Leigh Wells

Leading a **turnaround:** An interview with the chairman of D&B

Allan Loren explains how he delivered double-digit earnings growth during each of the past four years and raised the company's value by more than 300 percent.

Brian Hanessian and Carlos Sierra

D&B, formerly known as Dun & Bradstreet, could be a business school case study about restoring value to a good company that had lost its way. For decades, the $1.4 billion provider of global business information, tools, and insight has supplied data about companies around the world. Customers buy D&B products, such as business information reports (detailed briefings on companies) and business-to-business marketing lists, to improve cash flows, mitigate risks, and increase revenues. But during the 1980s and 1990s, a series of acquisitions and divestitures undermined the performance and brand of the company, and by the late '90s it could no longer focus on its true sources of value. In 1999 D&B failed to meet its revenue and earnings expectations, and shareholders were furious. The company, which is now based in Short Hills, New Jersey, had become an underperformer with underleveraged assets.

That was the problem greeting Allan Z. Loren in May 2000, when he joined D&B as chairman and CEO. Loren had recently retired as the CIO of American Express, another venerable brand-name company, which he had helped turn around. In D&B, he saw a business that had a lot to offer its customers—if it could focus on the right things, repair its brand, improve its leadership, and crystallize its value proposition.

Under Loren's leadership, D&B quickly crafted a strategy to help it determine how it could win in the marketplace and to generate the confidence needed for implementing its plans. Soon the company adopted a business model designed to increase its investments in the capabilities that lie at the heart of its brand promise and to position itself for growth. Savings from restructuring were reinvested to expand the business and to raise its earnings per share (EPS)—a strong focus of the turnaround. D&B also created a new culture of leadership, which Loren regards as critical for sustaining any business.

Five years later, D&B has repaired its brand, improved its leadership, and built a portfolio of effective customer solutions. The company has also delivered double-digit earnings growth during each of the past four years, and its value has increased by more than 300 percent during that time. In January 2005, Loren handed over the position of CEO to Steven Alesio, in a succession plan that had been managed for nearly two years. Loren remains as chairman until May 2005, when he will retire for the second time and Alesio will become chairman and CEO. In February, Loren spoke about D&B's transformation with Brian Hanessian and Carlos Sierra, a director and an associate principal, respectively, in McKinsey's Chicago office.

The *Quarterly*: *What was the situation at D&B when you arrived?*

Allan Loren: Unfortunately, the company was not in a good position. During the 1990s, many companies under the Dun & Bradstreet umbrella had been bought and sold off in a kind of portfolio play. When I got here, the last of these was taking place—Moody's and D&B were being split. I arrived just months before D&B actually stood on its own.

At the time, my sense was that the company had no direction, no strategy, and lacked the ability to focus. D&B had multiple cultures and operated in more than 30 countries. As a result, what was going on in Germany was quite different from what was going on in the United Kingdom, even though they might be serving the same global customers. Pricing could be different; the value proposition could be different; even the Web sites could be different. We had hundreds of ways of going to market, mainly because each part of the company viewed itself as separate and independent.

That took its toll. Viewed from the outside, the company had great name recognition, but nobody knew what the company stood for. When I told friends that I was planning to join D&B, their reaction was, "That's great, and, by the way, what are those guys doing these days?" Viewed from the inside, we had too many decision makers and weak decision making. And we had a talent problem: many good people had left.

The *Quarterly*: *What was your vision for change? How long did it take you to develop and start articulating a strategy for change?*

Allan Loren: We crafted a strategy in just four months, then evolved it. Let's face it, you can't think out everything you need in four months. On the other hand, you can't have a new strategy every year, because if you do people will just wait for the next one to come out. So the objective was to develop the structure of a strategy and adjust it to future customer and economic needs.

We kept the structure simple. The primary focus was to repair the brand, change the business model to get funds to pay for the repairs, and create a new culture. Creating a new culture was fundamental to the new strategy. The business model we adopted—we refer to it as a "financially flexible business model"—was predicated on constant reengineering and then the reinvestment of the freed-up funds. That meant constant change for team members. We knew we needed a culture that would support continual change, but we didn't have that at all.

