

AUTHOR OF REENGINEERING THE CORPORATION
A NEW YORK TIMES BEST SELLER & MORE THAN 3 MILLION COPIES SOLD

JIM CHAMPY OUTSMART!

HOW TO DO WHAT YOUR COMPETITORS CAN'T

© 2008 by Pearson Education, Inc.
Publishing as FT Press
Upper Saddle River, New Jersey 07458

Company and product names mentioned herein
are the trademarks or registered trademarks of
their respective owners.

All rights reserved. No part of this book may
be reproduced, in any form or by any means,
without permission in writing from the publisher.

Printed in the United States of America
First Printing March 2008

ISBN-10: 0-13-235777-1
ISBN-13: 978-0-13-235777-7

Pearson Education LTD.
Pearson Education Australia PTY, Limited.
Pearson Education Singapore, Pte. Ltd.
Pearson Education North Asia, Ltd.
Pearson Education Canada, Ltd.
Pearson Educación de Mexico, S.A. de C.V.
Pearson Education—Japan
Pearson Education Malaysia, Pte. Ltd.

Library of Congress Cataloging-in-Publication
Data

Champy, James, 1942-

Outsmart! : how to do what your competitors
can't / Jim Champy.

p. cm.

ISBN 0-13-235777-1 (hardback : alk. paper) 1. Competition--Handbooks,
manuals, etc. 2. Success in business--Handbooks, manuals, etc. I. Title.

HD41.C463 2008
658.4'09--dc22

2007045693

Vice President, Publisher
Tim Moore
**Associate Publisher and
Director of Marketing**
Amy Neidlinger
Editorial Assistant
Pamela Boland
Digital Marketing Manager
Julie Phifer
Marketing Coordinator
Megan Colvin
Cover Designer
Ingredient
Managing Editor
Gina Kanouse
Senior Project Editor
Kristy Hart
Copy Editor
Krista Hansing
Editorial Services
Senior Indexer
Cheryl Lenser
Interior Designer
Ingredient
Senior Compositor
Jake McFarland
Manufacturing Buyer
Dan Uhrig

IN MY MORE THAN 30 YEARS OF WORK AS A CONSULTANT AND AUTHOR, I'VE LEARNED THAT THE BEST IDEAS ARE FOUND INSIDE COMPANIES. BUT IT WASN'T ALWAYS SO. THERE WAS A TIME WHEN I STRAYED FROM THE REALM OF HANDS-ON PRAGMATISM TO SEARCH THE WRITINGS OF PHILOSOPHERS FOR IDEAS THAT COULD BE APPLIED TO BUSINESS. TO BE HONEST, I THOUGHT THAT QUOTING THE ANCIENTS MADE ME SOUND SMARTER.

One day, while waxing philosophic during a speech in Monterey, Mexico, I encountered a far smarter gentleman of a certain age sitting in the front row. He interrupted me to ask how the philosophy of Mexico's nineteenth-century ruler, Gen. Antonio Santa Anna, could be applied to management. What could a man both admired and reviled contribute to business? The answer, which my interlocutor duly shared with all present, was a gem of pragmatism. Santa Anna, he told us, firmly believed that whatever worked was the right thing to do.

I have taken his lesson to heart, and this book describes the very real and practical strategies that are working for today's most successful businesses, strategies that I believe will sustain their success into the future. Because the primary goal of all good strategy is growth, the companies analyzed in these pages are among the world's fastest-growing enterprises.

But equally important, their revenue-producing ideas are neither hypothetical nor based on esoteric technologies. They don't require hundreds of millions of venture capital dollars or the vast sums from stock offerings to implement. Rather, they are strategies that any business leader can easily and immediately understand.

This is the first in a planned series comprising four compact volumes on the key topics of strategy, marketing, leadership, and operations. Taken together, the books aim to deliver the most current intelligence available on how to succeed in today's brave new world of business. An ambitious objective? Yes. But what I see a host of companies accomplishing today has me both excited and encouraged.

My ability to write about these matters does not derive from scholarly pursuits, although I've braved assorted academic challenges. Necessity drove me to learn by doing. It is a path that I recommend to anyone who seeks a powerful curriculum and an unforgettable teacher.

In my younger years, I assumed that I would join my family's construction business in Lawrence, Massachusetts, a mill city north of Boston. My quest for relevant knowledge sent me to the Massachusetts Institute of Technology (MIT), where I studied engineering, then to Boston College where I studied law. Finally, I returned to Lawrence for my early training in business.

