R.R. Donnelley & Sons: The Digital Division

MBA 625 Strategy In Action

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Table of Contents

1- Synopsis

Printing industry was dominated for over a century by typical offset and gravure press printing techniques. During that era, Donnelley was the absolute leader of the $80 billion printing market. Nonetheless the major changes led by the rapid spread of office computing, were sculpting the economic face of the industry and resulting for the first time in more paper produced on desktops than on web presses. Small alliances, market penetration, and retail printing were becoming more feasible. Small investments were threatening the foundation of the high fixed, low variable cost and long-term customer relationship business model. In a rigid organization, mainly led by P&L[1] incentives, major changes threaten the incentives of an established and well-tested process. How can Barbara Schetter VP[2] and GM[3] of R. R. Donnelley's digital division, without threatening the company's solid foundations, trigger the shift in the organization's vision and services towards sustainably positioning the company in the new era of printing that is slowly but surely shifting and needs substantial customer educating?

2- Central Problem

- **Project level →** Within the current organization, is digital printing a feasible project? With the slow new market shift, is it possible to achieve adoption from within RRDS[4] and can the company accomplish the first mover advantage?

- **Organizational level →** Can RRDS with its current structure, processes, people, incentives, leadership and culture, position the organization in the new printing era while using a

[1] *Profit & Loss*
[2] *Vice President*
[3] *General Manager*
[4] *R.R. Donnelley & Sons*

communicating vase approach to mitigate the slow customers' adoption and avoid loosing ground by keeping and improving its current competencies?

- **Digital division level →** Can Barbara Schetter and her division, with their current skills and resources, champion a change and achieve adoption in what seems to be a proper strategic plan to be implemented across the organization?

- **Misalignments →** The entire organization seems to be aligned towards opportunistic financial goals based on short-term customer centricity. With a major shift in market economic, and absence of corporate level strategy, important misalignments arise.
    - *Structure* – Absence of proper structure gathered around a common goal.
    - *People* – Absence of skills and desire to challenge existing status quo.
    - *Process* – Incoherent processes to support a corporate strategy.
    - *Incentives* – Inexistent system leading to common strategic goals.
    - *Leadership* – Absence of visionary transformational leader.
    - *Culture* – Individualistic short-term financial focused comfort zone approach.

3- Analysis of issues

In this analysis, the "Star Model" is used to assess the central problem and evaluate the alignment among the "Digital Printing" division, RRDS[5], along with the slow shift in the industry economic.

3.1 - Methodology

The analysis of issues of the 5 categories of the "Star Model" along with the corporate and business level strategies are tabulated in Exhibit-1. The alignment of each element in its category was

[5] *R.R. Donneley & Sons*

evaluated and compared to all elements of different categories, where the red color represents a misalignment that needs to be addressed. The table shows that the misalignment is clearly skewed towards the strategy that is affecting the entire organization. The analyses of the evaluation are represented in the upcoming sections.

3.2 - Corporate & Business Level Strategy

The lack of clear formulated corporate level strategy solely based on opportunistic growth and high financial returns, is clearly misaligned with the business level strategy focused on long term contracts, economy of scale, cost leadership and genuine customer centricity. The focused target market strategy is the only driver of the opportunistic growth and the positive financial returns. This unclear vision that is misaligned with the industry's shift in KSF[6] is substantially affecting all the categories of the STAR model. Even though incentives, leadership and culture might seem aligned, the evaluation clearly shows that this alignment is the result of the wrongly non-existence of clear strategy that should shape RRDS[7].

