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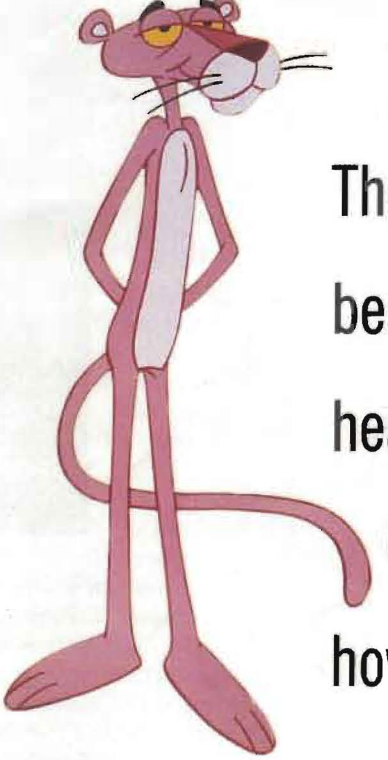

Back From the Dead

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The trees have leafed out in Toledo, but the infant arbors spotted around a glittering new riverfront building aren't much to look at, and won't be for years. There's plenty to see inside, however. The building is Owens Corning's spanking-new headquarters and an apt symbol of the striking renewal of the 59-year-old maker of fiberglass insulation, glass composites, and roofing materials.

What CEO Glen H. Hiner and his team are doing at Owens Corning could be an object lesson in how to revitalize a company—"my way," says Hiner, "as opposed to Al Dunlap's way." It's also a story about the competitive logic of the New Economy: In the past year a series of moves in sales and marketing, information systems, and manufacturing and distribution have come together in a coherent strategy that is transforming this Midwestern maker of humdrum materials into a global competitor whose real business is knowledge.

If "Chainsaw"Al Dunlap's way is execution (as in beheading), Hiner's is execution (as in follow-through). The stock market loved Dunlap's quick cuts to the quick. And Hiner's approach has worked too: Owens Corning has racked up impressive numbers—including 21 consecutive quarters of year-over-year improved profits from ongoing operations. But Wall Street, so far, remains standoffish (see charts). There are reasons for that. Investment-based growth takes time. Owens Corning has a big housing-supply business in Europe, where economies are still flat. And though Owens Corning is convinced that it has burned off a cloud from ancient asbestos liabilities, their shadow still spooks the market.