In my family's company, there were no strategies, business plans, or budgets. We did what seemed right—day by day. We hired people, bought equipment—even acquired real estate—that seemed good for the business. Risk taking was a natural act. We had no spreadsheets, and the most advanced form of technology was a mechanical calculator. But the business worked—most of the time.

In Lawrence, I also had my first taste of a multicultural world. We had stone masons from Italy, carpenters from Quebec, and painters from Ireland. I learned a lot from these folks—something about teams, but more about how, when left alone, good people will do the right thing. I carried this and other lessons into my life in business.

Thanks to my MIT roommate, Tom Gerrity, I was later treated to an advanced course in commerce when he invited two MIT

friends and me to join him in a business venture. In 1969, we launched Index Systems, an information-technology start-up based on Tom's Ph.D. research into automating management decision making. We each invested \$370, the bet of a lifetime. Because our work was on the cutting edge of technology and business change, we serendipitously became an acquisition target for a bigger company nearly two decades later. In 1988, Computer Science Corporation (CSC) bought our firm and turned it into CSC's management-consulting arm. I became CSC Index's CEO and chairman after the Wharton School of Business lured away our hottest property, Tom, to become the school's dean. I was left to expand CSC Index into what became a \$240 million company.

Out of those Index years came the ideas—developed with Michael Hammer and other colleagues—that formed my first book, *Reengineering the Corporation*, which argued that companies need to change radically and be managed from a process perspective. It became the best-selling business book of the 1990s. I followed this with a second book, *Reengineering Management*, in which I contended that leaders had to change their own ways of thinking before they could change their organizations. And in a third book, *X-Engineering the Corporation*, I made the case that process change must extend outside company walls to suppliers, customers, and business partners.

My current job as Chairman of Consulting for Perot Systems gives me access to many leaders who live and work on the frontiers of business, where the rules of industry are stretched (and sometimes broken). What I learn from these leaders is

what I teach to others, and I write books to crystallize the findings of my latest field research.

My best work, however, has always been done with collaborators. And for this book, and the three that will follow in this series, I must acknowledge and thank the talented editors and researchers at Wordworks, Inc.—Donna Sammons Carpenter, Maurice Coyle, Ruth Hlavacek, Larry Martz, Molly Sammons Morris, Cindy Sammons, Robert Shnayerson, Robert W. Stock, and Ellen Wojahn; and Helen Rees and Joan Mazmanian of the Helen Rees Literary Agency. I would also like to acknowledge my very able assistant, Dee Dee Haggerty. And, as always, I am grateful to my wife, Lois, and my son, Adam, for their support, advice, and tolerance when I write. Lois and Adam keep me grounded.

Nothing pleases me more than sharing what we have discovered with people who might actually use it, especially when the ideas we have uncovered are not only fresh, but simple and practical. Ahead lies a world of creative companies with uncommon strategies and a singular record for making good on them. How do they do it?

WHEN THE RECRUITER CALLED THAT WINTER OF 2004, MICHAEL GOLDEN WAS CONTENTEDLY PRESIDING OVER THE KOHLER COMPANY'S CABINETRY DIVISION. NOT LOOKING FOR A NEW POST, HE THOUGHT THE CALL WAS A WASTE OF TIME. BUT WHEN HE LEARNED THAT THE WHOLE BOARD OF AN UNNAMED PUBLIC COMPANY WAS WAITING TO INTERVIEW HIM, HE COULDN'T RESIST.

CHAPTER 4

**COMPETE BY USING ALL YOU
KNOW: BASICS ARE BLAZING
AT SMITH & WESSON**

The company, it turned out, was Smith & Wesson (S&W), the 150-year-old firearms manufacturer, and it was in dire straits. Its chairman had been exposed as a convicted felon, federal agents were investigating accounting irregularities, a countrywide boycott had driven down sales, and the stock price had plummeted to \$1 a share. The company clearly needed rescuing, and the board decided Golden was the right person for the job. He was invited to become president and chief executive.

On the face of it, this was not a match made in heaven. Golden had never been a CEO, and he knew nothing about the arms industry. The company's owners and managers had always been engineers and manufacturers, and he was mostly a marketer. He had never fired a gun and didn't even know the difference between

ρ **Smith & Wesson headquarters**

When I walked the factory floor of Smith & Wesson's plant in Western Massachusetts, the energy and commitment of its people were palpable. It was evident that every employee is striving to make the business ever more efficient and contributing to the revival of the corporation.

