

# Innovating for The Future:

How R.R. Donnelley & Sons Can Remain Competitive in a Rapidly Changing Market

**Table of Contents**

- Situation Synopsis ..... 2**
- Key Issues & Central Problem ..... 2**
- Analysis..... 3**
  - Strategy ..... 3**
  - Structure ..... 3**
  - Processes ..... 4**
  - People ..... 5**
  - Incentives ..... 5**
  - Culture ..... 6**
- Alternatives ..... 7**
- Central Recommendation ..... 8**
- Implementation ..... 8**
  - Short-Term (Year) ..... 8**
  - Medium Term (1 - 2 Years) ..... 9**
  - Long-Term (2 Years+) ..... 10**
- Appendices ..... 11**
  - Exhibit 1 - Evaluation of Alternatives..... 11**
  - Exhibit 2 - New Incentives Equations ..... 11**
  - Exhibit 3 - Balanced Scorecard ..... 12**
  - Exhibit 4 - New Organizational Structure ..... 13**

## Situation Synopsis

In 1995, R. R. Donnelley and Sons was the largest commercial printer in the world. The advent of new digital printing technologies disrupted Donnelly's traditional business model of high fixed costs and large volumes. This traditional model was extremely effective at mass-production and offered customers per unit discounts as quantity increased. However, increases in material and distribution costs combined with industry trends towards smaller, customized orders has led to the development of new digital printing systems. With the movement of digital printing into the retail sector, the industry's high barriers to entry are quickly eroding. Despite its strong financial performance, Donnelley finds itself at a crossroads and requires a new business model utilizing new technology to remain competitive. Donnelley is a key innovator in digital printing technology, but lacks the proper incentives, structure and processes to properly implement it. Addressing these issues will determine the Donnelley's future success or failure.

## Key Issues & Central Problem

- Donnelley's lack of a coherent corporate strategy and opportunistic approach to sales has led to a dependence on large customers, which inhibits its ability to adapt to current market trends and pursue a long-term strategic vision.
- The current incentive system forces salespeople to sell services from their individual corporate instead of that of Donnelley as a whole. No link exists between the reward system and Donnelley's new strategic goals.
- The current organizational structure has placed the digital division within its own silo, preventing access from other areas of the organization.

- Innovation processes focus on short-term financial rewards instead of long-term strategic impact.

## Analysis

### Strategy

Donnelley's suffers from a lack of corporate strategy. Currently, it selects lucrative customers and builds plants based on their needs. This approach is entirely opportunistic and prevents Donnelley from pursuing a long-term strategic vision. While 60% of Donnelley's business comes from large customers, its digital technology would give it access to a new and possibly lucrative market. The lack of a guiding corporate strategy is a main contributor to the various misalignments across Donnelley's various business functions.

*Donnelley's opportunistic approach focusing on short-term financial gains prevents it pursuing a long-term vision.*

### Structure

Donnelly's structure is comprised of 38 client-based Divisions, each responsible for its own operating profit and have the autonomy to choose their own equipment and printing jobs. In turn, these Divisions report to eight Business Groups, who allocated resources, such as sales and marketing, to each Division. These Business Groups subsequently report to one of three Sectors: Information Resources, Commercial Printing and Networked Services.

Each Business Group has its own salesforce, which are free to sell the services from any plant. However, because of extreme pressure on sales managers to find profitable printing jobs for their division, 80 – 95% of jobs are sold from a salesperson's own plant. Divisions work in silos and compete fiercely for Group resources.

The Digital Division's placement within this structure ensures its inaccessibility to other Divisions and isolates it from the other parts of the organization. Managers see the value of digital printing, but are reluctant to use it because it is outside their core business.

*The current sales oriented divisional structure has led to inter-divisional competition for resources, a lack of standardization and collaboration, which has hindered company-wide adoption of new technology.*

### Processes

Traditional processes were dependent upon "enabling contracts" and selling volume to achieve economies of scales. Most technological innovations were implemented ad hoc to meet the specific needs of individual clients. These technologies were applied on a plant-to-plant basis, and rarely reached their full market potential. Divisions were spending amounts equal to that of Technology Centre's budget on information systems and small technological improvements. No technology worked throughout the entire company or between Groups, resulting in inefficient use of resources.

These inefficiencies led to the creation of a new technology review process that consists of four stages and includes financial checkpoints at each stage of the process. After Business Groups and decide initiated a project, a cross-functional team, along with assigned managers, would decide if the project was worth continuing. Once a new technology was deployed, it was monitored to measure its ability to achieve its goals and adjusted accordingly. One major concern with the redesigned process is that benefits can only be realized after a technology is incorporated across the company. With Donnelley's various problems, company wide adoption is unlikely.