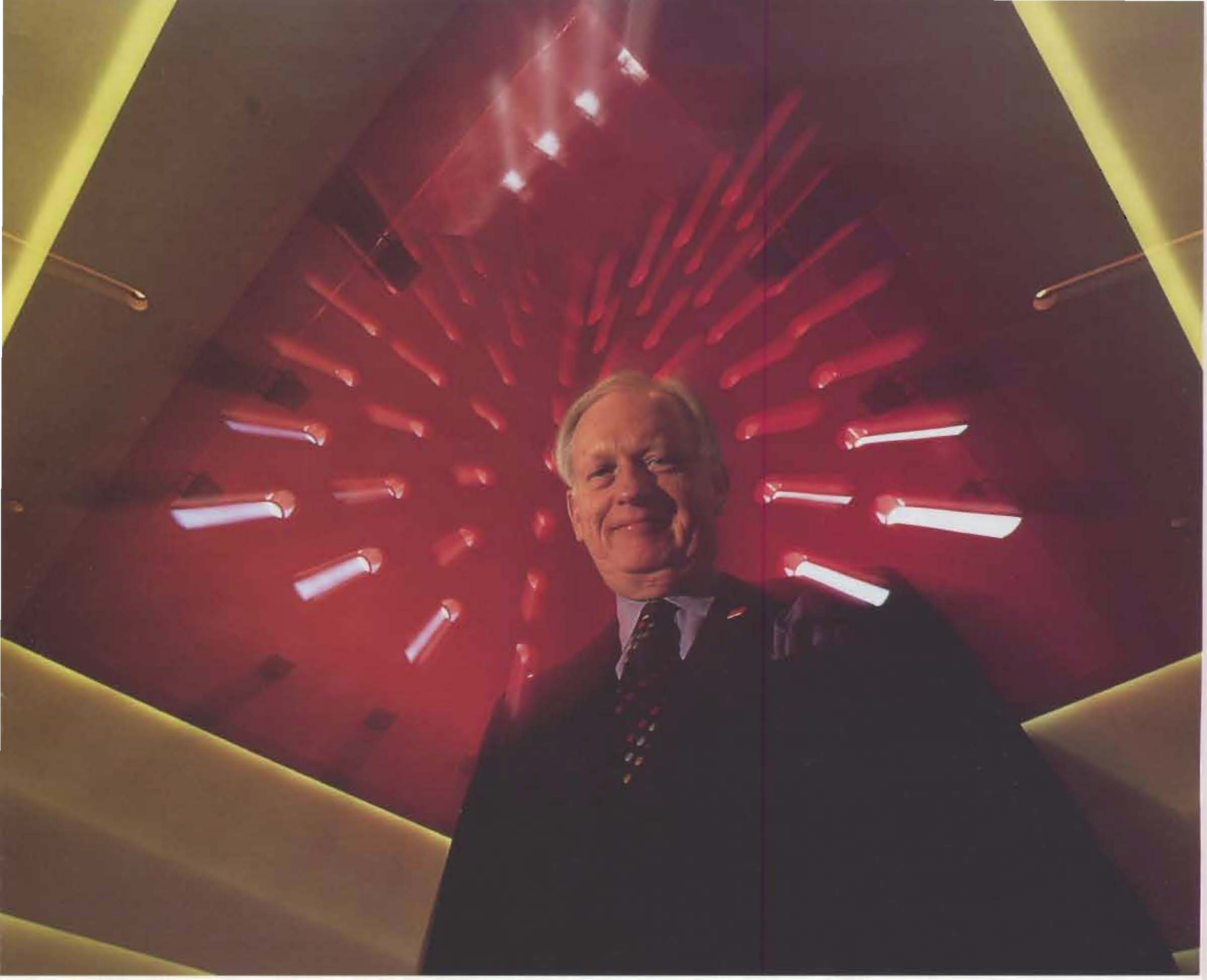
Too, the company's balance sheet bears scars from a fierce takeover battle a decade ago. In that 1986 struggle, a hostile raid by Sanford Sigoloff's Wickes Cos. drove Owens Corning into a desperate recapitalization that left it with $1.65 billion in long-term debt, shareholders' equity of negative $1 billion, and a scrimp-and-save outlook so single-minded that virtually all investment stopped and over the next five years sales shrank by $74 million, about 3%, to $2.8 billion. The bad news got worse late in 1991, when Max Weber, CEO for just over a year, was taken ill and retired, dying of cancer 16 months later at 63.

Hiner, then 57, accepted the challenge of lifting the stones under which Owens Corning was pinned. Hiner was running Jack Welch's old shop, General Electric's plastics business, leading it from annual sales of $750 million to $5 billion in 13 years. Now he was going to a business half as large, but it would be his own show. Says Hiner: "There was an element of vanity in my deciding to go, and I admit to that. No matter what I did, plastics would always be the house Jack built."

Hiner brought with him a passionate belief that it's better to punch your way out of a corner than to play rope-a-dope. In 1993 he came out swinging: Enough with the debt—then about $900 million—he told the company; it's time to grow. By 2000, when Hiner will turn 65 and retire, he wanted Owens Corning to be a $5 billion company that would supply just about everything it takes to build a house, from insulation to siding to windows. And he vowed that the company would get 40% of its sales outside the U.S., up from 21% at the time; and productivity would grow 6% a year and profits twice as fast as sales. It was an ambitious agenda, but last summer progress was dramatic enough that Hiner made his goal tougher, proclaiming that Owens Corning would achieve it a year early, by 1999.

