

JORGEN HESSELBERG

## **Chernev Gum Inc.**

"How did it come to this?" Logan Chernev, the CEO of Chernev Gum Inc., could not believe his eyes. He was looking at the sales figures since he took over as CEO five years ago and the trend was clear: His company was in need of drastic change.

Digging deeper into the financial report that his CFO prepared for him, he could not help but to look up with an embarrassed smirk at the paintings of his predecessors on the wall. Walt, Ethan, Winston...all great men who had their challenges as Chernev Gum CEOs, but always managed to deliver positive sales growth, sustained profitability and increased market share during their reign. Logan knew he could thank them for his fortune (and in private moments, often did), but he was the CEO now - and was ultimately responsible for leading the family company into its next phase.

Logan knew he was surrounded by well-qualified advisors - both from his senior leadership team and the company's board of directors. But he felt something was lacking and that new thinking was required. As he looked out of the window from the 10th floor of his penthouse office, he realized exactly who he should call - Ron Doyle.

Ron had been a great friend ever since they met in graduate school at Northwestern University. Although they did not see each other much these days due to Ron's busy schedule as an Agile consultant, he always enjoyed their talks on the phone after a long day at the office. He viewed Ron as more than a very capable friend - Logan knew he could trust Ron for an honest assessment of what he should do to get his company back on track - even though the truth may hurt a bit.

That next morning, Logan woke up rejuvenated and feeling better than he had in a long time as CEO. Ron had agreed to take on the assignment and was scheduled to arrive in Chicago early next week for a month-long comprehensive assessment of the current state of Chernev Gum. Although he knew there were going to be some tough pills to swallow, Logan was ready to do anything to get his company back on track.

### **Company Background**

Chernev Gum is the world's largest producer of chewing gum, a \$2.8 billion global industry. Interestingly, the company, founded in 1895, was originally called Chernev Rubber Boots Inc., but as Antonin Chernev realized that the chewing gum he provided to his customers as a gift for each pair of rubber boots sold was actually more popular than the boots themselves, he started selling homemade chewing gum as a side business.

The chewing gum sales continue to increase and after a few years, he sold the rubber boots business and used the proceeds to focus solely on chewing gum. Since Antonin essentially created the commercial chewing gum market, it did not take long before Chernev Gum was established as a regional market leader, much thanks to its ground-breaking “Cherry-Banana” blend, a flavor that continues to sell well even today.

Much thanks to its focus on brand, rich tradition and proven reliability, Chernev Gum has continued to enjoy sustained success and growth in market share. Although not always the most affordable, customers know they are getting the “Best Gum for Your Buck” as one of the company's earlier marketing slogans stated.

## Competitive Environment

The chewing gum industry, traditionally a rather stable business, has gone through a dramatic shift over the last seven years. The main reason is due the introduction of a new player, Gummle, a Silicon Valley-based company.

Although Gummle is a software company at its foundation, it has been able to upend a number of industries due to its innovative use of technology to solve problems. One of these “problems” happens to be chewing gum, where Gummle has completely changed the game in a number of ways.

1) Gummle introduced a number of innovative, radical flavors that has revolutionized the gum industry. By using software to mix, create and even predict customer flavor preferences, Gummle has introduced more than 45 new flavors of the last seven years - most of which have been surprising successes. Consumer tastes are highly dynamic and the need to adapt to change has increased dramatically. For instance, gum with natural colors which avoid synthetic and azo colors was a trend Gummle latched on to faster than any competitor; Chernev Gum does not yet have an answer to this development. Although Chernev Gum is still the industry leader, overall market share has been declining steadily since Gummle came on the scene (see exhibit 1).

Gummle has also been able to branch out into new, higher-margin gum segments. Although Chernev is the undisputed leader in gum sales overall, Gummle has introduced a number of gum products focusing on teeth whitening and oral care attributes, as well as energy boosting, vitamin enriched products. Due to their innovative product portfolio, Gummle’s profit margins have been steadily growing while Chernev’s margins have stayed largely flat.