3.3 - Structure

The structure of RRDS is comprised of 38 highly autonomous customer centric divisions with sales and manufacturing at the core of their operation, all gathered in 8 business groups responsible for allocating support resources. Those business groups reported to 3 Sectors: Commercial Print, Networked Services, and Information Resources. On the other hand the sales-force was working for business groups rather than divisions. This was misaligned with the P&L[8] mission of the divisions and created conflict regarding focused target sales. The digital division under ISG[9] reporting structure was organized in the same manner as a sales group and was handling and motivating three overlapping

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[6] *Key Success Factors*
[7] *R.R. Donneley & Sons*
[8] *Profit & Loss*
[9] *Information Services Group*

and potentially conflicting sales forces. This unclear interrelation among sectors, groups and division is the result on the non-formulated corporate strategy. It is solely built around opportunistic growth and cannot achieve full financial potential, economy of scale and cost efficiency. It only focuses on the customers' current demand rather than the long-term industry trend. This structure does not align with visionary new managers such as Barbara Schetter and the program managers along with their cross-functional teams on a mission to champion new changes.

3.4 – People

Barbara Schetter and the program managers along with their cross-functional teams from the digital division strongly believed that the digital printing technology would position RRDS[10] in the new era of printing industry. It will consolidate the organization's market leadership and increase its competitive advantage. Nonetheless, the team was missing the political and interpersonal skills that could lead the change management project strongly needed to accomplish the task. This major change is considered by the organization's top management and sales force as a threat to the established status quo and incentives. There was clearly no desire to challenge the current structure and processes in place where decisions were always based on shortsighted opportunistic success. This was clearly misaligned with the new management of the digital division's strategic long-term vision that will accomplish sustainable financial returns, economy of scale, cost leadership and slow but substantial offerings to customer's needs. In addition the vision of the new managers was also misaligned with the current structure, processes in place, incentive system, leadership and culture.

3.5 - Process

The established "Wait & See" process does not offer the chance to achieve projects' full potential. The quick financial returns used as the matrix assessing projects efficiency disregarding the potential

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[10] *R.R. Donnelley & Sons*

of improvement, in addition to the disrupted communication channels among different sectors, groups and divisions, also decreases the probability of maximizing efficiency. This is misaligned with the incentives, based on maximizing sales to increase returns hence bonuses. On the other hand, working in silos and competing for resources rather than increasing organization's value by sharing acquired knowledge is the direct result of the lack of strategy and vision, it is rather aligned with the tactic of targeting focused markets. The sales & revenues metric used for incremental technological improvements driven by customers immediate needs are the basis of calculating the return of additional investments, disregarding the possibility of maximizing an investment's full potential by acquiring additional customers for the same expenditure. It is once again a shortsighted process based on opportunistic growth. Finally the new 4 phases TDP[11] bases its evaluation on short term financial returns, disregarding medium and long-term strategic planning and the potential that disruptive evolution projects can offer to the sustainable organization's growth and market position consolidation. Although all those processes seem to be aligned among each other, they are the result of an established culture within the organization based on avoiding questioning status quo. On the long run those processes cannot create intrinsic motivation for transformational leaders and open the door for innovation, adaptability and improvement. This is misaligned with the logic of any organization' need to adapt to its external environment and shifts in market trends.

3.6 - Incentives

The salespersons' culture anchored in top management is the basis of the incentive system in place at RRDS[12]. Short-term monetary bonuses with insignificant incentive for innovation are the basis for all decisions disregarding hidden long-term potentials and opportunities of development that consolidates competitive advantage. This is misaligned with the high financial returns that RRDS has been achieving as a market leader, the new managers of the digital division along with the program

[11] *Technology Development Process*
[12] *R.R. Donnelley & Sons*

mangers perspectives. Those returns should have been used for further research and development. On the other hand, changing the divisions' incentive system to be calculated according to the sectors' performance does not correlate with the groups' presidents bonuses driven by their divisions' performance, resulting in a conflict of interest. In addition, the ISG division is separately incentivized. This aligns with the venture capital approach but not with the incubated small divisions that needs a company wide adoption in order to succeed. Overall, the incentive system despite the recent changes does not encourage cross-functional collaboration. This is aligned with the opportunistic financial returns approach but not with the upcoming drastic changes in the market demand that needs substantial effort to position the 100-year RRDS slow moving elephant on the new market wave.

