

Rather than buying smaller competitors, Planar Systems finds success with internal startups

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THE OREGONIAN

Erick Petersen left his comfortable business development job at Planar Systems for a riskier venture: running a startup that makes flat-panel computer monitors and competes with industry giants such as Dell and Hewlett-Packard.

Petersen, like many others during boom times, took a leap from safety. But his leap had a safety net: Petersen led the

startup within Beaverton-based Planar.

The company gave him a staff, startup money and administrative support such as human-resources services. But the business unit was housed in a building across a parking lot and operated relatively independently from Planar's top management.

Petersen's division is the most successful of Planar Chief Executive Balaji Krishnamurthy's internal startups, which the company calls "quantum programs."

Krishnamurthy, like most chief executives, is always looking to expand his publicly traded company. Rather than focusing on acquiring smaller competitors — a strategy that has produced mixed results for other companies in recent years — Krishnamurthy has promoted growth by attempting to create smaller companies within Planar's corporate shell.

Nearly three years after its inception,

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PLANAR SYSTEMS

Headquarters: Beaverton

Total employees: 500

Revenues: \$62.9 million in the quarter that ended June 27

Business: Develops flat-panel display technology for a variety of medical and industrial uses. Its commercial business unit, which began as an internal startup, makes flat-panel computer monitors.

Planar: Internal startup becomes flat-panel player

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Petersen's unit has proven successful. The startup — known as Planar's commercial business unit — is now larger than the company's other two divisions. Revenues from the division for the first time surpassed those from Planar's core medical and industrial units in the quarter ended June 27.

According to an industry research firm, iSuppli/Stanford Resources, Planar ranks 12th in North American market share for the rapidly growing flat-panel monitor market, an industry it had never considered entering until a few years ago.

"We've gone from being no one to clearly being on the list of players," Petersen said.

Planar has beaten the odds using a business model that has proven tough for many other companies

"Internal ventures are generally difficult to do," said Charles Weber, assistant professor of engineering and technology management at Portland State University. "You need an incentive structure that is special. You have to make sure your large company culture doesn't take over the small venture."

Risky job offer

Krishnamurthy approached Petersen with the job offer at a company retreat one night in May 2001 at the Salishan Lodge & Golf Resort on the Oregon coast.

At the time, the flat-panel monitor business was young and not a large revenue producer. They discussed it over beers for an hour.

Petersen was intrigued, but he knew the rules: He'd have to leave a fairly secure post, and if the startup failed, he could be out of a job.

Still, the thought of running his own business was tempting. "And he needed an answer by the next morning," Petersen said.

The answer was yes.

With the resources provided by



KRISHNAMURTHY
Chief executive
of Planar Systems

monitors. They did it on a tight budget.

Rather than setting up its own manufacturing operations, Planar contracts out production to offshore operators. Planar's Beaverton staff directs product development and marketing.

Planar's engineers are well-skilled in the technology, said David Mentley, senior vice president at iSuppli/Stanford Resources. "They have an incredibly deep understanding of displays," he said.

The bigger challenge for flat-panel manufacturers is to build a quality reputation, he said.

"The worst thing that could happen is the brand gets cheapened, and it becomes known as a discount brand," Mentley said.

Planar needed to build a consumer brand from scratch.

Planar has long produced flat-panel displays for industrial and medical equipment, but it's been fairly anonymous in the highly competitive consumer electronics market. Although Krishnamurthy provided startup funds, Planar was in no position to launch a massive nationwide branding campaign.

So Planar offered its commercial monitors on e-commerce sites such as PC.Mall.com and via larger resellers such as Dell, whose own flat-panel monitors are the most popular in North America, according to iSuppli. Dell sells competing brands on its Web site, and that has been a valuable aid for Planar.

About six Planar account man-

agers work with resellers such as Dell to make sure their products are optimally marketed.

To set itself apart from the competitors, Planar has worked with its suppliers and contractors to ensure that it is among the first companies to release larger and higher-quality lines of monitors. The company offers three-year warranties and lenient defect-return policies. It also promises replacement monitors within two days.

"It's been focused around creating a brand around responsiveness," Petersen said.

The strategy worked, as was seen in Planar's most recent quarterly results. Of the company's \$62.9 million in sales for the quarter, \$25.5 million came from the commercial business unit, a 55 percent increase from a year earlier. Much of that growth came from the booming flat-panel market, as consumers and businesses replaced their bulky computer monitors with sleek flat panels.

Quantum success

Krishnamurthy sees the commercial unit's success as a testament to his quantum programs. The model, he said, flies in the face of traditional startup theories.

"Throughout the '90s, we got into some notion that entrepreneurship had to happen outside of corporate America," Krishnamurthy said.

Since Krishnamurthy became chief executive in 1999, Planar has examined 100 concepts and pursued about 20. It spent significant money on 10 of them and brought four to the stage where they produced revenue for the company. (Three were folded together to form Petersen's commercial unit.)

To avoid skepticism from investors and other outsiders, Krishnamurthy always said the internal ventures would function as any other startup: If they didn't meet financial performance goals, they would shut down.

"We would constantly say we're not afraid of getting in, and we're not afraid of getting out," he said.

Indeed, Planar has gotten out. Last year it eliminated a 20-employee photonics startup, which served the sinking telecommunications industry.

But Planar's startups are given opportunities to succeed, Krishnamurthy said, partly because the corporation provides the back-end support such as human resources and telecommunications, leaving the managers to concentrate on growing their businesses.

Culture rubbing off

Planar's commercial unit now resides in Planar's main building, and the startup culture has rubbed off throughout the company. For example, the commercial unit, he said, responds to sales inquiries in minutes.

"Speed and agility is a cultural concept that remains the differentiator," Krishnamurthy said. "It is not easy for a company to become fast."

Planar has begun to sell its medical products through the commercial unit's resellers.

Gerry Langelier, a Portland venture capitalist with OVP Venture Partners, said other publicly traded companies have attempted such business models, with varying degrees of success.

"It's a very effective way to tap the creativity of your organization," Langelier said. "You're saying, 'We'll carve out a piece of the corporate resource to help you get going.'"

But there are drawbacks compared with venture-backed companies, he said. Although companies try to set up autonomous internal business units, they're bound to have ground rules.

"What if they really came up with something that would end up competing with something of the parent? Does the parent say, 'OK?'" Langelier said. "Can they hire the parent's best salesperson?"

Also, independent startups often have a clear goal: succeeding and getting rich once the stock becomes publicly traded. But with divisions of companies that are already publicly traded, the motivation might not be present.

"The gold ring is not going by," Langelier said.

Krishnamurthy said the company is always examining its compensation, and it has set up certain stock and bonus programs contingent on the unit's performance.

He warned that his quantum programs are not for everyone.

"If you're worried about stability of tenure, this isn't the place," he said. "You need the mind-set of an entrepreneur, but I can provide you with the environment of a corporation."

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