

February 27th, 1989

Long-Range Planning for ServiceMaster

C. William Pollard

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ServiceMASTER

The ServiceMaster Company 2300 Warrenville Road
Downers Grove, IL 60515
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February 27, 1989

Dear Tom:

I am sorry but understand why it was necessary for you to cancel our time together on May 9th and 10th. We had changed our Annual Shareholders Meeting so that we could have it precede your meetings so that our Board and senior managers could attend. This is an important time for us as we look at our next phase of long-range planning for ServiceMaster, and I am delighted you will be able to do the video so that we can have your thoughts and ideas for this important planning workshop.

As additional preparation for the video production, I thought it would be helpful to provide you with some points from your book Thriving on Chaos that we would like you to emphasize and personalize to ServiceMaster in the video. (See attached.)

I also thought it would be helpful to provide you with some background on our long-range planning process in ServiceMaster.

When Ken Wessner, our present Chairman, was President and CEO in the 1979-80 period, he initiated a new long-range planning process which we called SMIXX - ServiceMaster in 20 years. The intent was to look forward for a period that would take us to the 21st century. Projecting what might occur in the future for any period of time, far less twenty years, is difficult and becomes more theoretical the longer the time frame. We, therefore, chose to do our planning in five year segments, SMIXX-I, SMIXX-II, using the longer time frame to help us understand encore issues. We also recognized that the only thing certain about the future was change. One of the most important accomplishments of planning would be the process, especially as it involved the people of the enterprise. It would help them prepare for change which was inevitable.

As we initiated this planning process, ServiceMaster's revenue was \$340.0 million, and 90% of our business came from providing supportive management services to hospitals. Our initial participation was accomplished by utilizing over 45 planning teams with membership from all levels of management. The most significant conclusion reached during this initial planning period was that if we were to accomplish our growth objective (\$1 billion by 1985), we needed to diversify in the services we offered and in the markets we served. At this point, we also reviewed and adopted certain policy guidelines, including those dealing with people development, acquisitions, and the role and function of the Board.

During the SMIXX-I period, we diversified our management services by acquiring food service management for health care, and we extended our existing supportive management services to new markets, including the educational and industrial markets. We also revived our "yesterday's bread winner", cleaning services to the residential market, by initiating a new service to this market; i.e., lawn care. By 1985, we had reached and passed our objective of \$1 billion in revenue, and the mix of our business at that point was 65% health care, 14% education, 11% industrial, and 10% consumer services.



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As we moved into the SMIXX-II planning process, we involved over 1,000 of our managers, responding to the basic questions of what we must add, what we must discontinue, and what we must maintain to continue our growth and reach our objectives for 1990. As we concluded this segment of planning, we focused not only on growth in size with a stated objective of \$2 billion by 1990, but also on the importance of the service orientation of our people and the need to consider alternative forms of organization as we grew and diversified.

During the SMIXX-II period, we have emphasized our growth in the new markets, including supportive management services to educational and industrial facilities, the expansion of our services to the residential consumer market to include the acquisition of Terminix (termite and pest control services to the home) and Merry Maids (maid service to the home), and the expansion of our services internationally with specific emphasis in Japan, the United Kingdom, and the Middle East. During this period, we have seen a great change occur in our health care/hospital market. The change has been greater than we had anticipated, and our growth in this market is significantly less with reduced profitability. As we look back to our diversification emphasis in the early 80's, we see the benefit of this decision with 20/20 hindsight. The diversification in services and markets has provided us continued opportunity to grow and maintain an environment for the development of people.

During the SMIXX-II period, we also made a major change in the form of our organization, changing from a public corporation to a public partnership. Among other benefits, the public partnership confirmed the type of relationships we try to maintain with our fellow employees and our customers - namely, partners in service. It also enhanced our ability to distribute greater amounts of cash distributions to our shareholders and gave us a unique forum of organization to make certain business acquisitions; i.e., Terminix and Merry Maids.

I am enclosing a copy of a news release recently issued announcing our year end earnings for 1988. As we closed 1988, we accomplished both our revenue and profit objectives for the SMIXX-II planning period; i.e. \$2 billion and \$64.6 million in net income. Our consumer services business now represents 30% of the total, with a mix of our management services being 43% health care, 17% education, and 10% industrial. Although the dollar goals of SMIXX-II have been reached, it has not been done in a way that we originally anticipated. This is a vivid reminder of the necessity to adapt as change comes and sometimes to have the flexibility of moving forward (sideways) like a crab.

