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FILL 'ER UP Before he claims his bonus, CEO Krishnamurthy tops off the workers' share.

Adjusting the Picture

A new boss took display maker Planar Systems beyond the gas pump and onto the desktop. Secret asset: A well-tuned supply chain.

The rebirth of Planar Systems, a Beaverton, Ore., maker of electronic displays, followed a timeworn script for corporate turnarounds. There was the ailing company, the white knight CEO who rode in to save the day, and the hidden gem inside the corporation, around which the new chief finally rallied the team. The difference with Planar is that the hidden asset wasn't a brand or business; it was a process—a particularly efficient supply chain. CEO Balaji Krishnamurthy seized on that asset shortly after arriving in September 1999 and used it as a springboard into the fast-growing field of flat-panel computer displays. The new business launched Planar's revenues to a 68 percent gain by 2002 and turned a \$2 million operating loss into a \$17 million profit. The market has responded by more than tripling Planar's stock price since Krishnamurthy's arrival.

Like many other companies thriving in today's tech doldrums, Planar sat out much of the preceding boom. During the fin de siècle orgy, Planar ran a modest business making black-and-white displays for military truck and tank dashboards and, most notably, for gas station pumps. The company dominated both niches, but neither was growing. New initiatives stalled for lack of leadership as CEO Jim Hurd, who had founded Planar in 1983, struggled with leukemia. Sales stagnated, losses rose to \$5.1 million, and the stock plunged almost 43 percent, even as the Nasdaq was soaring. Six months after the popular founder's resignation in April 1999 (he died 14 months later), the stock price hit an all-time low of \$5.25. "They were going nowhere," says David E. Mentley, senior vice president at iSuppli/Stanford Resources, a Santa Clara, Calif., research firm that tracks the display business.

The search for a new CEO led to Krishnamurthy, a 49-year-old native of India and an engineer who had spent the previous five years running the television division of testing equipment manufacturer Tektronix. Although he knew nothing about the display business—"I couldn't even spell 'electroluminescent,'" he jokes now—he jumped at the Planar offer.

As it turned out, Krishnamurthy's inexperience proved to be no handicap. Indeed, it may have helped him take what researcher Mentley admiringly calls a "nonsentimental approach." One of Krishnamurthy's first actions, for example, was to shut down a pet project of Hurd's, an attempt to develop color electroluminescent circuits. The flexible, ultrathin technology could open up new markets, but Krishnamurthy realized that his ailing company had no time for quixot-

Seeing Results

Planar's revenues have nearly doubled as it has broken into the consumer market.



*Projected. Revenue per employee is based on average head count for the year. 2003 revenue breakout is based on the first two quarters. Sources: Company, SEC filings.

ic scientific quests. (No one has succeeded in making color electroluminescent circuits at mass-market prices.) "Instead of creating technology and trying to drum up demand for it," he says, "we decided to find demand, then create the technology to satisfy it."

More "nonsentimental" actions followed. To refocus on growth markets, Krishnamurthy closed down Planar's military business. He shuttered factories and outsourced to China. Three and a half years into his tenure, Planar's head count is down almost 50 percent to 500, and only 2 of the 10 top executives from Hurd's era remain.

Krishnamurthy also revamped Planar's incentive pay, to emphasize that rebuilding was a team effort. These days the first

employees to take money out of the bonus pool are the rank and file. They receive bonuses equal to 5 to 10 percent of pay depending on whether the company meets profit targets. Once their bonuses are distributed, any money left over is divided among middle managers and then among top execs. Krishnamurthy is last in line. In 2002, in fact, he received no bonus, although he could pull in as much as \$800,000 this year.

But Planar still needed an engine for growth. Krishnamurthy poured resources into a small division that built high-quality 15-inch flat-panel displays for medical devices such as anesthesia machines. He replaced his supply-chain staff with a new team, whose main job was to keep on top of suppliers and vendors all over the world. The logistics intelligence helped Planar fill its distribution channel with the right products at the right time to help keep inventories tiny. For all that effort, however, Planar's new medical displays didn't even make up the revenues lost from exiting the military business.

The sweet spot, Krishnamurthy figured, was in PC displays. The transition from television-like cathode-ray tubes to flat-panel models was creating a market growing at 20 percent a year even as the overall trade in desktop computers stagnated. But Planar had no experience in consumer electronics and, it seemed, no reason to think it could take on giants like Hitachi and Sony.

And then came the epiphany. "We looked around," Krishnamurthy says, "and realized that we had this amazing supply chain." Retail computer parts depreciate at blinding speed. That confers an advantage upon any vendor that can keep resellers supplied with monitors without having to keep many in stock. "Consumer flat-panel displays," he says, "are like rotting bananas. You don't want to get stuck with too much inventory."

Planar geared up its supply chain and entered the consumer market in October 2000 with candy-colored flat-panel displays that became the company's signature. With a 2.4 percent share, Planar is no threat to market leaders NEC-Mitsubishi or ViewSonic—at least not yet—but its products continue to gain traction. Dell recently agreed to sell Planars, an important endorsement. Of course, if NEC and ViewSonic decide to take a temporary bath in profits and stage a price war, little Planar could be the first victim. But Krishnamurthy isn't backing down. Next he plans to challenge the giants in the LCD television and plasma display screen markets, both of which are growing more than 70 percent.

He may have been a bumpkin when he entered the display business, but Krishnamurthy knew the difference between assets with potential and those that had tapped out. That's a useful skill no matter what product you're pumping. — OM MALIK

PLANAR'S FIVE-STEP TURNAROUND PLAN

In reversing the company's fortunes, CEO Balaji Krishnamurthy followed a handful of key principles.

NO MAD SCIENCE Krishnamurthy ended costly long-range research into color electroluminescence and focused instead on markets with existing demand.

DON'T BE SENTIMENTAL Krishnamurthy halted the company's long-standing military business (even though it made up 14 percent of sales) to pursue faster growth.

THE TROOPS EAT FIRST In Planar's incentive pay system, the rank and file are first at the bonus trough. Managers get their share only after the workers fill up.

APPRECIATE YOUR ASSETS Planar had an efficient supply chain for the tiny medical display market. It used that capacity to bootstrap into the larger PC market.

STAND OUT New to consumer displays, Planar grabbed market share with flashy, colorful monitors that set them apart.