The Digital Division was initiated prior to the creation of the redesigned process system and was parachuted into Phase 3 before being transferred to the Information Services Group (ISG). This could hinder the Digital Division's future development, as the ISG has strict performance conditions. The importance of the Digital Division to Donnelley's future was widely recognized, but subjecting it to harsh financial performance standards could drastically impede its larger impact.

*Importance placed on the financial performance of new technologies reduces the chances of it being deployed and emphasizes immediate financial returns at the expense of future impact.*

### People

The new leadership within the ISG sees the importance of digital technology to Donnelley's future success. However, the existing sales culture has made it difficult for these managers to challenge existing organizational values. For example, Cowen appointed Clark to make the Digital Division financially successful as quickly as possible without considering other performance metrics. Ironically, these financial goals are at odds with Jane Schetter's strategic goals. The printing industry is at a crossroad, Schetter notes, as "more paper was produced on desktops than [traditional] web presses" for the first time.

*Upper management's dominance by former salespeople hinders Donnelley's non-financial goals.*

### Incentives

One of Donnelley's main strengths is its salesforce. Salespeople work solely on commission based on the P&L of each salesperson's Division and Group. This creates an inherent bias for salespeople to sell the services from their own Division. There is also extreme downward

pressure on salespeople from Group presidents, since compensation is directly tied to the divisions under their control. This has led to extremely limited collaboration between Groups since management and salespeople are not incentivized to sell cross-functional services. This means that the Digital Division is unlikely to be sold outside the ISG group, irrespective of the possible added value to customers.

To facilitate adaption of digital technology, the Digital Division purposed a “kicker” program, where salespeople would be incentivized on the price per page sold. This initiative was not successful since it rewarded only for sales and not adoption of the technology. It also failed to address the fact that because traditional printing jobs were sizably larger than digital printing jobs, salespeople would make more money by continuing to focus on “long-run” customers.

*Donnelley’s incentives are purely based on P&L’s. New metrics stemming from a top-downed organizational approach that align with a long-term corporate strategy are required if the Digital Division is to succeed.*

## **Culture**

Donnelley’s sales culture is the main reason for its long legacy of success, but has hindered its ability to implement much needed changes to its business model. Top management is dominated by former salespeople, creating a top-down sales driven culture focused on transactions, instead of strategic growth. Luckily, Donnelley is in an industry where evolution has been extremely slow. With the advent of digital printing, this is about to change.

Donnelley is currently the market leader, but its future success will be dependent upon its ability adapt to a rapidly evolving market.

*Donnelley's strong sales culture based on opportunistic growth in slowly evolving market has created an environment resistant to change.*

### **Analysis Conclusion**

*Donnelley's inability to disseminate innovation across its various Divisions and Groups stems from the absence of a concrete corporate strategy, which leads to a misalignment between processes, people, incentives and structure with the current market trends.*

## **Alternatives**

### **Alternative 1 – Adjust the Incentives to Promote Digital Division Sales**

The lack of Digital Division sales largely stems from the current incentive system. Incentives should be readjusted to include cross-divisional sales, with an increased emphasis on Digital. Under this alternative, the current organizational structure would remain in place, reducing the financial burden during implementation. Donnelley's strong sales culture would likely be responsive to this initiative given the right financial incentives, which could speed up technological adoption across the organization.

### **Alternative 2 – Develop New Corporate Strategy of Innovation and Align Various Elements**

#### **Accordingly**

Donnelly's current position as market leader and its strong financial performance obscures the fact that it is in a very unfavourable position. Its tremendous success is largely due to its effectiveness of executing on opportunities, in addition to its access to large amounts of capital to build the various assets necessary for "long-run" printing. To this point, the industry has been very slow to evolve, delaying Donnelley's need to adapt. However, the current technological threat undermines the very foundations of its core business. A new corporate



strategy should be adopted, incentives, processes, people and structure aligned accordingly.

While some of these changes may be costly, they must be adopted immediately while

Donnelley still has access to capital. If Donnelley fails to act now, it may not have the money

or market position to meet future customer demands.

## **Central Recommendation**

Donnelley should pursue Alternative 2 based on the evaluation matrix in Exhibit 1, as this

option addresses the required organizational changes and better positions it to compete in a

quickly changing market. Full details are outlined in the Implementation Plan below.

## **Implementation**

The basis of the implementation plan comes from the balanced scorecard outlined in Exhibit

3. The new organizational structure can be found in Exhibit 4.

### **Short-Term (Year)**

Organizational change must come from the top-down. Thus, short-term goals will focus on

establishing new leadership and a more coherent corporate strategy.

