

The Center for STRATEGY, EXECUTION, and VALUATION

Reading Bakery Systems: A Return Driven Strategy Case Study

E. Terry Groff, President¹

When my step-son, Ryan Knoll, a newly minted lawyer and an MBA candidate at DePaul University's Kellstadt Graduate School of Business, suggested that I sit in on Dr. Mark Frigo and Joel Litman's seminar on Return Driven Strategy, I was skeptical. After all, I had been President of my own small business for more than 30 years and I've seen many of the "graduate school theories" come and go. Frankly, I thought Return Driven Strategy was going to be more of the same. I was wrong.

As Frigo and Litman presented I was struck by the simplicity of their carefully chosen words and the common sense that provided the basis for their ideas. Around here, I have always said that if we engineer something enough, we finally get it simple, and that was what I was hearing as the presentation continued. I could see the value of RDS everywhere: in managing my own business, in developing strategy for the future, in looking at acquisition targets and in evaluating investment opportunities. Right there, I decided to put Return Driven Strategy to work.

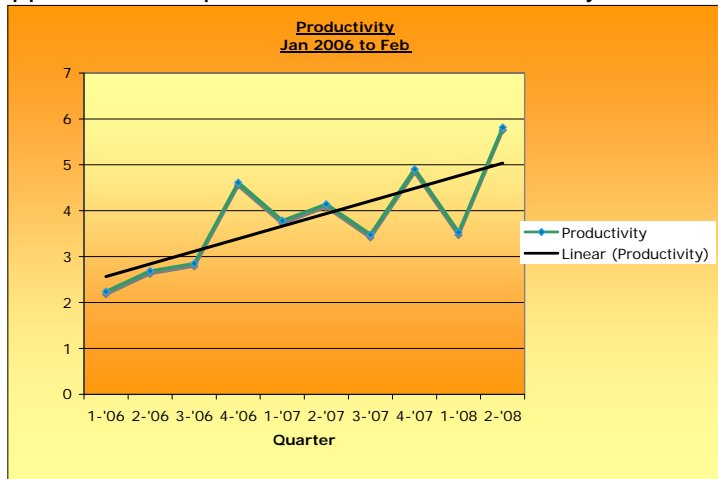
I'm an entrepreneur. After college and a short stint on Wall Street as banker, I took over my father's small business in 1974. I was the 6th employee and I can still remember my first year's revenue: \$77,000. (000's have not been omitted!) My father was the co-inventor of the Pretzel Twisting Machine and he had formed a company called Reading Pretzel Machinery to exploit his invention.

Over the years, we grew and grew and by the time I met Dr. Frigo we were number one in the world in pretzel manufacturing systems and had ventured into cookies and crackers with the merger of Thomas L. Green, an Indianapolis, Indiana-based company that had been making cracker and cookie equipment since 1894. While we had achieved a lot, financially we were just going nowhere. As the sole-shareholder I was wondering if I was ever going to benefit from all my years of investing in the business. Something had to change.

¹ Reading Bakery Systems, Robeson, Pennsylvania is a manufacturer of industrial baking systems for cookies, crackers, snacks and pretzels, founded in 1946 as Reading Pretzel Machinery Corporation. This case was written by E. Terry Groff, President of Reading Bakery Systems.

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I put together a two-day seminar for my senior staff and invited Dr. Frigo to lead us through Return Driven Strategy. We ventured through each of the tenets carefully, analyzing how they applied to our specific situation. The two days were filled with discoveries. We found that we



did, indeed, fulfill the unmet needs of some of our customers in ways that no one else seemed capable of doing. That realization led us to recognize that some of the customers we attempted to serve were never going to be the right customers for us because they were incapable of attaching significant value to our offerings. Their strategy

was to treat us as a commodity and as a result we had no pricing power with them. But we also found that some customers, and in fact our most significant and powerful customer, recognized that we were “best in class.” They loved and appreciated our technology and they loved the way we provided service and follow-up. We applied the learnings to our entire customer group, dividing them into three sub-sets, *based upon our customer’s internal culture and the way the customer thought* rather than their size, products or geographical location. From that new vantage point we began applying the right, customized sales and service technique for each group. It was the first time that we recognized that the unmet needs of each of these groups was very different. The change in approach really clicked with our customers. Revenues began to climb.

We recognized that we could (and should) dominate an increasing market segment. We recognized that two out of three of our Strategic Partnerships would never work and we stopped wasting time and resources on trying to make them work. Instead we focused on the right partnership for us and we are now seeing concrete results. We realized that by mixing the technologies of Reading Pretzel & Snack and Thomas L. Green Biscuit & Cracker that we could offer an innovative approach to the market. It was a home run. Revenues increased 142% over the next three years. By mapping our processes we found amazing opportunities to improve operations and by engaging our employees in the process we made enormous progress, reducing warranty costs, for example, in half. Productivity soared, gaining a jaw-dropping 159% in three years. (See Chart, Above)

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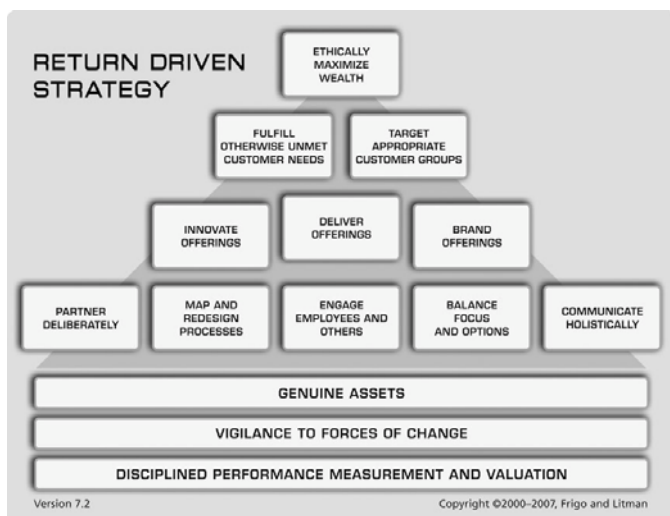
We were careful that in all of our communications with our employees that what we said and did was aligned with our Strategic Plan. Essentially, we got everyone rowing in the same direction!