During 1989, we are involved in the planning process for SMIXX-III, to and including 1994. As we do so, we have initiated an intense listening process, listening to our customers and to our employee partners as we ask ourselves two basic questions: How can we improve our service to our customers? How can we provide a better environment for the growth and development of people? We believe these qualitative objectives are crucial to our continued growth and improvement of our service commitment.

To date, the listening process has included the following:

1. An initial meeting and review with our senior officers to "open" the listening process. At this meeting, we also invited senior officers from Wal-Mart and Herman Miller to share with us.

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2. During the last few months, I have attempted to set a standard and agenda for the organization by spending a major portion of my time listening to our customers, our major shareholders, and our people throughout the United States, Japan, and the United Kingdom.
3. All of our 1,700 management services customers have been personally contacted by one of our senior officers asking how we might better serve them. We have also contacted a selective number (10%) of our more than 2 million consumer service customers testing their perception of the quality of our services. In addition, groups of our employee partners and our partner licensees have met and responded in the listening process.
4. We have initiated communication from over 4,500 managers with a letter to the President, responding to the basic questions listed in the enclosed exhibit.

Some of the things we have heard or were reminded of during this initial time of listening include:

1. The layers of management in a large organization complicate the communication process. We need to take greater advantage of the tools available for communication and focus more on information versus data, including information about the service being delivered at the customer level.
2. We need to increase the role and level of importance of our person closest to the customer. He or she is ServiceMaster in the customers' eyes and influences their perception of the company. What we stand for is seen through the performance and effectiveness of that person.
3. We need greater focus on understanding customers' perceptions, including using customers' perception as a standard for incentive pay.
4. We need broader participation in our incentive pay program and more ownership of results.
5. The scarcity of the service worker is already being felt and requires even greater emphasis on increased productivity, motivation, training, and recruitment.
6. People, regardless of the culture or environment, respond to good training and effective tools, clear work assignments, and recognition for a job well done. People are better "servants" and more reliable when they understand the "why" of life and their work, as well as the "how to's" of the job. People are looking for standards and values.
7. There is a certain degree of turmoil and uncertainty among the middle managers and, in some cases, senior managers of the institutional customers we serve.
8. In a service company, size is sometimes a barrier to quality service. We need to continue to look at the "best" size of a service unit and keep the organization functional to bring benefit to the customer. There may be even a greater role in the future for more employee/partner ownership. As we grow in size, the major challenges will be to keep it simple, continue to provide added benefit to our customer, and use size to our advantage.

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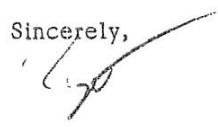
9. We need to maintain and improve grass roots communication.
- X 10. There is a need and a built-up demand for extraordinary service. The delivery limitation is not technology, it is people.
11. The extraordinary service standards of our company require a high energy level and major time commitment. Exhaustion, balance, and renewal of our people are issues.
12. There is always the issue of understanding the purpose and application of our four company objectives -- To honor God in all we do, To help people develop, To pursue excellence, To grow profitably.

Many of these observations are not new. They do not differ greatly from many of your "bone deep beliefs" in Thriving on Chaos. The listening process has renewed for me a sense of urgency to respond and improve the tone and direction of the ServiceMaster Enterprise. This should be done in a way that accomplishes our vision: "To be an ever expanding and vital market vehicle for use by God to work in the lives of people as they serve and contribute to others".

We would like to use the video to set the tone for a great day of involvement for enterprise leaders and top performers in our SMIXX planning process and edit the tape to use your closing comments as the conclusion to the workshop.

After you have reviewed this letter and enclosure, please feel free to call me if there are any questions.

Sincerely,


C. William Pollard
President and Chief Executive Officer

Enclosures:

- (1) Year end press release
- (2) Principles of Leadership (used over the past several years as a way to codify our important points of culture)
- (3) Draft of 1988 Annual Report (to provide more background and description of business)
- (4) Letter to the President
- (5) Principles for the Firm of the '90's