For years, HomeStar was the most inventive company in the appliance business. Now, upstarts are stealing its thunder, and its top engineer doesn't seem to care.

The Sputtering R&D Machine

by Martha Craumer

A
s Hal Marden watched his morning muffin spin slowly in the lunchroom microwave, he marveled at how this small appliance had forever changed the way people cook and eat. "The perfect invention," he mused to himself. "Small, fast, convenient, and energy-efficient. We thought microwaves would do away with conventional ovens. But instead, they became a whole new category of kitchen appliance."

After 25 years with HomeStar, Hal was still fascinated by the appliance business—and by the innovations that fueled it. As CEO for the last 12 years, he’d steadfastly maintained the company’s commitment to research and development, vowing to uphold HomeStar’s reputation for being “the first, the best, the only” name in appliances.

That’s why the latest turn of events was so distressing.

Hal grabbed his coffee and muffin, retreated to his office, and closed the door, relieved that his assistant wasn’t in yet. Then he reread the newspaper article. "Gaga for Retro," the headline proclaimed. "Vanguard, already the fastest-growing appliance maker in the country, has another major hit with its new retro line of refrigerators, ranges, and dishwashers. Rounded lines, chrome detailing, and colors like turquoise, yellow, and red give the appliances the look and feel of classic automobiles. And consumers seemingly can’t get enough of them. ‘We’ve got an emotional hit on our hands that cuts across demographic lines,’ said a Vanguard spokesperson. ‘People are having a love affair with these appliances. At the same time, we’re showing old-schoolers like HomeStar that the industry can move beyond a needs-based market and appeal to consumers who follow trends and seek luxury.’"

Hal folded the paper and shook his head. As much as it pained him to see his company called “old school,” he had to admit that HomeStar had stumbled lately. "We should’ve seen this coming," he thought. "For the last three years the auto industry has been looking back in time for..."
inspiration. The PT Cruiser, the Mini Cooper, the VW Bug—all the biggest hits are riding a wave of nostalgia. How did we miss it? We’re losing our edge.

This wasn’t the first time HomeStar had been beaten to the punch. Just six months earlier, Vanguard had pulled off another coup: Its line of “Clean ‘n’ Eat” refrigerators had been the runaway hit of the Homebuilders trade show. Featuring a separate compartment for triple-washing and draining fruits and vegetables, the new line touted the importance of fresh produce and healthy eating and the dangers of lingering pesticides. The refrigerators flew off showroom floors.

Delicate Cycle
An urgent knock interrupted Hal’s thoughts. “Come in,” he answered wearily. Kelly Dowd, the company’s head of marketing, stomped into his office. “Did you read about Vanguard?” she asked. “They’ve done it again—and insulted us in the process. How are they getting these products out so fast?”

“Well, they’re not exactly technological breakthroughs,” Hal smiled wryly. “But Vanguard does seem to have a finger on the pulse of the consumer. They’re doing what we should be doing. It seems we’ve dropped the ball.”

“That’s because we’re focusing on the wrong things. Charlie should pull his head out of the research lab and knock on the kitchen doors of a few real people for a change. He’s obsessed with ‘smart’ appliances and this ‘networked home’ concept. But you know what? Except for a handful of technogeeks, consumers aren’t particularly interested. Most people we talk to couldn’t care less.”

Hal flinched. Charlie Hamad was one of his heroes. A brilliant and visionary engineer, he’d headed HomeStar’s R&D unit for 27 years. Enormously respected outside the company and beloved within it, he had spearheaded almost every major technological advance in the industry; he was a key reason for HomeStar’s past success.

“Look, Kelly,” said Hal, “market research is your area. So if there’s a disconnect between what your group thinks the market wants and what R&D is actually producing, then we need to work on fixing that. Remember, Charlie’s had a huge hand in making this company what it is.”

Kelly shook her head. “You mean making this company what it was. The market’s changing, Hal. The rate of product innovation is skyrocketing. Global competition is growing—those guys would love to eat us for lunch. And consumer tastes are changing. People want more choices. Some folks get a new car every two years. Why shouldn’t they upgrade their appliances, too? We’ve got to get more new stuff out there, and fast.”

