OWBOMA

Owners Board Management

Selected Blog Posts

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Abdicate from the CEO position

- by Christer Nilsson
- 25th August 2016

Resigning from the CEO role is a vital decision when you are the principal owner of the company. You must accept the handover to an outsider of not only the control of the business but also your life's creation and the management of the family fortune. I have, for example, met family business owners, and entrepreneurs, who had their entire lifelong savings in only one share, i.e., in the stock of their company.

To step down from the top position of a business is complicated and will need time for those concerned to process, accept, and enforce. A prerequisite for the successful exchange of the CEO is the understanding, trust, and respect from all parties involved. All shareholders, the board of directors and the top tier management need to be aligned. It is even more challenging when the resigning CEO also is a principal owner and perhaps the founder of the company. It requires rigorous mental, emotional, and practical preparations that take time. It is a life-changing decision, and it's hard to see all the future implications fully. One of the most important matters is finding out what to do next.

In this blog post, I will focus on a CEO replacement with an externally recruited new CEO. I will not explicitly address the opportunities and challenges of a CEO replacement through an internal promotion or a generation shift (i.e. when someone in the family assumes the CEO role). However, there are obviously many general similarities between the two situations.

A challenging task

The successful replacement of the CEO in an owner-led company is, unfortunately, as common as a failure. The successful external recruitment of a CEO will, for example, bring in new ideas, a new way of thinking, and a refreshed management style. A new CEO is expected to revamp the business plan and bring the business to a new strategic level that results in the increased value of the company. On the contrary, an unsuccessful change of the CEO will lead to a severe negative impact on the entire business, the organization, growth rate, and shareholder value. A failed recruitment will for sure give the main shareholders and the board of directors a major problem to address.

In my previous blog post, "Replace the CEO of an owner-led Company," I shared five (5) CEO replacements in privately owned companies with the fallout that three out of five failed. I concluded that the significant difference between the two successful and the three failed cases was that the in successful cases, the new CEO had been recruited internally.

In hindsight, the three cases failed because the board of directors had been too rash.
When the principal owner resigned from the CEO position, they had not fully understood the consequences. Indeed, the preparation time was too short.

Start preparations early

You should start preparations with a sufficient time frame. If you are the primary owner of a company and are a resigning CEO, you should work with the major shareholders and the board of directors to prepare your resignation in good time — preferably 2 to 3 years — prior to stepping down.

When you are assessing your understanding of personal and practical consequences, it is good advice to talk to people you know who already have made the change. This way, you can learn from their experiences.

In the five companies in my example we started preparations 9-12 months before the replacement of the CEO should take place. This was obviously too short; we should have doubled the time frame for proportions.

Why change?

The first question to answer is why a replacement of the CEO would be beneficial for the business:

- Is it because of strategic reasons?
- Will the value of the company increase if it becomes independent of the principal owner?
- Is there an external pressure from your family or other stakeholders?
- Have you lost your sparkle and strength?
- Or is it for reasons of age?

In the five cases I shared in my previous blog post, a replacement was the next logical step in the strategic development of the business. One the objectives was also to make the company independent of the principal owner (and founder) in preparations for the sale of the company (an exit).

When?

When you have the answer to the "why" question, the next step is to determine when a replacement should or has to be carried out. The length of time you have available will affect how much preparation you can do.

What should you as the resigning CEO expect from the new CEO?

A key topic is, of course, to determine what to expect from a new CEO. To formulate your vision in writing is a useful exercise to structure your thoughts, and you need an updated business plan to communicate your mission, vision, and strategic plans. Among other things, you have to give your view on the growth of the business, products to be offered, which markets to serve, the business model, the route to growth, potential acquisitions, and what organization it takes to deliver the plan.

However, don't be too detailed since you expect that the new CEO (after a certain time) to give his/her view on the company's opportunities and challenges and how to grow the business.

Use the board of directors

When building your view of the company's future, do not hesitate to use selected members of your board to get input and advice (external members of the board may be particularly helpful). It may also be necessary to get advice from a business consultant, and it may be well worth the cost to get an independent outside view.

In the five companies in my example, a business plan was already in place prior to the CEO's recruitment, and the expectations on the new CEO were well defined. Still, the shareholders and the board expected the new CEO to revise and update the plan. It has to be his, or her, business plan to enforce and to feel responsible for the execution.

Owner's directive

If there are several principal owners in the company, you will need a documented shareholder's directive to guide the board of directors. The directive should explain the shareholder's view of the business and the reason you are a shareholder and investor in the company. For example, it makes a huge difference if the shareholding in a company is considered an infinite holding in a livelihood company versus a business that should be dressed up for a sale.

External board members

If the company does not already have external, independent board members, there is a great opportunity, during the preparatory phase, to expand the board and recruit external members. My recommendation is to assign at least two external, non-executive directors and appoint one of them to chair the board. There is, of course, a cost to the company to bring in and pay external board members, but they will add substantial value when sharing their knowledge, experience, and large network of influential people.

If you have the role of CEO and chairperson, a good first step to begin to let go of control is to step down from the chairman position and appoint an externally recruited chairperson. But, for this to work, you must, of course, find the right person with the right skills, experience, and values. My view is that it is of importance that the new chairperson has experience with owner-led companies.
Do not hurry. Give the process of finding the right person enough time and get to know each other prior to an appointment. You are going to share the company's opportunities, challenges, and ups and downs for several years.

Down the road, it is the chairman's responsibility to start, manage, and finalize the process to find a new CEO. The chairman needs to have enough time to allocate to the company and to lead the board. He or she will also become the new CEO's boss and therefore needs to have time available in the calendar and to be capable of and guiding the incoming CEO.

Blue-chip in difficult times?

- by Christer Nilsson
- 30th March 2020

The term is used for financially stable companies with a good reputation, and who are well established in their industry. A blue-chip company is expected to be non-cyclical and should deliver attractive profits in good as well as in bad times. Typically, the company is among the top three in its industry with a well-respected brand. The term, as such, originates from poker.

It is complex to define what is a blue-chip company. The Dow Jones index may be a guidance since it is supposed to include US blue-chip companies, such as Apple, Coca-Cola, Intel, and Microsoft.

Shares in blue-chip companies are considered to have a lower risk compared to non-blue-chip. They should have solid profitability and regularly pay dividends to their shareholders. Common investors in blue-chip shares are institutional investors managing public money, such as pension funds.

The opposite of blue-chip is the so-called penny stocks, which typically have lower and less stable share price. Penny stock companies will regularly not pay dividends to their shareholders.

Shares in blue-chip companies are, of course, not unaffected by major, adverse events impacting the stock market – for example, during a stock market crash.

Of course, a blue-chip company can suffer from challenges other than a general stock market decline, make losses, and in the worst case, go bankrupt. There are several well-known examples where reputable businesses have experienced severe problems during disruptive market changes. An example is digitalization and its impact on industries such as Kodak and Agfa. The shift in technology opened up for devastating competition from brand new companies.

Board of Directors – BoD

- by Christer Nilsson
- 30th August 2015

The owners' extended arm

"The Board of Directors" is the company's ruling body (sometimes abbreviated BoD). The Board of Directors is the company's highest decision-making body for strategic and tactical issues, if we exclude the meetings of shareholders. It is charged with the duty of managing and developing the company in the best possible way to create value, in the first instance for the owners but also for other interests.

The Board of Directors is selected by the shareholders, and the independence of the members of the Board of Directors varies depending on business tradition and regulatory structure. In some jurisdictions it is considered that the members of the Board of Directors must be independent of the owners and not be employed in the company.

It can happen that not even the Chief Executive Officer is a formally elected, regular member of the company's Board of Directors. In other jurisdictions (e.g., in some Anglo-Saxon countries) it is an advantage for the members of the Board of Directors to be close to the company and its situation. Here large parts of the Board of Directors may consist of the directors (the top management) in the company top management — from which the name "Board of Directors" derives.

Follow the law and the owner's directives

The Board of Directors must follow the rules and laws which are in force in the country involved and be responsible for the company's organization and the management of the company's business. But the Board of Directors must also, based upon directives from the owners, see to it that the business plan is implemented at the same time as they take into account what is best for the company in the situation in which the company finds itself.

What should the Board do?

The principal tasks of the Board of Director are, among other things, to:

- Continually keep track of the company's financial situation.
- See to it that the organization is structured so that bookkeeping, asset management and financial circumstances are monitored in a satisfactory way.
- Provide written instructions as to when and how reporting to the Board of Directors is to be done.
- Develop policies and guidance for the work of the Board of Directors.

- Appoint the CEO and develop instructions and guidance for the work of the CEO, which will govern the division of responsibility between the CEO and the Board of Directors.

Annual report

Another important role which the Board of Directors has in many jurisdictions is to see to it that taxes and fees are paid on time. The Board of Directors must also see to it that the annual financial statements are prepared and are provided in a timely fashion to the relevant governmental authorities.

Commitment

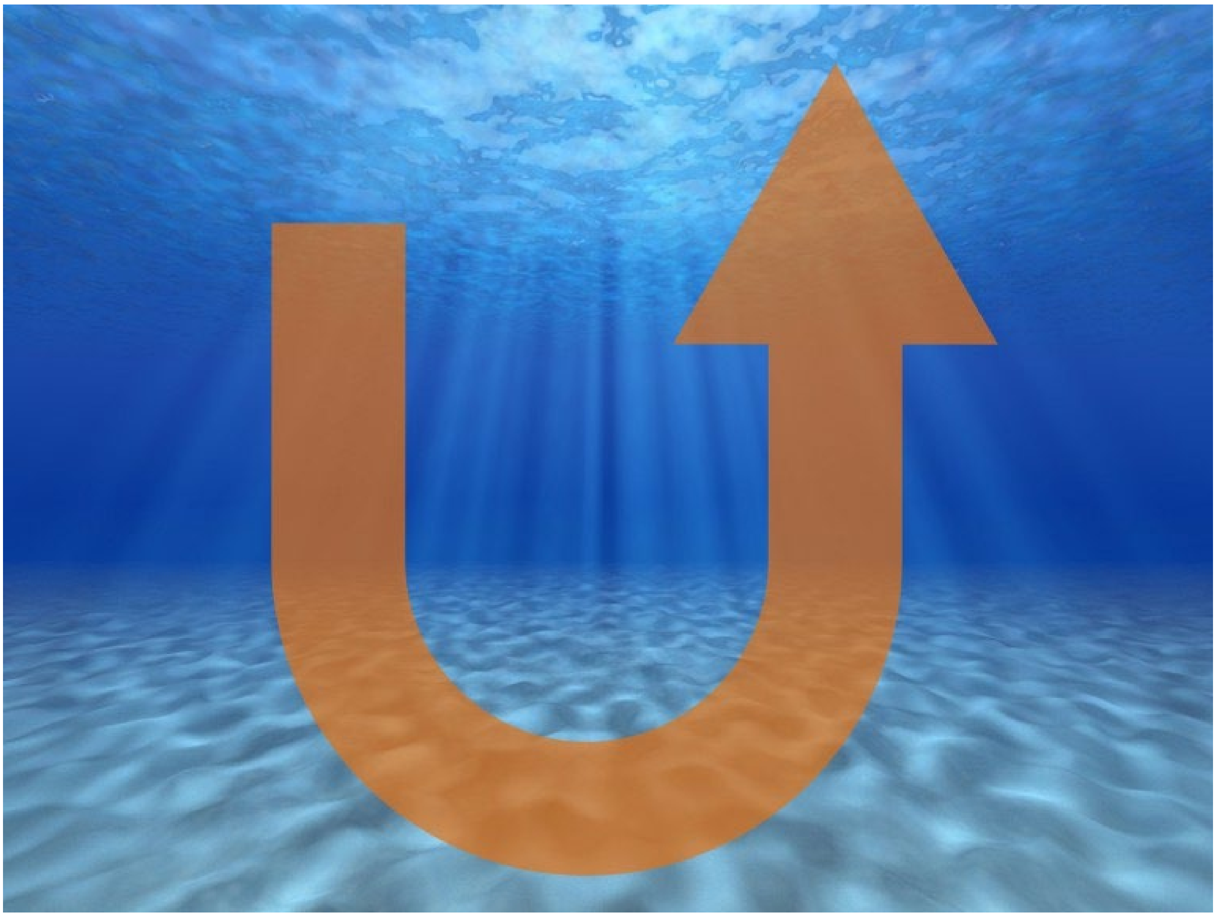
It is an undertaking of high responsibility to be elected to a company’s Board of Directors. In many jurisdiction decisions of the Board of Directors are taken by majority vote, but each member of the Board of Directors also has an individual responsibility for the decisions that director agrees with and makes. In other words, as a member of a Board of Directors you will have joint and several liability in many cases.

Drive value

Having the right Board of Directors is utterly decisive for the development of the business. The Board should be composed of persons with different experience, competence and personality who are suited to the situation and phase in which the company finds itself. It is the combined strengths of the Board of Directors which is decisive for successful Board work. The atmosphere in the board must be open and respectful and allow all questions to be asked!

