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ASHISH NANDA

Ecolab, Inc.

Monday, October 11, 1993 was overcast, in marked contrast to Allan (Al) Schuman as he entered his penthouse office in Ecolab Inc.'s nine-story corporate building in downtown St. Paul, Minnesota. Schuman was quite pleased with how Ecolab had performed in the one year he had been president and COO. Third quarter results indicated that the company was well on the way to achieving, for the first time in over a decade, all three of its long-term financial goals of 15% EPS growth, 20% return on equity, and an "A" rated balance sheet. (See **Exhibit 1** for Ecolab's financial performance from 1989 to 1993.) The company had not only withstood an aggressive sales drive by its principal competitor Diversey but also launched its own sales initiative.

Schuman saw his foremost task as identifying the marketing strategy that Ecolab sales personnel ought to use in approaching their large customers. "Should we," he thought, "continue to focus on building relationships first and worrying about numbers only later, as we have done so successfully in the past? Or, should we change our selling approach?"

Company Background

Founded in 1924 as a supplier of cleaning products, Ecolab had, by 1982, become a diversified conglomerate suffering deteriorating sales growth and declining performance. Pierson (Sandy) Grieve was recruited as chairman and CEO by Ecolab's board of directors in 1983 with a mandate to restore the company's health in the short term and achieve, in the long run, the challenging financial targets of 15% EPS growth, 20% return on equity, and an "A" rated balance sheet. Grieve immediately initiated a refocusing program at Ecolab. The company shed several unrelated businesses while simultaneously building its institutional cleaning business through investment and acquisitions. By the late 1980's, Ecolab had become a worldwide leader in institutional cleaning products. Its customers included hotels, restaurants, food service and healthcare facilities, dairy plants and farms, and food and beverage processors.

Ecolab's new strategy, succinctly articulated in 1985 as "Circle the customer, circle the globe," was one of providing to its principal global customers total solutions – both products and services – in cleaning, sanitizing, and maintenance. "Basically, we are an industrial volume soap company," remarked an Ecolab executive, adding: "But we do more than just sell soap. We also sell specialized kitchen and laundry cleaning equipment and dispensers for our soap. We offer training and support

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to the customer's staff, regular quality checks, and servicing of our equipment. In short, we offer total solutions to the laundry, janitorial, kitchen, and pest elimination needs of all our customers." [1]

Industry Structure

Industrial cleaning was not a highly capital intensive activity for customers, nor were the cleaning methods required to be used with different products very different. Hence, customers' product switching cost tended to be low.

Institutional customers were categorized as either "national" or "street" accounts. Street accounts, independently operated single-unit businesses with relatively low purchase volumes, were serviced through distributors. National accounts, businesses with multi-unit properties, such as Marriott and Denny's, or single units with high purchase volumes, such as The MGM Grand Hotel in Las Vegas, were served directly.

For smaller customers, timely delivery and low price were key product features. Large institutional customers were concerned about ease of use (so that the cleaning tasks could be independently handled by low-skilled workers), safety of operations (since accidents and spillages could harm the workers through contact with the highly alkaline soap, exposing the company to potential lawsuits), and continuous operations with negligible down-time (since cleaning was a critical ongoing activity in the hospitality business). Cost of the product and the dedicated machinery employed in cleaning constituted were but a small fraction of the institutional customer's total cleaning cost (see **Exhibit 2**). Consequently, the larger, multi-establishment customers were willing to pay a significant price premium for product quality, simple operating process, regular preventive maintenance of machinery, and immediate attention to breakdowns and stock-outs.

The Competition

The distributor sales business was highly competitive. Entry into the industry on a small scale was relatively easy – a number of small firms offered products at low prices and high distributor margin. The market for national accounts was essentially a duopoly, marked by intense competition between Ecolab and Diversey. (**Exhibit 3** presents market share data for these two companies.)