- Begin looking for a new CEO from the innovation field. This individual should come from a culture of change and know the importance of technological innovation within an organization. Once a short-list of candidates is made, John Walter should be removed as CEO and given a position on the board of directors, where his experience will be valued. Consider removing Cowen, since his sales focus is not best suited for the future growth of ISG. These leadership changes will have positive effects on the companies overall culture.

- Redraft Donnelley's corporate strategy in conjunction with the leaders from each Group and the new CEO. This strategy should emphasize innovation. Donnelley should be the *drive* industry change, instead of having to adapt to it.
- Draft organizational change to remove the Digital Division from its current structure. The Digital Division will become a floating service Division available to all business Groups and Divisions. Other divisions will remain in the current group and continue to have their own support services.
- Redraft the incentives system to promote sales from other Groups and Divisions. Compensation will include a base salary, as well as a bonus structure from selling work from other Divisions and will have an increased emphasis on digital printing. The Digital Division will become a support unit and no longer have its own sales staff: the emphasis will be on other Divisions to sell digital services. The purpose of the base salary is to compensate for the loss of compensation from the increased focus on digital. Group presidents will no longer be required to sell against their assets. The new bonus structure equations can be found in Exhibit 2.
- Begin the process of hiring a newly developed R&D team and redraft the process to evaluate new innovations with a reduced emphasis on financial returns.

### Medium Term (1 – 2 Years)

Once a new corporate strategy is developed, the new organizational structure and incentive system should be implemented.

- Appoint a senior management team to champion the change process. This team should include Barb Schetter.

- Encourage salespeople and managers to move between Divisions. When new positions become available, priority should be given to candidates from outside one of Donnelley's other Divisions, all other things being equal.
- Hold a large scale meeting with all Division leaders outlining the various details of the changes. These Division leaders will then hold an information session for their staff.
- Implement the new incentives program and remove the Digital Division from its existing structure. Launch the new R&D initiative in conjunction with the new Digital Division. The R&D department will be housed in the Digital Division's Memphis location.
- Collect comparative data and adjust processes according. Digital's portion of overall revenue should increase substantially.

### **Long-Term (2 Years+)**

The increased emphasis on R&D should continue. Digital printing may be one factor in driving Donnelley's future, but industry changes can happen extremely quickly. Donnelley needs to ensure that it is the key driver for these changes.

## Appendices

### Exhibit 1 – Evaluation of Alternatives

Evaluation of Alternatives		
Criteria	Alternative 1	Alternative 2
Development of New Corporate Strategy	0	2
Aligned with Market Trends	1	2
Maintains Competitive Position	1	2
Ability to Adapt & Drive Industry Change	1	2
Reduces Dependence on Single Business Practices	1	2
Best Long-Term Financial Returns	1	2
<b>Total</b>	<b>5</b>	<b>12</b>

<b>Scoring Method</b>		
0 = No Alignment with Criterion	1 = Somewhat Aligned with Criterion	2 = Complete Alignment with Criterion
<i>*The alternative with the highest score is the more favourable option</i>		

### Exhibit 2 – New Incentives Equations

<p><b>Division Level Sales Personnel</b></p> $y = \text{Base} + 0.6(\text{long-run printing sales}) + 0.4(\text{digital printing sales})$ <p><b>Group President</b></p> $y = \text{Base} + 0.6(\text{Group Performance}) + 0.4(\text{Digital Performance})$
---

### Exhibit 3 – Balanced Scorecard

Balanced Score Card			
Objective	Measurement	Target	Action Plan
<b>Financial Perspective</b>			
Growth Digital Division Share of Revenues	% increase in Revenues	25%	Implement new sales incentives
Continued Annual Revenue Growth	% of Total Revenue	11% <sup>1</sup>	Dual pronged sales approach
<b>Customer Perspective</b>			
Increase Customer Diversification	% Customers from "Non-Traditional" Markets	%	Increased Portion with Requiring Customization
Increase Customer Satisfaction	% of Customer Complaints	10%	Focus on Meeting All Customer Needs
<b>Internal Process Perspective</b>			
Increased Impact from R&D	# New Innovations from R&D	#	Increase Output from New R&D Centre
Improve Tech Review Process	# of Innovations that Initiate Process	#	Growth in Number of Projects That Seek Approval
Increased Adoption of New Tech	% of Innovations Adopted in Organization	%	New Innovations Actually Used within Company
<b>Learning and Growth</b>			
Move employees to Different Divisions	% of Employees with Inter-Divisional Experience	15%	Involve Individuals With Specific Expertise in
R&D Commutations	% of Employees Reached	%	Communicate recent R&D developments
Multi-Divisional R&D Team	% of Employees from Separate Divisions	%	At least one employee with experience from each group

<sup>1</sup> Based on passed average revenues

Exhibit 4 – New Organizational Structure