Bottom Up

- by Christer Nilsson
- 20th December 2015



Bottom up. *Image Adobe Stock & Vestadil.*

Early in my career, as an engineer at Gambro (a Swedish medtech company), I was taught a simple method for expressing the core of the benefits of an offering to a client. The method requires the use of only a verb and a noun to explain what the customer needs.

For example, if you manufacture pencils, the “verb + noun” description is “make mark,” or if you manufacture jewellery and tie clips, the expression is “hold tie.” It is obvious that the business, market, and competitors will be completely different if you provide a solution to “make a mark” or “hold a tie” versus offering a pencil or a tie clip.

Verb + Noun = Core Benefit

In the example “make mark,” the customer has a multitude of opportunities to make a mark—all depending on the situation. It is a stunning development from Stone Age charcoal drawings in caves, Viking rune stones, Gutenberg types, pencils, typewriters, and ink pens to an iPad. Still, most of the ancient methods are in use. Never has the market been so large, and we write (and read) more than ever before.

Over the last decades, digitalization has boosted the evolution of the “mark-making industry.” Today, we often make marks digitally in cyberspace to be read on high-resolution screens. If we need a real print, we may use an inkjet printer to make marks on paper.

In the example of the tie clip, the customer can find inexpensive solutions to hold the tie, e.g. simply by inserting the tie between the buttons of the shirt (which is free) or using a paper clip from the office. But the customer may find these solutions to be too cheap and decide to go to a jewellery store and buy an exclusive gold tie clip.

Value to the customer

In a further step, the “verb + noun” method includes the determination of the total value and core benefits for the customer. To simplify visualisation of the value, the analysis is divided into two parts: the “use-value” and the “attribute-value” (perceived value).

In the example of the tie clip, the use-value to hold the tie is close to nil if the client uses a standard paper clip. However, if the client believes that a paper clip is too simple and chooses to buy a tie clip in gold for €1,000, the “use-value” is still the same, and what the customer pays for is then the “attribute-value.” The cost of keeping the tie in place is close to nil, while the cost to feel stylish is €1,000.

The mind-set may also be used when analysing complex services. If you, for example, are flying from Stockholm to New York with Ryanair or in an SAS business class, the use-value is the same, but the trip with SAS in the business class has a higher attribute-value.

Another, and current, example is the service of Car2Go compared to buying a BMW to get from point A to point B. The use-value is the same, but the attribute-value is much larger when owning your own BMW.

A complex product can be analysed as a complete, finished product on a top level or broken down into its sub-components. I have been involved in product analysis at a sub-component level, which resulted in significant cost reductions combined with an improved quality of and more features in the completed product.

The “verb + noun method” might seem overly simple and technocratic, and it should, of course not always be used literally. However, I have had great success using the mind-set in both simple and more complex situations.

C-suite

- by Vestadil
- 1st September 2015

The C-suite consists of three letter abbreviations starting with the letter “C”. The C-suit originally derive from the USA and indicates the authority and position in a business of its top managers.
In addition to the CEO, officers who report directly to the CEO, the so-called “second tier”, are included. Their position (title) is usually shortened to three letters that start with a C and end with an O.
Examples are:

- Chief Administrative Officer (CAO).
- Chief Creative Officer (CCO).
- Chief Executive Officer (CEO).
- Chief Financial Officer (CFO).
- Chief Human Resources Officer (CHRO).
- Chief Information Officer (CIO).
- Chairman of the Board (COB).
- Chief Operations Officer (COO).
- Chief Risk Officer (CRO).
- •Chief Technology Officer (CTO).
- and so on…

To these management positions can be added the COB, which is an abbreviation of the “Chairman of the Board”. A synonym to C-suite is C-level.

Coaching – what, when, how?

- by Christer Nilsson
- 31st March 2016

Our society, businesses, and professional life are changing rapidly. These are changes mostly driven by new technology (e.g. Internet), changed attitudes, and patterns of life. It leads not only to a host of new opportunities, but also to increased demands for personal and professional development.

Traditional boundaries between work and leisure are dissolved. We must find and decide the work-life balance – which we are not trained for. We are used to eight-hour work days and where our salary is paid based on hours worked. However, more and more management and highly skilled jobs are unregulated regarding working hours, and your salary is based on what you achieved and not on hours worked.

The role of the leader is no longer about telling what others should do. Instead, you must create a guiding and creative environment that enables your employees to exploit the full potential.

In times of rapid change and increasing demands, it may be difficult to prioritize, understand the consequences, make decisions, and set realistic action plans. It is in these circumstances when personal coaching may come in as a tool for personal and professional development.

What is coaching?

We always have, for better or worse, endeavoured to develop both personally and professionally. Life is a constant development process, with recurrent challenges and opportunities. Our responsibility for personal growth is essential for success. Faced with complex decisions, we have shared problems and concerns with family and friends to gain new insights and guidance. And this is what coaching is all about: sharing an important matter with another person, who may help out to see both opportunities and obstacles−and how to overcome these. Hence, coaching is nothing new.

Coaching can also be compared with taking a someone from one place to another, or rather from one approach to another. The word “coach” originates from the Hungarian term “kocsi” and is the name of a wagon from the village Kocs. Then, the term was later picked up and used in the United States as a term for a wagon or a bus (coach), i.e., a vehicle transferring people from one place to another.

Personal coaching is a conversation, or series of conversations, between two persons (individual coaching) or several people (group coaching). Coaching conversations can occur in different ways and situations. You may talk to your partner, a friend, or a work colleague to get new perspectives and ideas on a matter. It is you who determines whether a conversation is a coaching session or not.

Professional coaching

Professional coaching is a structured method aimed at achieving individual goals, with dialogue as a tool for personal and professional development. Coaching should not be confused with advice or consulting, nor with a form of therapy. Coaching is based on a "healthy" situation and is a method of personal development that lies between consulting and various forms of therapy.

In sports

For a long time, professional coaching has existed and been accepted in sport. Examples here are coaching in individual sports such as tennis, golf and athletics. A sports coach has often not been a top athlete, and it may seem strange that someone who has not been at the top can help a top athlete in her/his development. But, for example, a former top tennis player cannot always help another, inferior player to reach the same level she/he achieved.

The skills of a great coach are significantly different to those of top athletes. It is mainly through structured observations, reasoned conversation and open feedback that a sports coach can make a difference for the client between being a top player or just one player in the crowd. It is simply not enough to know how to do it – a coach must also know how to coach.

In business

Coaching in sport turned out to be a successful tool for the development of athletes and spread, therefore, to other areas. During the mid-1970s, sports coaches began to use their experience and coaching skills as tools for personal and professional development within the business environment. But it did not stop there.

Coaching is today an established method for personal growth in many areas and adapted to different situations. It is a rapidly growing industry with many practitioners. There are coaches in music, singing, theatre, acting, speeches, relationships, life and career planning, just to name a few. There is basically a coach for every activity and situation; if you google coaching, you get 253 million hits!

All forms of coaching, however, seem to have one thing in common, namely, they are meant to incite personal growth and trigger change.

The primary goal is to make you, the client, successful in your development. The coach helps you to:

- See the real problem.
- Place the problems/matters in context.
- Understand opportunities for change.
- Overcome obstacles.
- Set realistic action plans.
- Go from plan to action.
- Believe in your abilities.

Coaching in business is today common and increasing, driven by the rapid changes in businesses and the society. Professional coaching is used as a tool to understand better the situation, provide new perspectives and insights regarding alternatives.

The ultimate goal for you as a client is to make it easier to take and implement important decisions. Professional coaching is a learning process where you should expect significant improvements in personal efficiency and a better balance between work and leisure.

How?

In some complex situations and certain phases of your life or career, it may be useful to have someone to share important matters with. Of course, you can turn to a close friend, a colleague, or your manager. However, it is sometimes useful to turn to a third party, such as a professional coach who is entirely independent of your situation and your relationships.

Professional coaching starts with a meeting in which you and the coach determine the date, time, and place where the coaching conversation should take place. You can decide to have only one meeting or a series of meetings. You are the client, and you decide when and how often the coaching will take place.

You can, of course, choose to meet with the coach, only once, but usually, coaching is conducted over a period, including several meetings. In practice, you maybe meet for one hour each time at an appropriate frequency. For every meeting, you should bring with you an important matter, a problem, or dilemma that you want to address.

The coach helps to define the real problem and to put it into context. You will discover both obstacles and opportunities for change to be finally able to determine your goals and your action plan. No problem is too small; you decide how important the matter is. The overall goal of a session is to give you new ideas and perspectives on the problems that you choose to share.

Trust

Your coach must have a genuine interest in meeting people in different situations and love to see the clients grow and develop. The coach is not usually a specialist in the matter you bring to the table or its solution, but he or she will manage the process to enable you to discover your opportunities and possible actions.

Active listening is the coach's primary tool in the process to support you to take personal responsibility for your development and your learning. Your coach should not give direct advice, but with the help of powerful (sometimes challenging) questions, he or she should unwrap ingrained beliefs and give you new ideas and perspectives.

The coach must be able to build trust so that you feel confident that, at your pace, you can take the steps needed to change and achieve your goals. Your coach must, therefore, be able to create an atmosphere that allows for creative, stimulating, and productive meetings.

You should not believe that it is a passive act to be coached. It is a conscious, active, and sometimes demanding process. Development and change imply a personal growth and intellectual movement. We feel insecure in new situations; we know what we have but not what we will get. To be coached requires a great deal of personal courage to dare to explore and develop yourself.

You need to challenge your current approach, views, and attitudes. When you, as a client, become clear on what needs to be done, it requires courage, ambition, energy, stamina and time to get from plan to action. Between meetings, it is your responsibility and task to take the necessary steps towards the goal.

Choose your coach

As you can see, coaching is a concept with many practitioners, and there are both qualified and less qualified coaches. If you want to try coaching to enhance your personal development, it is important to select the right coach−it needs to be someone you can trust.

It is also vital to choose a coach with a diploma or a certified coach, *i.e.* a person who has undergone an accredited coach training that includes both theory and practice. I am a trained coach with an ACC Diploma gained after ICF-accredited training. (ACC stands for Associate Certified Coach and ICF stands for International Coach Federation.)

I coach mainly business leaders in their personal and professional development. Drop me an e-mail at info@vestadil.com if case you want to know more about my coaching.

Become a coach

If you want to become a coach, the first step is to undergo coach trainings. There are many institutions that provide basic and advanced training – just perform a search on the internet. However, make sure that the training providers and courses are accredited.

Summary

As humans, all of us have a desire to develop and can exploit our full potential. We want to grow and be creative, and we want, with the right circumstances, to take full responsibility for our actions.

Coaching is a tool to helps us become experts in our matters and utilize our innate knowledge that is necessary to see what we need to do to thrive and succeed in what we want. Coaching is about meeting your opportunities and leads, when properly delivered, to higher life satisfaction.

CX & UX

- by Christer Nilsson
- 26th April 2016

CX and UX are two buzz words that are currently very trendy. But unfortunately, I often hear and see confusion between the two concepts. So, what do it mean?

User Experience (UX) is a concept that includes the experience you have as a customer with the direct use of the company's product (or service). Quantitative methods are used to measure UX, such as reliability, failure rate, simplicity, usability, change frequency, and time to complete a task. You can measure a website's UX by how many clicks it takes to perform a task.

Customer Experience (CX) is a broader concept than UX and encompasses the total experience you have as a client with the direct use of the product (or service) and all interactions you have with the company. The experience may be measured based on only one purchase occasion or over a longer time with repeat purchases. In summary, CX reflects the feeling you have as a customer, based on all interactions with the company.

Why is UX and CX increasingly important?

Many of us receive daily emails and phone calls where we are asked to evaluate a company with which we have had business relations. Often the questionnaire also includes questions about the experience with the direct use of the product or service that we purchased.

The reasons behind measuring UX and CX is that we, as customers, are increasingly disloyal and volatile. We change suppliers if we are not satisfied. Furthermore, we frequently share our experiences, positive as well as negative, on social media. It is expensive for the company to attract new customers, and perhaps even more costly to gain back a customer who left. Therefore, it is important and profitable to keep existing customers. However, to stay as a customer, we need to feel satisfied with the company, its products, and its services.

To gain high-CX, what is required?

To give a company a high CX value you should expect professional, responsive, and helpful interactions with the business and its staff. A conventional method to measure CX is by using the NPS method (Net Promoter Score). NPS measures the likelihood that you'll continue to stay as a customer by asking if you will recommend the company, the product, and services to your friends.

In summary, CX contains several parameters beyond the actual product and/or service UX does not cover. UX can, therefore, be said to be a subset of the CX.

UX a subset of CX.

In order to get high CX, the business needs, of course, to score high on UX.