This CEO's egalitarian style has helped. Hiner used to be hidden in a 28th-floor aerie, but in the new headquarters, an open-plan three-story building, he is second-floor center—"in the middle of the

PHOTOGRAPH BY BARTH FALKENBERG

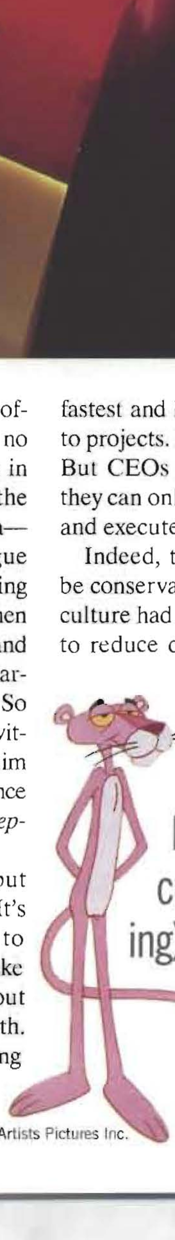


CEO HINER, *here in Owens Corning's striking new headquarters, says he plans a major acquisition before he retires.*

middle"—with glass walls around his office. As he walks from his car—there is no reserved parking—he invariably falls in with whoever else is on the path to the building. He always eats in the cafeteria—bringing visitors like his old colleague Welch or, often, coming alone and inviting himself to join a table. ("Sometimes when we see him heading our way, we duck and pretend to be deep in conversation," marketing director Karen Strauss admits.) So when the boss is in town, it's almost inevitable that everyone in the building sees him during the day—which gives him the chance to pop up, like the Lilac Fairy in *The Sleeping Beauty*, just when you need him.

"Symbols are easy," Hiner says, "but you've got to make the symbols work." It's worth noting what he could not do to make growth happen. A CEO can make acquisitions, which will account for about $1 billion of Owens Corning's sales growth. He can move capital to fund what's growing fastest and lend his presence and prestige to projects. He can hire, fire, and reassign. But CEOs can't create internal growth; they can only help the people who concoct and execute plays, ploys, and projects.

Indeed, the revolutionary CEO has to be conservative too. Says Hiner: "The old culture had a very clear vision—raise cash to reduce debt. We've got to get out of that bunker, but I've got to honor the past. They were doing a good job at what they were told to do. If you come in and say, 'You were dumb,' you lose all your credibility." These guys could execute; the question was, execute what?



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Hiner told them to see Owens Corning as customers did, from the outside. He hoped that would let the company break free from a set of long-held givens. Among them:

• Seasonality and cyclicality: Housing starts and remodeling projects ride the economy's hills and dales; in good times or bad, winter's dead.

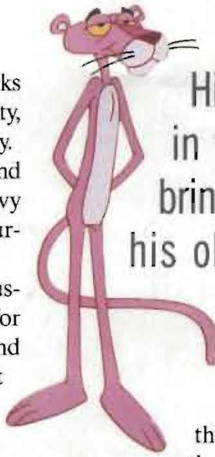
• Big stockpiles: Every fiberglass line can make any grade of insulation, but the process—melting glass in glowing furnaces, spinning it in strands that can be 150 miles long, at a speed Rumpelstiltskin would envy, then sending it on to be cooled, sprayed with a fixative, and rolled—works best uninterrupted. Add that to seasonality, and you're condemned to build inventory.

• Costly shipping: Insulation is bulky and inexpensive; roofing materials are heavy and inexpensive. Ergo, distribution is a burden, not a source of advantage.

All true, but all beside the point to customers. Owens Corning was fighting for share in a $5 billion domestic roofing and insulation business. But the market that customers saw was a $320 billion worldwide home-remodeling business. Says Dave Brown, president of building-materials sales and distribution: "We were focused on the materials, but customers are asking for more than products."

In the hot home-improvement market —which has grown about 50% in the 1990s, thanks to retailers like Home Depot, Lowes Cos., and Builders Square (part of Kmart)—consumers think about projects, not products: adding a room, fixing the roof, turning the basement into an entertainment center. *Stuff* is secondary; their big concerns are unreliable contractors, scarce information, and unexpected problems. Builders and contractors, frustrated when materials don't arrive on time, also think in project terms; customers for Owens Corning's composites—automakers, e.g.—increasingly want component systems rather than just parts.

That insight was the seed of a big idea. By leveraging the Pink Panther brand—one of the strongest in any industry and certainly stronger than the brands of competitors like France's Saint-Gobain (CertainTeed in the U.S.) and Schuller,



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the rechristened remains of the asbestos-tainted Manville name—Owens Corning could blow away the old givens. Instead of peddling pallets it could offer customers one-stop shopping and solutions to the problems projects pose—and by the way move a lot of product.