ρ **Smith & Wesson revolver**

Michael Golden didn't put a gun to his organization's collective head, but he did demand that his managers and employees return to business fundamentals.



▷ *Dirty Harry*

Golden was no *Dirty Harry* kind of leader. Rather, he was respectful of both Smith & Wesson's workforce and its heritage.

an automatic pistol and a revolver. Yet the more he learned about the organization, the more he realized that his years at Kohler and earlier stints at Stanley Works and Black & Decker had given him the skills Smith & Wesson desperately needed. As Golden told me years later, "I just seemed to know how to do this."

Smith & Wesson held undeniable appeal as an American legend. It had armed thousands of Civil War combatants, Western settlers, and U.S. cavalymen. Armies, navies, and police agencies around the world favored S&W's 1899-vintage Model 10 revolver. Clint Eastwood brandished its .44 Magnum in the *Dirty Harry* movies. Golden's children were fascinated by the offer. When his two oldest twenty-somethings heard about it, he recalls, "They looked at me and said, 'Dad, you're going to become a bad-ass.'"



© CinemaPhotos/CORBIS.
All rights reserved.

Golden took the job. But when he was assured on his first day that Smith & Wesson “kind of runs itself,” he thought he knew where the trouble had started. “No company runs itself,” he told me. “Here was this organization with a world-class brand and loyal, dedicated employees, and there was no leadership pulling it all together, nobody who really knew what was going on.”

When we talked, Golden had been running S&W for less than three years, but he had already achieved extraordinary results. The company’s revenues had soared from \$100 million for the fiscal year ending in April 2003 to \$237 million for the fiscal year ending in April 2007. From its nadir of \$1 a share, the stock had soared to about \$23. Russ Thurman, editor of *Shooting* magazine, said it all: “No company in modern history has come back from the dead like Smith & Wesson. In the dark days, you’d go to a trade show and there would be an invisible cone of silence around the Smith & Wesson booth. Now you have to get into a fist fight to get close to their displays.”

How did Golden bring about the turnaround? By leveraging everything he’d learned from more than two decades in business, proving once again that accumulated wisdom can be a powerful weapon in the fight to outsmart your competitors. In one way or another, all the strategies he employed at S&W, the new processes he put in place, the thinking that led to an acquisition, and the leap into new markets were the outgrowth of events encountered and actions taken in his previous corporate life. His achievement shows how using everything you know can help you outsmart your rivals.

ρ **Horace Smith and Daniel Wesson**

The company's founders exemplified the persistence required to build a successful—and fabled—company. Golden saw value in what they created, and he set about to leverage the company's history as part of his turnaround strategy.

It might sound obvious to apply what you already know to real-life challenges, but it takes discipline. So often we forget history—even when we are part of the story—and we all know that history repeats itself. We tend to compartmentalize our knowledge, neglecting to apply a lesson we've learned to a problem that comes up in another context. It then takes hard concentration and imagination to dredge up past cases and apply them to the present. Golden forgot nothing and used everything.

WE TEND TO COMPARTMENTALIZE OUR KNOWLEDGE, NEGLECTING TO APPLY A LESSON WE'VE LEARNED TO A PROBLEM THAT COMES UP IN ANOTHER CONTEXT.

Unlike most of the companies featured in this book, Smith & Wesson itself was both venerable and storied—and one of



PHOTO COURTESY OF BIGCOUNTRY.
WWW.BIGCOUNTRY.DE.

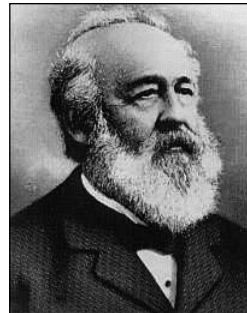


PHOTO COURTESY OF BIGCOUNTRY.
WWW.BIGCOUNTRY.DE.

its problems was that it had forgotten or simply ignored the lessons of its own history. Back in 1854, Horace Smith and Daniel B. Wesson first set up shop in Norwich, Connecticut. They had a new idea: the Volcanic, a lever-action pistol using self-contained cartridges. But they were better producers than promoters. Sales faltered and they were forced to sell out to a shirt maker, Oliver Winchester, who eventually used their lever-action design in producing his legendary Winchester repeating rifle.