Basic UX requirements are to:

- Understand and meet the customer's real needs.
- Providing products, services, and support that simplifies things for the client and is not cumbersome or awkward to use.
- The design is straightforward and innovative (smart).
- The product is easy to use with a user interface (UI) that minimizes user errors.

<u>In addition, achieving a high CX requires:</u>

- Strategic objectives for maximum CX, which build a foundation for coordination between all parts of the company.
- A system for CEM (customer experience management) must be in place.
- Dedicated, helpful, and responsive staff who acts swiftly in contact with the customer, especially when problems occur.
- A company offer that reaches far beyond what you as a client expect, e.g., understands what you like to have.
- Attractiveness for the corporate citizen with a sustainable business.

Example

Suppose you need a new pair of jeans of a particular model. On the Web, you can quickly find an online shop with a nicely designed website. It is easy to quickly find the page showing the particular brand and model you are looking for. The price is affordable, and you place the order, pay with your credit card, and are given the information that the jeans will be delivered within three days. You are very satisfied with the web shop and shopping experience.

But when three days have passed, there is no delivery. You check with your bank and can see that the money has been drawn from your account the day after the order. You call the company behind the web shop and end up in a telephone queue for some ten minutes. When at last you contact the support, you get the information that that particular model is out of stock, and it is uncertain when and if the model will be available.

When you ask why you have not received any information that the model was not in stock, you are told that the web page has unfortunately not been updated and the system for email information has been down. You are offered a different model, which you do not accept, and request a refund. It then takes a week before the money is returned to your bank account.

After some days, you receive an email asking you to provide feedback on the customer experience. If you are not too disappointed, you might give high ratings, to the UX, for the company's online shop, its stylish design, and ease in finding what you are looking for. However, you cannot answer the question of how you find the use of the product that you had purchased because you did not get it delivered. In the assessment of contacts, with the customer support, you gave the lowest possible score. Overall, your experiences, as a customer, resulted in a very low rating on the CX.

It is evident, in this example, that there were no strategic objectives and coordinated actions to maximize CX. A system for CEM (Customer Experience Management) was, obviously, not in place.

Companies with High CX Scores

There are many companies that have outstanding customer experience reviews. Some well-known examples are Apple, Amazon, Lexus, and BMW Nespresso. But there are of course also smaller and lesser known businesses with satisfied customers. One company, with very high CX scores, is the Swedish company, Sectra (listed on NASDAQ, Stockholm). Sectra has, during the last couple of years, received very high ratings from the clients.

Sectra provides IT systems for the management and storage of digital images (mainly in radiology) to hospitals around the world. Sectra got the highest ranking in the independent customer satisfaction survey, "Best in KLAS," in the United States. Sectra emphasizes the importance of having: *"The knowledge to meet expectations. The passion to exceed them."*

As a Swede, I'm pleased to note that the two Swedish state-owned operations, The Swedish Tax Agency (swe. Skatteverket) and the Swedish Customs (swe. Tullverket), rank very high among citizens and customers. And, finally: A great CX is made possible by dedicated employees and, over time, results in a well-respected brand.

Images: Adobe Stock and Vestadil AB.

Exit

- by Vestadil
- 30th August 2015

Overall plan

If you intend to sell your company (exit), start planning well in advance. The overall planning should include strategic and tactical activities to create value, make hidden values transparent, and — last but not least — be able to address potentially problems that may reduce the value of the company.

These overall preparation activities take time and must be started a 2-3 years before the intended exit date. Examples of activities are:

- Streamlining of the business.
- Sale of real estate.
- Addition or replacement of key employees or board.
- Closure of ongoing legal disputes where the risks are difficult to assess.
- Incorporation of product lines.
- … etc.

Detailed annual plan

The exit process, with a detailed plan, project should start about a year before the intended sale. The plan includes activities such as:

- Selection of advisors (M&A, legal, commercial),
- VDD (seller's due diligence),
- Selecting, contacting and teasing potential buyers,
- Company description, the Investment Memorandum (IM)
- Structured bidding rounds (non-binding, binding bids).
- Employment agreements, incentive programs, pensions,
- Management presentations to buyers

- Negotiations, and an
- Agreement (the SPA).

Inspiring Web Days 2016

- by Christer Nilsson
- 26th March 2016

The web-days in Stockholm

I visited Stockholm's Webbdagarna (Webb-days) from the 22nd to 23rd March. It is Sweden's leading event and meeting place for anyone working with digital media and digital channels. The conference is organized by Internetworld and gathers some 1600 participants. A major part of the sessions were in English. If you are living in the Nordics and want to follow the digital development and discover new business opportunities, I can recommend a visit to the event. The next conference is held in Malmö on the 17th to 18th May and followed by Gothenburg on the 21st to 22nd September. The next Stockholm event will be held March 21st to 22nd, 2017.

It was overall very professionally organized with many great and inspirational speakers. There are, of course, a lot of topics and information covered during the two days. I can, in this blog, just share a few hopefully inspiring takeaways.

The customer in focus

This year's theme was "the customer in focus"—technology pushes the development, and it is easy to neglect the users. And digitization has given more power to the clients, which today are less loyal, harder to read, and more complex. Although the "customer focus" may seem to be a common theme, it bears repeating, especially in areas of rapid change driven by new digital technology. As told by Steve Jobs:

- Rule 1: The customer is always right.
- Rule 2: If the customer is ever wrong, reread Rule 1!

The presentations gave me an update on the progress and pace of change in different business areas. The focus of several presentations was the difficulty to reach the customer when traditional advertising is no longer effective. We all know the forces of change of digitization and its consequences in our private lives, industries and the society at large. Much has changed, and we are facing even bigger accelerating changes!

Cyber philosophy

The keynote speaker on the first day was Alexander Bard, a cyber-philosopher and writer. His latest book "Syntheism – Creating God in the Internet Age" is well worth reading. Alexander is always interesting to listen to, although I do not agree with everything. He is a fantastic, inspiring communicator and stated, among other things, that:

- There are 40-year-olds who live in the "real" world who have difficulty understanding the "digital" world. For a 20-year-old, the opposite applies. She or he is living in the digital world and finds it difficult to comprehend the real world.
- Many regions around the world have tried to copy Silicon Valley. However, it fails because Silicon Valley is rooted in the hippie culture and its cannabis-smoking motivators.
- Still, our businesses are organized mirroring a military structure. It is based on Napoleon's army, with the general on top and with soldiers reporting to lieutenants and captains. At the bottom of the pyramid, you have the foot soldiers – the food for the guns (Alexander's description). What has happened is that those who are at the bottom of the hierarchy (employees, end-users, customers etc.) can now communicate directly with each other by the means of the internet and digital technology. Result: Increased customer power! And as a consequence, our businesses need to be managed in an entirely different way.
- Online *marketing* is out and has been replaced by online *communication*.

NPS

Caroline Rudbeck, Head of Group Communication at Dustin Group, shared how Dustin is working with NPS (net promoter score). NPS is an accepted method of measuring customer satisfaction by answering the question, "How likely is it that you would recommend the company, product, or service to a friend or colleague?" In a future blog, I will address the NPS method in more detail.

Millennials

An inspiring speaker was Adam Smiley Poswolsky. He believes that millennials (born 1980-2000) are not "The Me, Me, Me Generation" but "The Purpose Generation." He stated that millennials want:

- A sense of meaning in a coaching learning environment.
- Flexibility, with opportunities to work remotely and work-life in balance.

He also defined what meaningful work should be comprised of. It needs to:

- Reflect who you are and what your interests are.

- Allow you to share your talents to help others.
- Provide a community of believers, that will support your dreams.
- It should be financially viable relative to your desired lifestyle.
  Adam also noted that millennials will change jobs every three years (today we change every five years), and that 65% of our children will end up in jobs that have not yet been invented.

Ad spam

There are many of us who are so tired of all the commercials we are forced to watch – both online and in other media channels. One of the speakers said: "It's like being forced to eat a bad starter before you can get the delicious main course which you have chosen yourself."

One consequence of ad spam is that more than half of all young readers online use some form of "ad blocker." And many of us more traditional media consumers tend to prefer commercial-free TV channels, or we record our popular shows to be able to fast forward through the commercials.

But how should the businesses then be able to reach customers and consumers when they are skipping the commercials? Vigor Sörman, founder and CEO of Splay, showed an example with the blogger Clara Henry and her cooperation with Always. Clara promotes Always tampons in her video blog in an entirely different manner than traditional commercials. Even though the video below is in Swedish, it will give you a sense of an entirely different way of how to communicate with the end-user.

My conclusions

- We know for a fact that our companies and businesses are facing significant changes in several areas. All the speeches at the Webbdagarna event confirmed that statement.
- A main takeaway is the increasing challenge many businesses have to attract talented, young people. Its changes include the business's real purpose, its organization, and its leadership.
- An unanswered question is: Who is going to finance the production of content in traditional media channels when not commercials are no longer useful? The same applies online. Only 4% of web page visitors click an ad banner. It is evident that the current business models need a revision.
- It, for sure, was two fascinating and inspiring days.

What business—one of the three key questions

- by Vestadil
- 11th November 2015

Currently, there are three key questions that all boards of directors and management teams must ask themselves:

1. In what business are we?
2. Who are our new competitors?
3. How can we attract and retain young talent?
In this blog post, I will address the first question regarding the importance of deeply understanding the industry in which the company operates.

In future blog posts, I will address the other two issues, *i.e.,* the importance of the early detection of new competitors that may enter the market and the challenge of attracting talents to our company.

What business are we in?

There are many examples of businesses that have not paid attention and fully understood the evolution of the market they serve. A classic example is the Swedish company Facit, a global player in making mechanical calculators and which did not, in due time, realise that customers wanted help in making calculations. The device used did not necessarily have to be a *mechanical* calculator.

When digital calculators were launched in the early 1960s, Facit started to lose market shares. The company had, however, already invested heavily in mainframes but did not have the capacity or financial strength to compete also with strong companies, such as Texas Instruments and HP, entering their core business.

A more recent example would be Finnish Nokia, which was the global market leader in mobile phones. Nokia underestimated the entry of new competitors that offered small, user-friendly computers (smartphones). The quality of speech, only one of several features, had to compete with access to email, easy synchronization between devices, and entertainment with music, movies, books, etc. Initially, Nokia did not consider a computer manufacturer, such as Apple, to be serious competitor in mobile phones.

Features versus benefits

A common mistake the board of directors and the management makes is to define the company based on the product delivered and not on the problem the client needs help solving. They tend to focus is on product features and not on the whole spectrum of customers' benefits. With products, I include both tangible products and service products. When defining your business, you need to have a problem-and-solution-oriented approach, which leads to that most offers to customers finally end up as a service. For example, if your company manufactures and sells drill-drivers to private customers, you need to understand that the customer may not need a drill-driver as such. He or she simply wants a hole in the wall. The options the customer has are:

- Buy a drill-drive and drill the hole.
- rent a drill-drive and drill the hole; or
- hire a craftsman to drill the hole in the wall.

This, of course, is a very simple example, but it aims to show the various options a customer may have. It also shows how a tangible product is converted into a service. Note also the difference in the business model, which changes from a purchase (perhaps in cash) of a drill-driver to a rental or an hourly rate if hiring a craftsman.

Business models

New products and solutions often involve new business models, *i.e.* the way to charge the customer and earn money.

A well-known example of a completely altered business model is in the distribution of music. The change is driven partly by the digitalisation of music and partly by the Internet's potential for the distribution of digital products. Before the Internet, the music industry was accustomed to distributing music on CDs. All parties, from the artist to retailers, had their livelihood in this value chain. The business model was based on the fact that all the links in the chain made a markup on the price before the CD was passed to the next step in the value chain. Also, as a customer, you had to buy the complete album—you could not choose which songs you wanted to buy. You had to accept the composition of songs on which the music publisher had decided.

Digital music on CDs.

On the CD, the music was already digital, and with the Internet-enabled digital distribution, the entire existing value chain was in danger. Different suppliers could not add more value or justify its existence. Initially, the music industry tried to fight the Internet and went so far in the pursuit of illegal downloaders that the industry became enemies with the customers—which is not that smart.

The music industry was trapped in the analogues way of distributing music and did not initially see neither the force nor the opportunities that digitalisation and the internet allowed. Very late, the industry realised that the battle was lost and that the change maybe posed not only a threat but also a host of opportunities. Also, after the awakening, the industry groped in the dark to agree on a new business model. There were too many parties dependent on the old value chain, and they were not able to reach a common view.

Then came Steve Jobs' Apple to the rescue. Apple offered, with iTunes, the music industry an opportunity to digitally distribute music and get paid. Apple's solution also gave the honest end-customers the ability to buy legally and download digital music. In additions, we as customers could now choose which song to buy, and we were not longer forced to pay for a whole album with songs we did not like.

Spotify has then taken the service and the business model one step further. They offer unlimited live streaming of music financed by ads and a subscription model. Also, as a Spotify subscriber, I no longer needed to store and organize my songs on a computer, since my music and playlists are available in the cloud. Thanks, Spotify!

