Stanford eCorner

Changing the Game

William A. Sahlman, *Harvard Business School*

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After discussing the four key elements of any entrepreneurial venture (people, opportunity, context and deal), William Sahlman, professor at Harvard Business School, argues that the greatest value can be achieved by "changing the game," that is changing the relationship of the core elements to one another. Sahlman illustrates this strategy with the example of John Osher and the spin toothbrush. To change the game, Osher brought in the most relevant people for the job, experimented to find a great opportunity, and reshaped the context in which he, his team and his partner operated to quickly capture the new market.

Transcript

Now, one of the things you can do is, if each and every one of you sat down and said, "Who are the people on your team? What's the opportunity, what's the context? How do these all relate to each other?" That would be one thing. But what you really want to do in life is to change the game, to improve each of those elements and their relationship to each other. So John hired ... the next person he hired was a salesperson. Now, this man had sold $1 billion a year in products, from Clorox, to a little company called Wal-Mart. And he lived in a small town called Bentonville, Arkansas. So if you're going to hire a sales guy for a mass market product, Bentonville, Arkansas is the place you want to go. And this guy was loved by the Wal-Mart buyers. So he had great relationships. That's the only sales guy John ever hired.

The second thing he did was, he ran some experiments. He produced some prototypes. He tried them out in the retail channel. And it turned out, they sold through at 50 times the sell-through rate of manual toothbrushes. So he had some evidence, on the basis of which he was able to get his Chinese partner to increase the level of production. The other thing he did was, he came up with a two-year product plan, because he knew someone would copy his product. And he wanted to be able to introduce a new product when they did. So he had already designed a series of follow-on products that were intended to be better than the first. I'll come back to Crest in a second. So let me tell you what happened and why this turned out to be an interesting story.

First year sales were $45 million. Pretty good, right? First year income: $20 million. Now, I know for you all, this is small potatoes, and really not very interesting. It got my attention. He had nine people in the company. I liked that too. And he sold it to Procter &Gamble. So what did he sell it for? Well, let's see. He got $165 million cash down payment. Then he had a little earn out.

And when it was all done, John and his colleagues, on $1 million in capital, had gotten $475 million in cash. That's a lot of money.