

Strategy & Corporate Finance Practice

# Simon Pryce of Ultra Electronics on growth

Here's how he turned an aggregation of acquisitions into a cohesive innovation engine.



**As the former CEO** of BBA Aviation and a senior executive at GKN, Simon Pryce has led organizations that grew rapidly through acquisitions. Now, as the CEO of Ultra Electronics, a British company that develops technology for the defense and security industries, he is overseeing a corporate transformation that aims to position Ultra for future growth. In this episode of the *Inside the Strategy Room* podcast, he talks with Tanuja Randery, a partner in McKinsey's Transformation Practice, about the company's approach to innovation and how Ultra is building an adaptable workforce. This is an edited transcript of the discussion. You can listen to the podcast episode on Apple Podcasts, Spotify, or Google Podcasts.

**Tanuja Randery:** Simon, you have had a global career in aviation and engineering. What drew you to Ultra?

**Simon Pryce:** I have a rather unusual background. I have spent most of my life in engineering businesses and I'm not an engineer. I have a degree in food sciences and agriculture and I'm a trained accountant. I was an investment banker for 12 years before getting into the industry. But not being an expert, I have never believed that I could engineer anything better than the engineers I work with. Instead, I facilitate and create an environment in which engineers, who usually think about the problems they are solving first, focus on customer needs.

**Tanuja Randery:** Our research on growth outperformers shows that they tend to focus on growth in several spaces, whether that be improving the core business, entering new geographies or adjacencies, or changing their business models. Looking at Ultra's three-year growth trend, it is clearly an outperformer. How have you driven that growth?

**Simon Pryce:** Growth, for me, is about taking managed risks in areas where you are truly expert and competitive. It's no more complicated than the much-used Warren Buffett analogy of castles and moats. You need to understand how high your castle walls are and how wide your moat is

because that tells you your strengths as a business. It is important not to believe your own BS but to look for external verification and data to support the internal assumptions, because sometimes those assumptions are flawed. In a world changing as quickly as it is today, something that was correct two years ago may no longer be true.

Encouraging the organization to understand its customers and how their needs are evolving is key. It's amazing how infrequently some companies ask their customers what they want. We are a very engineering-focused organization and engineers may be the worst at that. You also need to be prepared to experiment and take risks. Make them small—don't bet the farm on a punt—but take risks around what you are good at. Fail quickly, learn from it, and reinvest; go again.

How you grow is very much dependent on the business, where you are in the cycle, the business model itself, the physical geographies. At BBA, a lot of our growth was inorganic. It was all about adding scale to a strong core. In the past, Ultra was very acquisitive and that growth was not particularly value-creating. Do I think we will be deploying capital? Absolutely, but we will deploy it in areas that accelerate our ability to innovate. I have been doing M&A for a long time and anybody who justifies M&A on the basis that an asset is cheap is doomed to failure. Markets are pretty good at valuing the future discounted cash flows that a business or an asset can generate, and they get the math right 99 times out of 100. So, unless you do something different with that asset once you own it, you will almost certainly have paid away all the value in acquiring it in the first place.

Unlike BBA, which was driven by scale and consistency of product and service, where there were massive benefits from aggregated procurement, here M&A is much more about buying the right technologies to knit together to create clever solutions for our customers. It's about accelerating the pace at which we can develop capabilities that might take us five years to build organically.

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**Tanuja Randery:** Innovation and intellectual property play a major role in Ultra. You established Ultra Labs, a growth accelerator. How do you make use of it?

**Simon Pryce:** Between 17 and 20 percent of our revenue every year comes from development work. Sometimes it is funded development for customers, sometimes it's money we invest in ourselves to develop capabilities to apply to future solutions. Ultra's background is as an aggregation of acquisitions that were never fully integrated, and the transformation we are going through now is effectively integrating 30 years of acquisitions. We need to focus our investment in intellectual property and capabilities in the areas that we are good at.

Some capabilities and technologies span our businesses. For example, everybody is talking about big data, machine learning, and artificial intelligence. At its core, Ultra takes data that sensors pick up, usually in harsh environments, and turns it into information. We then send it somewhere so somebody can do something with it. We will continue to improve the sensors we manufacture, but where we will spend most of our time is improving the data those sensors produce and more effectively and efficiently turning it into information. That is an issue all of our businesses face, and therefore one of the reasons we created Ultra Labs was to create a

cross-business capability in certain core areas. It stops us from inventing multiple solutions for the same problem. Where we can create modular solutions, such as modular machine-learning algorithms, we try to do that centrally and then adapt it to local customer needs or a particular situation.

The second area that Ultra Labs focuses on is innovation. It owns our innovation process. It pulls together skills and capabilities from across Ultra to work on unique problems that either many of our customers face or Ultra's broader capabilities can help us provide better solutions. Thirdly, Ultra Labs is responsible for engagement with forward-thinking institutions within our principal customers, mainly the defense arena, such as DARPA strategists, to help us better understand what problems our customers will be trying to solve in ten or 15 years' time. The accelerator is a conscious effort to isolate a group of people away from our strategic business units, to act as a service for those SBUs but also to identify and solve problems that cross those business units.

**Tanuja Randery:** In our experience, two-thirds of business-building initiatives are not successful, and one of the reasons is the lack of specifically carved-out funding and talent. Often, the ventures end up being stifled by the mother ship or they have to be funded by business units, which creates

a tension between the core versus the new business. How does Ultra Labs overcome that?