The strategy wasn't unique. But we had to sequence it, since we didn't have the ability to do everything at the same time. For instance, we called the

Allan Z. Loren

Vital statistics
- Born in 1938 in New York City
- Married with 3 children and 5 grandchildren

D&B's turnaround maestro

Education
- Graduated in 1960 with BS in mathematics from Queens College, City University of New York
- Did graduate work in mathematics and statistics at American University (1961–64); attended Stanford University's Executive Management Program (1979)

Career highlights
- Cigna (1971–87)
  - Chief information officer (1971–87)
  - Chief administrative officer (1979–87)
- Apple Computer (1987–91)
  - Chief information officer (1987)
  - President, Apple Computer USA (1988–91)
- Galileo International (1991–94)
  - President and CEO
- American Express (1994–2000)
  - Executive vice president and chief information officer
- D&B (2000–present)
  - Chairman and CEO (2000–04)
  - Chairman (Jan 2005–present)

Fast facts
- Serves on board of trustees for Liberty Science Center, in Jersey City, New Jersey; has served on board of directors for Hershey Foods, Reynolds & Reynolds, Venator Group
- Has announced he will retire in May 2005

strategy a blueprint for growth, and we needed to increase revenues in both our traditional business and our e-business. But we didn't try to grow right off the bat, because we didn't have the wherewithal. We knew that if we created a financially flexible business model, repaired the brand, and created a culture of great leaders, we would have a foundation for growth.

The *Quarterly*: *A simple structure, yes—but how do you know which elements need to be part of it when you craft a strategy this way?*

Allan Loren: Focus was critical. We didn't start out by saying, "Let's create the world's greatest strategy, so that the strategy itself will carry us to success." What we said was, "Our market opportunity is great enough, the value of the brand is strong enough, the things we do for customers have value; let's just get focused on the obvious contributions we can make to creating shareholder value and target our investments in a relatively few areas to make a difference." That's why we were able to come up with a strategy in four months. We weren't trying to be all things to all people, we weren't trying to be perfect, and we weren't trying to be brilliant.

Also, we didn't put our energy into figuring out how to do strategy. Instead, we concentrated on changing the behavior of our team members to help them grow as leaders. It wasn't the strategy that would carry us; it was leadership, created through cultural change, what we call "winning culture." That's why we said, early on, that success is about being better leaders, not about having a perfect strategy. We wanted leaders who were focused and behaved similarly—not identically but similarly—so that we could actually get our strategy implemented.

The *Quarterly*: *What challenges did you face approaching the transformation in this way?*

Allan Loren: The components of the strategy are all integrated, and a great deal of it rested on changing the culture. For instance, the initial challenge we faced, even before we crafted the strategy, was to get people in the company to understand that we could control our expense base. There was a belief, inside the company, that this was a high-fixed-cost business and that it was difficult to do anything about those costs. This was the mind-set we had, and it paralyzed the company.

To break through the paralysis, it was important for our leadership team to understand that there were consequences to what we decided to do—or didn't do—and that as leaders we "owned" those consequences. Here's how that played out in this instance. Shortly after I started, I had meetings with the leadership team where we would discuss ideas for growing the business. There were a number of good ideas, but every time I said, "Good, let's do that," leaders would push back and say, "Well, we can't, because we don't have the money to make the investment." After hearing this a few times I said, "If you're telling me we have such high fixed costs that we can't invest in the company then we should sell it. If we don't invest in the company, it won't grow and improve, and if it doesn't get better it will deteriorate, so it's worth more today than it will be tomorrow."

'I said, "If you're telling me we have such ***high fixed costs*** *that we can't invest in the company then we should sell it"'*

Nobody liked hearing that, but it got the dialogue on reengineering started. It broke through the notion that as a company we could remain in a static state. We faced up to the consequences of not investing. Eventually, we worked our way forward, identifying opportunities for savings that could then be reinvested in the business.

