

# Marketing Turnaround Case Study

## Consumer Electronics

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### SUMMARY

This paper shares how a mature consumer products company unleashed millions of dollars in profits by properly aligning marketing with operations. The reader will see how poor product management decisions nearly destroyed a fast growing product line and what a new team did to achieve an amazingly successful turnaround.

## Background

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In the 1990s the large screen television segment of the consumer electronics industry was about eight years old and growing steadily. The \$2 billion U.S. consumer electronics division of one of the largest global CE conglomerates, Philips Electronics, had literally founded the mass market for large screen television but the division had not turned a profit in 7 years, although annual sales exceeded \$120 million.

Even though Industry CAGR was averaging about 7%, the division's CAGR for the past 3 years was -12%. The division had experienced a quality crisis and retailers had started migrating to competing brands. At that time there were about 20 companies offering large screen TVs and Philips' share had eroded from more than 60% to less than 25%. The company began shifting resources to other opportunities and the CFO strongly recommended that the division be shut down.



A fairly new executive to the Philips team was assigned to come up with an exit strategy. However he discovered in less than four weeks that the root cause of the profit problems was slow factory throughput caused by an unnecessarily complex, difficult-to-build product line.

## How corporate culture led to the problem

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At the time Philips' talented sales team was strong and had undue influence on product development. Under sales' direction the product line had expanded into a complex smorgasbord that attempted to address every major retailer's desire for something unique. Differing brands, models and feature sets proliferated. Production runs became smaller and smaller. Changeover times increased. Parts commonalities diminished as the product and engineering teams became unable to keep up with a growing and ever-changing stream of product changes from sales. Factory throughput slowed to a crawl. Quality plummeted, sales and margins shrank and the division's morale hit bottom.

## Next steps

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After analyzing the market's growth trends and profitability, the newly appointed executive showed the CEO and CFO how the division could be made profitable. He asked to create the company's first business team and pulled together leaders from every functional area. He explained the imminent shut down of the division and presented a

bold turnaround plan focusing on a complete overhaul of the product line. With a view toward decreasing costs by increasing factory throughput, the turnaround plan centered upon all new approaches to product styling, parts commonalities, branding and merchandising. Bluntly asking for their support, he assured the demoralized team that if they agreed to this new product line and marketing plan, he would freeze the new product line for one year and not allow sales to make any changes of any nature.

This is what happened next:

- The new business team became joined at the hip. The leaders from each functional division met weekly. In each meeting the team reviewed the financials first. The remainder of the meeting was devoted to the new product line development and understanding the financial implications of each decision impacting the new line.
- The new product line was created quickly, focusing on parts commonalities and differentiation that could be easily appreciated by consumers and retail buyers but did not require unusual changeover times in the factory.
- A new marketing plan was created focusing on national TV advertising, retailer merchandising and sales promotions.
- The turnaround leader hit the road with the top sales people and helped convince key retailers to give the new product line a try.

## The results

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The turnaround took a year to execute and another year to demonstrate sales results. At the end of that second year sales were up slightly, market share was up and the division had turned in a \$7 million operating profit, following an operating loss of \$5 million the year before, for an overall improvement in IFO of \$12 million. Of all the divisions in the \$2 billion company, this division was one of two that turned a profit that year. The team were treated like company heroes and the large screen television division went on to become a significant strategic component of the parent company's overall consumer electronics strategy.

## Key lessons

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1. Overly complex product lines can destroy profitability
2. Marketing must be strong enough to control product development
3. Marketing and product management can easily serve as watchdogs on gross profit
4. There are often hidden profits waiting to be unleashed

About the author:

[Mike Harris](#) is the founder of [Harris Consulting LLC](#) and is an expert in resolving challenging marketing situations. He has served as the top marketing and business development executive for companies or divisions in consumer electronics, software, data storage/networking and others with revenues up to \$120 million. He has also served as a corporate officer and head of investor relations for NASDAQ:NM companies. He is a former management consultant with PriceWaterhouse Coopers.

Mike holds a B.S. from the University of Tennessee and an MBA in Marketing and Finance from Vanderbilt University. He is a frequent guest lecturer at the Rady School of Management at UCSD, where he is also a student mentor.

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