**Simon Pryce:** It reports to our chief technology officer, who reports to me. It does not report to the business units. It has its own budget. It is treated like a business unit with specific objectives each year. It has five- and ten-year plans and it goes through the same quarterly operating reviews that business units do. Ultra Labs also can do some things the business units on their own would not do. Having done a two-week sprint on a particular problem, it may hand it off to one of the SBUs if we see a commercial possibility. It creates more business for those SBUs—it's not an execution unit. But I absolutely understand the challenges others have faced in setting up these groups. We are not creating some sort of ventures hothouse. Ultra Labs is there to support the Ultra strategy and enable a more rapid execution of it. It's making the core businesses more effective and allowing the core to evolve rapidly.

**Tanuja Randery:** You mentioned that you are part way through a transformation journey. How have you approached this initiative?

**Simon Pryce:** The transformation journey is built on the experience of many people in Ultra who have been through transformations elsewhere. The most important thing is to understand the need for change up front and widely. We engaged with all of our stakeholders and asked them what they thought was good about Ultra and what they thought was bad, and that revealed some worrying things. That's one thing we have done more at Ultra than in previous change programs I was part of: understanding how stakeholders perceive what the organization is delivering for them before we decide what the change will look like. It is not the Ultra executive team's view; it is our stakeholders' view. Understanding that makes it easier to embed change in the organization.

Part of it is building a team. About 150 of our senior leaders are helping us understand the need for change. Everybody got engaged with a particular customer set, spent time with those stakeholders,

and defined what a good set of outcomes for them would look like and what measures would allow us to say, in four or five years' time, that we delivered these outcomes. That told us what sort of strategy we needed to follow. We engaged with a wider audience as we moved into the execution phase. Most important, though, is to not drive the change from the top. You cannot have a group of six people changing a whole organization. At Ultra, everybody understands why we needed to change and is given the freedom to facilitate that change for themselves. It is only when you get grassroots engagement that a transformation can be successful.

**Tanuja Randery:** In the transformations we have been involved in, two things were important. One is that they were line led, to your point of transformations not being top down, although you set aggressive goals and vision at the top. The other thing is the employees having an owner's mindset. What role did the growth focus of the transformation play in enabling you to embed those mindsets?

**Simon Pryce:** We are in the fortunate situation where we can launch a transformation without being on a burning platform. My earlier management jobs were in engineering, manufacturing, tier-one automotive businesses, and those were all about being more cost-efficient and reducing head counts. That's tough for the shop floor because there is no upside for employees. Here, we have capabilities that, if we apply them better, will allow us to grow more rapidly, so when we talk about transformation and taking inefficiencies out of processes, the goal is to free up resources and people to do the interesting stuff, the growth stuff. It's all about getting the organization fitter, stronger, better, and more grounded to deliver that growth.

**Tanuja Randery:** What were the most important processes or practices that helped you boost that growth equation?

**Simon Pryce:** This will sound strange but they were our back-office processes, principally in finance and HR. We are good problem solvers but our

administrative processes were holding us back. We were still signing paychecks manually three months ago. On the people front, which is particularly important for us, we had to stop thinking about recruiting for current roles and instead create a set of processes that allow us to understand the capabilities we will need in five years' time, recruit for those now, and develop talent internally. We now bring people on board who will not just work on one program in one location for the next 20 years. We do need some of those people, but we seed them with different types of capabilities so they are prepared to be multidisciplinary in the engineering space.

**Tanuja Randery:** As you reflect on the past year, what trends do you believe will have the biggest impact on businesses?

**Simon Pryce:** I think ways of working have changed permanently. There will be a greater blending of remote and socially engaged work. People will have one set of processes for administration, fact-based decision making, communication, and data

gathering, all of which can be done remotely, and a separate set of processes for the collaboration, innovation, problem solving, and decision making that require social interaction. Social contact is more important to me than I thought it was. The pandemic highlighted for me its importance not just in problem solving and building off each other but the broader social chemistry a team needs to be effective. Most members of my senior leadership team have been working together for a few years, and we can be intuitive around questions and decisions. As a leader of that team, I know when to pull and tweak and nudge to elicit responses. Without physical interaction, that erodes over time, and after four or five months it becomes more difficult to do the day job, let alone the creative stuff.

As a critical industry, we have been required throughout the pandemic to continue delivering to our critical customers, and that has meant our people have been in the office. We have shifted from supporting local-government guidance around avoiding coming to work unless it is necessary

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to mandating that people come to work a couple of days a week, because without that interaction, we were losing productivity and becoming less efficient. But there will be less social interaction, and that has knock-on effects in how we train people and engage leaders. Managing a team that is remote three out of five days is a different skill set from managing people in the office. You need much more empathetic leaders who are capable of creating teams within teams that are empowered to do their tasks and come back for a collaborative review of decisions. That dispersed approach to leadership will be increasingly important.

**Tanuja Randery:** How did you keep spirits up while ensuring that you were protecting employees coming on site?

**Simon Pryce:** I have learned through this pandemic the importance of an open communication style. You have to tell people the truth and be realistic. They can see what is going on around them. You also have to be true to yourself and be empathetic. I have been in senior leadership roles now for nearly 20 years, and certainly for the first ten years I felt that a leader needed to be superhuman, to be impervious, to create a blindingly optimistic view of the future in order to encourage a workforce. As I became more experienced and more aware of my own faults, I saw that it is OK for a leader to be flawed. It's only bad if you are flawed and don't recognize it.

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