The *Quarterly*: *Let's talk about the strategy, starting with financial flexibility. What factors or principles guided you as you made decisions about what to cut and how to reinvest the savings?*

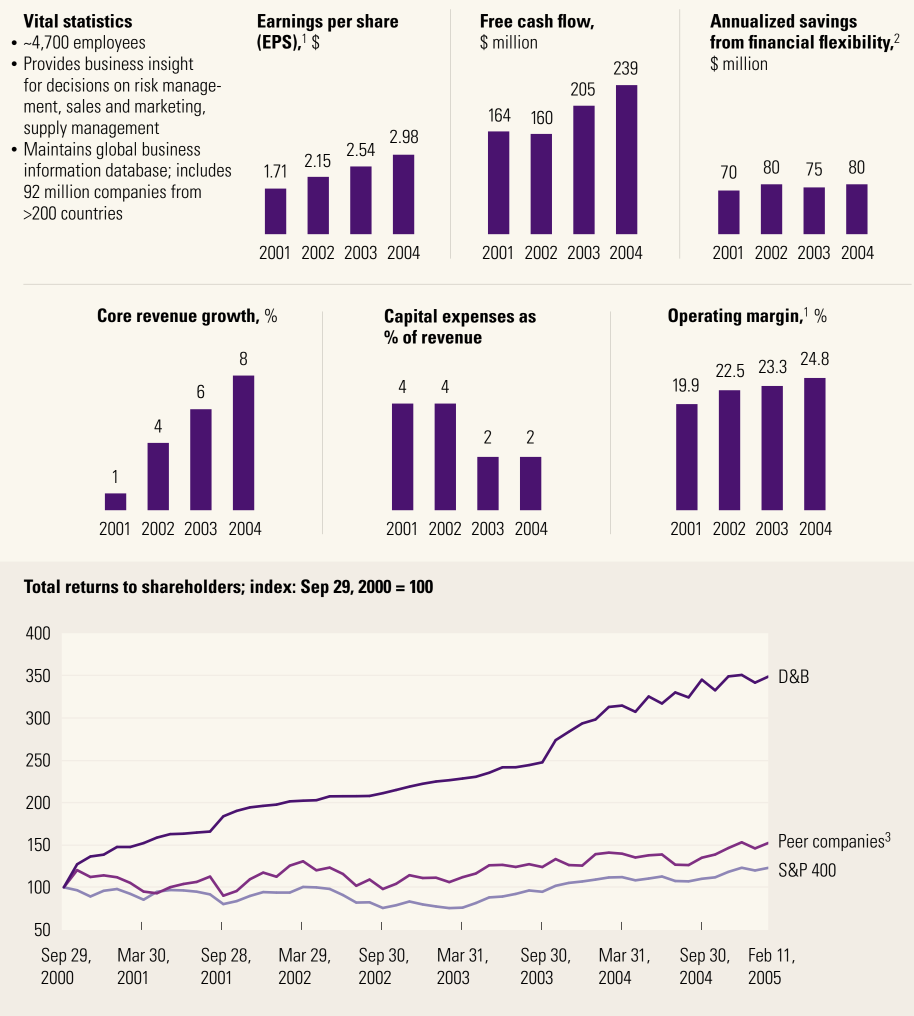
Allan Loren: Most transformations like this one trash earnings. We couldn't do that. When we split Moody's and D&B, we essentially put both companies in play, and at the time the value part of the split was thought to be Moody's. Given where our stock price was, you could have bought D&B for $1 billion.

We wanted to make sure that we wouldn't be fighting either a shareholder revolt or a declining share price while transforming the business, because you could lose control of the company before realizing its true long-term potential for our owners. With each dollar of cost we took out of the business, roughly 60 cents went for reinvestment, 20 cents paid for the reengineering-transaction costs, and 20 cents went to shareholders. When we explained that, investors saw their 20 percent almost as a dividend. It has supported EPS during this period of transformation.

So the 20 percent enabled us to produce the EPS we needed, and it created the improvement in share value. Over the past four and a half years, we have consistently increased our EPS. At the start, we said we would get 10 percent EPS growth, but we've been averaging 15 to 18 percent or

EXHIBIT

A portrait of D&B



[1] Before noncore gains and charges.
[2] Before any reallocation of spending.
[3] Acxiom, Equifax, Fair Isaac, InfoUSA.

Source: D&B

higher every year. We've increased the value of the company from about $1 billion to more than $4 billion.