Limitations

It is obvious that the strategic business reviews need to include an in-depth understanding of the real need the customer has, *i.e.*, which problem to solve. The result of the analysis is vital input into the decision on which market position the company should take.

The examples above are specific, but the challenge to follow the rapid evolution of new products, services, and business models is evident in all businesses. To be able to make needed changes, the board of directors and management must frequently, openly, and creatively revisit and understand the company's business propositions.

In a comprehensive review, you may become overwhelmed with the vast number of possible business options discovered. Therefore, it is equally important to determine what the company should be offering as what it should <u>not</u> be offering.

With the evolution of new technologies, social networks, behavioural changes, mobility, internet-enabled new business models, etc., the options for the customers will continuously increase. In this context, the strategic positioning of the business is extremely challenging. Should the company focus on core benefits based on use-values and become a low-cost player, or should the company add perceived attribute-values and become a player in the top segments of the industry?

The chosen market position will, of course, impact the entire business and its value chain. Obviously, it is separate with markets, customers, products, competitors, value chains, business models, etc., in the two value niches.

Conclusions

I have seen some commonly used statements in business development such as "Do not change what works" or "do not fix something that is not broken." I believe those are unfortunate approaches. "Business as usual" is a risky strategy—and not a strategic option.

The board of directors and the management must at any time be able to answer the challenging question: Why does your company have a right to exist? To be able to answer, you must frequently drill down the bottom and ask what the company provides to its customers. You need to define, in-depth, the "problem" that the customer is seeking a solution for in order to understand the core benefits.

In the business analysis, you need to, in parallel, grasp if and how business models are changing. New products and services, particularly driven by the Internet, are often combined with new, innovative ways to charge the customer.

And finally, the best thing is always to be proactive and lead the market development instead of reactively being forced to adjust.

New competitors — one of three key questions

- by Vestadil
- 21st November 2015

There are currently three questions that all corporate boards and managements have to ask themselves:

1. In what business are we?
2. Who are our new competitors?
3. How can we attract and retain talented people?
   In my previous blog post I addressed the question: "In What business are we?". The answer is vital input when positioning the company and its businesses. I highlighted the necessity, in the strategic business development, to make a thoroughgoing analysis of the business (industry) in which the company operates.

   When making the business analysis, we need to drill down and deeply understand the "problems" that the company's products aim to solve for the customer, *i.e.*, the core benefits.

   The chosen market position will, in turn, determine which products to be developed and what competition the company will meet. In this blog, I deal with the second question, namely the challenge to grasp who the company's competitors are – particularly new, unexpected competitors. In an upcoming post, I will address the third question to give my view of the challenge of attracting talents to our businesses.

No competitors

I sometimes meet corporate managers stating: "Our products are so unique that we do not have any competitors." It is often young companies with a different and new way to meet a customer need. In other cases, the company (right now) is ahead of the competition from a technological standpoint. But the management is, however, usually comparing technical features of tangible products and without considering the total service content needed to resolve the customer's more complex need.

Although the company does not have obvious and visible competitors, it's a narrow and risky approach, believing that the company does not meet competition. In my view, all commercial companies, products, and services meet competition. The company and its management will sooner or later become aware that this is the case.

Fierce competition

I also meet the opposite view of the perception that the company has no competition. It is when the management perceive (despondent) that competition in their industry is tougher than in all other industries. I believe, however, competition today to be fierce in all sectors. It is difficult to judge whether competition in one industry is tougher compared to competition in different industry.

The approach is, unfortunately, sometimes an excuse for not being innovative enough and a sign that the company is acting more reactive than proactive. There is a considerable risk the company will lose its market position with increasing competition as a result. The market leader with innovative new offerings will, conversely, probably think that fierce competition is stimulating and boosting continued product development.

Competitors and competition

In the strategic development of the company, it is important to distinguish between "competitors" and "competition". When the management claim that they do not have any competitors they usually mean that they do not have any obvious, visible competitor — which may be true.

When defining the competitive landscape, it is important to take into account competition and competitors in a broader perspective. You should assess the following:

- <u>Direct competitors.</u> Often possible to identify, but more difficult to define if they are system suppliers.
- <u>Substitute and existing solutions.</u> What options do the customers have today?
- <u>System solutions.</u> Is to provide a system solution more valuable to the customer?
- <u>Brand and reliability.</u> Does a new product benefit (need support) from a well-respected brand?

- People. Are we able to attract the best people?
- NIH (Not Invented Here). Do the customers do it themselves in-house?
- Customer behaviours and habits. Do the customers need to change their behaviour when using the product?
- Ease of use and support. Is the product easy to use or is training and support needed?
- The customer's wallet (budget). Is the product purchase in the customer's budget?
- Payment methods and business models. Are there different payment options available for the customer – cash, lease, pay-per-use, etc.?
- Support, service and warranties. Which service requirements are needed by the customer? Is an extended warranty a competition factor?
- Logistics. Are we able to attract the suppliers and distribution channels that are superior to competitors' supply chains?
- Policy and lobbying. Does a purchase involve politics or require a policy decision?
- Timing. Is market and the customer ready?

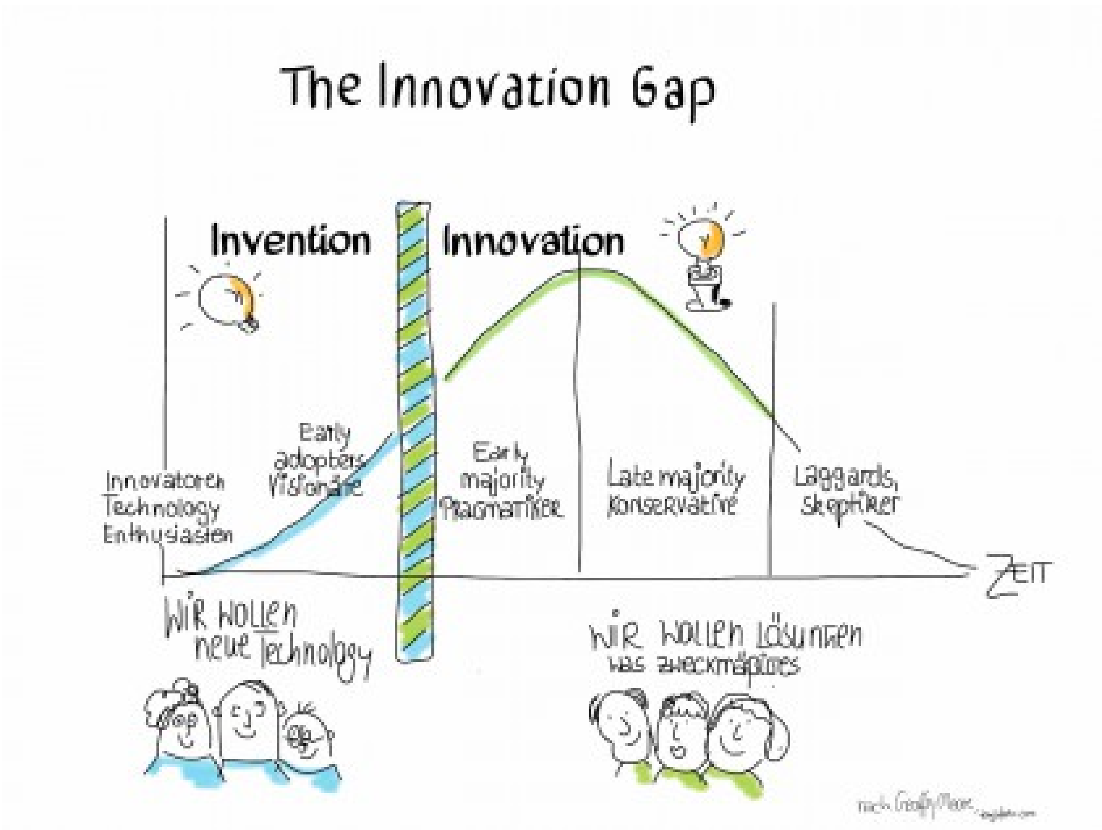
Example – the iPad

To exemplify, I am using a well-known product, namely Apple's iPad. When launching the iPad, Apple had no direct competitor on "pad-market". But, indirectly, Apple had competition from substitutes and other existing solutions fulfilling the customer needs. Potential customers had already, for example, a laptop. Many critics wondered why you should need an iPad.

Apple's co-founder Steve Jobs. *Image: Shutterstock*

It was Apple's co-founder and CEO Steve Jobs himself, who at a press conference in San Francisco on January 27, 2010, announced and unveiled the first iPad to the public. A great secrecy combined with widely spread rumours had preceded the announcement. Apple could by virtue of its respected brand create a must-have atmosphere among early customers, who queued for hours to be the first to show off this new, innovative product.

Apple's first launch volumes were limited in both in numbers and to geography. But the first launch phase was big enough to satisfy the large geographical markets and its "avant-garde" customers. These early customers (characterized as "innovators") always have space in their wallet to buy, test and review new innovative products.



Product adaption curve – the innovation gap. Tap to get a larger view. *Image: Adobe stock.*

With its successful limited product launch, Apple created a strong market pull. Early adopters had to wait before they could lay hands on their first iPad. But, on the other hand, the waiting time allowed them to read reviews and to reserve space in the wallet (to budget) for a purchase. Early customers got prepared and was ready to buy.

iPad is part of a system of iPhone, Mac computers in combination with apps and content – such as movies, music, books, magazines – to be downloaded from the App Store and iTunes. Steve Jobs and Apple had previously enabled content in iTunes through negotiations and lobbying with artists, music and movie companies, newspapers, writers and application developers.

Apple can with its strong brand and its attractiveness create a competitive logistics chain. They can choose among qualitative suppliers queuing to manufacture as well as retailers who wish to sell Apple products. Or, perhaps, they must have Apple products in their assortment. Apple usually does not share large margins, but because the iPad and iPhone draws customers to the store that hopefully also buy other products with higher margin, the total business becomes profitable.

To be able to attract and retain creative talented people is a crucial competitive asset. It is not difficult for Apple to find and attract the very best people for various positions. Skilled and creative talents are by themselves contacting Apple hoping to become a part of the Apple team. Merely being selected to an interview is a merit – that even that might be added to CV.

Last but not least, the timing for an iPad was perfect. Technology made it possible to package the features in a light flat computer screen, and the internet enabled easy downloading of content and secure payments by credit card. Also, we customers were ready; we were sufficiently mobile and had become used to read digital text, watch photos and movies on high definition screens. The iPad also fit into the system with other Apple products, and we as customers didn't have to change computer brand, mobile phone or learn a new user interface.

Conclusions

There are many learnings to be drawn on how to launch a completely new product from the iPad example. I have met too many businesses that focus on technical product specifications when comparing with competitors. However, this is not sufficient – you need to review and understand the entire competitive landscape.

You should not underestimate indirect competition, such as customers' resistance to change behaviours, the NIH syndrome, the importance of packing the product into a system solution, competitive business models, the strength of brands, relationships, politics, etc. One of the main learnings, is that it takes much longer time than expected to enter a new product into the market. You must plan for higher costs, more investments, and, hence, sufficient and sustainable financial backing is a must.

As shown in the example with the iPad, it is not good enough to provide a thin, light computer technically better than Apple's iPad. And there are competing products on the market, technically superior the iPad, with more features, but they find it hard to compete. Apple has in an innovative way created barriers around its customers, in a win/win deal, with a system of related products and associated services. The customers' cost and inconvenience to change is too high.

The iPad example also shows the importance to understand that competition today comes from all over. New, unexpected competitors will enter. The Nordic forest companies, and paper mills did not consider Apple as a competitor prior the iPad launch. But after only a few years they noticed a significant drop in the demand for paper used in newspapers, magazines, and books. Not even Nokia, the Finnish mobile company, considered a computer

manufacturer such as Apple to be a mobile phone competitor before iPhone began gaining large market shares.
The indirect consequences of the rapid market evolution can be very extensive. For example, the digitalisation of printing and mobile phones evolving to smartphones affected the whole of Finland as a nation. This partly because Nokia disappeared as mobile phone player, and partly due to dropped volumes in paper mills.

Now there are rumours that Apple is developing a car, and, hence, both the traditional auto industry and Tesla should pay attention.

Will Apple enter and compete with Tesla? *Image: Vestadil AB*

New offers and competitors are entering in all businesses. The sharing economy is one example where new, innovative offerings are continuously being developed. The business model is based on the existence of unused assets and services to be further exploited. The use of assets can be made more effective by leasing and sharing with others. Examples are Airbnb (that started in 2008 and in 2014 had 22% more overnight stays than Hilton), Uber that compete with taxi and City Bikes (CitiBike), which offers bicycles to rent in major cities.

In the business review, the company board and its management, must closely and continuously monitor when and how competition and competitors change and evolve. We all know (but it needs to be repeated) the necessity to pay attention to new products, services and business models made possible due to:

- The internet,
- social media,

- mobility,
- smartphones, and
- smart business models.