It was good thinking but for one thing: Owens Corning lacked the ability to carry it out. It had big gaps in its product line. Also, sales and distribution—organized by product—couldn't offer big retail customers a simple way to buy a multiplicity of things. Says Brian DeGeorge, a sales rep in North Carolina: "You could have a four-car wreck in a customer's parking lot, all of them driven by an Owens Corning salesperson." After the sale, retailers dealt with four different service centers, four different sets of terms, and four different invoices, and wrote four different checks. Third—least apparent and most difficult —the company couldn't execute its strategy for selling materials unless it totally reconceived how information flowed through it and to and from its customers.

First came filling the product line, so the company could sell everything needed for the "envelope" of a house: shingles, waterproofing, and venting for the roof; vinyl siding and windows; foam and fiber insulation and a pink plastic house wrap that acts as a final insulating barrier. In 1994, Owens Corning bought UC Industries, an 18-year-old New Jersey maker of rigid insulating foam—it looks like dense Styrofoam and is better for some applications than glass wool—and with it the services of co-founder Jerry Weinstein. Says Weinstein, who has an entrepreneur's zeal for making every possible sale: "Ten years ago Owens Corning would have sneered at a $50 million business like us—we would have been a rounding error."

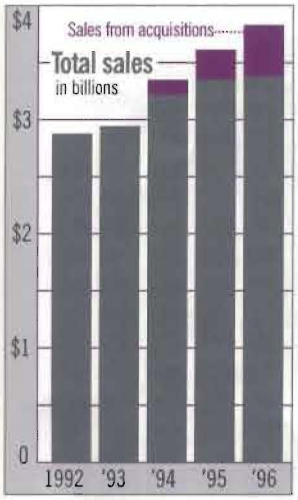
UC Industries was the first of a series of buys; still highly leveraged, Owens Corning bought small, and only what would be profitable within a year. The biggest deal, also in 1994, was the insulation business of Pilkington, a British company, which in a stroke more than doubled Owens Corning's European capacity. Five more buys came in 1995—including two other small foam makers and a manufacturer of vinyl windows—and seven last year and this.

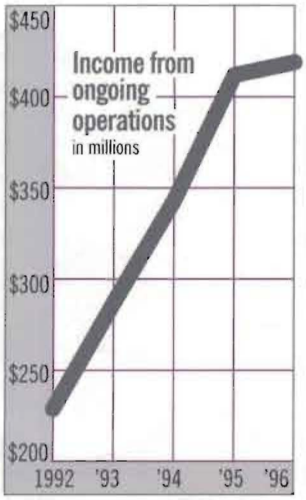
In the labs, Hiner's call for new ideas was rain after a drought. Research—run from a campus of buildings near Granville, Ohio, on what once was the farm of J.C. Penney's brother Herbert—had been cut by more than half when the company hunkered down to reduce debt. An acoustics lab, which had mostly worked on commercial buildings, closed entirely. It reopened last year with a new focus on sound insulation for appliances, cars, and homes. The last was a dream of a line extension: With a little science and a lot of marketing, Owens Corning showed that what keeps Jack Frost from chilling a bedroom will keep Pearl Jam from rattling a home office—and sales of Quiet-Zone products should rise 28% this year.

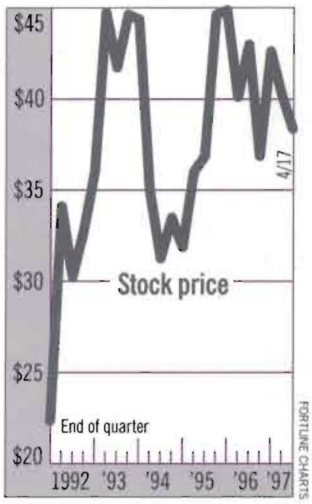
The reenergized R&D center also had a new wool fiberglass called Miraflex for do-it-yourselfers; it's cheaper to make than ordinary glass insulation and cheaper to ship because it can be compressed, and it gets a premium price because it's noticeably less itchy than the usual stuff. There were new composites and roofing materials: An upmarket new shingle and a fake shake, called MiraVista, that looks like the real wooden thing but is fire-resistant.

