**"STRATEGY AND STRUCTURE"**

This is the title of a famous business textbook by Alfred Chandler written around 1950 based on the relationship between the strategy of General Motors to produce and sell variety and its Divisional structure. GM dominated the market for decades by creating focused business units that competed with each other.

Stephen Jay Gould is a sociobiologist who is probably does the best job of popularizing the ideas of evolution. Gould points out that the structure of an animal determines how it eats, moves etc and likewise the survival strategy of an animal predetermines many aspects of its shape and structure. For example, an earthworm eats through its skin and this limits its diameter. Any animal that gets as big as an elephant and lives on land will more or less look like an elephant. In an architectural analogy he points out that a medieval church could only be built with a dome if it had the shape of a cross.

Business has relationships and structures that tend to support certain types of success in certain environments. We all know about the industry clusters in Italy or Silicon Valley. We tend to speak less about the internal and organizational structures and how they affect the ability of a business to grow and succeed. Structure is often masked by personalities, geography and other more visible manifestations – but if you peel these away you often find an underlying structure that can be compared.

Palliser has grown over a 56-year period often dominated by the owners or key individuals. On the other hand, there have been some very consistent aspects of Palliser that affect its success – and sometimes may also limit it. We can consider "strategy" for Palliser in terms of products, marketing initiatives and so forth, but the nature of our structure, another word for business model, will have a great deal to do with the outcome. If we get the business model right – and models may need to change over time – this will have more to do with our success than anything else. We may discuss many topics during this Retreat – but we should frame them within the context of understanding and developing a coherent structure or business model.

## 1.0 BUILDING BLOCKS OF OUR BUSINESS MODEL

These are the factors that sometimes exist or must be supported and in other cases are choices that we make but that will determine the effectiveness or our ability to succeed or grow.

**1.1 Where does accountability lie?** Our recent history has been characterized in part by this debate. Does accountability lie in the manufacturing unit, in a technologically based division, in a geographic location, in a broad category or in a category defined by product? Alternatively, what is the accountability of a Marketing group, product management, sales etc.

**1.2 How important is technology or a central manufacturing competence?** Palliser made the choice several years ago to focus on leather rather than both leather and fabric. Was this driven by market demand or by the realization that we could not be excellent in too many manufacturing categories? Or was Marketing and sales the determinant? In case goods we have returned our factories to a material/technology center. In addition we have created a variety of specialized supply plants in both upholstery and case goods. Why?

**1.3 Vertical Integration versus the Virtual Company.** During this decade it became "cool" to get rid of all operations and sit at the presumed top of the food chain. Nortel and others are good examples. On the other hand we see companies like Ethan Allan, the original LazyBoy, IKEA, Toyota and others stick to a long-term strategy of controlling all or much of the chain of supply and retail. Palliser owes its degree of vertical integration to its isolated location and the response of the founder to create our own supply conditions. This remains a core strength but we have not always nurtured this aspect. How does our organizational structure complement this reality? Is more vertical integration better than less? In the case of EQ3 we are focusing less on manufacturing – albeit more on original design and concept – and taking our role forward into controlling the retail environment.

**1.4 Marketing versus Manufacturing orientation.** This has often been seen as an either or. Palliser has significant strengths in both areas. Is this an either or? How do you organize to maximize the strength of both?

**1.5 Accountability and margins along the supply chain.** A long supply line is often broken into its parts for efficiency – but then we struggle with multiple margins to create accountability. How do we manage a long supply chain?

**1.6 Globalization.** Global sourcing and to some degree selling is becoming a reality. How do you organize to merge the focused local strength with the range of global opportunities? How do we maximize the potential of an Indonesian company-owned supply location or cut-and-sew opportunities in Brazil?

**1.7 Who is our customer?** What characterizes Palliser's sales relationships is our ability over many decades to be competitive and serve the needs of the largest customers. If we are not a producer for the mass-market then who is? We need to remember that this is who we have always been and this is unlikely to change. If anything – we are becoming more focused in terms of customers.