3.7 - Leadership

Clearly no visionary transformational leaders within the organization, who have the proper skillset needed to accomplish a change management and consolidate the organization around one unique vision and strategy, have emerged. Each top manager works in his own silo, driven by the increase of his bonus based on his P&L[13]. On the other hand there is a clear misalignment between Faber and Clark's financial approach and Schetter's strategic approach towards decision-making. This lack of leadership, on the long run, will slow RRDS'[14] full potential.

3.8 - Culture

RRDS opportunistic sales culture resulted in lack of long-term corporate & marketing strategy. In addition, the solid organization's returns led to a status quo and comfort zone that did not question the organization's efficiency. The desire for achieving high sales hence high bonuses is the main driver of all decisions taken, resulting in silos and aligned with the focused target market approach so far adopted. This culture is a direct result of the absence of "Top-Down" corporate strategy and vision.

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[13] *Profit & Loss*
[14] *R.R. Donnelley & Sons*

Although it served RRDS in the past due to the market structure, it has to be revised to align with a vision and strategy according to changes in the external environment.

4 - Strategic Alternatives & Recommendations

4.1 - Alternatives

- **Alternative 1** → Separate P&L[15] digital printing division & restructure the incentive system. This will canalize all the digital demand to the digital division answering the slow market shift without loosing the current market share. Incentives should be restructured to encourage sales people to promote digital printing by offering high bonuses for sales people willing to learn and promote the technology. The digital division will handle all its services.

- **Alternative 2** → Restructure RRDS[16] horizontally around 3 major products: gravure, typical offset and digital printing. This will respond to the new market trend while consolidating the current market share. The services will be shared organization wide and the sales people will sell the RRDS brand rather than each single product. Incentive system will be subdivided to different KPIs[17] that will form the final bonus. This major restructuring will face adoption challenges and might need a visionary transformational leader to implement it.

The evaluation criteria of the alternatives are measured in Exhibit-2 according to pros and cons discussed in the analysis. The recommendation is based on the alignment's evaluation of each alternative with the key issues: slow industry shift, first mover advantage, maintaining revenue stream, transformational leadership, corporate strategy, business strategy, adoption and misalignments. Alternatives were graded from 0 to 1. The highest percentage average is considered.

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[15] *Profit & Loss*
[16] *R.R. Donnelley & Sons*
[17] *Key performance indicator*

4.2 - Recommendation

With no clear strategy, "Top-Down" is the major central problem at RRDS. The organization seems to be aligned around its core business and performing acceptably. Nonetheless, it cannot thrive with its current cumbersome business model facing the new challenges of becoming obsolete in the new industry era. Exhibit-2 shows that restructuring RRDS[18] horizontally around 3 major products, has the highest percentage average alignment with the key issues. Therefore alternative 2 is the recommended option. The following implementation plan represents a road map that addresses the key challenges discussed during the analysis; the response to the slow shift in the industry trend creating a first mover advantage while maintaining revenue stream and market leadership, the need for transformational leadership that will increase restructuring adoption, the formulation of a clear corporate and business level strategies, and finally the alignment of the structure, people, process and incentives with the strategy.

5 - Implementation plan

With currently available resources but inexperience and high potential of top management resistance, RRDS has to carefully follow Kotter's 8 steps change management model to increase adoption rate. A balance scorecard represented in Exhibit-4 will set goals, track performance, make adjustments along the way and learn from the implementation to improve future strategies.

5.1 - Short-term (6 month)

- As the digital division project champion, Barbara Schetter should create a sence of urgency at the top management level by explicitly clarifying the shift in market and competitive realities during her upcoming presentation. The message delivered should revolve around the idea that inaction might

[18] *R.R. Donnelley & Sons*

not only loose the first mover advantage but might lead the organization to obsolecence by giving comparable past examples. The idea of crisis should be circulated and well formulated.

- Following the meeting, it is important that Schetter follows up on her message by holding individual meetings to form a powerful guiding coalition. Those meetings should occur either formaly or as side talks with key players in the top management. The message of those meetings should clarify that her intention is not taking over the organization but that she understands her role as the VP of digital printing and that her purpouse remains the involvment of top management in order to properly position the entire organization in the new market wave.

