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WHITE PAPER

Jumping into Smaller Ponds

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➤ Jumping into **Smaller Ponds**

Two years ago, Kevin Robinson was sailing his way through the management structure at Top Electric CO. as market manager of its \$300 million large screen television unit. When TE merged its TV operations with RCA's, Mr. Robinson was slotted to move up to TE's corporate staff.

Instead, he jumped ship and landed on the bridge of a company called RentFirst Inc., an Atlanta start-up that rents video movies through vending machines. He transformed from one of a zillion TE market managers into the second ranking executive at RentFirst Inc. His fortune was put into his own hands.

4 years ago, Electronic Research CO. (ERC), Cincinnati, Ohio, reached a crossroad in its business life. At 18 years of age, it should have been past corporate adolescence and steaming on its way toward lofty heights in the blossoming computer-aided engineering arena. After all, it had developed unparalleled mechanical design software and had a history and presence in the market its competitors could not match.

Unfortunately, ERC was not flying high. It was lumbering along, making just a \$1.5 million profit on \$39 million in sales at a time when industry profits were soaring. The answer to its woes came in the person of Mark Wiggins, a 17-year veteran of Chapman Corp., which is now part of United Corp. Mr. Wiggins infused ERC with "big-company" management and discipline that the small enterprise had never known. Since his arrival, the company has whipped off nine record quarters in a row, nearly doubling its sales, allowing profits to soar threefold.

Two companies, two executives, two stories? Actually, there are two sides to the same scenario: a big company manager; a big fish jumping into a small pond. Conventional wisdom holds that success means working your way up, going from small to big-reaching the top of mountain and then going on to the next and bigger one. But the reverse of that-going from big to small, can hold some tremendous returns for both the manager and the new company.

For the executive, the adage that good things come in small packages often holds true. Going to a small or mid-sized company can be vastly rewarding, both professionally and personally. It can also be more lucrative than working for the biggest and best corporation.

Conversely, small or medium sized companies usually do not have home grown management talent to sustain growth and build for the-long term. That talent, however, lies in abundance in the corridors of big business, where executives thoroughly learn the disciplines that small companies need, but frequently lack.



Provide your employees with necessary information and support, but trust them to do their jobs successfully; no competent employee likes to be micromanaged when it's not necessary. By being a guide rather than a dictator, your chances of retaining staff greatly increase.

The greatest attraction of small or medium-sized companies is the chance to be the boss, to run your own show. In doing that, RentFirst's Mr. Robinson says, "You can put a personal stamp on the company you are building. Your actions have an impact [on yourself], both financially and emotionally."

Small-company life can also be more fastpaced. "I like the freedom, the looseness," says Mr. Robinson. "You can react almost instantaneously to information and not have to go through layers of management. How you get things done is almost irrelevant, as long as you get them done." Donald White, who left Southern Telephone Co. in 1985 to head up Equipstel Inc., a Boulder, Colo., maker of telecommunications management equipment, agrees: "You get a chance to move rapidly and live by the results. That doesn't happen in big companies."

The main reason it does not happen is the bureaucracy inherent in large firms. Legions of committees, approvals and matrices come along with the prestige of big-company names. Most small companies are free of plodding and frustrating management structures. In other words, the small pond can be a pretty nice place in which to work.

At RentFirst, you can forget about "management layers"-the company has only 12 employees. That kind of environment gives an executive a measure of control over his surroundings not possible in big companies. "If there's something I don't like," Mr. Robinson exclaims, "I can change it."

As for financial returns, they, too, can be greater in a small company. "The cash salary may be similar, but there are stock options and other incentives [in a small company]," comments Michael Nelson, vice president director of Executives in Seating Inc., which places managers in temporary posts. "Managers can get more credit [for their work] in a small company. There's more of a spotlight on performance." The executive is not the only one whose well-being comes into play in a move to a small company. The ultimate success or survival of companies sometimes hinges on acquiring "bigcompany" business expertise. "Small companies are usually based on the founder's invention or new technology. That drives growth for a while, but once the technology reaches the end of its life cycle, the company must change. Then it needs a market orientation to determine the character of the next product," Equipstel's Mr. White observes. "One of the values of going to outsiders is making the transition from an invention-driven company to a market-driven one."

Main Computer Inc. is the classic case. It grew spectacularly on the strength of the Main II computer, and then tripped when the Acceltech did not take off. In came Bob Michelson, the "big-company" manager from Worldwide Inc., to supersede founder Stephen Walters. Under Mr. Michelson, Main produced the Acceltech II, a computer more acceptable in the business market. The company has been flying high ever since.

ERC is perhaps an even more typical example than Main. The former technology kicked off a whole industry. ERC began in 1962 as an engineering consulting firm, using proprietary software that speeds mechanical design. Eventually it marketed that product, but when the mechanical computeraided engineering market took off in the early '80s, ERC hit a wall.