Finally, the company must keep up with changing customer behaviours (to a large extent driven by factors above). One single significant global trend impacting all industries are the increased demands, from authorities as well as consumers, on companies to build the sustainable, ethical and environmentally friendly business. We will certainly get to see new entrepreneurs responding to this demand and who are creating a business based on the "good company" concept.

Attracting talent: One of the Three Key Issues

- by Christer Nilsson
- 11th December 2015

Image: Shutterstock & Vestadil AB.

Today, there are three questions that all boards and management must ask themselves. They are:

1. In what business are we?
2. Who are our new competitors?
3. How can we attract and retain talent?

I have in two previous blog posts addressed the first two questions. In this post, I share my views on the challenge of attracting and retaining creative talents.

The ability to attract creative and innovative employees today is as important as access to raw materials is to steelworks or paper mills, for example.

The commercial market battles will be determined by companies that can recruit and retain the very best people in all professional functions. Creativity and innovation are paramount to the success of a company. These companies develop superior and smarter products/services than competitors do.

In our traditional businesses, it is often difficult to create and nourish a culture of creativity and innovation. It is not a simple task to change an established culture with deep-rooted ways of thinking and ingrained values. It is businesses with hierarchical leadership and classical forms of employment closely linked to reward systems and career paths. Often, the entire company need to change, which in turn means that everyone must start by first changing themselves. In the worst case, it may take a whole generation, which, today, is too long.

A new company does need to change an existing culture. It can directly from the start create an environment for creativity and innovation that attracts talented people. And therefore, among other things, a new business can start to capture market shares and grow rapidly.

Creative environment and innovation

Creativity and innovation are to be two different things. A creative environment does not necessarily lead to innovation, but innovation needs creativity. I meet companies aiming to increase innovation in their businesses by imposing systems to stimulate and structure innovation. However, I believe that it is to start at the wrong end. If you want to build a profound and lasting change, you must first create an environment and a culture that allows and nourish creativity.

Note also that creativity, which hopefully leads to innovations, should not be limited only to R&D or the marketing department. It should permeate the entire business and be an inherent part of all functions of the business. The best companies are the best at everything. You can usually see already in the car park outside the reception, that it is a successful company you are going to visit.

3T for growth

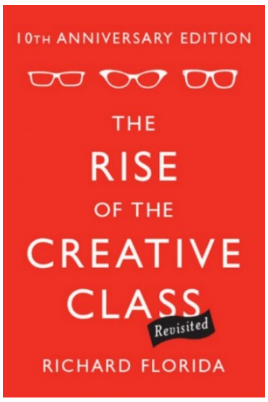
To create a business that attracts talent one basic requirement is to be in an attractive place. Establishing an innovative business in a dynamic region with growth is an advantage compared to be in a region with negative growth. In his book, "The Creative Class (1)," Richard Florida has defined what is needed to enable economic growth. Read the book if you want to be inspired and know more! His conclusion is that there is a need for 3T:

- Technology: IT, biotechnology, process technology, high-tech engineering, etc.
- Talent: A variety of knowledge, experience, entrepreneurship, etc.
- Tolerance: Diversity in areas such as specialty, knowledge, experience, culture, personality, gender, sexual orientation, etc.

Even though the bullets above essentially address regional growth, I believe they can also be seen as basic requisites to create growth in a business. If you want to create a growing, successful company, you will need tolerance, talent, and a high level of technology (technology can be broadened to cover, for example, tools, organization, and reporting structures, etc.).

A creative class

Richard Florida's definition of the creative class includes people engaged in complex problem solving



(1). To find a solution, you need a great deal of personal judgment, high levels of education and/or appropriate experience. You need to be open-minded and prepared to analyse and combine various – and sometimes disparate – types of data, materials, and perceptions. It may even be duties that involve a process first to find the problem before you can start to find a solution. Success requires an openness to new ideas, a free exchange of knowledge and experience in combination with passion, confidence, and respect.

To a certain degree, the creative class is a consequence of the post-industrial society. It is in many ways a contrast to the working class, where tasks traditionally consisted of predetermined, often time-specific, work tasks.

Richard Florida divides the creative class into two parts (1):

- <u>A super-creative core:</u> Includes classic creative occupations such as science, research, thought leadership, programming, research, arts, design, entertainment, and media.
- <u>Creative professionals:</u> Includes all knowledge-based occupations such as healthcare, finance, accounting, legal, consultancy, business management, and education.

More and more jobs include creative duties, which means that it is a growing class expanding into several new areas. According to ILO-data, 35% of the workforce in the United States belongs to the creative class. The corresponding number for Sweden is 43%, and for my hometown Stockholm 46% (the same level as in Silicon Valley).

However, it is important to note that Richard Florida, with his definition of the creative class, does not mean an elitist class. It is not a homogeneous, socially cohesive class, although its members share fundamental values such as the importance of quality of living and personal development. Florida argues that any job can become "certified" by establishing environments that bring out new ideas and the power of innovation that is in us all (1). Businesses need to build a creative environment to enable and tap the intellectual and social skills that every worker has. Innovation arises everywhere, anytime, and often it comes from small things. Florida also states that growth no longer should – or can – be defined as pure economic growth, *i.e.,* "dumb growth". Instead, we need to focus on "smart growth" that will also provide prosperity and security for all citizens, enabled from growth in sustainable businesses.

How can we establish a creative environment?

How should we, as owners, the board of directors and managers, create an environment that nourishes creativity and innovation? It is obviously a complex issue that does not have a simple answer. However, the first step is to understand what the talented and creative people need in order to be attracted and to thrive, develop, and exploit their talents. I summarize below – in three bullets – Richard Florida's view of what is needed (1):

- <u>The person.</u>
  Basically, a creative, talented person is powered by his/her personal development. Traditional careers ladders with powerful executive positions as a reward for dedication are not goals in themselves. A talented person prefers to get recognition and appreciation from achievements, *i.e.,* they thrive better in a meritocratic environment versus a classic hierarchical organization. Positive individualism is important – you need to be able to gain personal development but not at the expense of others. Teamwork is essential – you should succeed together. Personal style and dress code are important. A creative person wants to express his/her personality with his/her style, dress code, and adornment (tattoos, earrings, etc.). No suits, ties, and tie-neck blouses!

Creativity. *Image: Shutterstock.*

- <u>The quality of place.</u>
  Creative people want to live where other creative people live, *i.e.,* places characterized by 3Te. It needs to be a dynamic place with diversity, tolerance for differences, and openness to new ideas. You should be able to express your personality and be respected for who you are. There should be space for different types of interests and a mix of cultural activities, cafes, small restaurants, sports clubs, etc. A creative person is seeking places for inspiration and wants to be active exercising one's own activities rather than being a spectator watching TV or a sporting event. He or she prefers a local bistro in comparison to an expensive restaurant with fine dining, and they would rather visit a local jazz club than the big opera. Typically, these conditions are found in certain areas and neighbourhoods in dynamic major cities.

- <u>Company.</u>
  The company must provide diversity, tolerance, and openness to new impressions. There need to be obvious opportunities for professional and personal development. Creative people need exposure to complex problems with multifaceted solutions. The leadership must be informal, supporting learning and mutual sharing of knowledge and experience. Flexible working hours is a necessary requirement to allow a good balance between hours and your time with friends and family. The duties at work usually require total focus, and creative people want to be able to work very intensively when needed. But equally important is to be able to recharge the batteries with sufficient pauses for reflection, learning, and personal activities. You may want to work hard up until lunch and go to the gym for a few hours to enable full concentration during intensive afternoon and evening work sessions.

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Conclusions

To attract and retain creative, talented people, we must change our often too homogenous businesses and organizations. We need to create an environment that is heterogeneous with a spirit that is open to diversity, tolerance, cross-culture, and different personalities.

The management structure of our businesses must change from hieratic leadership to informal, team individualized leadership where creative people get the opportunity to develop and utilize their specific talents.

Working hours must be adapted to allow very intensive work hours and as well as breaks with breathing space and time for individual activities. Here, a freelancer contract may be an alternative to permanent employment.

Diversity. *Image: Shutterstock.*

Further, it is a severe challenge to attract talented people to our companies in smaller communities outside major cities that are not within commuting distance. One reason is that our talents wish to live in a dynamic place with diversity, openness, and tolerance for various individual needs. Hence, your business (or part of it) should preferably be located in a major dynamic city – or within commuting distance. If this condition is not met, you need to try to develop an environment and conditions that compensate for the site itself.

Last but not least, we see increasing demands on the development of sustainable businesses. Young creative talent wants to be part of “the good company” with a respected brand that he or she is proud to represent.

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New role in 2016?

- by Christer Nilsson
- 31st December 2015

We live in a time of rapid change. Main driving forces are globalisation, digitalisation, increased demands on all businesses to become sustainable and, finally, a healthy balance between work and private life. More and more jobs are “creatified” to include complex tasks and problem solving with no given work instructions or obvious solution. Abstraction ability and capacity to collect and analyse a variety of different types of material, facts and impressions are becoming increasingly important.

I have in a previous blog addressed the challenge to attract and retain creative, talented people. One conclusion was that we need to create workplaces that are heterogeneous and with a culture that is open to diversity, tolerance, cross-culture and different personalities.

Hence, the company’s organisation and management style must change. Creative people want to be able to develop and exploit their specific talents and gain recognition and appreciation from achievements. They, therefore, thrive better in a meritocratic environment with an informal, team and personalised leadership style compared to a classic hierarchical organisation.

When our companies find new ways to organise, new roles and titles will be introduced while others become obsolete and disappear.

Nordic Executive Survey

The consulting firm Hammer & Hanborg have reported its annual survey among more than one thousand Nordic leaders; the Nordic Executive Survey. The study focuses on the work situation for Nordic executives but also explores current issues affecting organisation structures.

One general conclusion is that successful companies create their structures to enable collaboration and network-based organisations. Based on the survey, Hammer & Hanborg also share a list of what they find to be the 2016 hottest new professional roles and titles (see below).

"To listen, analyse, and generate business based on insights and to be able to build content, relevant stories, are the key words in this year's list," writes Hammer & Hanborg. To structure your business and organisation in silos is not the way forward. Successful companies build their structures to enable collaboration and network-based organisations.

"The world is changing, and customer behaviour changes. Businesses and institutions need to adapt to the new conditions, and one key might be new organisational structures with entirely new roles and titles ", says Åsa Falkman, Founding Partner of Hammer & Hanborg.

New roles 2016

- **Data Visualiser**: Data abound. Creates the structure and overview to visualise opportunities from various data sources.
- **Data Flow Analyst:** A crystal ball is no longer needed. To interpret the data and understand trends, preferably before someone else does it.
- **Vlog Editor:** Blog + video = true. Video is becoming more and more important in the communication with customers.
- **Content Evangelist:** Where and when we are visible is important — but when and, especially, what we convey is crucial.
- **Relationship Developer:** Interaction and adaptation are the keywords in combination with a genuine interest in the customer.
- **Human Interaction Expert:** Human to Human, and Peer to Peer — there's no doubt that the more we digitize, the more important are human relations.
- **Scenario Builder:** Can predict scenarios even before a new product or service is finished and launched.
- **Narrative Designer**: A role taken from the video gaming world that will be introduced in other industries.
- **Loyalty Builder:** The only way to get loyalty is to deserve it.
- **Network Explorer:** Make sure to build the business with the help of network and to evolve in conjunction with the business surroundings.

Hopefully, some of the titles above may come into play in your business. If you wish to read the full report from – click the link Nordic Executive Survey 2015 or visit Hammer & Hanborg's home page.

I also recommend you to review and compare Hammer & Hanborg's trend spotting for 2015 in Nordic Executive Survey made in 2014. Quite interesting.

NPS – some reflections

- by Christer Nilsson
- 3rd August 2016

In my previous blog post “Recommend to a friend”, I brought up the background to the measurement of customer loyalty with the Net Promoter Score, NPS [2]. The method is easy to use and popular among commercial companies as well as in the public sector. But, all methods based on a relatively simple model has its weaknesses. In this post, I am sharing reflections and some criticism of the NPS approach.

Loyalty

The NPS-method relies on the attempt to measure customer loyalty to the company. However, loyalty is an emotional and value-charged expression, having a various meaning in different cultures and for different people and situations. Loyalty is something that shows you do not betray the other and you are there to help and support [5]. Synonyms for loyalty are, for example, solidarity, faithful, reliable, loyal, and honest. Loyalty is something that must be earned and may require some reciprocity; if I am loyal to someone, I expect to get something in return. The opposite of loyal is unfair. It is also worth noting that loyalty is also used to describe a relationship between people of different status, for example, between a boss and a subordinate.

Recommend to a friend

It is a sensitive matter to recommend a company and a product to someone you care about. Fred Reichheld states that two preconditions must be fulfilled [1]:

1. You, as a current customer, must trust that the company you recommend will provide products and services that meet your friend’s needs. The goods and services must be priced fairly in relation to their features and benefits. See more in my post User Experience, UX.

