Performance Report for Sensors, Inc.

Prepared for:
MANA 4322 – Organizational Strategy

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Figure 1: Overview of Sensors financial measures from 2008 to 2015. As shown, profit (top left), market share (top right), ROE (middle left), ROS (lower left), and ROA (lower right) increased substantially during this period.
Dear Investor:

The Andrews Company has historically been a solid and highly successful firm in the volatile sensor industry, attributable to the resourcefulness and innovation of the people behind the scenes – loyal and hard-working employees. However, the 21st century brought with it a changing market climate, economic downturn, and product stagnancy that threatened the firm’s future profit margins and ability to remain competitive. For the first time since its conception, the Andrews Company failed to experience growth for five years in a row, which was rightly recognized as an indication that a major shift in strategic direction was warranted.

Consumer tastes have changed as technological advances have been realized in the industry, necessitating a stronger focus on research and development and capitalization of a superior mix of products. The radical strategic shift, coupled with a name change that better reflects the firm’s new direction (Custom-Grade Array of sensor products) required heavy investment in not only R&D, but in a variety of quality controls, human resources, and additional production facilities. The patience of investors and perseverance of loyal employees during this time was paramount to the success of Sensors, which is now poised as a market leader. Indeed, we have weathered the transition and developed a sustainable competitive advantage that is truly difficult to replicate, because it is founded in the innovative talents of research and development champions, cooperative departments, and high caliber employees.

In the last eight years, Sensors has launched 4 additional products while maintaining superior sensor quality through regular product improvements. This has resulted in a dramatic increase in customer satisfaction, which is the basis for our current average market share of 26%. Net profits have increased by 988%, and Sensors has enjoyed a 655% growth in stock price! I have no doubt that Sensors will continue to grow and remain an industry leader, fueled by the dedication of a unique and diverse group of stakeholders.

Sincerely,

Cristi L. Maverick, Ph.D.
Sensors, Inc. CEO
Firm Description

Andrews Company was founded in 1969 by Lucius Andrews, a graduate of MIT with a strong entrepreneurial spirit who recognized the unique opportunities of the electronic sensor industry. Andrews Company was originally headquartered in Boondock, Georgia but was incorporated in 1978, relocated to the booming metropolis of Arlington, Texas, and subsequently expanded into the national market over the next 15 years. In 2001, a new CEO, Lee Thargic, was acquired from the Digby Corporation for his expertise and experience in the sensor industry. This move did not, unfortunately, halt Andrew’s decline in business and instead resulted in a further decline in profits, loss of market share, and in turn a drop in the firm’s stock price.

In a radical move, the company hired Cristi L. Maverick, Ph.D. in 2008, despite her lack of management experience. Dr. Maverick was primarily involved in biomedical science research at the time, although she had recently obtained an MBA degree in order to balance scientific endeavors with business interests. Under the new leadership of Dr. Maverick, a change in the company name (to Sensors, Inc.) and strategic direction would prove to be successful for the then failing company. Part of this shift included the development of a new mission statement that focused on technological advancements and a strategy consistent with increased product quality and broader market coverage.

Sensors, Inc. is dedicated to providing superior custom-grade products in all areas of low and high tech sectors. Our mission is to match research and development with customer values to achieve a position of innovative leadership in the sensor industry by setting the highest product standards. Our goal is to exceed customer expectations through anticipating technological advancements and fostering employee satisfaction and productivity in order to create brand equity and continually increase shareholder value.
By creating a product mix with a focus on superior attributes and customer values, Sensors was able to re-invent itself and achieve a higher level of market coverage and overall customer satisfaction. TQM efforts reduced costs and increased employee productivity, which materialized as a substantial increase in the profit margin for each individual product. Debt was substantially decreased, and new investments were initially funded through the sale of shares. As the company grew, resulting in increased market share and net profit, shares were re-purchased and shareholders rewarded through generous dividends.

The new mission statement served as a blueprint for major changes in the company’s structure and management styles, and the strategic shift from a single product to a line of superior and distinct sensors with whole market coverage provided the avenue through which the re-vamped company could achieve industry dominance. Our strategic plan capitalized on existing core competencies while simultaneously creating new ones that would prove to be the cornerstones of innovative product leadership. Our plan required initial investments and brand restructuring that would not be recouped for at least three years, but we were confident that the existing loyal employee base and shareholders could tolerate the transition period through continual open communication regarding plan specifics. The major strategic factors included the following:

- Increase research and development expenditures and capabilities to develop new brands that exceed customer expectations in multiple points of both major sectors
- Lower product re-development cycle times and costs through TQM measures
- Strive for 100% customer awareness and accessibility through bold, accelerated marketing and sales forces
Increase customer demand by offering superior “custom-grade” products with generous credit terms
Increase brand equity through constant product improvements that best match customer preferences and by charging a premium for high quality products
Leverage shareholder-based equity to support financial growth and operations and maintain strong supplier relations through a strict 30-day accounts payable policy

The above specific points collectively represent a differentiation strategy with a focus on product lifecycle. Successful implementation of the proposed changes allowed for increased growth via a direct increase in product sales and contribution margins. By decreasing research and development turn-around times, expanding production facilities, and improving employee productivity, this strategy additionally allowed for premium pricing that improved profit margins considerably. Contribution margins improved through investment in a variety of quality control measures, which the company has historically neglected in part due to a single product line and more stable, less technologically advanced market. While initial implementation required heavy investment and costly restructuring, liquidity and shareholder wealth remained primary concerns in this overall objective. This strategic plan therefore included a provision of generous dividend allocation within the first ten years, as the final, major adjustments were completed and substantial increases in profit finally realized.

Environmental and Internal Analysis

The electronic sensor industry environment includes the participation of six major competitors, the markets of which Sensors array (then Andrews Company) shared equally as of 2008. The market was initially dominated by low tech sensor customers, and each
company produced only one product, positioned to satisfy customers in both the dominating, low tech sensor sector and rapidly growing high tech sensor market segment. For all practical purposes, each competing product was equivalent and also identically priced. Equal accessibility and customer awareness resulted in consumer brand ambivalence and equal market share for each of the six companies.

Sensors performed an analysis of the external environment prior to developing a strategy and noted that product specifications were not well matched to customer needs in each of the individual (low tech and high tech) sensor market segments. Moreover, the high tech sub-market was growing (20% growth rate) and high tech customer needs evolving (yearly change in specification needs of 70%) much more rapidly that of the low tech sensor segment (10% growth rate and 50% change in specification needs per year). As of 2008, none of the six sensor companies, including Sensors, invested in quality control measures, and competitor firm structures were virtually identical. In essence, the six companies were non-distinguishable to customers, despite the changing market and growing need for separate products to better serve each major sector based on relative importance of price, age, reliability, and the most note-worthy technological specifications (size and performance). The unique nature of the electronic sensor industry thus represented an obvious opportunity for Sensors to become an industry leader through the development of high quality products tailored to each market segment.

Internally, the Andrews Company was poised to take advantage of the above-mentioned external opportunities associated with the fast growing electronic sensor industry, especially given the lack of strong competitive forces present. The existing research and development department included a talented, innovative team of specialists
that served as the firm’s most important core competency. This department was under-utilized and thus represented a major cost to the firm in the form of missed opportunity and lower sales than the market could clearly support. While product enhancement was a regular activity, product development was ignored entirely, lowering the productivity potential of the research and development team far beneath its capabilities.

Production facilities with a limited level of automation existed that were capable of supporting only one product type. However, there was room for expansion to produce up to five distinct products and the capacity to increase automation if warranted. While automation was indeed a core competency for the company, Sensors values its loyal employee base as a major strength and therefore did not consider increasing automation more than 5% beyond historical levels in order to maintain excellent employee relations. Moreover, faster turnaround times for product development and enhancements would necessitate lower levels of automation. The labor force itself, while loyal and hard working, lacked expertise and waste management skills that could be improved in the event of better training and quality control measures. Likewise material waste was relatively high as were the number of products that were inferior due to the lack of quality assessment during and after production.

The other departments (marketing, financial, and human resources) were similarly less productive than their potential, even with the existing management teams and employees. Customer accessibility was low (only 40%), as was customer awareness (only 55%), due to minimal investment in sales and promotions. The company lacked a TQM department entirely and thus had few quality controls in place to remedy product and productivity deficiencies. The initial analyses performed by Sensors at the onset indicated
that there was ample room for growth and also that the company possessed the resources required for improvements and expansion. The strategy that was chosen was based on expert, detailed assessments of both the external and internal environments.

**Decisions and Evaluations of Results**

*Company performance as of December 31, 2009:* Initial strategic moves this first year included enhancement of the initial product, Able, to better serve low tech sensor customers and development of a new product, Atlas, positioned to compete exclusively in the high tech sensor sector. The additional production facilities and other expenditures were financed by selling shares, and marketing predictions were based on previous sales and expected market growth. While the adjustments set the stage for later success, sales predictions were low for the existing product, Able, leading to stock out, despite the increase in price to the projected maximum of $35. Market share increased slightly (17%), but a drop in profit (only $1.6M, compared to $2.5M the previous year) and in several financial measures, including ROE, ROS, and ROA, was very disappointing. However, a small increase in stock ($1.71) and the contribution margin (23.4%, up from 20%) indicated that the strategy would eventually improve the company’s position. An executive meeting was called to ensure management teams that the strategic objectives should be maintained, despite these small setbacks.