The *Quarterly*: *How does financial flexibility work?*

Allan Loren: We like to have targets of around $70 million to $80 million a year in reengineering. First we went after the usual low-hanging fruit, consolidating a lot of functions and cutting some off-strategy projects. We have a traditional reengineering process—you eliminate, standardize, consolidate, automate, and then outsource or offshore. The difference at D&B is that we continually reengineer because we believe that almost all expenses are subject to reengineering—meaning that they are flexible. The 60 cents of every dollar we reinvest in the business could be reengineered again later on. That's the cycle.

The *Quarterly*: *The second component of your strategy is the brand. How did you reinvest to repair it once you started to free up cash? What did you focus on?*

Allan Loren: We invested several hundred million dollars in improving the quality of our processes for collecting, storing, and delivering data about businesses, because that was our core value proposition to customers. This is what we call our DUNSRight quality process. The process involves five steps in which we ensure that what we provide to customers allows them to make decisions with confidence about credit risk, suppliers, or targeted sales and marketing activities. It's a proprietary process, no one else has it, and it's a key competitive advantage. D&B didn't invest adequately in this process during the 1990s, and as a result the database didn't contain information on a lot of new businesses or have the kind of modeling or matching capabilities the company needed to remain competitive. So we began repairing DUNSRight and therefore our brand.

Our brand became "D&B: Decide with confidence." We threw out all of our old brochures and rewrote the value propositions for each of our businesses. Now we have 1,600 salespeople going to market with virtually a single message about the unique value proposition of our DUNSRight quality process. The market's understanding of what we offer—and appreciation of it—has dramatically improved.

The *Quarterly*: *Culture was the third component. You spoke earlier about the dysfunctional decision making and inertia in an organization operating with multiple cultures. What did you do to start institutionalizing culture change at D&B?*

Allan Loren: The culture we've created here is all about leadership. Leadership development is virtually the most important control lever you have for achieving success. You can't control customers; there are too many of them, and they are, of course, independent. You can't control the environment; look at all we've been through in the past four or five years. But if you have leaders who are adaptable and capable of leading just about anything, you can be successful. To make better leaders, we have to modify their behavior, not their personality. We spend a lot of energy helping team members become better leaders.

We have a few ways of doing that. We have well-defined values and guiding principles for the kind of behavior that is important to our culture. Also, we spend a lot of time developing everyone's leadership capabilities, with individual leadership action plans and formal development processes. And we coach and give feedback to team members consistently to help them become better leaders.

Our values were crafted by our leadership team, but I pulled together the guiding principles, rules of engagement, and leadership model into a manual. I cobbled these ideas together from what I've learned during my career about what it takes to become a better leader. Our guiding principles reflect the behavior and influences that should lead our interactions and decisions. These principles include communicating openly and honestly, acknowledging mistakes, asking for help, and seeking solutions rather than blame. The rules of engagement are few but very important. For instance, we don't schedule meetings on Monday or Friday mornings if that would cause team members to travel on the weekend, and the materials for a meeting go out 48 hours in advance so that people have time to consider them seriously.

The *Quarterly*: *The leadership group defined the values. Why not the guiding principles?*

Allan Loren: The values were something the leadership team could create—it was important for us to own our values. The guiding principles and rules of engagement are different. To help people become better leaders, you've got to have something that defines what a leader is. I decided this was something only I could do. This was critical. The CEO really owns the culture of the business. I think CEOs ignore that at their peril. As the CEO you can actually shape the culture if you're willing to get into the trenches and work.

We made the values, guiding principles, and rules of engagement part of the culture by constantly communicating them, so that everyone knew them, and by making sure that team members lived them. For some time, we opened every meeting by reading our values and guiding principles and discussing what we had learned by leveraging them. Some people may think that this was a waste of time. However, the consistent reinforcement of our winning culture changed the culture.

The *Quarterly*: *What is the leadership action plan?*

Allan Loren: The leadership action plan is an individual's road map for becoming a better leader. Specifically, each team member maps out his or her strengths and areas for improvement, on the premise that you leverage your strengths and work to improve the areas you need to get better at. Team members get guidance in laying out these self-assessments—they are reviewed and revised with each individual's leader on an ongoing basis. The leadership action plan is a "live" document that should be referred to daily in order for individuals to remain focused on becoming better leaders. Leadership development is an ongoing process, just like reengineering.

