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Case study: Growth with values

By Joseph Lampel and Ajay Bhalla

The story. Founded in the early 1900s as a manufacturer of high-quality chairs in High Wycombe, Buckinghamshire, family-owned Hypnos is today known mostly for its handcrafted beds.

To establish itself in the market, Peter Keen, the fourth generation of the family to run the business, took the unusual step of launching the most expensive bed in the country: a £4,000 bespoke product for which the delivery time was 16 weeks.

Although the bed did not generate many sales, it helped establish the company's reputation for craftsmanship.

More important, it served as a launch pad for Hypnos's entry into the hotel market, where it went on to become a preferred supplier to top and mid-range chains.

The challenge. By the late 1980s, Mr Keen wanted to expand beyond hotels into the consumer market.

However, the retail sector posed a new set of challenges. Above all, this market required a more aggressive pricing strategy, which put added pressure on Hypnos's margins.

The obvious solutions were either to reduce quality or move manufacturing to a low-cost location in Asia.

However, Hypnos wanted to avoid both. As a holder of a Royal Warrant to the Queen, the company was determined not to compromise on quality. At the same time, moving manufacturing out of the UK went against the Keen family's longstanding commitment to the local community.

Could Hypnos develop a successful retail strategy that met both these objectives?

Seizing an unexpected opportunity. For many years, Mr Keen had tried to sell his beds to John Lewis, the high-street retailer popular with middle-class Britons. In 1985 an unexpected breakthrough came when the store discovered a defect in a mattress from its existing supplier and turned to Hypnos.

Practically overnight, Hypnos had to ramp up production. The challenge, however, was not only to increase the volume of beds produced but also to create a new management team capable of running a larger and more complex operation.

Mr Keen quickly moved to bring in managers with expertise in overseeing a streamlined production process. The new team then introduced practices such as total quality management and lean manufacturing to reduce costs and improve efficiency.

Mr Keen also revamped Hypnos's human resources system, launching a career progression scheme to ensure that local manufacturing skills were retained and improved.

At the same time, Hypnos renewed its commitment to the local community by investing in a new manufacturing facility in a nearby village.

What happened? Today, Hypnos has sales of £25m, and continues to be a supplier to John Lewis.

It has also expanded into international markets. In China, in particular, the company's reputation as a premium British brand, bolstered by the Royal Warrant, is proving especially effective in generating sales at the upper end of the market.

The lessons. First, it is important to be patient when seeking new markets. Do not throw your values overboard too quickly; instead, keep looking while being ready to seize any chance. Hypnos was able to exploit the John Lewis opportunity because of the strategic mindset it already had.

Second, recognise that a successful growth strategy is not just a question of doing more of the same on a larger scale. Growth is often transformational for the management of the business.

So, managers who performed well running a business of a certain size will not necessarily be the right managers when the business doubles or triples in scope. The informality and improvisation of a small operation will not suffice when the organisation has to scale up: new thinking, new practices and new people have to be introduced for growth to become sustainable.

Joseph Lampel and Ajay Bhalla are, respectively, professor of strategic management andis professor of global innovation management at Cass Business School