2. You, as a current customer, must experience that the company cares about, understands, and appreciates its customers. You must be satisfied with all the interactions you have had with the company and its staff. The company's values must match yours. Read more in my post on Customer Experience, CX.
   The first prerequisite is based on facts and aligns with your brain while the second relates to your feelings and your heart. Fred Reichheld concludes that both conditions must be met to ensure that you can recommend the company to a close friend. In the end, it is all about your credibility. You must be sure that your friend gets a good value for money and is treated well.

Critical observations

Many critics of the NPS-model consider that the reality is more complicated than a single numerical score. Some critical observations:

- The link between satisfied, loyal customers and the business' growth and profitability can be verified using different methods of measurement. The NPS model is only one of several models possible. Some critics believe that the "probability to recommend" does not measure anything new compared to other conventional loyalty-related measurements [3].
- Customers who remain and are loyal are not always happy buyers. In some sectors with high replacement barriers and switching costs, demanding customers tend to stay and be loyal since a change of supplier is both costly and challenging. Some clients may have no choice – in any case, not right now [3]. An unhappy customer can also be loyal and remain with the hope that the company will improve its products, services, and support.
- Truly loyal clients can be infatuated, blinded by the brand and the image that it creates. These customers buy everything the company offers without reflection or comparison and will, with enthusiasm, recommend it to friends.
- A customer that's hard to deal with and complaints and makes his/her voice heard may be the most important customer. It is, in any case, a sign of commitment. If you treat this customer with respect and listen to him/her, you may gain the most long-term loyal customer.
- Timing is critical. It is easy to ask the ultimate question, but it is crucial to ask it at the right time. The likelihood of recommendation will vary depending on when the question is asked [1].
- NPS has certain limitations in B2B. Here, the ultimate question may be replaced by "How likely is it that you continue to purchase goods and services from the company?" [3].
- Clients tend to get too many customer surveys to respond to, which may lead to "survey fatigue." Therefore, the response rate may decrease, and replies given without much consideration. Survey fatigue affects particularly "passively loyal" customers and may lead to responses only from dissatisfied customers. A solution to mitigate survey fatigue is to agree with clients in advance about their participation and the mutual importance of the investigation [3].
- The NPS method is less useful in certain industries and for particular products. Examples are products we buy less frequently and complex customer offerings where it is hard to

distinguish between competitors. Utility providers may have difficulty using the NPS-method since customers rarely talk about or recommend their power provider. Banks are an example of a multiple service provider and where it is tricky to distinguish between competing banks and their products and services [4].

- In all surveys, the quality of the outcome depends on the quality of the provided information. For example, the extent to which customers are prepared to enter the probabilities of the end of the scale – a zero or a ten – varies between cultures. The NPS-method is primarily developed and adapted for Anglo-Saxon cultures. In Sweden and Japan, for example, we tend to give fewer zeros and tens versus customers in the USA. In Swedes are probably more inclined to indicate the probability of the recommendation in the range of 7 or 8 – there must always be room for improvement.

eNPS

Employer Net Promoter Score, eNPS, is an extension of the NPS-method used as a measure of employee loyalty. In the survey, employees are asked to answer the question "How likely are you to recommend the company as a place to work?" In reality, employee loyalty is more complicated than a single numeric score, and eNPS receives similar criticism as NPS surveys with customers. Critics say that a recommendation should be included as part of a recurring and more comprehensive study on the employees' view of the company as an employer.

To choose the company to work with is a much bigger and more important decision than to select a supplier for a product or service. Therefore, eNPS tends to be lower than the NPS. Employees put greater demands on their employers when responding to the question "How likely are you to recommend the company as a place to work" than a customer makes when they recommend a supplier [1].

Conclusions

A balanced use of NPS is a valuable and useful method with which to measure customer loyalty. If an increased NPS leads to an increase in sales and higher profits may, however, also depend on other circumstances. Nonetheless, the simplicity of the measurement and the possibility of comparing variations in the score over time are essential characteristics. Still, the NPS method should not be overestimated – because of its simplicity; it also has its shortcomings. And keep in mind that the NPS process should not be regarded as a model with which to produce only one (1) score – it must reflect the company's overall the strategic approach to its customers.

The reliance on the method depends on the quality of answers. Therefore, the next time you get the ultimate question, "How likely are you to recommend the company to a friend or colleague?" try to provide an honest answer. Do not hesitate to give a zero or ten!

Finally, deal with the customer in the same way as you would expect to be treated.

References:
1) Reichheld, Fred; Markey, Rob (2011). The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World (Rev. and expanded ed.). Boston, Mass.: Harvard Business Review Press. ISBN 978-1-4221-7335-0
2) Net Promoter Score (NPS) is a registered trademark of Fred Reichheld, Bain & Company, and Satmetrix.
3) https://en.wikipedia.org/wiki/Net_Promoter
4) Discussion with Melanie Tilliet Stec on a fligth between Copenhagen and Stockholm. Thanks for your input Melanie!
5) Nationalencyklopedin, http://www.ne.se.

Pricing

- by Christer Nilsson
- 28th February 2016

I have, in previous posts, raised the importance of defining the industry and to understanding what the company offers to its customers, i.e., which right to existence the company has. Once you know your industry, what to offer, and who your customers are, you then need to decide the price of the product.

A while ago I got the question from some young entrepreneurs asking how to price their products. There are, of course, many different more or less complex pricing and business models. However, I decided to share three very basic methods, and I believe these might also be of interest to some of you who read my blog. The basis for three models is:

- Cost
- Market pricing
- Customer value

Cost based

This is a very basic model to determine the price of a product (tangible or service); it has its starting point in the cost to produce, or purchase, the product. You get the price to the customer simply by adding the gross profit the business needs. This model is called “cost-plus” and is still very commonly used. The formula to determine the price is:

Product Cost + Margin = Price

Example: If the product cost (produced or purchased) is €60 and the margin needed is €40, the price to the customer will then add up to €100. Hence, our gross profit is €40, corresponding to a gross margin of 40%.

However, this method does not take into account the existence of a market price and the fact that the customer may have several options to choose from. We can quickly conclude that if any competitor can offer a similar product at a lower cost and price, we have a problem. This becomes even worse if the competitor’s business can operate with lower margins than we need.

Market pricing

In a fair competition, the market sets the price, and to be able to deliver the shareholders' expected returns, our business needs a certain gross profit to cover operational and financial costs.

To take competing pricing into account, and accepting that the market sets the price, we need to reverse to the cost-plus formula. When recognizing a set market price and a set margin goal, the outcome of the modified method gives us the highest cost that product may have and still be competitive:

Price – Margin = Product Cost

Example: Assume that the market price is €90 and that our company needs a gross profit of €40. The reverse formula then gives the maximum cost level the product can have to be competitive, i.e., €50. As seen, we still have a gross profit of €40, while the gross margin is increased to 44%. Hence, we may believe that our earnings have increased. This is a dangerous conclusion since the gross margin in Euros is still the same. Obviously, it is important to control and manage the gross profit (*e.g.,* in Euros) as well as the gross margin (as a percentage of sales).

What if the market price in our example drops below €90 and we cannot further reduce our product costs? Well, then our business will have difficulty competing in the market. Since, most likely, the company's shareholders will not accept reduced returns, the business must become more efficient and reduce its operating costs.

Customer Value

The two models above can be used in mature markets with well-known competing products. But how do we know what price to ask for if we offer an entirely new product? Assume that the company is a forerunner and the first to launch a new product—there are no existing products to compare it with. The customers may not even know that the new product exists or that it is needed.

If the company uses the cost-plus method, there is an obvious risk of setting the price wrong. It is a common occurrence to set the price too low when first launching a product because the product's value to customers and its benefits are underestimated. Further, the model based on the market price cannot be used since there is no direct product to compare.

So, what to do? Well, the first thing we need is a deep understanding of what problems the new product solves – or what needs are unfolded. Even if there is no identical product, you need to know if there are competing alternatives and substitutes – which is often the case. In the analysis, we must also understand the complexity and costs to the customer when replacing an existing solution.

In a prior blog, I shared a method for expressing the core of the benefits of an offering to a client. The method requires the use of only a verb and a noun to explain what the customer needs. When determining the total customer value, the analysis is, in a further step, divided into two parts: the “use-value” and the “attribute-value” (perceived value). If you want to know more about the “verb & noun model” you may read my blog post “Bottom up.”

Recommend to a friend?

- by Christer Nilsson
- 25th July 2016

How likely is it that you will recommend a company to a friend or a colleague? That is the question we are asked more and more often after a finished purchase or being in contact with the customer support at a company where we are a customer. But why is this question asked?

Well, the question is at the core of the measurement of customer loyalty using the Net Promoter Score (NPS) [4]. In this blog post I will present the background to the measurement of customer loyalty using the NPS. But all methods based on relatively simple models have obvious weaknesses. In the next post "NPS – some reflections" I will share my reflections and criticism about the NPS method.

New customers are expensive

Loosing existing customers and replacing them with new ones is a costly process that strongly affects the company's growth and its profitability. Loyal and returning customers are therefore the most profitable customers and a key to profitable growth.

Loyal customers buy new products, services and accessories, they say a good word about the company to their friends and can provide valuable feedback for further development. They are also easier to communicate with, and usually less price sensitive. Only those companies that truly put their customers at the centre of their business can be sure they win loyal and faithful customers.

Loyal customers provide profitable growth

Almost thirty years ago Bain & Company started to investigate the relationship between customer loyalty and growth [3]. They discovered that companies with most satisfied and loyal customers earned revenue more than twice as fast as their competitors with less loyal customers. But a good method to measure customer loyalty didn't exist. Many of the measurement methods and customer surveys that existed at that time were complicated and so extensive that it was difficult to draw concrete conclusions that could be used in practice for development and improvement.

After several studies and tests Bain & Company, together with Fred Reichheld and Satmetrix, discovered that a loyal and very satisfied customer will recommend the company, product or service to his/her friends. By asking the question (the ultimate question) "How likely is it that you will recommend the company to a friend or a colleague," you could measure customer loyalty.

NPS – Net Promoter Score

It was obviously not enough to just ask the ultimate question "How likely is it that you will recommend the company to a friend." However, responses of individual clients had to be complied into responses of larger customer groups to build a "score" reflecting the loyalty among the company's total customer base. The ultimate question was, therefore, combined with the so-called Net Promoter Score (NPS) [4]. NPS was first described in an article in the Harvard Business Review (2003): "The One Number You Need to Grow" [1]. The article was later followed up and developed in the book "The ultimate Question" (2006) [2] written by Fred Reichheld.

In NPS-method the are asked customers to indicate the likelihood of a recommendation on a scale from 0 to 10. It is of course possible to use other scales, but 0-10 scale provides enough options and spreading of the responses. Starting a scale with a zero (0) also automatically means that zero is the lowest probability and 10 is the highest. If the scale begins with one (1) there is a risk that some people will think that one (1) is the highest probability.

Classification of customers

As a next step the respondents were divided into three groups [3]:

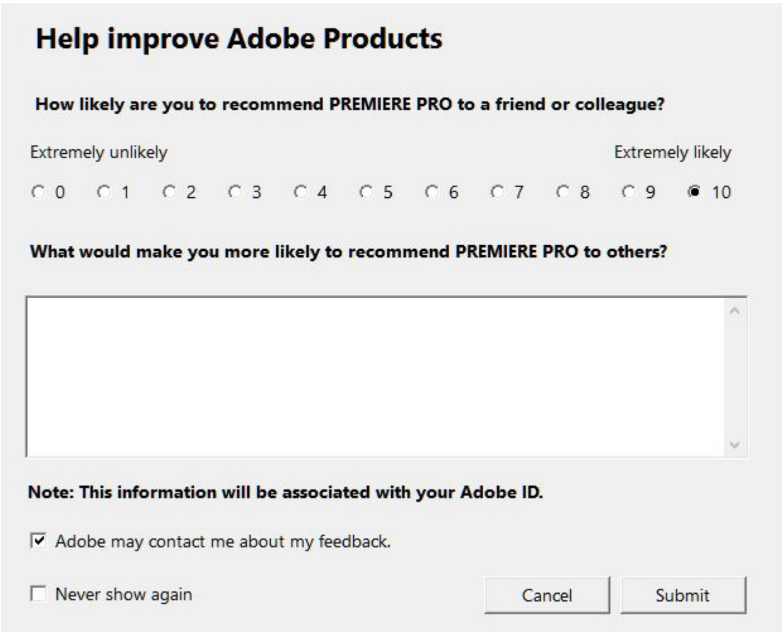
1. "Promoters" are those customers who indicate recommendation probability as 9 or 10. They are the are very satisfied with the company's products, services and personnel. These are the customers that appreciate and value their contacts and interactive relationship with the company and its staff. They are enthusiastic about the company and speak positively about it among their friends and colleagues. In practice, it means they act as ambassadors and help indirectly to market the company. They are the customers who are more than willing to provide valuable feedback that helps to further improve the company and its offers. All companies want to gain and keep as many Ambassadors as possible.
2. "Passively satisfied" are those customers who indicated that the likelihood of a recommendation is 7 or 8. They are the customers who feel they got what they paid for, but not more. They are passively satisfied and do not make much fuss. These customers are volatile and if they are not satisfied, they change to another provider without giving feedback or telling you why. They are the customers who can sometimes recommend the company, but without much enthusiasm. It is important that the better understands the view of the passive customers to be able to improve its services. You want also these customers to become satisfied ambassadors and end up in the group that indicate the likelihood of the recommendation of 9-10. In other words, it is an important – quiet – customer group that can provide valuable input for further improvement.
3. "Detractors" are customers that indicate the likelihood of a recommendation in the range of 0-6. These customers are very dissatisfied with the company's offerings and the way they are treated. They are likely to share bad things about the company to their friends and

colleagues. If they cannot easily switch supplier, they will most often complain, and are resource-intensive to take care of. In addition, it is very demotivating for the company staff to deal with these dissatisfied customers.
Obviously, it is very important to try to understand why customers are dissatisfied. And if it is a large and growing customer group, it often means substantial changes in the company, its offerings and in the relationships with customers. In other words, it is a matter of survival.