We also have a more formal leadership-development process, which is done quarterly. Progress is measured against the individual's goals and leadership behavior. Both the leadership action plan and the leadership-development process provide for feedback to help people become better leaders. With the leadership action plan, the feedback is immediate. For instance, if a leader is working on becoming more decisive at meetings, that person's "buddy" will give feedback directly after a meeting, to provide insight on what went well or how things could have been handled differently. Most team members have buddies—even me. We know what we need to work on, and we seek out people who are good at what we're not and get their help.

The *Quarterly*: *So you make a significant investment in coaching?*

Allan Loren: Yes. If you want to modify behavior, you have to communicate where you want a leader to go and ensure that the person will have the tools he or she needs to get there. Feedback is a crucial part of that. Without feedback, you're just kidding yourself about leadership. The reality is that we can't make you a better leader; you have to do that yourself. But the more feedback you get, the better you become. For example, we do a formal employee satisfaction survey, twice a year, that is designed to measure, among other things, the team members' understanding of and confidence in our strategy and whether team members are taking steps to improve their leadership. We use the survey results to identify opportunities for improvement and assign teams to address the areas of focus. We have high participation rates—99 percent—because team members understand the value of feedback.

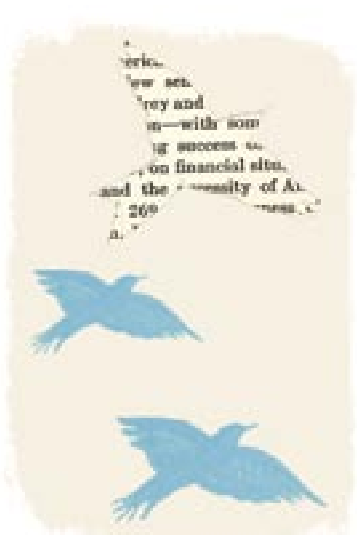
Also, as part of our coaching, we have to demonstrate the behavior we want others to exhibit. We may need to help people understand how to manage everything that's on their plate, for example, and to do that we have to demonstrate how you ask for help. At D&B, asking for help is a sign of strength, not of weakness.

The *Quarterly*: *How serious are you about values? What if someone hits the numbers but doesn't live the values?*

Allan Loren: Generally speaking, we will invest in people who live our values to a high degree and not invest in those who don't, no matter what the results are. We say clearly that if you don't live our values, it ultimately makes no difference what the results are. Why? Because the challenge is not to get high organic growth for one year but to get it every year. To have consistency in results, you need consistency of leadership. You can do almost anything for one year, but can you do it year after year after year? So even if you deliver the right number of widgets one year, you will have difficulty repeating this result if your leadership isn't improving.

The *Quarterly*: *Where are you now in the transformation?*

Allan Loren: Three parts of the strategy—the financially flexible model, the brand built around DUNSRight, and our winning culture—are humming now. They have become the foundation for growing the business and delivering strong bottom-line growth, and now we are starting to see benefits to our top line as well. We have 4,700 people who believe that our winning culture is good for them personally and work to seek out feedback. And people accept the fact that change is constant. Dealing with constant change is hard. Team members may not like it, but they understand and believe that it has to occur.



We've gone through enormous change in this company. The culture, the people, how we go to market, our values, the location of our headquarters—everything has changed. And yet we have very good employee satisfaction scores, and that's because the culture works for us. Culture is where we have focused and will continue to focus.

The *Quarterly*: *What's in the future for D&B?*

Allan Loren: As good as we feel about how far we've come, we feel even better about the future. And I'll tell you why. All of our customer solutions fulfill a need critical to the success of our customers. We believe that by identifying and focusing on the needs of our customers we can help drive their success. Our aspiration—"To be the most trusted source of business insight so our customers can decide with confidence"—reflects our commitment to providing our customers with the best possible tools so they can make business decisions confidently.

We have a strategy that's working—there's a lot of life left in it. We have a powerful set of assets, a culture of leadership that not only adapts to change but also drives it, and a financially flexible business model. These assets form a competitive advantage that is unique in corporate America. When I add all these up, I believe that the best is yet to come for D&B.

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