By the end of 1995, sales were up from $2.8 billion to $3.6 billion, long-term debt down from $900 million to about $800 million. Operating income was rising smartly, mostly thanks to blocking-and-tackling im-

THE REINVENTION *of Owens Corning is driving the company's sales, profits, and stock price in the right direction.*







OWENS CORNING *forms partnerships with builders of homes like this one near Toledo. They agree to use the company's products wherever possible, which helps sell (from left) roof vents, shingles, and vinyl siding.*

provements. The product line was richer —the company estimates its potential "take per home" for a 1,800-square-foot house was up from about $1,000 in 1993 to $4,000. To make that tangible, though, Owens Corning had to build something intangible: a new information culture and system.

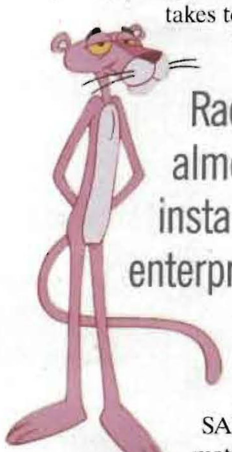
In the old economy, information was a byproduct—a bill of lading, an invoice, a brochure: It was necessary gaudery, but value lay in the goods. Information systems, consequently, grew up around goods —which is why Owens Corning, like many companies, entered the mid-1990s with 200 incompatible systems, each dedicated to one or two tasks, such as counting shingles or invoicing insulation.

The new economy won't tolerate that, because information is becoming more valuable than goods. That realization came to Owens Corning independently and simultaneously in three different places. In the field, sales reps found that major accounts—fast-growing "big box" retailers like Home Depot and Lowes—needed information more than sales pitches. First, they wanted sophisticated logistics. A typical Lowes outlet, says Greg Wessling, general-merchandise manager for the North Carolina–based chain of 408 stores, deals with 5,000 to 7,000 vendors, carries 40,000 items, and has virtually no storage space. "Can you imagine the traffic jam at their back door?" asks Art Bender, who leads the Owens Corning team that calls on Lowes. "They'd like to have a truck come by at 2:35 and another at 4:30, each carrying a pallet or two of several different products. Our systems could only handle full trucks of one product."

Logistics is just a part of the demand for knowledge from stores like Lowes. "Their No. 1 request is training," says Bender, who manages a rep, Tisa Pacella, whose job is to provide it. Shoppers for insulation and shingles need trained salespeople on the floor, and companies like Lowes (which added 47 stores in 1996) and Home Depot (88 new stores) hire gobs of people, many of whom start knowing little more than the shoppers. Bender and Pacella often send Owens Corning training videos to Lowes headquarters to be beamed by satellite to store personnel.

To provide this knowledge-based selling, reps were pulled away from peddling single product lines—insulation, roofing, asphalt —and told to sell the company's whole line. Then customer service and fulfillment were folded in with sales to form a horizontal ordership-service process under Alan Booth, former head of the insulation business, who now sports the title "process executive." Merely encouraging cross-functional cooperation—here's coffee and Danish, now make nice—isn't enough, Booth says: "When you're trying to get a common invoice for ten or 11 distinct businesses, you need someone to cut through and say, 'We'll do it this way.' " It's worked. For example, sales of insulating foam, which could have fallen through the cracks of the old organization, have grown 56%, to $40 million, in two years.

Back in Toledo, chief information officer Michael Radcliff, hired by Hiner from Honeywell in 1994, faced a similar basket of challenges: Maintaining the hodgepodge of legacy computer systems cost $35 million



Radcliff took a huge gamble: He bet his job—and almost the company—on his group's ability to install SAP, the powerful and notoriously complex enterprisewide information-management software, across most of Owens in just 18 months.

a year, and the damned things couldn't, even at their best, support the new strategy. Radcliff took a huge gamble: He bet his job—and almost the company—on his group's ability to install SAP, the immensely powerful and notoriously complex enterprisewide information-management software, across most of Owens Corning in just 18 months—about the time it usually takes to hook up just one business unit. He called the project Advantage 2000. SAP connects all the information that flows through a company in a single system, so that, for example, when a salesman enters an order, it automatically puts dibs on raw materials, schedules production and delivery, and prepares a bill—all with no more data entry. Says Hiner: "Electronic commerce will seal the deal with customers. They ought to be online with us, ought to know our inventory, ought to know when something is shipped, ought to be able to pay electronically, so we can give them multiple products in a way that looks like one product." It will vastly improve Owens Corning's ability to forecast sales and, says Richard Glosser, plant leader in Visé, Belgium, "allow us to substitute information for inventory."