Undiscouraged, Smith and Wesson formed their eponymous company in 1856. They created the first successful revolver with a self-contained cartridge. And this time, helped by Civil War demand, they prospered. By 1870, they had sold 1,000 of the guns to the U.S. Cavalry.

The next century saw far more ups than downs for the company, and by the 1970s, S&W was the top gun in the sidearm market, which includes hunters, sport shooters, and the military. It also armed 98 percent of America's policemen. But then foreign arms makers with breakthrough designs crept through Customs, and S&W was too complacent to see its peril. In the 1980s, Austria's Glock began pitching its lightweight polymer pistol to American police departments. S&W scoffed, confident that no officer would want to carry a plastic weapon. Within a few years, Glock had stolen virtually the entire police market, cutting S&W's share from 98 percent to single digits. In 1987, Tomkins of London purchased the struggling S&W for only \$112 million.

In 2000, trying to escape further losses, Smith & Wesson got itself dropped from state and federal lawsuits brought against the gun industry by agreeing to a variety of gun-safety measures, including background checks on gun buyers. A furious National Rifle Association orchestrated the reprisal: Gun owners mounted a boycott, cutting even deeper into S&W's sales. When Tomkins offloaded S&W to an American investment group in 2001, the fire-sale price was a mere \$15 million. After three more years of floundering, the investment group turned to Golden.

Applying experience to solve problems starts with learning everything you can about the problem. Golden had been at S&W's headquarters in Springfield, Massachusetts, for less than a week when he asked what he thought was a basic question: "How are we doing?" The answer that slowly emerged, he says, vindicated his hunch that the basic problem at S&W might be that it was running itself. "Nobody knew. The manufacturing guys were just making stuff, whether we needed it or not. The sales guys had no target—they didn't know whether we needed \$10 million or \$20 million that month. No one was talking to anyone."

That began to change the very next morning at 8:30, when Golden called to order the first of what would become daily meetings with vice presidents and their top aides in charge of sales, operations, and other major areas. It was Management 101, but a revelation for S&W's people. The sessions revolved around exchanging information: The salespeople would report on the orders received the day before, the manufacturing people on the number of products turned out, and so on. In

each case, the reality was compared to a target number. If a discrepancy existed, explanations were expected, and whoever fell short had to submit a plan for getting back on track.

Brand management was a skill Golden had picked up at Kohler, and he soon began to do extensive research to learn everything he could about the Smith & Wesson brand. He found that its awareness level was 87 percent, an amazing figure for a company with just \$100 million in sales. And it didn't matter whether the interviewees liked guns, whether they were male or female, or whether they lived on the East or West Coast. Their reaction to S&W was extremely positive. The brand radiated Americana—the Civil War, the Wild West, Clint Eastwood.

Next Golden and his company set out to learn how their customers felt about the brand. S&W asked 3,500 hunters, shooters, and sports enthusiasts some bread-and-butter questions. If they were going to buy a revolver, what brand would they buy? What brand of automatic pistol? S&W scored at the top in both categories, to no one's surprise. Then they were asked what brand of shotgun they would buy. The company came in third—even though it didn't manufacture shotguns or any other long guns. The same thing happened when the subjects were asked about bolt-action hunting rifles, ammunition, and even home security systems, all markets that Smith & Wesson had no presence in. The company still ranked near the top in preferences.

“Coming in, I thought the brand had a lot of legs,” Golden recalls. “The research told us just how much power it had.”

The strategy of his predecessors had been to dominate a niche market, focusing entirely on handguns in the United States. Golden had much grander goals. To begin, he wanted to expand the handgun business by a quantum leap. Then he planned to diversify into other markets where the brand had such clear potential magic. Overall, he wanted to push the brand to ever-greater heights of recognition and approval so that it would support and advance all the company's projects.

The sales side of the company was divided into four channels—sporting goods, the federal government (including the military), state and municipal police, and foreign governments. With the exception of a few large retailers, independent dealers across the country rule the market for sport guns used in hunting and target shooting. S&W had its own salespeople for the eastern half of the country and relied on independent agents for the western half. These representatives sold a variety of sports products, including fishing tackle and firearms, but their results did not impress Golden.

Again he set out to learn the facts. He commissioned research that showed that the company's own sales staff, with no special training, sold three times more than the reps. Golden wasn't surprised. He had learned long ago that "you get what you pay for." So he fired the independent agents and hired new salesmen to take over the western territory.