Diversey Corporation was a wholly owned subsidiary of Diversey Corporation (Canada), which, in turn, was a wholly owned subsidiary of Molson Companies of Canada ($2.6 billion revenues and $126 million net income in 1992). Prior to 1990, Diversey had been a relatively small competitor in the U.S. market, trailing Ecolab and DuBois. Its purchase of DuBois for $243 million in 1991 catapulted Diversey to the number two position in the $1.2 billion institutional cleaning industry, whereupon the company embarked on a sustained push to build market share in the U.S. Molson's president and CEO had reportedly remarked: "We're going to give [Diversey] all the tools – people, cash, whatever it takes….We're going to reinvest in that business quite significantly."[2] Ecolab had countered Diversey's challenge by aggressively courting Diversey's customers.

When Diversey acquired DuBois, some DuBois employees, unhappy with the change in ownership, migrated to Ecolab. Subsequently, some other sales and marketing executives were hired away from

[1] Unlike household soap, industrial soap was much more alkaline, since industrial cleaning did not require contact with human body.

[2] *The Wall Street Journal*, 07/07/1994.

one company to the other, the bulk of the movement being from Diversey to Ecolab. Acknowledging that "there's been some cross-employment," Ecolab chief counsel William Rosengren added: "but it has been limited to individual defections at the levels of area directors and territory managers."

Defecting executives were typically assigned to new customers by their new bosses to avoid violating their contractual obligations to their former employers of confidentiality and non-competition. Confidentiality and non-compete clauses were signed by the employees at the beginning of their employment. These clauses proscribed them, if they were to quit the company, from disclosing confidential information pertaining to their ex-employers and from soliciting or serving, for a period of one year, the same customers they had served prior to changing jobs. Although commonly used in the industry, a non-compete clause was generally viewed by courts with cautious skepticism, out of concern that the restriction could impose undue burden on the gainful employment of the affected individuals.

Ecolab's Institutional Division

The Institutional Division had become Ecolab's core business, contributing, in 1992, one-half of the company's revenue and over three-fourths of its operating profit (see **Exhibit 1**). Consistent with Ecolab's strategy of concentrating on important customers, the national accounts had been generating an increasing share of the company's business over the past three years and accounted for approximately 80% of the division's 1992 revenues. Of the more than 200,000 customers of the Institutional Division, about 2,500 were national accounts.

The history of the Institution Division's growth was intertwined with the personal career of Schuman, who had led it with great success over the past decade.

Al Schuman

A 37-year Ecolab veteran, Al Schuman had been born and raised in the Bronx. "My father was a hard-working East European immigrant," he reminisced. "He ran a butcher shop in Harlem, where I began working at age fourteen. He scrimped and saved to put me through college. We didn't have anybody to fall back on. It made me hungrier."

Schuman joined Ecolab as a junior salesman upon graduating from New York University in 1956, and worked his way up the corporate ladder in the Institutional Division. Remarked a colleague: "He has a drive and a passion for the business that very few people do." Schuman looked upon his experience working in the trenches as a source of great strength. "Whatever anybody does – good or bad – I have done it," he said, "You can't mess with me."

Promoted in 1992 to president and COO of Ecolab in acknowledgement of his role in leading the Institutional Division to success and prominence, Schuman had named Gerald (Jerry) Carlson his successor as head of the Institutional Division (see **Exhibit 4**). Carlson, a 27-year Ecolab veteran, had come to the Institutional Division with a reputation of being an effective and systematic manager at the International Division.

Product Innovation and Service

"It is our goal," remarked an Ecolab director, "to make the cleaning process totally foolproof, standardized, and safe." The back-offices of the hospitality industry, which were the ultimate users of Ecolab products, were typically staffed by low-skilled and low-paid workers. In order to be handled effectively by the workers, it was important that the cleaning operations be simple, safe, and reliable. Towards those goals, Schuman aggressively pushed for product and process innovations within the Institutional Division. He had set a goal that at least 25% of the products sold by the division be no more than four years old. The company had introduced several innovations in recent years to make the cleaning process systematic and simple: replacing liquid soap by much less bulky solids, introducing automatic dispensers to ensure uniform intensity of application, and packaging soap in self-dissolving capsules to simplify usage.

Maintaining a large and knowledgeable service organization equipped with a fleet of service trucks was essential to ensuring uninterrupted high quality of service to the hospitality customers. Ecolab, with its team of over 2,000 sales and service personnel, had a sales and service organization several times larger than its competitor Diversey.

