

# Big-Company Tactics Spur Turnaround at Small Firm

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"I'd rather be king of a small country than prince of a big one," says Ronald Friedsam, who left his job as a vice president at Unisys Corp. in 1986 to become chief executive at Structural Dynamics Research Corp., a small Cincinnati software house.

Mr. Friedsam, now 46 years old, got his wish to be a king all right, but he knew the kingdom he inherited was deeply troubled. SDRC, a once-booming company whose software was still more advanced than most competitors', had severe cash problems and was no longer growing. "The company was spending more than it was making," Mr. Friedsam says. Equally troubling, nobody seemed to bear responsibility for marketing, or for setting and hitting sales and profit targets.



Mr. Friedsam's rescue effort consisted of using—selectively—the big-company management methods he had learned in 21 years at Burroughs Corp. (which became Unisys after merging with Sperry Corp. in 1986). Among other things, he froze hiring and moved middle managers into sales. He got tough on slow-paying customers and directed his sales staff to find new accounts. And there were some things Mr. Friedsam didn't do. He didn't, for instance, fire all the top management or create a big central staff.

## Earnings Surge

Three years later, owing partly to a rebound in the company's main market, Mr. Friedsam has achieved a solid turnaround. Revenue has nearly doubled to \$90 million, and earnings rose to \$6 million last year from \$1.8 million in 1986.

As such, SDRC is a good illustration of how big-company methods can sometimes be the best medicine for an ailing smaller company. It is a stark reminder, perhaps, that for all the rigidities and bureaucracy of big U.S. corporations, in some circumstances rigid discipline is exactly the right thing. As Mr. Friedsam puts it, "Almost everything I do is drawn directly from my 21 years at Burroughs Corp."

Mr. Friedsam's tenure also offers a glimpse of an increasingly common type of career change—and a sometimes difficult one—where an executive leaves a big company to head a smaller firm. A fast-tracker who by his mid-30s had a six-figure salary and was in charge of a \$300 million division, Mr. Friedsam subsequently felt it would take decades longer to get a shot at the post of chief executive.

Clearly, the transition isn't easy for the

company or the new chief. Small businesses aren't used to outsiders imposing rigid procedures on their often familial settings. Many transplants from big business, meanwhile, don't fit the entrepreneurial mode and are frustrated at having to do everything from writing news releases to calling their own taxis.

"Corporate executives who join a small business expecting a country-inn atmosphere are shocked to find they have to work harder than before," says Jeffrey Sonnenfeld, a business professor at Emory University. "And a pound of the fist on the desk isn't going to carry the same weight. They're going to have to be cheerleaders."

## Setting Goals

Mr. Friedsam, an outgoing, boyish-looking executive, carefully selected some of the practices that had worked for him at Unisys. For example, SDRC, which had previously been run by its founding engineers, had never set profit goals, a staple of corporate America. "When I asked for a forecast, managers just pointed to last year's revenue and said they hoped to beat that," Mr. Friedsam recalls.

He immediately set monthly performance goals for each of the company's 30 or so sales offices. He also drafted the company's first organization chart. "Before, managers did pretty much whatever they wanted" and lines of authority were blurred, Mr. Friedsam says.

Intent on controlling costs, he instituted a strict accounts-receivable system, cutting collection time by more than half, to 40 days. Intent on wooing new customers, he also ordered sales managers to go after large, Fortune 500 companies.

Mr. Friedsam *didn't* fire any top managers; even his predecessor as chief executive is still with the company, as a vice president. Unlike new CEOs in big corporations, who often bring their own senior teams with them, Mr. Friedsam knew he had to work with and win the loyalty of the company's founders and original employees. He realized their technological expertise was crucial.

"I didn't want to be a hatchet man who was going to clean house," says Mr. Friedsam, though he had been exactly that at Burroughs. There he had gained a reputation as a turnaround specialist, talented at revamping ailing divisions.

As the company grew, Mr. Friedsam says, he resisted creating a large central staff akin to Burroughs's. "I didn't want the staff at headquarters to second-guess line operations," he says. "I let the field offices run the business themselves."

Still, Mr. Friedsam wanted SDRC "to

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# Big-Company Methods Prompt Rebound at Small Software Firm

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think and act like a big business." That meant a change in culture.

The first time he drove into his new company's parking lot at 7 a.m.—his typical starting time at Unisys—only five cars were there. Determined to boost productivity while also winning over his subordinates, he introduced profit-sharing and bonus plans for all employees. Now at 7 a.m., the parking lot is almost full.

Mr. Friedsam had to adapt, too. On business trips, he couldn't rely on limousine service and chartered airplane flights. And he couldn't turn to an underling to provide him with a report on a customer or competitor. "You have to do a lot of things yourself, and the perks aren't there," he says.

He also had to become more patient with subordinates, he says, and give them time to gain experience. "At a major corporation, you're working with more experienced people," he says. In small business, "people sometimes don't do what you think is basic."

Now, three years after joining the software company, his results have been impressive. Besides doubling sales and restoring the company to profitability, funding for research and development has increased fivefold to \$16 million. Analysts expect further improvement: They estimate earnings at \$8.3 million this year and \$11 million in 1990, with revenue rising to at least \$112 million next year.



**Ronald Friedsam**

The company's success isn't all due to Mr. Friedsam. Industry specialists say that as a group, engineering-software companies—whose products are used by manufacturers to design, test and analyze products electronically—are prospering. "Ron came in and did a great job of rejuvenating the sales force at the right time," says Rick Ruvkun, an analyst with Morgan Stanley & Co. in New York. "It always had a good product, but the market just wasn't ready for it."

Still, SDRC's turnaround hasn't been just a matter of timing. "We were going nowhere," recalls Albert Peter, a founder who still serves as a vice president. Last year, the company's sales grew 37%, faster than the 25% growth rate for the engineering-software industry as a whole.

Albert L. Klosterman, senior vice president and head of research who has been with the company since its start, says SDRC had the "technological vision," but lacked a business structure. "There was a feeling that the company owed it to its people" to fund whatever project was proposed, Mr. Klosterman says. Now, there is "a lot of focus and discipline," and the company concentrates on funding technology that will have a "major" rather than marginal impact, he adds.

For Mr. Friedsam, too, the move to SDRC is paying off. Though he took a pay cut when he joined (he won't say how much), he also took an equity stake in the company.

Even more than the money he stands to make as the company grows, however, he says he's relieved that he no longer has to put up with a corporate bureaucracy and politics. "I very rarely see posturing here," he says, "and you don't have to go through nine levels to get a job done."