- The coalition created should formulate a new corporate level strategy revolving around growth and integrated differentiation cost leadership approach while being customer centric on the business level. This will ensure future RRDS'[19] adaptability to different market shifts and capabilty to meet each target market's expectations going from price per page to cost reduction and consulting.

5.2 - Medium-term (6 to 24 month)

- Next step would be communicating the vision internally by using ongoing weekly meetings, newsletters and printed boards starting from top to bottom. Surveys should also be included to evaluate adoption rate and create a sence of belonging to the vision among employees. This will allow additional people to come on board with the change.

- To encounter the resistance caused by the comfort zone culture, it is important to start empowering others to act on the vision, while sending a clear message that the resistance can be removed from the organization. The "Top-Down" process should start by changing the structure of the company to a horizontal structure based on the 3 main products. The proposed structure is presented in Exhibit-3. The purpose is to meet different target market expectations. The functional services will be shared among the 3 products. The functional employees should be incentivized

[19] *R.R. Donnelley & Sons*

according to the entire organization's performance in addition to their own initiatives and rate of success in order to encourage creativity and proactiveness. Those will be service centers rather than P&L[20] ones. Sales people should be incentivized according to the bonus formula *"$y=0.25P_1 + 0.25P^{21}{}_2 + 0.25P_3 + 0.25O^{22}$"*. While kept as P&L centers, products employees should be incentivized according to the bonus formula *"$y=0.4P_1 + 0.2P_2 + 0.2P_3 + 0.2O$"* increasing the weight for their own products. This incentive system will consolidate the understanding that the organization's vision and strategy is more important than product lines and increase cross cooperation among product's employees.

- The growth in organization's revenue caused by the acquisition of additional target market and the increase in financial efficiency resulting from the incentive system empowering financial function employees to initiate performance tracking and efficiency targets, will create quick wins. Those should be benchmarked to the previous performance and comunicated in order to reassure scepticals and increase adoption.

5.3 - Long-term (24+ month)

- This period should consolidate the improvement by creating a balanced scorcard to be used as tracking tool that sets the objectives, metrics, targets and action plans. It should be communicated and subject to ongoing revue in order to adapt to different future shifts in the industry and within RRDS[23]. A proposed balanced scorecard is presented in Exhibit-4, it is aligned with the recommendation and the implementation plan presented in this paper. The 4 phases TDP[24] evaluation process should be reviewed to assess new developments on a strategic basis aligned with growth and integrated differentiation cost leadership approach, rather then the currently short-term financial one. This will

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[20] *Profit & Loss*
[21] *Product*
[22] *Organization*
[23] *R.R. Donnelley & Sons*
[24] *Technology Development Process*

ensure the organization's growth by developing new strategic products to be added to the current 3 product lines of this proposed implementation plan.

- The change should be institutionalized by articulating the connections between the new beahviours and the corporate success. HR department should hire new employees aligned with the organization's vision. Training and promoting efficient employees along with offering chance for growth will create intrinsic motivation and ongoing development of new managers that will ensure succession.

6 – Exhibit-1: Analysis & Alignment Evaluation[25]

Analysis & Alignment Evaluation		Corporate Strategy	Business Strategy	Structure	People	Process	Incentives	Leadership	Culture
Corporate Strategy	Unclear strategy & vision								
	Opportunistic growth								
	High financial goals								
Business Strategy	Long term contracts								
	Economy of scale								
	Focused target market								
	Cost leadership								
	Customer centric								
Structure	3 Sectors								
	8 Business groups reporting to sectors								
	38 highly autonomous client-based divisions								
	Sales force aligned with business groups								
	Digital division organized as a sales force								
	Unstructured interrelation among sectors, groups and divisions								
People	New visionary managers								
	Insufficient political & change management skills								
	Change considered as a challenge to current established incentives								
	People's decision driven by short term success								
	No desire to challenge the current structure & process								

