

Organizational Physics

Structure & Design Consulting for Scaling Companies

CASE STUDY



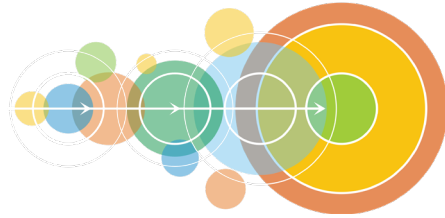
“The new structure, the expanded leadership team, and the new leadership team process have virtually solved—or have dramatically improved—all the issues we were having.”



Sean Knutsen
CEO of Boveda

Headquartered in Lake Minnetonka, Minnesota (Minnetonka High School just happens to be my alma mater), Boveda was founded in 1997 and has grown to be the worldwide leader in 2-way humidity control packs. If you smoke cigars, play guitars, or enjoy cannabis, then you will recognize the brown Boveda packs that get progressively firmer over time as they work to control humidity and “protect your passion,” which is the company’s brand tagline.

CEO Sean Knutsen engaged with Lex and Organizational Physics to conduct a strategic alignment and organizational redesign program in 2019. At that time, the company was at \$25M in sales and had 47 employees. Two years later, at the time of publication of this book, Boveda is at \$50M in sales, it has a 14-member Leadership Team and 82 employees, and it has twice been listed as a Minneapolis/St. Paul Best Places to Work. This is a CAGR of 41%. Let’s hear from Sean.



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Tell us about the origin story. Why did you start this business? What was the original inspiration or frustration?

Becoming the global leader in any category doesn't happen overnight. Becoming the global leader in a category that didn't even exist is even harder. But that's what Boveda did and continues to do since 1997.

We made "Never, ever, ever give up" one of our company values because that's how important it was from Boveda's very beginning.

Today that persistence looks like millions of 2-way humidity control packets getting shipped out each year to protect your finest cigars, regulate the environment of your favorite guitar, and keep

the terpenes in your cannabis where they belong.

That's a lot to expect out of a humble brown packet, but Boveda has dedicated more than 20 years to protecting your passions.

The road to Boveda's status as the top global manufacturer of 2-way humidity control wasn't an easy one, and there were some bumps along the way. But when it came to our commitment to protecting your passions, there was no room for compromises—and as our most loyal consumers will tell you, that commitment paid off.

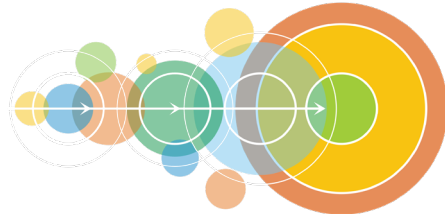
Tell us about the business at the time you engaged Organizational Physics. What were the issues, frustrations, or needs you were seeking to resolve?

When we engaged Lex in April of 2020, our company was in its 23rd year in business and on a consistent compounding growth rate averaging 33 percent annually. Along with the growth came increased challenges that caused our growth rate to drop considerably in the year prior to working with Lex and Organizational Physics.

Despite having a passionate and talented team committed to executing on our strategy, we had two primary issues: A flawed leadership team process and vague accountabilities with lack of ownership in key areas of our business.

Leadership Team Process

The leadership team members were all very



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talented but the team itself was becoming a bottleneck. Specifically, the *process* we had for making and implementing decisions was designed for a smaller, more start-up-like team with a flawed top-down-only process. The old process created a leadership team that grew to become somewhat disconnected from the broader team, causing increased frustration deeper in the organization, stifling broad engagement, and resulting in a lack of commitment to decisions that started to develop into a culture of slower, poorer execution.

Vague Accountabilities, Lack of Ownership, Lack of Empowerment

A shift in strategy to develop a new vertical market (cannabis) for Boveda while continuing to grow and milk an established market created the need to further develop existing functions and the need to create new/additional functions.

Non-existent or underdeveloped functions meant that some key areas of our business, such as product management, got ignored. Our product portfolio needed to be managed but it just wasn't getting the attention it required.

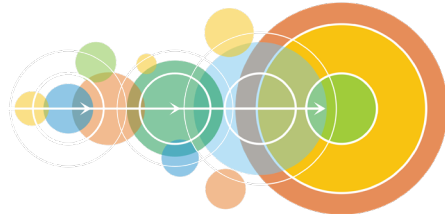
How successful was your organization at resolving those issues, frustrations, or needs? How is life different or better now?

The result of working with Lex and Organizational Physics exceeded expectations, to say the least. The new structure, the expanded leadership team, and the new leadership team process have virtually solved—or have dramatically improved—all the issues we were having.

