Primekss: Simple rules for selecting partners (A)
By Uri Meirovich and Donald Sull

Janis Oslejs founded Primekss (pronounced preem ex) in 1997 as a construction firm specialized in industrial flooring for the Latvian market. By 2011, Primekss had laid over 3 million square meters of concrete flooring for applications including warehouses, parking lots, factories, and shopping malls. The company booked 2011 revenues of €**20** million, employed a staff of **120**, and operated subsidiaries in Sweden, Finland, Norway, Denmark, United Kingdom, Israel, Estonia, Lithuania, and Poland.

As he grew Primekss, Oslejs learned that concrete, the preferred material for industrial flooring, was prone to cracking over time, and the Primekss research and development team worked with a team of international scientists to research ways to improve the product, and in 2008, the company patented PrimeComposite, which mixed steel fibers within a fortified concrete matrix that hardened into a smoother surface with fewer cracks.

Using the new product, customers could achieve the same strength with less concrete, thereby reducing their installation costs by an average of 10% compared to traditional concrete floors. The smooth surface and lack of joints (grooves deliberately inserted into a concrete surface to limit cracking) allowed for faster movement of equipment and smoother running of machinery lines on the floor. The process to manufacture PrimeComposite furthermore cut carbon dioxide emissions by up to one half compared to traditional cement manufacturing, which was the world's second largest industrial source of CO_2.

Within three years of developing PrimeComposite, the new product accounted for over 90% of Primekss' sales and had been adopted by sophisticated customers including Ikea, Schenker, and John Deere. Oslejs wanted to exploit the company's patented technology to increase revenues. He was particularly eager to expand outside the company's core European market, which faced sluggish construction growth as a result of the Eurozone's ongoing debt crisis.

Despite the advantages of the company's proprietary product, Primekss faced obstacles to growth. Primekss subcontracted their services to general contractors, who took overall responsibility for a construction project. Construction was a conservative industry, and most general contractors were reluctant to experiment with new products. They perceived a downside risk in using the novel product, while any gains would be enjoyed by the end user. product, whilst, as they did not operate the facilities themselves, would not enjoy the benefits. The company's ability to grow was also limited by its pool of skilled labor, specialized machinery, and its ability to carry the risk of new projects.

Primekss management set four corporate priorities to overcome obstacles to growth.

- Improve financial position to take on more projects
- Enhance skilled labor force
- Improving its internal processes to maintain high quality
- Improve business model to better exploit its patented technology.

In the Fall of 2011, Oslejs joined an active learning program organized by the Young Presidents' Organization and the London Business School. That November, Oslejs and Director Marite Seile attended the kick-off session of the program, where they learned that companies could align resource allocation with strategy by applying a handful of simple rules to a critical process. As part of the active learning program, the Primekss executives would work with Uri Meirovich, an MBA at the London Business School, to develop and implement simple rules. During the active learning kickoff session in November of 2011, Oslejs, Seile, and Meirovich brainstormed several possible processes that might benefit from simple rules, and quickly honed in on two alternatives—construction project pricing and the selection of franchisees--partners that would lay PrimeComposite and allow Primekss to accelerate its global expansion.

Oslejs and Seile considered the process to price construction projects to be a good fit with the simple rules approach. Project pricing required collaboration across departments and would benefit from a set of rules to guide the process that were understood and shared by all participants. Improving pricing would help the company improve its financial position to take on more projects, one of its four corporate priorities. Moreover, the company had **hundreds** of past projects, which constituted a large sample of observations that a team could analyze to derive simple rules. Oslejs and Seile believed simple rules would help them price their projects more effectively, but worried that this process was not sufficiently strategic.