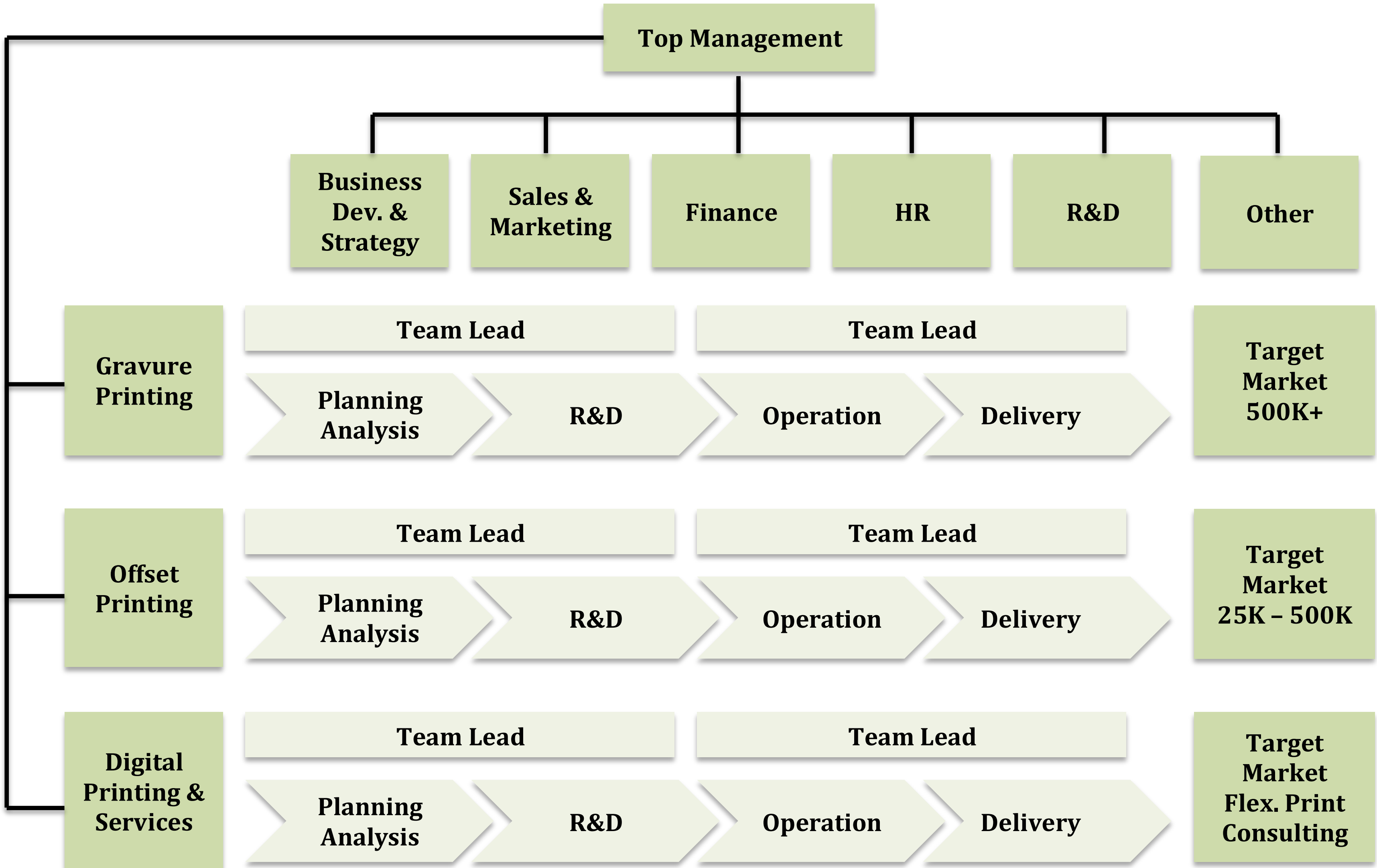
Analysis & Alignment Evaluation		Corporate Strategy	Business Strategy	Structure	People	Process	Incentives	Leadership	Culture
Process	Wait & See process does not achieve projects full potential								
	Disrupted communication channels								
	Divisions working in silos competing for resources								
	Sales matrix for new manufacturing plant investments								
	Incremental improvements according to customer needs								
	Program managers& cross-functional teams as projects champions								
	TDP incapacity to evaluate disruptive projects								
	TDP has no strategic planning matrix								
	TDP based on short phase financial matrix								
	TDP: Technology Development Process								
Incentives	Sales culture incentivized by monetary bonuses								
	Divisions' incentive based on sector's performance								
	Groups' presidents' incentive based on their divisions								
	ISG incentivized as a separate division								
	No cross-functional collaboration incentive base								
	No cross-functional sales incentive for salespeople								
	Insignificant incentive for innovation and company wide adoption								
Leadership	No visionary transformational leader								
	Financial leadership Vs. Strategic leadership								
Culture	Opportunistic sales growth driving development								
	Lack of long-term corporate & marketing strategy								
	Lack of financial efficiency								
	High bonus desire								
	Comfort zone								
	Silos								