At nearly every turn, Golden applied lessons learned at previous jobs. To boost sales, for example, he fell back on what he'd learned about demand creation when he helped launch the DeWalt power-tool division of Black & Decker. "We didn't spend

the company's money on TV commercials," he told me. "We did hand-to-hand combat on the retail level."

S&W created an extensive training program for its own salespeople, both the veterans and those hired to pick up the slack left by the fired reps. They were taught how to train the dealers in merchandising their products, and how to organize special events at their area stores or shooting ranges so that people could have the experience of handling and firing the weapons.

The results were so counterintuitive that they make Golden laugh to this day. In the first quarter of 2004, after firing half of the company's salespeople and with their replacements just getting their feet wet, sales rose 8 percent from the previous year's level. During the next three quarters, sales jumped by 32, 37, and 52 percent, respectively.

Despite the company's name recognition and stellar reputation, the U.S. government has been a hard sell for S&W in recent years. During his get-acquainted tour of the company, Golden was amazed to find that the American armed forces were not using a single handgun manufactured by an American company—and the 100,000 pistols the United States was giving to the Iraqi military police had been bought from Austria's Glock. But the reasons became clear when Golden discovered another aspect of S&W's self-running era: Despite the fact that one of the company's four sales tracks was supposed to be the federal government, no one was responsible for government sales. Oh, and by the way, S&W had no lobbying representation in Washington.

ρ The Pentagon

By focusing on the federal government market, Smith & Wesson was able to regain its position as a premier provider of small arms to the U.S. Defense Department.

In no time, Golden signed up a lobbying firm and hired an ex-Marine international shooting champion to ride herd on government sales. Golden himself started making regular trips to the capital, “talking our company,” as he puts it, with influential members of Congress and the administration. The campaign has already paid off. S&W won all four of the contracts the American government put out to provide handguns for Afghanistan’s military police, a \$20 million piece of business.

Because S&W’s old police revolver basically dated to 1899, the need to develop a new weapon to woo the law enforcement community was obvious. To accomplish this, says Golden, “We took another page from a company I worked for.” As a product manager at Black & Decker, he had gone out on job sites to find out what his potential customers wanted in the way of tools.



Harold Flecknoe/Corbis Royalty Free

Now he dispatched his engineers and designers, along with his salespeople, to talk with state and city police officers about what they wanted in a pistol. The result is the sleek, powerful M&P 45 (Military and Police .45 caliber). Introduced in January 2006, the automatic pistol sports a reinforced polymer chassis, finally catching up with Glock.

The police market is a tough one to crack. The United States has 17,000 police departments, each of which conducts its own test and evaluation (T&E) studies before signing a contract. Some T&Es last as long as a year. Each department has different standards, depending on the preferences of the officers in charge. But the M&P 45 is clearly competitive. At this writing, it has won 80 percent of the tests it has entered.

The M&P 45 was also designed to fit the specifications for a new handgun for the U.S. armed forces, and S&W is pushing hard to

ρ **Public safety market**

Smith & Wesson had lost its leadership position in most markets, but it was able to leverage its still widely regarded brand to not only regain but surpass its previous business glory.



sell it to the Pentagon. At around \$500 million, the contract will be the largest single pistol deal in history. “We think we’ll be very competitive,” Golden says.

Selling to foreign governments has been another challenge for S&W. Soon after 9/11, Congress passed a law requiring its approval for the sale of any U.S. firearms abroad when the order exceeds \$1 million. Approval can easily take six months or more, putting a big crimp in the gun industry’s foreign sales. Even so, S&W has achieved double-digit growth in that market as well.

In building his sales force, Golden faced a familiar choice. Should it be a single unit selling to all markets, or different units tailored to different markets? Once again, he drew on his past experience. “At Black & Decker, we went back and forth on whether to have a single sales group or have a split between consumer and professional sales groups,” he told me. “We had the same question on whether the same people should sell both power tools and power accessories.” In the end, as at Black & Decker, he decided that the two categories of S&W customers were too different to be well served by the same sales reps. He kept the sales groups separate.

When the handgun business was reorganized to his satisfaction, Golden embarked on his campaign to extend and leverage the S&W brand. His target: the long-gun market for rifles and shotguns, which, at \$1 billion a year, was almost 60 percent larger than the market for handguns. His initial move, early in 2006, was a big event in the gun world. S&W introduced the first long gun in its 150-year history: a tactical rifle designed for both

sporting shooters and military and police personnel, and made to S&W's specifications by an outside manufacturer.