*Company Performance as of December 31, 2010:* In line with the strategic focus on differentiation and high quality products, product enhancements were made and an additional new product developed, Apple that was targeted at high tech sensor customers. Another product stock out was disconcerting, to say the least, but the chief executive officer was still undeterred in her strategic objectives. The additional product, research
and development improvements, and investment in several TQM initiatives resulted in a return to the original profit and an increase in stock price (up $5.49), but financial measures were still quite low. Research and development to introduce another new product continued, as did existing product enhancements. Each product was positioned to best match all customers’ needs across the entire market spectrum.

Company Performance as of December 31, 2011: Although the Able product stocked out once again, this year represented a turning point for the company. Financial measures were finally on the rise, as were profit ($6.7M), contribution margin (36.4%), market share (21%), and customer awareness and accessibility. The stock price rose an additional $7.64, and the market cap was $57M, up $35M from its original value of only 22$M. A cross-segment product, Ajax, was introduced to appeal to those customers at the tail and leading edges of the high and low tech sectors, respectively. Investments were made in employee recruitment and training, as well as in various quality control measures intended to further improve research and development cycle times and production costs. As in previous years, debt was retired and new stock issued to cover expenditures.

Company Performance as of December 31, 2012: A final high tech-specific product, Ace, was introduced and further enhancements of existing products performed to match the changing specification needs of electronic sensor customers. This was the last year for new product introduction, bringing the total product count to 5 (three exclusive to the high tech segments and two that appealed to low tech customers and some high tech sensor users). No new stock was issued, and net profit, financial measures, and market share were similar to the previous year. Stock increased to $26.77 (up $5.49).
Company Performance as of December 31, 2013: Over the next three years, the company continued to grow substantially, and this year marked the last without issuance of a dividend. All plant improvements were completed, and productivity reached an all time high. Ending sales, net profit, market cap, and stock price were $120M, $12.7M, $102M, and $38.36, respectively. The company celebrated the success by introducing a new yearly Christmas tradition, in which all employees were invited to a lavish all-night sleep-over bash, hosted by vendors and various community groups that also benefited from the increased business. The CEO additionally contributed with her own personal funds by purchasing a lobby tree that reached the ceiling, ornaments for the employee-driven tree decoration ceremony, and various prizes for fun contests that were intended to further reward employees and management for the year of hard work and dedication. The employees still refer fondly to this annual festivity as “Hip, Hip Array Day”.

Company Performance as of December 31, 2014: Sensors continued to enjoy increased sales, profit, and financial measures, and the stock priced jumped an incredible $19.99. At this point, $5M worth of stock was repurchased and $5.1M in dividends distributed. The actual payout of dividends was preceded by elaborate Christmas cards, thanking the shareholders for their continued support and patience and detailing the company’s successes. Dr. Maverick also initiated a community service program that united the local youth group and several community businesses, including Sensors, to offer summer and after school programs that included training internships in marketing, production, and research development. One youth in particular, Butch “Snotty” Williams successfully completed a summer internship at Sensors and was afterwards featured in a media exposé applauding Sensors’s positive effects on the local community.
Company Performance as of December 31, 2015: Dr. Cristi Maverick was approached by the board of directors, who were becoming concerned that she was showing signs of hubris. The company had been wildly successful, and the final stock price had risen to a whopping $84.14 per share, an increase of $25.79 since the previous year. The market cap was an incredible $203M. However, Dr. Maverick agreed with the directors that it was best to “quit while she was ahead” and return to biomedical research, now that the company was finally on solid ground and still growing. She promised to stay an additional 5 years to mentor the new CEO, an able business specialist, Dr. Jeffrey McGee, who had the additional qualification of having taught business classes that shaped many of the nation’s business leaders. The local news quoted Dr. McGee after accepting the CEO position, as saying “If this were a class simulation, I would give Cristi an “A” for her successful strategic policies”.

Conclusion

Final results of 8 year strategic initiative:

- Final year sales were $160.6M
- Cumulative profit reached $79.2M
- Market share topped out at 26.2%
- Ending ROE was 40.2%
- Market capitalization increased nearly tenfold, from $22M to $203M
- EPS increased from $1.24 to $11.20 per share
- Stock price shot up from $11.15 to $84.14

Clearly the strategy chosen and its implementation over time were successful, and Sensors currently enjoys a strategic competitive advantage. However, imitation of these successes is imminent, and future growth will depend on Dr. McGee’s leadership vigilance. Flexibility is paramount to responding to future strategic challenges.