7 – Exhibit-2: Alignment Evaluation[26]

Alignment Evaluation											
Strategic Alternatives	**Pros**	**Cons**	**Slow industry shift**	**First mover advantage**	**Maintaining revenue stream**	**Transformational leadership**	**Corporate strategy**	**Business Strategy**	**Adoption**	**Misalignments**	**Average**
Alternative 1: **Separate digital printing division & restructure organization wide incentive system**	Responsive to immediate customer needs and satisfaction	Limited economies of scale	1	1	1	0	0	0.5	0	0	**43.8%**
	Product responsibility contact points are clear	Minimal functional competence and specialization									
	Better coordination among functions	Poor coordination across product lines									
	Decentralization and P&L accountability	Weak knowledge transfer and cooperation									
	Responsive to incentive structure problems	Competition for central resources									
		Difficult integration and standardization									
Alternative 2: **Restructure horizontally around 3 major products**	Enables flexibility and fast response to market trend	Determine core processes	1	1	1	0.5	1	1	0	1	**81.3%**
	Focuses attention towards production and customer centricity	Costly change & training									
	Clear organization vision and strategy	Difficult adoption from traditional management									
	Focus on teamwork & collaboration	Employee specialization									
	Empowerment offers intrinsic employee motivation										

[26] *0 being misaligned, 0.5 partially aligned and 1 aligned*

8 – Exhibit-3: RRDS[27] Horizontal structure



[27] *R.R. Donnelley & Sons*

9 - Exhibit-4: Balanced Scorecard

Objective	Metric	Target	Action Plan
Financial Perspective			
Increase revenues	Maximize market penetration	10%	Research new market trends
Improve financial efficiency	Implement managerial accounting ABC costing system	10%	Improve financial tracking and cost efficiency
Increase return on capital	Net profit / Investment x 100	10%	Optimize use of existing plants
Customer Perspective			
Create RRDS[28] brand image	Survey customers about entire services awareness	80%	Multichannel marketing and education campaign
Increase customer satisfaction	Survey customers' usage preferences	80%	Adapt all products to customer preference
Facilitate customer acceptance of new products	Survey customer's knowledge about advantages	80%	Design target market customer centric products
Product Consistency	Product efficiency	98%	Continuous testing and improvement
Internal Processes Perspective			
Redesign TDP[29] evaluation system	Benchmark new to old development performance on growth	15%	Include strategic metric
Change incentive system	Increase in overall organization's revenues	15%	Multi-weight incentive system
Increase resources for R&D	% Of organization's growth resulting from new projects	15%	Aligning development with strategy
Reduce job ambiguity	Employee satisfaction and job clarity	85%	Ongoing training and communication
Learning & Growth			
Clear limits of each product	Targeted market share	10%	Maximizing customer reach
Increase employee motivation	Employee acquisition & retention	75%	Empowerment, training and growth opportunity
Enhance cross functional subsidiaries' collaboration	Service & resource sharing among subsidiaries	75%	Set target for common resource sharing

[28] *R.R. Donnelley & Sons*
[29] *Technology Development Process*