The National Accounts Team

Sales and service to the national accounts was led by a team of five senior executives who had substantial industry experience (see **Exhibit 5**). Under the leadership of senior vice president Jack Ford, four vice presidents managed relationships with the headquarters of the national account customers. These vice presidents were supported by 32 assistant vice presidents and several account managers.[3] "We develop a pyramid of relationships with our national account customers all the way up their organizational hierarchy," remarked a sales executive: "Our territory managers interface with their restaurant managers, our district managers and area managers with their middle managers, and our national accounts vice presidents with their vice presidents of Purchasing."

Sales and service agreements were negotiated by the national accounts team at the customers' headquarters level. The national accounts team had developed a complex and effective process of pricing involving a mix of rebates, growth incentives, flat fees, and cost guarantees to attract and retain customers.

Each vice president was responsible for a geographic region, but also called upon important national account counterparts he may have developed close personal relationships with, irrespective of location. The vice presidents traveled extensively and frequently to meet with customers and lavishly entertained them at trade shows and special events. In 1992, for example, the national accounts team spent more than $400,000 on visiting and entertaining customers, approximately the same amount on trade shows, and in excess of $500,000 on entertaining key customers at events such as the Super Bowl and the NCAA Final Four.

The five vice presidents looked upon Ford not only as their boss, but also as their leader and mentor. A charismatic individual who had developed many creative pricing programs and solutions to customer problems, Ford had earned a special stature within the industry; in 1991, he had won the Marriott account for Ecolab, considered a major coup.

Emerging Challenges

Upon taking charge as the new head of the Institutional Division, Carlson, seeking to more sharply define the parameters within which the national accounts executives cut deals with the customers, had begun to accept greater input from the Marketing and the Planning and Control Departments. Ford,

[3] Distributor sales were managed by a fifth vice president, who was assisted by two assistant vice presidents and eleven account managers.

who had been dismayed that Carlson rather than he had been made head of the Institutional Division, believed this to be absolutely the wrong approach. He wanted the company to aggressively pursue customers first and worry later about the exact terms of the deals. "The national accounts team is very turf conscious," observed a staff executive. "They see Jerry's attempts to define parameters as extremely threatening."

In an Institutional Division meeting on August 26, sharp disagreement had surfaced between the Sales and Service executives and the Marketing and Planning staff on how the company should pursue its national accounts customers.

Subsequently, Ford had complained to Schuman that the national accounts team was deeply concerned about the direction the Institutional Division was taking under Carlson's leadership. He also expressed regret that, since becoming COO, Schuman "hardly ever comes down to ask us how things are going with Carlson."

Exhibit 1 Ecolab – Summary Financials: 1989 to 1993

All figures except RoE and P/E are in $ million.

	1989	1990	1991	1992	1993 (Q1-Q3)
Income Statement					
Sales	911	1,007	918	1,005	774
Operating profits	83	119	110	117	89
Extraordinary income (expenses)	(29)	(4)	(299)[a]		1
Net Income	3	54	(244)	64	56
Balance Sheet					
Current Assets	400	249	284	254	
PPE - net	274	254	189	195	
Intangibles	336	315	33	27	
Investments		56	296[b]	289	
Other Assets	33	52	120	67	
Current Liabilities	257	234	238	188	
Long Term Debt	225	205	319	208	
Other Liabilities	45	34	67	91	
Convertible preferred stock	110	110			
Owners' Equity	406	343	298	344	
Return on Equity (%)[c]	8	11	12	22	
P/E range	28.6-19.9	16.0-8.5	22.5-13.1	18.7-13.0	19.8-15.1

Source: Ecolab Annual Report, 1993.

[a] Ecolab took a $275 million charge in 1991 upon sale of ChemLawn, an ailing lawn care company it had acquired for $376 million in 1987. ChemLawn continued to suffer market share losses and profit erosion until it was divested.
[b] In 1991, Ecolab invested in a European joint venture with Henkel.

[c] RoE and P/E figures exclude extraordinary expenses.