NPS value

The benefit with the NPS-method is that it boils down to a single value (score). To obtain a NPS value you should to reduce the percentage of Ambassadors with the proportion of Detractors. In the best case you could have 100 % of Ambassadors (which is most probably unrealistic), and in the worst case – 100 % of Detractors. Example: Suppose that 60 % of your customers indicate the likelihood of the recommendation in the range of 9 and 10, and 30 % of customers indicates recommendation in the range of 0-6. The overall NPS value for the company will then be: NPS = 60-30 = 30 %. Please, note that NPS can become negative if the number of Critics exceed Ambassadors.

The NPS value can be measured for the entire company, in certain departments or for specific product lines. To get more information about the reasons of the assessment it is common to ask a supplementary question, for ex. to ask to explain why the customer indicated the likelihood or to ask to give suggestions for improvement. Below is an example from Adobe's product Premiere Pro (that I am very pleased with and happy to recommend).



Results

What is the result? In the summary Fred Reichheld compiled in his book the value between sectors and companies varies [3]. The best companies reach a NPS value of 60-80 % (for ex.

Apple, Amazon). The average is in the range of 10-20 %, which means that the number of Ambassadors barely exceed the number of Detractors.

Fred Reichheld argues that the NPS value shows that the companies with the highest NPS value in a particular industry tend to have both higher profits and higher growth rate compared to the similar companies with lower NPS value. He believes that there are several reasons for that, for ex. the best companies can often (compared to competitors) charge a higher price. They may also have lower marketing costs and costs to gain new customers.

NPS a management system

Even though the NPS method is based on the only (1) ultimate question, the NPS is not only a measuring indicator. NPS ultimately is a business philosophy, a system of operational practices, and a leadership commitment. It is not just another way to measure customer satisfaction. To really put the customer in focus is a comprehensive approach that affects the entire business. NPS should, therefore, be a tool for building up processes and procedures that are based on the company's business idea. To be successful, the company's top management must realise the importance and be actively supportive and engaged in the development of true customer loyalty.

The result of the NPS measurements must be frequently repeated and continuously analysed. The outcome should be used as a basis for further improvement and development of products and services. A well implemented NPS method should be vital part of the leadership culture and the management of the company. In other words, successful NPS measurements are not a part of a campaign; it is a long strategic journey [3].

eNPS

In order to win and keep customers, the company must be able to attract and keep the best employees. It is not possible to win and maintain loyal customers without having loyal employees. Employee loyalty to the company is therefore a core condition for success. To gain high NPS values you need a company that can attract the best employees, and that is in turn a very extensive and thorough work.

Hence, to be able to measure employee loyalty the NPS model has been extended to the eNPS- model (employer net promoter score). The ambition is to understand the employees' loyalty to the company by asking them the question "How likely is it that you will recommend the company as a place to work at". Often the recommendation is followed by the supplementary question where employees are asked to give a reason for their response.

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1) Reichheld, Fred (1 December 2003). "One Number You Need to Grow". Harvard Business Review. Retrieved 4 October 2012.
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3) Reichheld, Fred; Markey, Rob (2011). The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World (Rev. and expanded ed.). Boston, Mass.: Harvard Business Review Press. ISBN 978-1-4221-7335-0.

4) Net Promoter Score (NPS) is a registered trademark of Fred Reichheld, Bain & Company, and Satmetrix.

Replace the CEO of an owner-led Company

- by Christer Nilsson
- 22nd August 2016

I have, as a venture capitalist and adviser, worked with a large number of privately-owned companies. A typical task for a venture capital investor in an entrepreneurial, owner-led company is to drive the professional and personal development of key people and, in parallel, carry through needed replacements of top tier managers. I will in this blog post share my experiences of the replacement of the CEO in owner-led companies.

When using the phrase “owner-led company,” I here refer to a privately owned company (not listed) in which one or several principal owners have leading positions in the business.

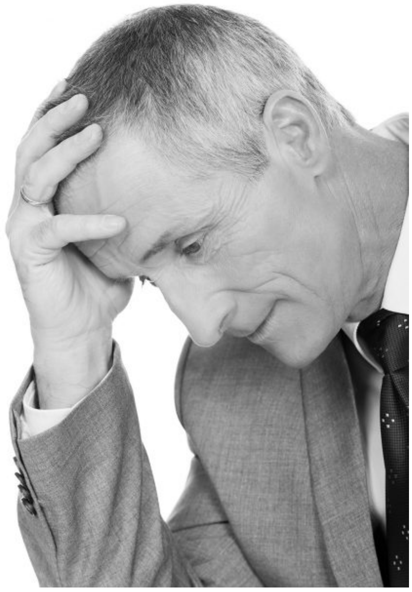
In many family companies, for example, the founder may be the primary shareholder, a dominant entrepreneur, who has a leading operational role. He or she may have not only one (1) management position but several; for example, holding the CEO position and in parallel being the director of sales and the director of R&D.

The replacement of the CEO in an owner-led company is a challenging and delicate process. A successful exchange of the CEO may become a positive and value-creating development of the business. If the new CEO comes from outside of the company, he or she may inject new ideas, new ways of thinking, and a refreshed leadership style, which in turn becomes a strategic lift for the business. On the contrary, an unsuccessful replacement of the CEO will have an adverse impact on the business and the organization, which may lead to decreased growth and destruction of shareholder value. An unsuccessful CEO replacement will surely give the principal owners, the board of directors, and top management severe issues to address.

A venture capital investor's ultimate goal with an investment is, after a certain number of years, to capture values created in the business. To maximize shareholder value, the investor, therefore, strives to make the company independent of its principal owner(s) and founder(s). If one of the main owners holds the position of CEO, a change of the CEO may be needed and completed in sufficient time before the exit.

The examples I share in this blog are taken mainly from my career with venture capital and private equity investments in privately owned companies. However, the challenges when replacing the CEO apply to most situations in owner-led and entrepreneurial driven businesses, particularly in those where a principal owner holds the CEO's role. The risk that an exchange will fail is even higher if you need to find an external solution versus an internal promotion or generational shift.

Five replacements



I was during one single year involved in five different investments where the main owners and the board of directors in the companies agreed to replace the CEO through an external recruitment or an internal promotion. All five companies were successful entrepreneurial driven growth businesses, and in all of them, one of the founding shareholders had the CEO position. The businesses were at different strategic breakpoints, and a more structured and delegated leadership was deemed necessary. A replacement of the CEO was, therefore, a logical step in the businesses' development.

We carried out, in all companies, an extensive search process, and we had no problem in finding excellent candidates who looked for new challenges in their career and were enthusiastic to assume a new CEO role.

40% success rate

After one year, we could conclude that more than one-half of the CEO replacements had failed. Three of the five CEOs had either decided to resign or were dismissed by the board of directors. In only two of the companies, the replacement of the CEO was successful.

The cause of the three failed recruitments was not that the principal owners and the board of directors had made a poor search and hiring process. Firstly, replacements were in line with the plan to bring the businesses to the next strategic level. The recruitment processes were all conducted according to the textbook with clear requirements and specifications, all in full agreement between principal owners, the board of directors, and the exiting CEO. In all five cases, we also used respected, well-recognized, professional search firms. We were able to attract excellent candidates, and we made our final selections from a pool of talented, high calibre candidates with the consensus and full agreement of among all major stakeholders, including key employees who reported to the CEO.

However, the main difference between the two successful replacements and the three failed replacements was that the new CEO came from inside the business. In one of the companies, the director of manufacturing was promoted, and in the second company, the director of marketing and sales was offered the CEO position. The two new CEOs were independent of the principal owners and founders, and both had been externally recruited a couple of years prior.

In the three unsuccessful cases, the main cause of failure was emotional in nature. The board of directors and the other involved parties were too rash in carrying out the replacement. Even though all concerned stakeholders had agreed to the replacement, the resigning CEO had not emotionally understood the real implications of the decision. He (in these cases, all the resigning CEOs were men) had not realized the depth of the change and the consequences. They could choose between two main routes; to accept a different, but less dominant role in the company or to resign from all operational positions to become an active shareholder.

In one of the failed cases, the resigning CEO decided to focus purely on shareholding and took an active non-executive role with the board of directors. In the two other companies, the previous CEO remained in the business and assumed more long-term strategic roles in R&D and conceptual marketing. But in all three unsuccessful cases, the former CEO was not fully prepared to give the new CEO a mandate and the responsibility to run the entire business. He could not resist interfering the president’s tasks and responsibilities, neither from his new role in the company nor as a member of the board of directors. Over time, it diluted the new CEO’s management power, and the ability to lead the company.

Conclusion

The success rate of the CEO replacements shared in this blog is not something unique. Statistics (in Sweden) show that one-half of all external CEO recruitments in the privately-owned companies fail. Why is this so? Well, one vital prerequisite that is often overlooked, in a situation where a principal owner has the CEO position, is the fact if he/she really aspire to resign, emotionally and practically.

What we have to bear in mind is that the principal owner of a family company, perhaps also the founder, has to accept to hand over to an outsider, not only the business but also his or her life creation and the management of family fortune. A decision to retire from being the CEO, therefore, needs thorough emotional and practical preparations. You need a sound perception and plan of what to do next. It is a life-changing, complicated decision will take time to process, accept, and enforce.

Sellers’ Warranties

- by Christer Nilsson
- 28th October 2019

In the warranty section of a share purchase agreement (SPA), the sellers are required to provide warranties regarding essential circumstances in the company and its operations. The warranties are generally made on the date when the seller and buyer sign the SPA.

Signing and closing

If the closing of the transaction (the point in time when the shares change owners) takes place at a later date than the signing date, it is often a hot topic to agree whether the warranties are made on the date of signing only or at signing *and* also at closing. Notably, in case there is an extended period between signing and closing, it is reasonable to require the seller to renew its warranties at closing.

It should be noted, however, that sellers never should agree to provide forward-looking warranties, i.e., not give warranties relating to events that may happen in the future. Further, sellers’ warranties should be made by each seller individually and severally, and not jointly and severally.

Examples of typical and fundamental warranties are sellers’ full ownership of the shares in the company and that the shares are not subject to any encumbrances, the accuracy of financial information, tax payments, material agreements, salaries and remuneration, and the company’s compliance with relevant laws, regulations and policies.

Actual guarantees based on facts

Some warranties state positive facts such as that the company owns real estate, production facilities, material rights such as trademarks patents – all listed in an appendix to the agreement. Other warranties may state negative facts, e.g., the company is not involved in any legal disputes or that no ongoing customer contracts exceeding 5% of sales are terminated or has expired. An important matter when negotiating the warranty clauses is whether the warranties should only relate to the current situation of the business or should it also refer to past circumstances.

Seller's knowledge

In some instances, the seller knows that a specific warranty is true and fact-based – for example, that none of the company's ten largest suppliers have terminated their supplier agreement. However, in other cases, the seller may not be entirely sure if the warranty can be fact-based or not, e.g., "no key supplier intends to terminate its contract with the company." The warranty, in such a case, becomes a matter of risk allocation. If the seller provides the warranty, the seller will be responsible for the cost the buyer receives if a critical supplier will terminate the agreement. If the seller does not give the warranty, any damages will be borne by the buyer.

The sellers may still need to provide warranties even if the sellers do not know for a fact if a warranty statement is entirely accurate or not. One way of dealing with this tricky situation is by using the phrasing "seller's knowledge." Then, only the circumstances that a seller knew about applies when the warranties were provided. An example of wording is "insofar as the seller knows, none of the company's ten largest suppliers intend to terminate an agreement with the company."

Note that "seller's knowledge" does not include what the management or an employee of the company know about a circumstance – provided that the seller was not informed.