In the past, previously made decisions were being brought back to the weekly leadership team meetings because new information would be learned that we didn't have when we made the decision the first time. The new Type 1 and Type

2 decision-making process has given the entire company the framework with which we make decisions. The entire organization feels more engaged in the process of making decisions, which has also improved on the quality and implementation of those decisions.

In addition, the broader team has more confidence in the leadership team in general knowing that all the essential functions necessary for our company are represented and are involved in the Type 1 decision-making process.



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As a result of your work Organizational Physics, what do you know now that you wish you knew before you engaged?

From reading Lex's work on designing a company's structure, I believed that structure would be the silver bullet that would free our team by eliminating energy drains and erasing our frustrations. Yes, structure for us was a silver bullet, but it's only part of the equation.

One of the things I know now that I didn't know prior to our engagement with Lex and Organizational Physics was that the leadership team should be formed with the structure in mind, not irrespective of it. With the right structure in place, designed with all the functions necessary to execute our strategy, other flaws were exposed, including the flaw of an incomplete leadership team and process.

I always thought that a leadership team should be limited to a small number of executives that oversee strategy and execution. But we discovered that an incomplete leadership team based on traditional departments instead of the right functions relative to the strategy produces excessive bureaucracy and silos, making it difficult to gain the broad, cross-functional perspective and commitment that are needed for good decision-making and fast execution.

People can be accountable for their functional role—and the right structure helps create clarity for those accountabilities—but an incomplete leadership team will make it difficult for any and every function to perform at a high level.

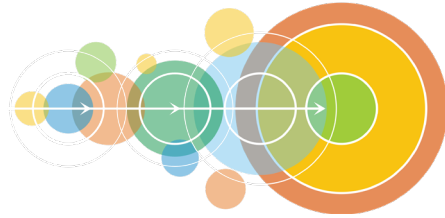
What principles of Organizational Physics do you find most helpful to you as a CEO and why?

All the principles of Organizational Physics have made a positive impact on our company. The two principles that were most helpful to me as a CEO were the Rules of Structure and Leadership Team Process.

Rules of Structure. Perhaps the most impactful

rule within the Rules of Structure was: Don't allow functions focused on short-range results to control functions focused on long-range development.

The principles for structure were extremely helpful for me as a CEO to free the marketing function from trying to achieve our needed short-



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range results—driving e-commerce revenue and demand generation for our B2B sales teams—while simultaneously trying to execute on our long-range strategy of brand development, which we tie directly to developing an entirely new category for packaging hemp and cannabis. When the marketing function was consolidated, a majority of time was naturally invested in the shorter-range goals, putting the longer-range priorities on the back burner.

By extracting the Product Management function and the Demand Gen & E-commerce function—both with a shorter-range focus—from the marketing department, the brand marketing team was able to focus 100 percent of their effort on our longer-range strategy of developing a new category in cannabis packaging. Prior to this move, the shorter-range activities took precedent, which slowed down the development of our longer-range strategy and slowed down the achievement of our long-term goals.

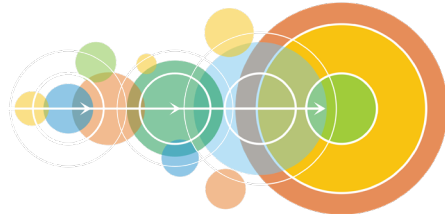
The Leadership Team Process and Type 1 and Type 2 Decision-Making. When Lex suggested that our leadership team should expand from 6 to 13, I was a bit shocked at first. My mindset previously was to keep the leadership team small so we would be more efficient. It was a mistake to think that a larger team would be unproductive and that

the weekly meetings would be bogged down and inefficient. Furthermore, I had previously believed that the leadership team should be reserved for only the direct reports to the CEO.

I was wrong, provided we have the right structure in place along with the right process for the leadership team.

Under the old structure and old leadership team model, it wasn't uncommon for previously made decisions to be revisited multiple times in the weekly meetings due to lack of perspective when the decision was made the first time. The expanded leadership team process and Type 1 and Type 2 decision-making process solved this problem because the right people were in the room to provide the additional perspective needed to make good decisions that didn't need to get sent back to the leadership team to rehash. The expanded team enabled better decision-making and improved buy-in and commitment, which have resulted in faster execution.

In addition to rehashing previously made decisions, too many decisions were making it to the leadership team that should have been rightly made deeper in the organization. The small leadership team created the unintended perception throughout the organization that full



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control was centralized at the top. There was less autonomy deeper in the organization, regardless of function, creating a bottleneck in decision-making.

The expanded leadership team, along with the new decision-making process, has virtually eliminated these problems.