

Guest opinion

Failure to innovate sinks many sound companies

By CARLOS DE LA HUERGA Guest opinion

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It is surprising how much resistance there still is in our area to adopting the most important business growth tool of all.

You might think I'm referring to lean manufacturing or some Six Sigma program. You would be wrong. I know many companies are working hard on these topics, perhaps even to their detriment.

What I am referring to is the most powerful tool to distinguish your company in good times and to grow it in tough times. It is the ability of your company to foster, develop and manage innovation.

Yet, many local companies ignore this powerful business tool. No surprise that many are on a gradual downward spiral to become the low-cost, low-margin commodity supplier in their industry.

For those of you who doubt the economic effects of innovation, let's examine what it did for - and to - one company. That company is Hoover, a great brand name and, like us, based in the Midwest. The company invented the electric vacuum business in 1907 - that's an innovation! Other firms kept the business secure and growing.

Hoover went public in 1943, and was acquired by Chicago Pacific in 1985 for \$535 million. Maytag acquired the business in 1989 when it purchased Chicago Pacific for \$1 billion. After selling off some non-floor-care businesses, Hoover's valuation was probably \$800 million - quite a lot back then.

As recently as 2002, Hoover commanded 36% of the market by revenue. With Hoover part of Maytag's lean manufacturing and Six Sigma programs, you might think only good things would come. But the past five years have not been good to Hoover. It now has less than 14% market share by revenue.

Just this month it was reported that Hoover is being sold for only \$107 million to Techtronic Industries of Hong Kong. What happened to this brand name everyone knows, the lean manufacturing developments and nearly \$700 million of shareholder value that disappeared?

The question is easily answered. Hoover fell behind on innovation.

Hoover was taught the importance of innovation by one innovative company. Specifically, it fell to one innovative person, as if often the case, to tear Hoover apart. James Dyson and his self-named company went from 3% of the U.S. market in dollar volume in 2002 to 20% in 2005, becoming the new market leader.

This market-changing company is located near the English Cotswolds. Hardly a place you associate with high-tech - or any technology - business. More likely, you think of 400-year-old homes with Guernsey and Hereford cows grazing out front. It's definitely not one of those Richard Florida urban centers of excellence we read about.

While Hoover is being sold for \$107 million, Dyson last year earned pretax profits of \$178 million on sales of about \$813 million - a stunning profit margin of 22%. A conservative valuation would give Dyson a market capitalization of about \$3 billion.

So while Hoover was born and grew from innovation, it lost its edge and let a new innovative competitor take the market.

What did Dyson know that Hoover forgot? He knew how to innovate, how to manage the innovation process, and how to promote his products creatively. What he did is not entirely an accident, as many would like to think.

Is it a surprise, then, that Madison's average income is reported last week to be not just a bit higher than Milwaukee's, but almost twice as high? Why is this?

One reason is there are more innovative companies, some fueled by the Wisconsin Alumni Research Foundation, or WARF, and University of Wisconsin research. As hard as we try with lean manufacturing, Madison's innovation driven, growth economy is beating us.

Sure, we have innovative local companies that have great future potential. But we also have plenty where the prognosis for innovation ranges from poor to worse.

While a great idea can occur anywhere in the world, too many companies here need to upgrade their ability to create, manage and market innovations. Without doing this, how many are waiting for a more innovative supplier to take their business away?

Perhaps Techtronic Industries will turn around Hoover. After all, it hasn't done so badly since it bought Milwaukee Electric Tool a few years ago. Yes, this Milwaukee namesake company is owned by this same well-run Chinese company buying Hoover.

This doesn't have to be the future for our local companies. We need to become more competitive, not just by lean manufacturing, but by releasing and managing the great innovative energies that grew some of the best companies here in the first place.

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