Snap's IPO

- by Christer Nilsson
- 5th February 2017

We all know Snapchat, the app that displays a picture (snap) taken with a mobile phone. The sender can choose for how long — between 1 and 10 seconds — the receiver can view the image. After the selected time frame, the snap disappears from the recipient's screen unless he or she had enough time to take a screenshot. Snapchat is popular among young people because the sender has better control of where the picture ends up since it's difficult to copy the image and share it on other social networks.

Now Snapchat is on its the way to the stock market with a valuation of $25bn. It is the fifth largest IPO among tech companies in the United States since 2000 (1). Despite the valuation Snapchat has large and increasing losses. Net profits in 2016 amounted to minus $525m combined with a negative cash flow of $678m (2). Hence, to cover the losses and pave the way for future business development, Snapchat intends to attract $3mdr new capital.

However, what is particularly interesting is that the founders Evan Spiegel and Bobby Murphy want to protect their ownership and control of the company by offering new shareholders a class of shares without voting rights. We are in some jurisdictions used to seeing different classes of stock with different voting rights, e.g., A-shares with ten votes/share and B-shares with one vote/share, but having a class of shares with no votes at all is something entirely new. Two related issues are whether board members appointed by the shareholder without voting rights should have any right to vote on board decisions and whether, with no voting power, there will be different levels of exposure to responsibilities among the directors of the board.

Most venture capitalists and institutions require "one share, one vote," and several US pension funds have sent letters of objection to Snapchat. They also see an overall risk that this IPO may open "the floodgates" to similar corporate governance arrangements around the world (2).

The Snapchat IPO has exposed divergent views and opinions among investors and entrepreneurs in Silicon Valley. We need to recognize the importance of founders and entrepreneurs being motivated and having an attractive financial upside in the value creation of the business. On the other hand, it is not particularly exciting for a new investor to inject significant capital without gaining any control at all. It increases risks and, thus, the required higher return on capital. Increased risk and return expectations will, in turn, have an adverse effect on the company's valuation.

It will be interesting to see whether Snapchat’s IPO will be successful and it they are able to issue new shares with no voting rights. In any case, it is an exciting and attractive company connected with a significant risk.

Source:

1. *Dealogic*
2. *Financial Times*

Sweden and Stockholm are hot

- by Christer Nilsson
- 8th July 2016

Industrifonden (a Swedish industrial development fund) is publishing The Swedish Tech Funding Report twice a year. The report provides insights into the investment activity in one of the world's most active start-up ecosystems. The first half of 2016 shows an active venture tech market in Sweden, and especially in the Stockholm region. There are attractive companies to invest in as well as venture investors with sufficient funds.

Sweden is right now a good place to be in when investing in venture capital to boost young companies. I have since a couple of years had the privilege of being a member of the board of directors in Industrifonden. The fund invests in young companies with the potential to become global players impacting innovation and the development of Swedish enterprises – in Sweden as well as outside of Sweden. But first and foremost, Industrifonden backs ambitious people and teams with great visions, a strategic approach, and the ability to turn plans into reality.

Industrifonden is an evergreen fund with a capital of c. SEK 4 billion. As an evergreen fund, Industrifonden has a unique position in the Swedish venture capital market since the fund is not limited in time. In practice, this means that Industrifonden has no limited holding period for its investments. An evergreen fund is especially valuable when investing in young companies since development and growing the businesses often take longer times than expected.

This week, Industrifonden launched the Swedish Tech Funding Report Q1-Q2 2016. Björn Bergström, Investment Manager, summarizes the results:

- The first half of 2016 has been intense. Both the number of deals and total invested capital has surpassed the overall numbers for last year. However, the data also reveals increasingly diverging views between different types of investors. There is a significant inflow of capital in the early stages, both from new and experienced investors. Angel investors are more active than ever. Even though there is sizable venture capital available, the competition is fierce—only the best companies get access to sufficient capital.

- Still, Nordic-based investors remain most relevant for businesses in the early phase. International investors invested mainly in larger rounds when companies are at a later stage of development. The most active investors in the Swedish tech company have been the seed investor Almi Invest, Industrifonden, and Northzone.

If you want to read all of the Swedish Tech Funding Report, please visit Industrifonden's website (link below) or click the image:

Finally: "Industrifonden invests in large companies while they are still small." Read more about Industrifonden at www.industrifonden.com.

The Shareholder Agreement – SHA

- by Christer Nilsson
- 21st March 2019

The SHA is an agreement among the largest owners in a company where the parties agree on what rules are to govern important ownership decisions, decisions at meetings of the shareholders and of the board of directors. Customary clauses which regulate joint ownership are clauses which govern business purpose, rights of first refusal, consents, and pre-emptive rights. Among other things, the agreement will regulate:

1. **The identity of the contracting parties**.
    - Decide who the legal owners will be, e.g., private persons or legal entities.
2. **Background, purpose, with the cooperation.**
    - Summarise the background of the joint venture.
    - What is the owners' purpose (e.g., time horizon, exit within a certain time or a bread and butter family business)?
3. **The company's business.**
    - What is the business purpose?
    - Jointly develop and agree on a business plan to cover the first three to five years. One very vital topic to discuss is the owners' growth expectations and how the growth targets will be achieved.

4. **Issues which will require unanimity.**
    - This clause will cover all matters that need unanimity among the owners, i.e., it's not for the board to decide outside the agreed scope. Examples are the annual budget, investments above a certain value, acquisitions, dispositions, change of business, change of top management, and board composition.
    - It is important to inform the board if there are limitations regarding the capacity to make certain decisions.
5. **The composition of the board of directors**.
    - Agree on the composition of the board of director, and how many board members each party in the joint venture may appoint. In particular, it is important to decide who will assume the chairman's role. Should it be one of the owner's representatives or should it be an external, independent chairman?
    - Consider appointing external, independent board members who would add value and contribute to the development of the business.
    - Consider if the board should appoint an advisory board with participants who may add value and network that will contribute to the business development (e.g., people from a university, an ex-customer or ex-competitor).
    - Decide if all board members representing main owners need to be at the board meeting to enable the board to make certain decisions. If so, decide on a procedure on how to avoid that one owner can delay important decisions by not showing up at a meeting.
6. **The company's top management.**
    - Agree on the appointment of top management, mainly the CEO and the CFO.
    - If not delegated to the board: Agree on the CEO-agreement and the compensation package.
    - Should key-employees be offered incentives that include equity instruments? Such as shares, options or convertible loans.
7. **Allocation of profits, dividends.**
    - Discuss and agree on when and how profits should be allocated? Examples: "First two years all profits should be reinvested in the business and no dividends or debt pay-back should be paid to shareholders (no leakage). For the following years, 50% of profits may be distributed."
8. **Any continued, future, financing.**
    - Mainly two situations:
        1. Planned expansion capital as agreed on in the business plan.
        2. Needed new finance due to some negative circumstances in the company.
    - Generally, all shareholders should have the right but not the obligation to participate in new financing (new share subscriptions, new shareholders loans).

- Agree on the financial structure of the company and what financial risk to take, e.g., external debt (bank or others) versus shareholders' equity.

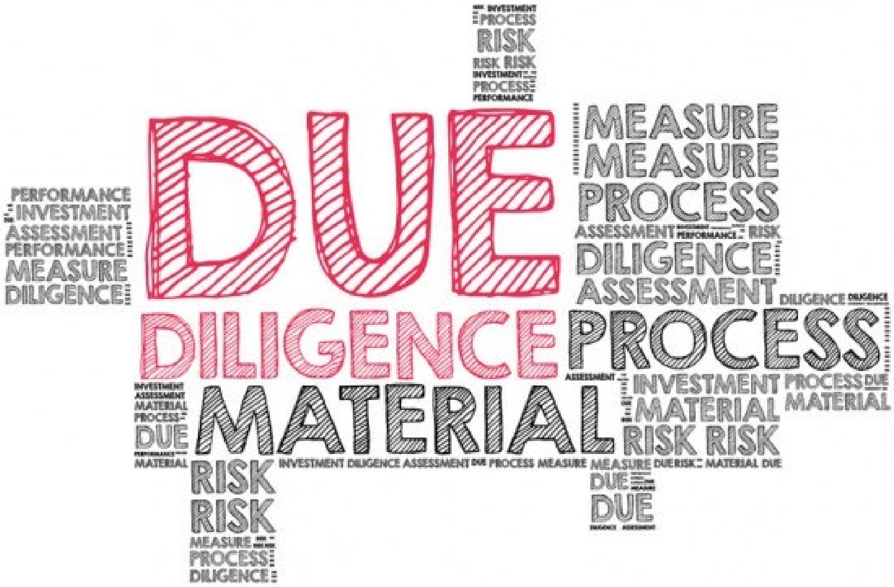
9. **If, how and when a shareholder may sell shares.**
    - This is the divorce clause.
    - Should there be a lock-in period, e.g., during the first three years no one is allowed to sell their shares? Do not rock the boat!
    - Discuss if it is needed to agree on the procedure if, for example, one of the owners wishes to exit the company.
10. **Pre-emptive rights and rights of first refusal for shares.**
    - If possible: Pre-emptive rights in the company's articles of association and rights of first refusal in the SHA.
    - Agree on the procedure when a shareholder wants to sell shares, e.g., regarding time span, drag along and tag along rights (for definitions see www.bztdictionary.com).
11. **How the company is to be valued in conjunction with sales of shares.**
    - Agree on how to value the company when a shareholder wants to sell the shares.
    - Two main situations:
        1. There is not yet an external offer including price and other conditions.
        2. There is an offered deal including conditions and share price.
    - Agree on a method on how to value the shares. It is common to ask the companies auditor to do the valuation (provided it is not a conflict of interest). If the parties do not agree on such a valuation one option is to ask a second auditor to make a competing valuation. The shareholders then agree to accept the average of the two valuations.
12. **If, how and when shareholders may make any joint sale (exit).**
    - Decide on a time frame if the shareholders have the ambition to seek a joint exit.
    - Add tag and drag along rights to simplify the transaction (definition see also www.bztdictionary.com).
13. **Confidentiality.**
    - Standard clauses.
14. **Any prohibition of competition.**
    - In many jurisdictions almost impossible to prohibit a private person to join a competitor as an employee. It may, however, be possible if the employee is compensated.
    - It is more likely to prohibit a private person to become a **shareholder in a competing business.**

15. **Governing law.**
    - It should be governed by the local country laws where the business is a registered, e.g., Swedish laws should govern a Swedish AB.
16. **How and where disputes are to be resolved.**
    - Up the shareholders to agree. Usually, arbitration is used to resolve issues among business partners since it's a non-public and faster route (but more expensive).

The aim of this brief is to guide you in your discussions when you are considering a joint venture among new shareholders in a business. However, at some point, you must bring in lawyers to help you to develop the final agreement. Anyway, I hope these sixteen main bullets may help you to be better prepared and be able to save some legal costs.

When does venture capitalists create value?

- by Vestadil
- 1st September 2015



The business model of Venture Capital (VC) and Private Equity (PE) is to invest in non-listed companies and after five to seven years sell the shares and realize captured value. Obviously, value is created during the time of the ownership. But VC and PE not only build value as owners – they create value in three main phases:

1. At Investment,
2. During ownership (the holding period), and
3. When exiting.

At Investment

Timing the investment has perhaps the greatest impact on the outcome of an investment. If you as an investor make an investment at the wrong time in the company's lifecycle, or at the peak of a business cycle there is a great risk of not getting the returns expected.
To mitigate the risk at investment VC and PE investors makes a thorough investigation of the target company prior the investment. The investigation is called "due diligence" (DD). The DD can be divided into the following focus areas:

- Commercial. An evaluation of the market, competitors, positioning, customers, etc.
- Financial: A review of the company's financing, balance sheet, income statement (~5 years back in time), cash flows, margins, etc.

- Legal: An analysis of patents, trademarks, ongoing conflicts, key agreements, etc.
- Personnel: Assessment of management's past performance and ability to deliver the business plan, key personnel, review of staff surveys, etc.
- Shareholders & ownership. Verify who the owners are, who sellers are, how much of the company's shares is for sale, etc.
- CSR (Company Social Responsibility): Ethics in business, sustainability, diversity, etc.
- Environment: Does the company have an operation that may have caused pollution?

The outcome of the DD is crucial to the valuation of the company and the price of the shares. The investor will ask for a price reduction if there are matters and problems that have a negative impact on the value. Fixing weaknesses and problems is usually connected to costs. Should there be too many severe problems (red flags), the potential deal may be off.

Ownership Period

During the holding period, value is built based on the company's business plan. It is crucial for the investor that the company has a management team, supported by the Board of Directors, can deliver the plan. The business plan, however, is a living document. It needs to be updated at least every year or when needed.

Exit

A well planned and structured sales process creates additional value on top of what created during the ownership period. VC and PE usually want to establish a competitive situation where potential buyers are bidding in an auction process. Read more under Exit.