Kelly was right. The market was changing dramatically. For years, innovation in the industry had focused on incremental gains—making appliances that were a little faster, a little quieter, or a little more efficient. As the products themselves became virtually interchangeable, the dominant players began competing on price, eroding profit margins. But in the last
18 months, a wave of innovation had washed over the industry. Appliance makers had begun recombining existing technologies to create entirely new products and designing them in appealing ways. Suddenly, the appliance industry was more like the consumer electronics industry; its rallying cry had become "to get customers to buy new products, create new products."

Now, more than ever, churning out new products was critical to HomeStar's success. But unfortunately, Charlie hadn't changed with the times. He pooh-poohed the new, flashy products—despite their higher profit margins, the fact that they encouraged consumers to upgrade more often, and their popularity with builders seeking the latest thing for their model homes. And that put HomeStar in the unenviable position of having to play catch-up.

"The next Homebuilders show is six months away," said Kelly. "If we don't roll out something new—something that gets people excited—we might as well kiss our reputation for innovation good-bye. We can't afford to lose our edge. Unless we want to go the way of the icebox."

Just then J.J. Knight, HomeStar's PR manager, poked her head into Hal's office. "Hey Hal, the 'What's New' section of HomeView magazine is on the line. Do we have anything for them this month?"

"Ouch! Sore subject, J.J. Tell them we do, but we can't talk about it right now—for competitive reasons."

Combustion Hazard

Charlie Hamad's office was a mess. A whiteboard covered with scribbles, flowcharts, and yellow Post-its spread across one wall. Stacks of magazines and files filled every inch of space.
"Never trust a man with a tidy desk," he was fond of saying. "A tidy desk is the sign of an untidy mind." With a PhD in mechanical engineering and a passion for technology, Charlie oversaw HomeStar's global research, design, and product development groups. A wall filled with design and engineering awards attested to his record of accomplishment. Eccentric but brilliant, Charlie was a magnet for smart, dedicated scientists, designers, technologists, and engineers, and he inspired intense loyalty among his people.

Hal removed a pile of magazines from a chair and sat down. "Did you read about Vanguard's new retro line?" he asked.

Charlie snorted derisively. "Form over function. Nothing new there but a fancy paint job and higher prices. Consumers are jumping for joy.

"Wait till they see our networked appliances. Listen carefully, Hal. The networked home is the future. These products will transform the way we live. They'll cook, clean, and shop for you — even do your household chores — using Internet technology. Imagine being able to automatically restock the fridge when you're out of food or download recipes right to your oven!"

"That's the future, Charlie. We need something new now." Hal rubbed his eyes and sighed. "Look, we've got a problem. We're losing our position as industry leader. We haven't come up with anything new in months.

Charlie reminded Hal of the company's recent line of energy-saving washers, dryers, and dishwashers, inspired by the European market. Five years ago, Charlie had set up an R&D unit overseas to monitor market trends. It was — and continued to be — an expensive venture, but Charlie felt it was money well spent. He surmised that the fragmented and highly competitive nature of the overseas markets would drive innovations that hadn't yet hit the U.S. market — innovations that would shape the appliance industry's future. One of the first things he'd noticed was the growing popularity of energy-saving appliances in Europe, so he'd set about developing HomeStar's own line, despite opposition within the company.

"They're superb products, Charlie. From a technology standpoint, they're the best ones out there. And the margins are great — we can charge three times more for them. But ours were still in development when the first ones hit the U.S. market. Besides losing the early sales, we hurt our reputation for being 'the first.' What can we do to speed things up?"

"If you'll recall," Charlie said, "the folks in marketing were convinced that American consumers weren't interested in water- and energy-saving appliances, that they'd never pay the premium. Kelly kept pointing to the popularity of gas-guzzling SUVs as 'proof' that Americans weren't serious about conservation. I got the distinct message from you and from others that our energy-saving line wasn't a priority. Remember what got the big push instead? Jumbo appliances."

Hal winced and nodded. Someone in marketing had noticed the boom in "McMansions," those huge houses that people were building, often after tearing down more modest homes. That and the fact that every new house and major renovation project seemed to have at its heart a "great room" — a big, open space that combined the kitchen and living areas — had convinced a persistent and vocal group within the company that bigger is better in consumers' minds. But the jumbo appliances had bombed — the first major failure in HomeStar's history.

Charlie smiled smugly. "I don't need to remind you what a disaster that was. Meanwhile, our energy-saving appliances were a hit, and now you're asking me why it took so long. You need to trust my instincts, Hal."