With no more promotion than a press release, orders for the rifle poured in. "We were backlogged from day one," Golden remembers. Consumers snatched up the guns mainly for target shooting, and police departments were looking to replace their old pump shotguns with something more accurate at longer distances. In short order, S&W had 10 percent of the market, affirming Golden's confidence in the power of the brand.

In November 2006, another S&W press release announced the introduction of two new lines of lightweight, self-loading shotguns. Golden had lined up a supplier in Turkey to build a new factory and make the weapons. And along with the weapons, the company introduced a lifetime warranty program, the first of its kind in the firearms business.

ρ **Smith & Wesson rifle**

When Golden and his team discovered that the company had high consumer recognition in rifles—even though it had never actually made one—he entered the long gun business.



▷ Hunters

Golden was not a hunter—he had never even shot a gun before. But with a hunter's keen eye, he saw what his customers wanted and, with clear aim, hit his delivery targets.

The new year brought yet another diversification move. In January 2007, Golden announced the purchase of Thompson/Center Arms, a \$65 million gun maker in Rochester, New Hampshire, with a 40-year history of good management and steady profits. Best of all, its line of hunting rifles meshed well with Golden's plans to invade that market. S&W, whose short-barrel handguns are acclaimed, was seeking additional know-how to produce superior long guns. Thompson provided that with its well-regarded, high-quality barrels.

Just three months later, S&W began marketing its own premium hunting rifle, with a Thompson/Center barrel and seven user-friendly patented features, including an adjustable trigger. The weapon was the first innovative bolt-action rifle in the United States in 25 years, and it was an instant hit in the hunting world.



Golden's expansion campaign is by no means over. He's looking into businesses such as home security and law-enforcement products such as body armor. But he's in no rush. Given all its new products, S&W is now fully engaged and free from any Wall Street pressure to show even more growth.

The U.S. firearms industry is not known for investing in new plants and equipment, but Golden—again drawing on lessons learned in his previous assignments—has so far put \$40 million into innovative efficiencies at S&W's headquarters factory. That's more than all other U.S. gun makers combined have invested. The payoff has been a 7 percent jump in gross margin.

When Golden was at Stanley Works, he worked for John Trani, a member of Jack Welch's team at General Electric who absorbed that titan's penchant for cost containment. Golden practiced that lesson at S&W, introducing lean manufacturing techniques and supply-chain management to reduce expenses and raise productivity. The company has also introduced these practices at Thompson/Center, where long-gun barrel production has increased by 26 percent since the acquisition. Similar improvements have boosted results at S&W's much smaller plant in Houlton, Maine, which has the distinction of being America's leading producer of handcuffs.

Prepared for resistance to his plans, Golden found exactly the opposite. "It was an organization hungry for change," he told me. Employees, many of whom were also stockholders, had seen the stock price tank, and they knew the company was in trouble. Even when he hired new executives and imported all sorts of best practices from other industries, the employees

seemed to understand and accept them. Part of the credit goes to Golden's insistence that his top people follow in his footsteps, literally, and take regular strolls through the factory to talk and listen attentively to his workers.

"I think we've succeeded in creating an environment where people know we will listen to them," he says. "I don't have all the answers, and I don't spend a lot of time in my office with the door shut because I get bored. I'm a walk-around kind of guy." On his walks, he carries a pad and a pen, and when someone has a problem or a suggestion, he writes it down and follows through.

For employees, S&W's impressive growth rate is a blessing on many levels, not least of which is job security. The increased productivity achieved through investment in up-to-date manufacturing techniques and equipment normally leads to shrinking payrolls, but Smith & Wesson has actually been adding jobs to meet growing demand for its products, new and old. It is, in Golden's words, "the perfect scenario."

I was curious about whether Wal-Mart was an S&W customer. As it happens, the giant retailer doesn't sell handguns, although it does sell Thompson/Center rifles. But the question led Golden to recall his own experience with Wal-Mart when he worked at Kohler. "What I learned was that there are ways to do business with big guys on your own terms when you have a brand," he told me. "The reality is that Home Depot needs Kohler's plumbing in their stores as much as Kohler needs Home Depot. At Smith & Wesson, we have the brand, too."