2) Gummle is a market-leader in its short time-to-market for new product introduction. While the industry benchmark is 8-12 months, Gummle is able to introduce new products to market in less than 5 months. Currently, Chernev Gum’s product introduction lead time is among the worst compared to the industry benchmark.

This meant that when Chernev Gum did come up with an innovative, fresh flavor, Gummle quickly had an answer. Worse still, even though the company’s product may have looked promising at project

inception, it rarely ended up materializing the way management envisioned it when funding was provided.

3) Gummle, through its hip image and huge amounts of cash on hand, has managed to consistently recruit the best and the brightest college students - the future taste makers of the industry. Chernev Gum, on the other hand, has noticed that although attrition rates are very stable among the more experienced employees, younger talented people are making the move to Gummle. A recent employee study showed that although Chernev Gum was viewed as a stable place to work, it was rarely fun and engaging. Another disturbing trend was that employees stated they did not feel empowered to make a difference in their work (see exhibit 2).

## Company Information

For several decades, Chernev Gum has been managed based on a few key values: Attention to detail, respect for deep knowledge and an appreciation for the company's historical context. The company culture reflects this focus. For instance, although innovation is an important element of corporate strategy, products are rarely shipped unless managers from five different departments sign off on a "quality affidavit" stating that they vouch for the quality of the product. Established experts in a given R&D area, such as gum texture, are seldom challenged and subordinates are expected to follow directions from their superiors in order to adhere to the "Chernev Gum Way". Company successes are rarely celebrated as team efforts; individual heroics are singled out and rewarded with cash prizes. At the same time, a point of company pride is its focus of individual accountability; blaming others for failure is considered a serious offense.

The organizational structure in many ways supports the Chernev Gum culture. Almost since its inception, the company has been organized in a hierarchical organizational structure in order to provide clarity as to who is in command. Without exception, decisions are made from the top-down and non-officer employees have clearly defined roles within which they are expected to function. In an effort to facilitate greater visibility beyond a given unit, leadership has recently created a few pilot teams that consist of employees across functions; their relative success is still being evaluated.

Leadership at Chernev Gum has been a family affair at least at the upper levels. The CEO position has been handed down from father to son for more than 100 years and their management style has been remarkably constant. Industry observers have often named Chernev leaders as "conservative" and "risk averse". Winston Chernev famously demanded 8 independent market research studies before even considering changing the wrapping of one of its gum products. Supporters claim this is a main reason for the company's success; others question whether leadership is prepared for the changing dynamics of the chewing gum industry.

Perhaps surprising for a science-driven company like Chernev Gum, its use of technology was analogous to its culture: conservative, driven from the top-down and only changed when strictly needed. Senior management took pride in not being susceptible to industry fads and knew from their

days on the manufacturing floor that a basic process is not going to be changed by fancy business jargon. Communication tools were limited to e-mail and telephones. A central file system contained all information assets available in which each functional area were provided a dedicated and secure storage space.

The people working at Chernev Gum have usually been there for many years and high performers were gradually moved up the chain of command. Typically, the most successful associates did exactly what they were told, kept their heads down and worked hard. If they met the performance goals set by their unit managers, there was a good chance of getting a promotion in due course. One of the key measures of an employee's performance evaluation is their number of "on-time time card submissions". Management believes strongly that punctuality and on-time performance is a broader reflection of the employee's fit and function within the company. In-line with the company goals, employees were expected to gain a deep knowledge in a given area and stay in this area for the remainder of their careers; this would ensure an unsurpassed level of expertise in key areas. For instance, the world's leading expert on color reflection in gum wrapping had been at Chernev Gum for more than 20 years now, a particular point of pride.

## Decision Time

Logan sat at his desk, looking at his friend across the mahogany table. He knew Ron had spent a good month studying his company in detail, warts and all. It was frankly a bit uncomfortable and he felt exposed, even though this was his trusted friend. He pretended to yawn as he stretched and took another look at the paintings surrounding him. He felt confident the company's fathers would be proud of him as he steeled himself to hear Ron's recommendations. "So, my friend, what do you suggest we do"?