Franchising the company's patented technology, in contrast, offered the possibility of growing revenues outside Europe without additional labor, machinery, and capital. Despite its strategic importance, Oslejs and Seile were concerned that the simple rules methodology might not work in selecting franchise partners. The company lacked an established process to evaluate and select franchise partners, and the **few** partnerships to date had been opportunistic, and not particularly successful. In **2011**, the company entered into a franchise agreement with an Israeli contractor, but unforeseen problems during construction forced Primekss to shift equipment and skilled workers from projects all over Europe to salvage the project in Israel. The small number of franchise partners provided limited experience for management to codify simple rules.

Few Primekss country managers were enthusiastic about franchising, some where skeptical, and a few seemed hostile to the idea. Company managers running subsidiaries outside Latvia had not been involved in the selection of early franchise partners, and did not understand the rationale for using partners rather than growing Primekss to install the new concrete outside Europe. The country managers saw no immediate benefit to franchising, which would take place outside their markets. Based on the problems with the Israeli franchisee, they also worried that franchisees would require resources that would disrupt their own operations.

As they discussed the two alternatives, Oslejs, Seile, and Meirovich also considered how they would develop the simple rules. If they decided to analyze historical pricing decisions to codify simple rules, who should be involved? What role would Meirovich play? Should he structure and conduct the analysis himself? Manage a team of Primekss employees who conducted the analysis? Organize the exercise around a workshop? If they did appoint a team, how many members should they select and from what functions and geographies?

Creating simple rules for franchising posed additional problems. How could a team develop rules based on limited experience? How could they test the rules, since it would take several months to identify and select partners, let alone evaluate the success of the relationships? Oslejs also wondered whether they could use the process to develop the simple rules to flesh out what a franchising strategy might look like in practice. Oslejs, Seile, and Meirovich also discussed whether they could use the simple rules to communicate and gain buy in for a franchising strategy.

Primekss: Simple rules for selecting partners (B)
By Uri Meirovich and Donald Sull

It was 29 November 2011, and Janis Oslejs CEO of Primekss, Marite Seile COO, and Uri Meirovich, an MBA at the London Business School decided to apply simple rules to the company's process to select franchise partners. Despite the challenge of developing rules based on limited experience, the team decided that franchising represented the greatest obstacle to future growth, and required focused attention. Meirovich would structure and lead a program to develop the simple rules.

After discussions with Oslejs and Seile, Meirovich conducted phone calls with all Primekss top executives to structure a two-day offsite in Latvia in December. Collectively, they decided to invite a large group of stakeholders, including all senior managers, board members, investors, construction project managers from all country subsidiaries, making eighteen participants in total. The workshop would have two objectives: To discuss the company's strategy and ensure alignment among key stakeholders, and develop simple rules to flesh out the franchising strategy.

The week before the workshop, Oslejs and Seile approached each participant to explain what the objectives, structure, and rationale for the session. The first day of the workshop, which began after lunch on December 15th, consisted of two parts. First, Oslejs led a discussion about the company's strategy, explaining for the first time to the assembled stakeholders the importance of franchising and how it could create economic value. Meirovich then introduced the concept of simple rules, and explained how they can help to execute strategy.

The next day, the group divided into seven teams, mixed by seniority, function, and geography, and each team was given **one hour?** to generate a list of simple rules to guide the selection of franchisees, which generated forty rules in total (see Exhibit 1 for the list of initial rules). During the initial brainstorming stage, Oslejs deliberately avoided making comments that might influence the rules the group developed. Meirovich then facilitated a discussion to cluster the rules into categories, and found that most rules addressed one of five issues:

- Market attractiveness (e.g., size, distance from Europe, sophistication)
- Training required by the partner
- Primekss ability to sustain a relationship with the partner
- Partner's financial soundness
- Primekss ability to manage risk (e.g., theft of the technology, competition)

On the afternoon of the second day, Meirovich led a discussion to translate the spirit of the five considerations into a preliminary set of rules. Oslejs stepped in a few times to resolve impasses in the discussion.