But SAP is also the furthest thing from plug-and-play software: If you install it without completely mapping and reengineering business processes and ensuring the accuracy of all data—for example, clearing out all the fudge factors companies cook up over the years—you're doomed to chaos, possibly for years.

Today the job's on target, on budget, and ready for completion this fall. What made it work? First, Radcliff defined success in business terms—inventory reduction of 50%, a $100 million reduction in working capital, $5 million less for plant maintenance, an overall 1% increase in pretax earnings, etc.—and insisted that half the project staff came from the businesses, not from information systems. As a result, he says, no matter how messy things got, "the debate was 'How do I achieve the outcome?' and nothing else." Second, by starting with corporate finance, Owens Corning ensured that its first victims were numerate and computer-savvy, the best possible teachers. Then, rather than wimp ahead with small pilots, the company picked a major business thousands of miles from headquarters, whose legacy systems were the clunkiest in the company, where the work had to be done in several languages, and where people were thrilled to break the trail for the company. So thrilled, says Ann Senn, a Deloitte & Touche consultant who worked with Radcliff, that "I have never seen a business side pulling the tech side harder. We kept saying, 'Hey, wait a minute, slow down!' " After paying $110 million to install SAP and train people, Owens Corning will reap $15 million in savings in 1997, $50 million next year—and $80 million in 2000.

If the reinvention of Owens Corning shows anything, it's that there's no stopping halfway to becoming a knowledge company: You either are or you aren't. Building-materials marketing director Karen Strauss knew nothing about plans for Advantage 2000 when she began to realize that knowledge was the most valuable thing she had to sell: If consumers knew how shingles and vents and soffits worked together to make a better roof, if they knew how to pick reliable contractors, if contractors knew how to help customers get financing or how to flog the Pink Panther brand, Owens Corning could sell pink houses, not just pink fiberglass.

Out of these thoughts Strauss and Dave Brown conceived System Thinking, a marketing vision that is the capstone of the company's strategy, joining all that Hiner & Co. has done with acquisitions, new products, sales and service, and Advantage 2000. With Owens Corning's potential take per home now over $6,000, System Thinking pushes the notion that roofing, exteriors, insulation, and sound are all systems—products that work together—and that by selling systems Owens Corning can significantly increase demand. Out of System Thinking are pouring ad campaigns and merchandising support, plus innovative programs like certification for contractors who meet Owens Corning's standards. There's also an ambitious program to sign up homebuilders to agree to use Owens Corning products wherever possible in exchange for marketing support and the right to brag about the brand. As of April, more than 100 U.S. builders had signed on to build a projected 7,500 new System Thinking Homes in 1997. Estimated incremental sales: $10 million.

In all these programs, knowledge pulls the product, not vice versa. Says Brown: "We'd never looked at information as a product before." The logic of Information Age competition is so seamless and compelling, Strauss says, that something like Advantage 2000 was "a happy inevitability"—for the logic drives sales, marketing, and systems all to the same place. For Owens Corning, they came together at the same time, though each began for its own good reason: pressure from customers, the pending breakdown of the old information systems, the hot pink-house idea.

Hiner, more modest than he should be for having the foresight to found a solid, long-term strategy, does take credit for helping to orchestrate its execution: "We didn't have the luxury of saying, 'Work on one thing and get it done, then another, then another.' But I'm a pretty good cheerleader, good at touching people and giving them a few kisses." He's needed that skill. In addition to a total revamping of sales and service, marketing, and information systems, the company has successfully completed 14 acquisitions, built or acquired facilities on every continent save Australia and Antarctica, taken aggressive financial and legal steps against its old asbestos liabilities, radically restructured human resources and compensation, and designed, built, and moved into the new building—all the while steadily increasing the efficiency of its core businesses.

Whether Hiner's kisses have turned Owens Corning into a prince of a company isn't yet proved. Overseas sales growth has been slow. There's that recently sidewinding stock price. The CEO wants to make "a really big acquisition" before he retires in 2000. But if the kisses take, Hiner's way will look pretty good. ■