"Your instincts are legendary, Charlie. That's not the issue. We've got the biggest trade show of the year in six months and nothing new to offer. Meanwhile, Vanguard is making new product announcements every quarter. The industry as a whole is moving toward fast-cycle innovation. If we can't keep up, we're sunk."

"Product extensions and paint jobs aren't innovations. The fact is, an elegant, technology-driven solution has its own time frame; it can't be rushed. And I've got my own reputation to consider. I don't develop crap. Never have, never will."

"Nobody wants you to develop 'crap.' But we need to make sure that we're developing products that consumers want. Frankly, I'm worried that you're devoting too many resources to net-
worked appliances. What if the market doesn't bite? I don't want to put all our eggs in one basket. I'd like to see you and your people work more closely with marketing. I think you could learn a lot from each other—recent missteps notwithstanding. Maybe you need more face time with them, Charlie." Hal looked at his watch. "Look, I've got a luncheon to get to. Let's talk some more when you get back from Europe next week."

Limited Warranty

Hal sank wearily into the back seat of a taxi, grateful for some time to think. It was increasingly clear that whatever had made HomeStar an industry leader in the past was no longer working. The market had changed, seemingly overnight. It felt as if everyone in the industry was playing by new rules—one that HomeStar didn't have. Even worse, Charlie didn't seem to want them. Maybe it was time for new blood. But Charlie was a legend, an institution. Making any major change would feel like a betrayal.

Hal didn't usually have time for the Executive Roundtable luncheons, but he didn't want to miss this one. The featured speaker was Caroline Broderick, an old business school chum, and the subject was timely: "Is loyalty a liability? Managing in times of change."

Traffic was unusually light, and the taxi pulled in front of the City Club well before the opening reception. With time on his hands—a rare occurrence—Hal decided to indulge in some impromptu market research. Approaching the maître d', he introduced himself and asked for a tour of the kitchen. Hal loved nothing more than talking to consumers of all stripes and observing how they cooked, cleaned, and interacted with their appliances. As he toured the kitchen, noting the oversized range that two sous-chefs were cooking on, Hal had a brainstorm. Pulling out a small notebook, he jotted down a note to himself: "Repackage and reposition jumbo appliances for institutional use?" Then he joined the reception in the dining room.

Hal sought out Caroline after her talk. "Good to see you!" he said warmly. "I enjoyed your presentation. But unfortunately, it hit a little too close to home." He briefly explained HomeStar's recent challenges.

Caroline nodded sympathetically. "It's tough when markets change and your people don't. Sounds like Charlie needs to develop some business savvy. Just keeping up on the latest technologies isn't enough anymore. You need more sizzle, less steak."

"It's hard to find someone who can do it all," said Hal. "But enough about business. How are your children?"

Caroline laughed. "My 'children' are 19 and 21 now. And I'm about to rejoin the workforce full time. Consulting and writing were great when the kids were younger and I wanted more flexibility, but I'm ready for something new." She hesitated, then continued. "I don't know how serious you are about making changes at HomeStar, Hal, but do you remember Peter Fortuna from B-school?"

"Of course! The man we thought would be a permanent student!" Hal said with a laugh. After getting a degree in computer science, an MBA, and a PhD in engineering, Peter had helped launch a very successful company that offered contract R&D services to a wide range of industries.

"Peter's company was just bought," said Caroline, "and I know he's looking for a new opportunity. Just something to think about."

The traffic on the way back to the office was slow and congested, like the tangle of thoughts in Hal's head. In his mind, there were two critical issues. The first was urgent and short term: How to come up with at least one hot new product for the trade show in six months when there was nothing in the pipeline. The second issue—and the most difficult challenge of his career—was how to fix R&D. "Is this just a funding and organizational problem that could be solved by a brainstorming session?" Hal wondered. "Or is it time for Charlie to move on?"

Peter Fortuna's change of status offered a promising alternative. Maybe Charlie could be appointed chief technology officer and move away from running the whole show. "On the other hand, maybe I should drastically cut back the R&D group and outsource a larger piece of the pie," he mused. "Or maybe I'm simply being too impatient. Perhaps, as Charlie says, true innovation can't be rushed. If he's right about networked appliances and we get there first, we'll own a huge market."

It was time for some tough decisions.

How can HomeStar revitalize its R&D efforts? Four commentators offer expert advice.