We meet annually to update our Strategic Plan. The meetings are actually fun. We enjoy the satisfaction of seeing our estimates and predictions come to life in the real numbers that we've achieved. We learn from our mistakes, too. Today, we understand what our Genuine Assets are and we've taken action to strengthen them. In September, for example, we'll open a \$3.5 million Science and Innovation Center. Our customers have repeatedly told us that our commitment to the future, coupled with our ability to deliver on "cool innovation" (as one of the food scientists put it) is one of the key links that we have between us and our customer. We also know, via our analysis of the Forces of Change that apply to our business, that our customers will need even more science-based innovation in the future.

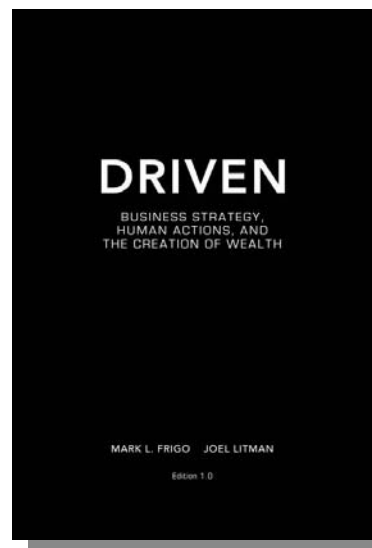
Today, the lingo of Return Driven Strategy, ("unmet customer needs, genuine assets, forces of change") can often be heard in the hallways and meeting rooms at our business. The words and phrases stick because they mean something to our people. They know that RDS gave them a way to look holistically at the business and they've seen the results that can be created by using Return Driven Strategy. It works. It's as simple as that.

Case Note: This case was written by E. Terry Groff, president of Reading Bakery Systems.

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The Return Driven Strategy Framework



Driven

RETURN DRIVEN STRATEGY is a framework for business analysis and planning. It has been built on a simple theme: If we can better understand how the success or failure of a business is driven by its plans and actions, then we can greatly improve how we value companies and how we run our businesses. The framework is the culmination of a decade of research and applications and categorize the root causes of thousands of businesses that have succeeded, failed, or remained in mediocrity, over 20-30 year time periods of performance history.

DRIVEN is written for organizations and individuals who want to create more value and wealth by improving how they plan their businesses and take action. This book is about Return Driven Strategy, a framework for planning and evaluating businesses that can help people to get results, greater profitability, growth and valuation. In planning, building, and running businesses, Return Driven Strategy, has helped business leaders to choose what actions to take and when to take them. The ideas, tenets and strategies in the Return Driven Strategy framework have been tested and refined by executives, board members, employees, money managers, hedge funds, and academicians in North America, Europe and Asia.

DRIVEN includes explanations, diagnostics, and case studies from the research. Chapters are arranged in the same order as the elements of the Return Driven Strategy framework, making DRIVEN both an interesting read and a valuable guide for ongoing reference. For more information about the book *Driven* see www.returndriven.com

Comments from Business Leaders about Return Driven Strategy

"Return Driven Strategy provides a clear and concise way of looking at the key issues that drive profitable businesses. Its primary focus is on the customer, and markets, and it ties the various business components back to these key issues." -- Samuel C. Scott III, Chairman and CEO, Corn Products International, and Board Member of Abbott and Motorola

"Return Driven Strategy helped us to create a REAL Strategic Plan and gave us the tools to examine every facet of our business. The result: sales: UP; profits: UP; and we are a better company in just about every area of our business. I just can't say enough about the positive effect RDS has had with us. It's provided everyone with an understandable framework to comprehend our business." -- E. Terry Groff, President, READING BAKERY SYSTEMS

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"The Return Driven Strategy framework has enabled the senior leadership of our company to establish, implement, and periodically realign, a first class, effective business strategy that produces real results. We know that we are working on the right things, for the right reasons. We also know that our periodic discussions are on point, and a good use of our valuable time. Our principles, business priorities and resources, are effectively aligned. From conceptual level to day to day execution, this thing really works." -- John J. Mulherin, Chief Executive Officer, The Ziegler Companies, Inc.

"Imbedded in Return Driven Strategy are the undeniable truths of what works in the real world of business." -- Edward J. Sierawski, Founder and CEO of Sequoia System International, Inc 500 High-Growth

Dr. Mark L. Frigo is a recognized thought leader in strategy execution. He is Director of The Center for Strategy, Execution, and Valuation in the Kellstadt Graduate School of Business at DePaul University. The author of six books and over 75 articles, his work is published in leading business journals including *Harvard Business Review*. He is an advisor to executive teams and boards of directors of Fortune 500 companies and entrepreneurs. Dr. Frigo is co-creator of the Return Driven Strategy framework with Joel Litman and the co-author of the book *Driven: Business Strategy, Human Actions and the Creation of Wealth* (2008). You can reach Mark at mfrigo@depaul.edu or 312-362-8784.