behavior is not only a matter of bravery. It also just makes sense.