“WHAT I LEARNED WAS THAT THERE ARE WAYS TO DO BUSINESS WITH BIG GUYS ON YOUR OWN TERMS WHEN YOU HAVE A BRAND.”

Golden is intent on making the most of S&W's powerful brand. “I think we would be cheating the shareholders and the employees if we didn't enhance the brand,” he says. “But my number one responsibility is to protect it.” So far, he's done amazingly well on both counts.

GET SMART

- ▶ *Hunt (the right) heads.* Big corporate change is top-down driven. When a company is in trouble, the change might need to begin at the top. But boards tread cautiously when deciding to replace a CEO. A wrong move could put the company at even further risk.

Smith & Wesson's directors showed courage: first, in taking action; second, for recognizing Golden's qualities; and, third, for ignoring the reasons for which some might have considered him inappropriate. I normally advise a board to look for a CEO with deep expertise in the company's industry. Some boards naïvely believe that if an executive has done well in one business, he or she can do well in another. Some examples of cross-industry success exist, but they are few and far between. An executive's deep knowledge of an industry is important, especially if the recovery or reinvention of a business is required.

Golden, however, had the perfect set of experiences—in both manufacturing and turnarounds—to prepare for the challenges at Smith & Wesson. He also had the right management style for the job—an appetite for performance excellence and, at the same time, a respect for the people at S&W. This board saw Golden's qualities, did its job, and chose well.

- ▶ *Find what's truly valuable.* When you are making a big change in a company, it is critical to know what assets you can leverage and what assets you need to protect. Golden knew that Smith & Wesson was a much-respected name in the gun world. He could have left it there and focused solely on bringing the company's sales and production operations into the twenty-first century. Instead he insisted on extensive research to uncover what he perceived to be S&W's (and any company's) most valuable asset—its brand. What he found helped him to make a sharp turn in S&W's course, with most impressive results. If he hadn't asked, he might never have fully grasped just how potent the brand was and could be. Brand management was a skill he picked up at Kohler.

The other asset that Golden saw was the S&W people. Generations of families had worked at the Springfield plant. The people were skilled and loyal—and, most important, they would do whatever it took to bring the company back to life. He treated these people with great respect, and they returned the sentiment. It was palpable as I walked through the plant.

- ▶ *Squeeze nickels.* I'm a strong believer that a company must be a low-cost producer to compete. That's independent of its profits and the demand for its products. Being efficient today is table stakes. We are in a long-term cycle of dramatic productivity improvement across all industries, and if you don't keep up, you will soon be out of the game.

I'M A STRONG BELIEVER THAT A COMPANY MUST BE A LOW-COST PRODUCER TO COMPETE.

When Golden was at Stanley Works, he worked for John Trani, a member of Jack Welch's team at General Electric. Trani had absorbed Welch's penchant for holding down costs. Golden learned that lesson well and practiced it at S&W, introducing new manufacturing techniques to reduce expenses and raise productivity. But he combined his understanding of dollars and cents with a skill acquired at Black & Decker: demand creation. The combination produced simultaneous high productivity and job creation. For any company, cutting costs while raising demand creates the ideal conditions for success. It signals to employees that getting efficient and cutting costs doesn't necessarily mean that they will lose their jobs.

- ▶ *Walk and talk.* There's no magic formula for being a successful chief executive. Golden had the intelligence and business training to make a lot of the right moves

in terms of reorganizing the sales force, hiring talented aides, and leveraging the brand. I suspect, though, that he and his company would not be where they are today had he not possessed something no corporate experience could give him: a dual personality. By that, I mean he was both a no-nonsense, results-oriented boss and an empathic, open-minded leader—a walk-around guy. In my experience, if you want to inspire people, there's nothing more effective than the presence of the chief in their midst, face to face, listening to what they say and being ready to act on it.

QUESTIONS TO ASK YOURSELF

- ▶ If you are trying to revive or redirect your company, do you have the right management team at the top?
- ▶ What skills and management style does your executive team require?
- ▶ If you have an active board of directors, does it understand your condition and opportunities?
- ▶ What are your company's principle assets—not just real estate and capital, but brand, intellectual property, and people?

- ▶ How can you leverage these assets to drive accelerated growth?
- ▶ If your business is not performing well, where are the breakdowns occurring and what management disciplines must you apply to fix your systemic problems?
- ▶ Are you a low-cost producer and, if not, how are you going to get there?
- ▶ Are you walking the “factory floor”?