



LEADING THROUGH TRANSITIONS: CHANGING YOUR BUSINESS MODEL

How do you successfully execute a fundamental change in your business?

You and your Board have decided that conditions require a change in the way you ensure long-term profits, for example by emphasizing a different product or target market. But for you to compete effectively, the change will have far-reaching effects on your resources, processes, and systems.



In this edition of *Executive Issues & Insights*, we explore key insights drawn from the extensive C-suite and Board experiences of

the NextLevel team on how to successfully lead your company through a change in business model.

NEXTLEVEL CASE STUDY

Transitioning from R&D to Manufacturing

An aerospace robotics company had been researching and developing unique robotic tool solutions for major aircraft manufacturers for over 10 years. But upon receiving a large order, the company found it was unprepared to deliver the proprietary systems at volume. The company needed to immediately establish manufacturing systems and associated disciplines to be able to come through on the order, and also to attract new customers.

A NextLevel executive was brought in as CEO to lead the company through the transition from R&D operations to manufacturing and delivering the products on time within tight specifications. He recognized that every aspect of the company would be touched by the change in business model.

To start the transition from R&D to production, the NextLevel executive first instigated a companywide education
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NEXTLEVEL INSIGHTS

Assess your readiness to pursue new business

Whether you are changing your business model proactively or reacting to shifting conditions, take the time to assess your personnel, processes, and systems to ensure that you know what you need to compete under the new model. Consider how you would start this from scratch as a new business. What would you need? Compare your existing organization with that desired state and think about filling the gaps.

Communicate the rationale for the change

By communicating the business reasons for the change early and often, you help transition your company culture into the new model. This aids buy-in. Educate with clear, accurate information how all stakeholders will benefit from the new model. Then, continuously follow up throughout the year with every department, so the message can be internalized and you can receive feedback.

Change resources and processes to fit the new model

Some functions will need to be created or increased, whereas others will need to be decreased or eliminated. Be prepared to closely examine and evaluate every aspect of the business because old processes, outdated systems, and people without necessary skills can drag down performance. If you've communicated well with the affected employees and treated them with respect, it will ease the process.

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process on the changes that needed to happen. Priorities and decision-making criteria around schedule adherence, budgets, variance analysis, inventory, contract terms, and more would all need to shift. This education involved companywide meetings as well as one-on-one meetings with engineers and the production line. He also instigated documentation and implementation procedures for the production environment that had not been needed with an R&D model, such as specification reviews, change orders, and budget controls.

Within a year, the company was delivering on the original order per schedule. There was a 70 percent year-over-year revenue increase, a 400 percent EBITDA earnings increase, and a \$150 million sales pipeline in place. Due to the resultant increase in valuation, an investment banker was engaged, and activity to entertain bids to purchase the company was underway by the end of the year.

“BE CENTERED ON THE NEW BUSINESS AND CLEAR ON THE MOTIVATION BEHIND THE CHANGE.”

Communicate this to all employees and reinforce it with new organization, metrics, and incentives.

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Change your financial model

A change in the way the company earns profit will undoubtedly change the financial model under which it operates. Rigorous cost modeling and market projections will help you change the modeling tool. For example, certain costs that have become more important may need to be separated out into categories that become the new key metrics for performance.

Make sure you have the right key performance indicators

A change in your business model requires KPIs that flow from the new strategic intent. Each manager in every part of the organization should have clear metrics in sufficient granularity for evaluating how they contribute to that strategic intent. As part of the continuous education and follow-up, ensure that managers understand how their departments directly affect overall goals and how they will be evaluated.

Ensure that leaders at all levels are aligned and incented

When leadership is aligned, managers work through issues using appropriate decision-making processes, come to decisions, and help their departments execute those decisions through teamwork. Combining significant incentives with appropriate oversight fosters ownership and alignment in leadership to perform under the new business model. And when alignment is good, your company can easily work through the challenges associated with this significant change.

KEYS TO LEADING THROUGH A BUSINESS MODEL CHANGE

- **Your readiness:** Do you know what you need to compete under the new model?
- **Your communication and follow-up:** Are you making the case for the change to employees?
- **Your resources and processes:** Are you re-evaluating in light of the new business model?
- **Your financial model:** Does it reflect the new way your company operates?
- **Your KPIs:** Do all departments understand how they contribute to the new intent?
- **Your leadership alignment:** Are you incenting leadership to create ownership?

More Information

To learn more about how NextLevel can help you successfully transition to a new business model, call us at (800) 833-NEXT or email info@nlbev.com.