Operating Results of Ecolab Divisions – 1992

All figures are in $ million

		Revenue	%	Operating Profit	%
Divisions					
	Institutional	515	51	91	77
	Food & Beverage	117	12	18	15
	International	241	24	9	8
	Others[a]	132	13	7	6
	Corporate			(7)	(6)
Total		**1,005**	**100**	**118**	**100**

[a] The other divisions included Pest Elimination, Textile Care, Janitorial, and Key Chemicals, a subsidiary.

Exhibit 2 User Costs

	Warewashing	Laundry
Labor	49%	51%
Product	6	7
Breakage/Replacement	11	19
Energy	14	12
Indirect	20	11

Source: Company estimates.

Exhibit 3 Ecolab and Diversey, Market Shares: 1992

	U.S. Market Shares (%)	National Accounts Market Shares (%)
Ecolab	45%	65%
Diversey	13	15

Source: Company estimates.

Exhibit 4 Ecolab Partial Organization Chart—Institutional Division, September 1993

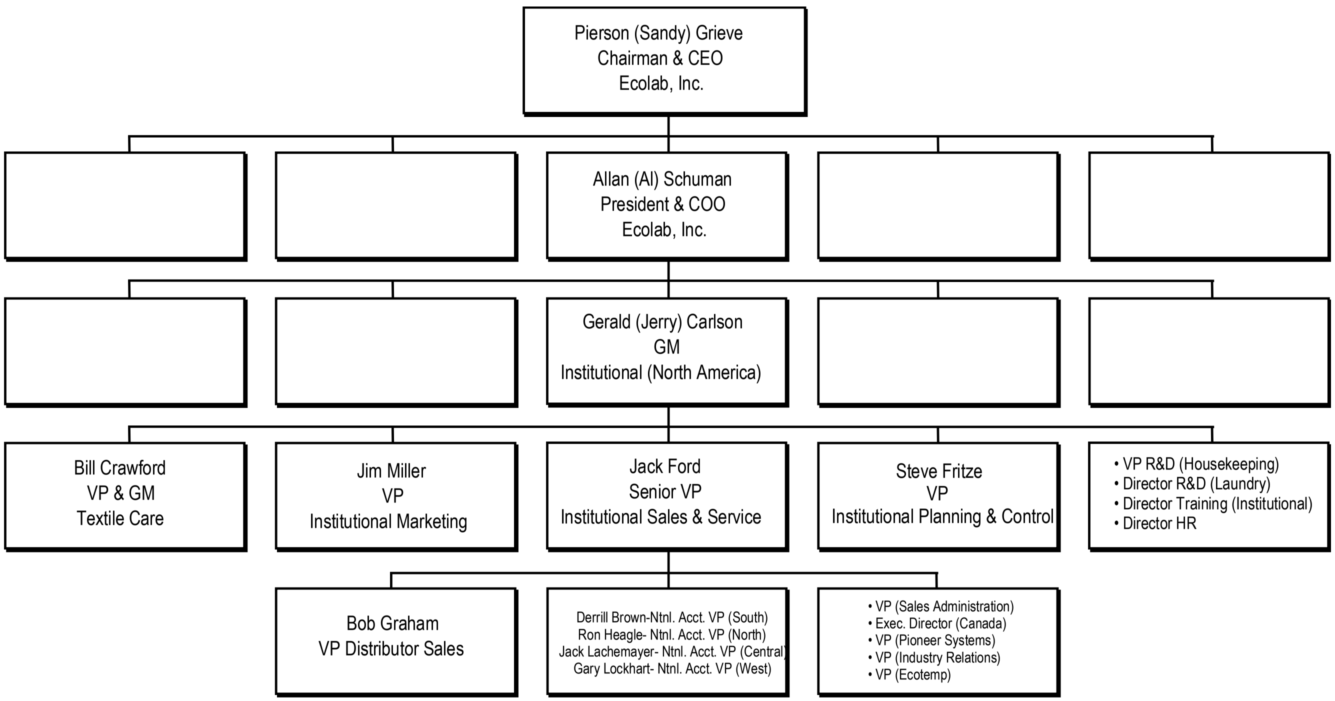

Exhibit 5 Profile of the National Accounts Team

Team Member	Experience with Ecolab (Years)
Jack Ford	23
Derrill Brown	28
Ron Heagle	21
Gary Lockhart	23
Jack Lachenmayer	23
Bob Graham	24