## Discussion

- 1) Explain some of the key ways implementing Agile will benefit the company.
- 2) Considering the Five Agile Success Factors and their respective level of Agile maturity, identify areas that need to change and design the company's high-level transition plan.

Exhibit 1: Chewing Gum Market Share as a percentage of total unit sales

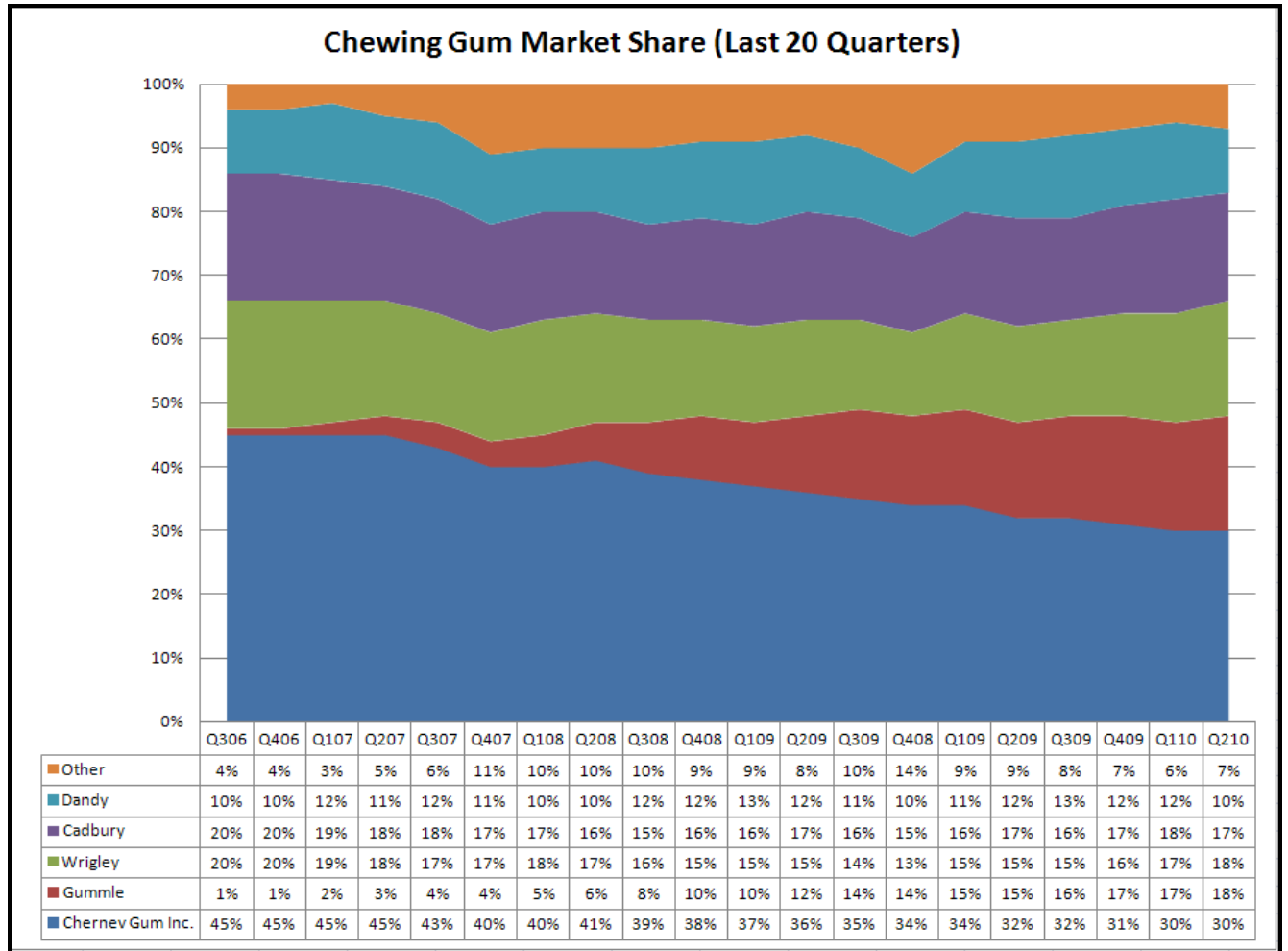


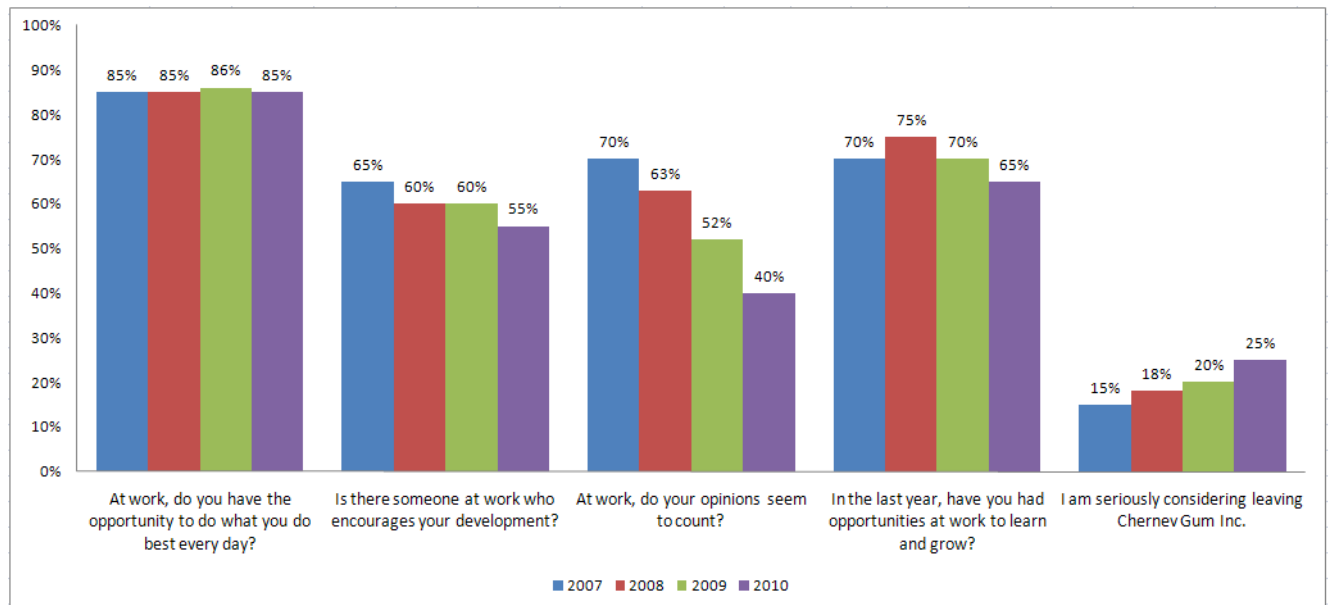
Exhibit 2: Excerpt from internal Chernev Gum Inc. leadership communication, July 2010

**To: Chernev\_Leadership\_Group**  
**From: Rutzen, Susan**  
**Subject: Results of latest employee engagement survey**

Each year we survey our employees to measure their level of engagement. Available to every employee, the survey is completed anonymously and covers several topics, including operational and leadership effectiveness, as well as communications.

*Highlights*

With the previous three years' results by measure of comparison, the following key metrics came out of the survey:



Our overall engagement rating was deemed 80 percent favorable. The independent firm that conducted our employee survey also provided comparison results from our business peers. The average employee engagement level in the global candy industry was 78 percent favorable, while "global high performing companies" had an 82 percent favorable rating. "Global high performing companies" have above-industry-averages on return on invested capital (ROIC), net profit, and employee engagement scores.

*Challenges*

While our overall ratings remain competitive with industry benchmarks, two trends are impossible to ignore:

- Our associates are increasingly feeling that their opinions do not matter
- A rising number of associates are considering leaving our company

I am establishing a steering committee with the express goal to get to the root cause of these disturbing trends; a detailed action plan will be ready by the end of Q3 2010.

We'll discuss further in tomorrow's leadership meeting.

Susan

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Susan Rutzen, Head of HR  
Chernev Gum, Inc

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