

The Ziegler Companies: Charting a New Course

BY JOHN J. MULHERIN

The Ziegler Companies, Inc., is an investment banking and investment services boutique with primary focus in the healthcare, senior living, religious, and education marketplaces. It has been in operation for more than 100 years. Our core businesses are investment banking, asset management, retail investment advice, and other related financial services.

The Challenge

In late 1999, the board of Ziegler found itself needing to reposition the company. As a part of the repositioning process, the board brought me in as CEO to work with its team of dedicated professionals to move the company forward.

After one of my initial board meetings, in which we were discussing strategic alternatives, one new board member, Belverd E. Needles, a distinguished academic and businessperson, told me the board wasn't hearing my message on the company's situation and prospects. He suggested that I meet with Mark Frigo, director of The Center for Strategy, Execution, and Valuation at DePaul University, to discuss how we could use the Return Driven Strategy framework to help communicate the strategy to the board as well as develop the strategy to move the company forward.

Assessing and Developing Strategy

We used the Return Driven Strategy framework at Ziegler in two ways: (1) as an assessment tool and (2) as a way to formulate and pursue a new business strategy for Ziegler Companies. During the assessment phase, the Return Driven Strategy framework provided a way to evaluate how forces of change were shaping Ziegler and its competitive position, which included convergence of financial services companies, commoditization of products and services, the Internet, and changing customer needs. We also used the framework to better understand the company's unique resources and capabilities, which included its people, client relationships, credit expertise, and a strong reputation for quality and integrity. The framework was also useful to us as a tool for convening senior management and in having a productive discussion about the business strategy. It helped us to understand what customer needs and market segments we were best positioned to target and how to organize and align the company.

Ethically Maximizing Wealth

For us, the most important feature of the Return Driven Strategy framework was its first tenet, "Ethically Maximize Wealth." The philosophy of "ethically" maximizing wealth was vital to us. We serve mission-driven organizations, many of

which are religious organizations. For them, ethics are everything. Our clients must trust us, and our employees need the highest ethical standards.

In the early 1970s, the Ziegler Companies did an initial public offering of its stock. Unfortunately, for more than two decades the value of the company stock remained essentially flat. In the 1990s, the company experienced a number of major problems with some of its business units that led to several unpredictable losses and the erosion of shareholder confidence.

It was very clear to me that we needed to focus and organize our business and set the right financial goals. We established a strategic business unit (SBU) focus to create better accountability and alignment. Our primary indicator of financial performance would be return on equity, and we set a 15% after-tax ROE target representative of industry performance as our benchmark.

Focusing the Business

Another important feature of the framework was its focus on customer needs and targeting the right customer groups. Why was that important to us? First, we didn't have any segments; we were in business everywhere. So we had to step back and ask the basic questions, "What are our markets? What markets do we wish to serve?" Targeting means we had to focus. The framework told us what to do from the perspective of "playing offense," and it also helped us identify what business segments to retire and not to retire. The decision we made almost two years ago to get into healthcare private equity investing is really based on this idea of Return Driven Strategy.

Following the guidance of Return Driven Strategy, we are targeting market segments where we have the unique capabilities to be a dominant fulfiller of customer needs. We are now emphasizing the core strength and competitive aspect of a small firm—specialization and the knowledge advantage that it brings. We know our space better than anyone else. It has helped us with our allocation of scarce resources and building defensible positions competitively. This approach has increased our chances for success. You still have to execute—but you are operating in a market that has a high need for

you today and tomorrow. And when you invest, you are confident that the market will develop with you (and vice versa). So you will be rewarded.

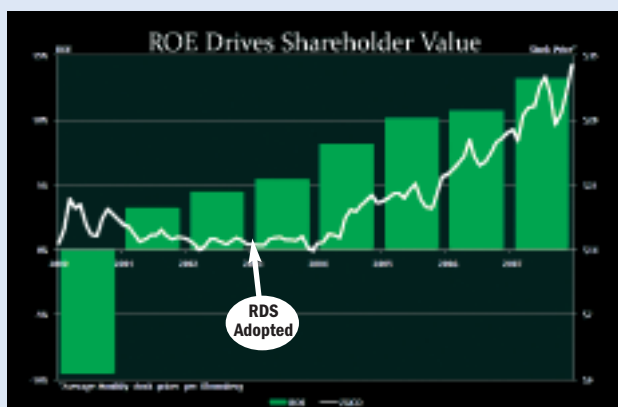
Communicating Strategy

One of the significant benefits of using Return Driven Strategy was the way it helped us communicate. We regularly use its language in our management meetings and board meetings. “Fulfill unmet customer needs” is a part of our everyday nomenclature. As a business, we speak the same language. The board, the executive team, and the employees speak and understand the same language, which is the language of Return Driven Strategy.

The Results

The results from our new strategy are reflected in our financial performance. Since 2003, we have increased earnings per share threefold by executing our focused strategic plan and consolidating business lines. We reported record revenues in 2007. Figure 1 shows we have increased ROE threefold since 2003, and our stock price performance has shown a concomitant increase.

Figure 1



Keep Moving Forward

Today, Ziegler Companies, Inc., has been repositioned as a first-tier investment banking and investment services boutique. The company is ranked as one of the nation's leading investment banking firms for not-for-profit health-care and senior living facilities, as well as religious institutions and schools. Ziegler is executing a growth strategy that focuses on providing increased shareholder value and investor confidence by targeting and fulfilling our customer needs. The Return Driven Strategy framework provides a roadmap to keep us moving forward.

John J. Mulherin is CEO of The Ziegler Companies, Inc.

communication—are aligned with this continuous innovation of offerings. In other words, companies will change offerings only if they believe they will create more value for the customer and receive superior return on investment from the innovation.

PUTTING RETURN DRIVEN STRATEGY TO WORK

During the last several years, those of us working on the Return Driven Strategy Initiative research have seen how the Return Driven Strategy framework has been used by boards of directors, executives, management teams, entrepreneurs, and educators. Let's look at some of these uses.

Assessing and Developing Strategy

Assessing and developing the business strategy is an ongoing challenge for most companies. The framework has been used successfully to assess the existing business strategy of a company, a business unit, or a specific initiative. It has also been used in strategic planning to guide the development of the strategy in a way that will ensure alignment with the goal of ethically maximizing shareholder value. The case described in this article is a great example of this application.

Communicating Strategy

Communicating strategy is the first step in strategy execution. If this isn't done well, it can be the root cause of strategy execution failure. Using a common language for describing and communicating strategy can be an effective way to avoid this problem. The Return Driven Strategy framework has been shown to provide a simple, clear language that's consistent with widely used execution frameworks, such as the balanced scorecard, and it provides a link to how the strategy will drive growth and return on investment. Jim Folkes, former vice president, Strategy & Business Development at Laidlaw Education Services, expresses the benefit of the framework in communicating strategy: “Return Driven Strategy is an elegant framework in that it is marked by both ingenuity and simplicity. And it is also marked by completeness in the way it encompasses all aspects of business strategy.”

Aligning and Leveraging Execution Frameworks

Over the decades, companies have been using a wide variety of execution frameworks whose popularity comes and goes. Examples are Total Quality Management (TQM), Six Sigma, Lean Manufacturing, and reengineering. The Return Driven Strategy framework provides a way to align execution frameworks to achieve the strategic