“We were making the transition from an entrepreneurial environment and having trouble with that,” says Nick Jernigan, one of ERC’s founders, now a vice-president. “We knew what it took to start the company; we just couldn’t overcome the problems of expanding. We needed someone who had seen those things and dealt with them.”

Indeed, ERC’s software was technically ahead of the competition. Plus, it had the synergy of its consulting group, a link to manufacturers and mechanical designers. Despite that, it wasn’t performing; in the two months before Mr. Wiggins arrived, the company had a net loss of \$702,000.

Mr. Wiggins’s solution was what he calls “big-company management in small company clothes” - management techniques he learned at Chapmans and adapted for ERC. First, to reverse four years of increasing expenses, he imposed an immediate hiring freeze, cut all discretionary marketing expenses, and laid off a layer in the software division. Then he kicked off a program to drive revenues. Arriving at the office one morning at 4:30, he built a “war room.” “I put up charts all around this one room and we identified every single sales prospect for the next 30 days. The name of the account, how much it was worth, the status and the day it was going to be closed,” he explains. From that command center the sales force focused on landing new and major accounts.

The result: the company reported record results in Mr. Wiggins’ first quarter, and it hasn’t let up since. On Oct. 10 it racked up its ninth consecutive record quarter after tax profits of \$1.5 million on sales of \$19.2 million, increases of 6.6% and 23% respectively from the same year ago period. Analysts forecast that the company would finish 1988 with profits of more than \$5 million and sales of \$70 million which would carry profit margins from 3.9% before Mr. Wiggins’ arrival to around 7% for 1988.

Interestingly, what Mr. Wiggins did at ERC was not magic. “I didn’t invent hiring freezes or de-layering of organizations,” he says. What he did was simply smart management based on the experience he acquired in running several divisions at Chapmans.

Big-company experience is often well suited to running small companies, says Executives in Sitting’s Mr. Nelson. “Very often, large companies train their people well.” And, he adds, “Managers in large organizations frequently do the same things they would have to do in small companies. They run as a profit center.”

Along with a shortage of experienced, welltrained manag-

ers, small companies usually also lack experience with Wall Street and investment community. Unlike most engineers or scientists, well trained managers often speak the language of the investor, Equipstel’s Mr. White explains.

Mr. White was instrumental in securing investment capital for Equipstel, a private company formed in a merger of two start-ups. “The investors,” he says, “were uncomfortable with the thought that both of the founders were the right people to grow a company of this size.” But given Mr. White’s Southern Telephone CO. background, the investors gave the nod. Their capital helped launch new product lines that have pushed annual revenues from \$3 million in 1986 to about \$10 million in 1988.

Not all big company executives, however, are well suited to swimming in small ponds. Many observers agree that there is a certain temperament an executive must have in a small company. “You can have no pride. You can’t be hung up on titles,” assets RentFirst’s Mr. Robinson. “The easiest way to kill a small company is for people to say, ‘It’s not my job.’ (Mr. Robinson recently spent a morning driving around making spot repairs on DataVend’s credit card operated video vending machines.)

The small-company manager, Mr. White adds, “It must be comfortable working without the support staffs of larger organizations. You sort of do it all, make copies, raise money, lock up at night, and turn out the lights. [Managers] who are uncomfortable with that will become ineffective and unhappy.”

“Some executives don’t understand that fact when they come out of a large company,” says Chad Dunlap, a partner with Kittle and Blackwell Inc., an international recruiting firm. “They all of a sudden are not going to have assistance to get things done.”

Of course the support groups in large companies do provide a “comfort factor.” Supplied with input from several sources, executives are insulated from their mistakes. But there is no hiding in a small outfit.

One of the biggest mistakes a small company can make is bringing in a top executive who doesn’t fit the organization’s culture. “Cultural fit is more important than function fit,” says Mr. Dunlap. “Small companies have a great deal of pride, and a lot of them are built around the founder’s personality.”

ERC’s Mr. Jernigan notes that one contender for Mr. Wiggins’ position wanted to bring his own management team along with him. “The company feared that they would alter the fabric it had already built; it wanted someone who could

build on the company, not reconstruct it,” Mr. Jernigan says. “And although Mr. Wiggins seemed to fit the bill, many employees were anxious about how the change would turn out.”

Aware of that, Mr. Wiggins worked to balance his hard-driving revenue thrust with programs to benefit the company in the long term. In his second quarter with the company, he launched a million-dollar research project that predicts to push ERC’s technology even further ahead. “We proved with our deeds, not just our mouths, that we were going to balance the long and short term,” Mr. Wiggins says.

Lastly, managers suited to small companies have to be risk takers. “It’s hard to imagine TE going bankrupt,” RentFirst’s Mr. Robinson says. “A little company is not like that. You have to have a stomach for risk, and live with it hanging over your head.”

Even with risk hanging over their heads, Mr. Robinson, Mr. Wiggins, and Mr. White all enthusiastically endorse working in small ponds. “There are days I wouldn’t trade this for anything in the world,” says Mr. Robinson.



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