## 2.0 WHAT ARE THE ALTERNATIVES?

**2.1 Category – focused companies.** This model is used by others in our industry with parallel companies in casegoods or upholstery (LazyBoy) or sometimes a full range company around a price point/brand name (Lexington). Palliser is a bit of both with Upholstery and Casegoods being operated separately but under one brand name and sales force.

- Do we follow through and separate these groups even more?
- How do imports or new ventures such as EQ3 fit into this structure?
- Does this model encourage the move into new areas of opportunity? For example – would EQ3 or Palliser Rooms develop if Casegoods and leather were separate companies with their own Marketing?

**2.2 Functional organization.** Such an organization would potentially separate into three or four broad horizontal functions.

- Operations – All manufacturing and logistical functions. They may be grouped around products, technology or even geography but it implies a unity of focus around operational excellence.
- Marketing and Sales – This would be very similar to the current organization. The key difference is that product merchandising/design/product development would be driven from the Marketing perspective but would have to be a bridging function to take full advantage of capacity and technology.
- Finance – This is already in the center but would probably take a greater role in the financial management of the various units.
- Human Resources – If all operations are unified and employing almost all of the personnel then it might be prudent to place HR within operations – but this would be open for discussion.

**2.3 Present organization.** We currently operate with Casegoods and Upholstery as two separate units with responsibility for operations and product merchandising – but in reality Marketing and sales intervene to a significant degree on design issues. Imports are currently separate although some products are similar. EQ3 is a multi-product category being set up as an independent organization.

- Integration of imports is an issue
- Marketing-oriented ventures such as EQ3 do not fit into the category structure

**3.0 Factors in making a choice.**

**3.1. Availability of Management.** The current structure asks for senior managers who can operate well across the full spectrum of operations, product direction and to some degree selling. Ideally each of these persons should be a full-range entrepreneur in the category. These people are not easily available and even less in Winnipeg. History suggests that they do not emerge readily from our organization just through the process of time. Operational management is more readily available and is largely developed from within. Marketing is internally developed but is also a more transferable skill and can be recruited. The realities of management availability need to be a factor.

**3.2. How do we achieve operational excellence?** We need to understand more fully the role that technology plays, the role of materials/supply chain, geography, focus on product versus technology/materials. As 1.1 suggests – we are a mass producer and that requires overall volume and a low cost base.

**3.3. Value of being a single company.** Palliser has developed organically with a relatively coherent view of the marketplace. We have always had a unified identity and for the past 20 years one brand name. We have always had a single sales force, unified logistics and a common customer base. We also have a much wider product range in terms of categories than most competitors. Companies built through acquisitions in our industry have not succeeded in creating common brands, identities or cultures. What is the value of a unified identity and broad product scope? Could we succeed with Palliser Rooms without this characteristic? What are the organizational implications?

**3.4. Ability to grow and develop.** Growth for Palliser within our industry can occur in the following ways.

- Development of new Divisions for reasons of capacity. (It seems that we have concluded that ever lager units is not a good idea and are replicating units instead).
- Additions of product ranges and the corresponding Divisions/facilities. Home Office or the addition of fabric are examples.
- Development of supply divisions to serve a number of units with an effective technology.
- Development of supply outside of our geography. This can include a tight supply arrangement (Brazil or Bangkok) or an owned supply such as WITRA.
- New concepts such as EQ3 or retail franchising that require different knowledge or experience
- Acquisitions or Joint ventures. The current recession will create interesting opportunities to acquire companies or parts of companies in need of a financial, operational or Marketing partner. Which kind of structure will accomplish this best? WITRA is one example.

**3.4 Financial Effectiveness.** Some organizational models may be more effective in the use of capital than others. Given the range of opportunities, the availability of capital will be an increasing constraint.

**3.5 Ownership.** The current ownership prefers to remain private. This creates both opportunities and limitations. The individual style of an owner also comes into play. What structure fits the current owners best?