- Assess market attractiveness based on experience of multinationals like IKEA
- Partner must have the right machines and need limited training
- Primekss could (and would want to) take on the project if the partnership collapsed
- Partner can and will inject a certain amount of money upfront
- Partner is sufficiently close that Primekss can oversee and protect technology

Oslejs and Seile believed that the workshop achieved its objectives of creating a shared understanding of the company's rationale for franchising and an initial discussion of what that would mean in practice. They also concluded that such a large group would be too unwieldy to select franchise partners in the future, and appointed a cross-functional steering committee of **six** members responsible for further refining the rules, and recommending potential franchise partners.

The committee met a week after the workshop was in a session led by Oslejs over and it reached this final set of rules. The team focused in particular in articulating clear rules that they could use to rule out unattractive partners quickly and with minimum information or analysis. The final rules were:

- Franchise projects will not be considered in the six countries where the company already had operations.
- Partner has to have the state-of-the-art equipment (e.g., LaserScreed – a laser-guided semi-automatic concrete placing equipment used in the industry by the larger and more sophisticated contractors a proxy for financial strength and size of partner)
- Partner had to have a fourteen person team with at least three years experience in concrete flooring
- Market has development potential
- Franchise partner training starts within three months of signing contract.
- Franchise projects are spaced at least six months apart

In the first few months of 2012, Primekss managers scheduled meetings with several potential partners at trade conferences and other industry events. The steering committee planned to use the simple rules to screen potential candidates, and report their findings to Primekss management, with an eye to entering a franchise partnership agreement in the first half of the year. If no candidate fits the rules, in contrast, the steering committee would need to go back to the drawing board and rethink how they selected potential franchisees.

Exhibit 1: List of initial rules

Group A:
1. Select the right market
2. Select a company ready to enter a partnership
3. Company selected should be top 2-5 in its country
4. Company selected needs to be willing to be innovative
5. Joining a partnership could not harm current operations
6. New partnership would not take machines or people from current departments
7. Primekss is ready to support new partnership

Group B:
1. Company selected must have the right resources and capabilities
2. Company selected need to have a track record of consistent quality
3. Company selected need to have a positive "can do" approach
4. Potential partnership jobs can't be larger than 20% of partner's turnover

Group C:
1. Company selected needs to have enough money to start a partnership
2. Market selection:
    a. Where is the market?
    b. How far from HQ?
    c. How many flight hours?
    d. What is the size of the market?
    e. How developed (in terms of work procedures) is local concrete market?
3. Partner company needs to be professional in flooring industry and not just concrete
4. What language does the partner company speak? Needs to speak English or Latvian
5. Partner should be responsible for final product quality control

Group D:
1. All parties spend enough time to understand the process of franchising together and reach a joint understanding
2. Pay attention to details – prepare a checklist of processes in advance
3. Primekss must make sure the local market has the right machines, materials and regulations)
4. A first construction job needs to be signed before entering the partnership
5. Need to pay attention to cultural differences
6. Only long term partnerships
7. Partner has good reputation
8. Partner has the right contacts
9. Primekss must make sure not to harm the company when taking such new risks – partner takes all financial risks

Group E:
1. Partner has the right machinery – similar to Primekss
2. Partner has financial stability
3. Partner completed 10 projects of over 10,000 SQM for reference
4. Partner has the ability to make gains from Primekss patent
5. Partner is able to use the technology with little effort
6. Need to make sure partner has high gross margin (will be indicator of their quality control measures as companies operating on low margins will usually invest less in QA)

Group F:
1. Partner has good reputation in concrete floors but is not market leader
2. Partner open minded to learn new approaches
3. Partner has a quality oriented approach
4. Partner has "financial muscles"
5. Partner is trust worthy

Group G:
1. Need to check references on partner
2. Need to visit a work site of the partner prior to entering the partnership
3. Partner needs to have the proper machines (if they operate certain type of expensive machines it means that they are more reliable than most companies)
4. Need to sign a long term agreement (or they will take the learning from us and go do it themselves)