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Leading by Example

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Date Interview: 03/16/2010
Date of Credentialing: 04/07/2010
Credential Expiration: 04/07/2011

Interview with John Collard, Interim CEO, CRO, Turnaround Pro

Turnaround & Workouts magazine named your firm one of the top 12 outstanding turnaround management firms in the country, twice. How did you do that?

This award is usually given to firms based on their growth, we stood out with our case work. We are unique from the standpoint that we are very nimble and flexible and can respond quickly to a company's needs. We think it's far more important to build a team within the corporation, therefore build value, because unless we do that, once we leave, so do our resources.

Is that unique?

That is in contrast to the major consulting firms that want to put in 10, 20, or 50 people at their rates into a particular company. What we want to do is use the people that are within the company. We want to bring employees to the next level, hire a full permanent management team, and make sure that plans are in place so that the business can continue when we leave.

You are also in the Turnaround Industry's Hall of Fame, are a Certified Turnaround Professional, and you were chairman of Turnaround Management Association. How did you get started in turnaround?

When I was working in corporate America, many times I found myself going into some division or subsidiary that was in some sort of trouble or wasn't performing up to par. My job was to find out what was wrong, and turn it around. I was hesitant to leave corporate America until I knew what my product was. I finally realized that my product was me, that was in 1988.

Expand on that.

I am very good at going into situations, quickly figuring out what is wrong, which is usually two or three things, and deter-



John Collard, CEO of Strategic Management Partners, Inc. (www.StrategicMgtPartners.com), has 35 years of operating experience leading in rapid growth, transition and turnaround environments. John's wins total \$950 million in new business for clients with \$85 million in asset and investment recovery, while he has participated in 40+ transactions worth over \$780 million.

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mining how to fix them. In the case of working within the distressed private equity investment community, I go one step further and determine what a company is worth. Mismanagement is often a real underlying issue. Whether in good times or bad, there will always be bad management decisions that get a company into trouble or run it down. This, in turn, presents opportunities, regardless of what the economy is doing.

Tell us about one of your turnarounds.

There was a company in Northern Virginia that at one point was doing \$45 million in annual revenue. They were doing business with the federal government, mostly SETA contracts, systems engineering, test and evaluation. They designed the wing structures for aircraft and improvements for space shuttle, so very high-tech computer simulation modeling. They ended up losing many contracts and, when I walked in, they had lost about one-third of their revenue.

What were your first steps?

I had the team explain to me what they did, and then told them that it sounded to me like the simulation models could be used for all sorts of things. Why not do the same things for submarines moving under the water or looking at particles of pollution moving through the air? They told me I was crazy. I told them that unless we really turned this thing around quickly, we were going to have to lay people off. We had to put together a concentrated plan to expand their markets.

How did you put the plan into action?

We started marketing to the Navy and got more contracts working with environmental groups to measure acid rain and smoke pollution. Within two years the company was doing \$60 million revenue. When they were sold to a larger corporation about five years ago they were up to \$120 million. By truly changing the thinking that was going on within the organization, we saved and grew the number of jobs dramatically, almost quadrupling the size of the company in five years.

That is major growth. How do you typically approach a company when it is resistant to change?

Let me split that into two scenarios. First is when the company is doing relatively well, but could do better. At that point we

are in performance improvement phase. In this stage it's going back to the fundamentals of what the company does very well, then looking at how we can go in a new direction and reapply those fundamentals to develop something else.

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What's the second scenario?

If a company is in crisis you don't have time for some of that consultation. You become the one giving orders saying, "we are going here." Sometimes you bring them along kicking and screaming all the way. It's like a huge ship out in the ocean. You can turn the wheel, but it takes a long, long time before that ship actually turns. When people begin to see that what you are doing is saving cash, and it's saving the company, and saving their job, then they get on board. In that situation you need to recruit a couple of individuals who want to move forward and they help you recruit the rest.

Tell me about a time when you gave orders.

I was running a commercial printing company in central Pennsylvania. The sales people were gone and we had just fired a couple of others that hadn't produced anything in ages. I walked into a room of 180 employees and three union reps and started talking about these cut-backs. They kept asking if I read their contract. I said, "Wait a minute, you have this goofed up. You need to understand that you just are not my top priority."

"You are not my top priority." What type of response did that get?

Well, after repeating it several times throughout the conversation, one guy sitting in the front row looked at me and said, "You've said we are not your priority. If that's the case, what is?" I thought, "Hallelujah, somebody in this place is thinking." I made it real simple for them. I explained to them that they'd lost the entire sales force, and revenue had been cut dramatically. If we didn't change this situation quickly and develop new business, half of them wouldn't be there next

week. I told them that my job is to go and convince some customers who have left to return, and to hire a new sales force that could bring in business. I asked if anyone disagreed with those priorities.

Let me guess –

Not one hand raised.

You got their attention. Were you able to save the company?

When I left, the company had tripled their annualized run rate in 10 months.

Did you gain insights from the experience?

Over the years I've learned that people can be incentivized and will try very hard to please and get to the goal. Problems arise when they don't understand what the goal is, or there is mismanagement.

"If I go into a company as interim CEO and the board of directors sets a goal that we meet, I get to keep my job. If I exceed the goal, then I'm successful."

I'm sure you've seen your fair share of mismanagement.

When I think I've seen just about every stupid thing that people can do to mismanage a business, something else comes up that I didn't even think was possible.

What surprises you?

I am always surprised at what people will tell you, either because they clearly don't understand what's going on, or in some cases they outright lie. I went into a telecommunications and construction company in Baltimore as interim CEO. I had been told that over a six-year span the company went from zero to \$30 million a year and that, because of its rapid growth, the company had only been marginally profitable. Day One I walk in and find out that they were down on accounts receivables. I called the bank and they told me that the company was \$200,000 overdrawn on the bank account.

How did you respond?

The banker said that because I was a turnaround guy he would honor an over-advance on the company's credit line, but not for long. I thanked him and told him he would get complete honesty from me. Well, three hours later I called him back and told him that the company was actually \$600,000-\$700,000 overdrawn, he just hadn't seen the checks yet.

What next?

A day later I spoke with the CFO and came to realize that they were creating fictitious invoices and pledging those as collateral to the bank. I found all kinds of fraud. The bottom line was what they presented as a marginal breakeven was actually a \$4.5 million loss that they were hiding from the bank. So, yes, people will lie, and in some cases there is just utter stupidity.

A complete lack of integrity. How do you prepare for those situations?

I think that in order for a CEO to be successful, it is very important to have a diverse skill set, especially in interim situations where things need to be done quickly. When I look at my background -- 35 years in the business of running companies and developing new business, 43 M&A transactions totaling almost a billion dollars, strategic planning, finance, an understanding of investing and running private equity funds, and vast turnaround experience -- those multiple disciplines prepared me for the inevitable surprises that I have grown to expect when you go into an organization.

What's your secret to doing these turnarounds successfully?

If I go into a company as interim CEO and the board of directors sets a goal that we meet, I get to keep my job. If I exceed the goal, then I'm successful. If I work for a PE fund, the goal is not necessarily to make the company do well and save a jobs, but rather it is to maximize the return on invested capital. While the goal depends upon the assignment and the client, only if I exceed the goal does it qualify as a success to me.

"We think it's far more important to build a team within the corporation, therefore build value, because unless we do that, once we leave, so do our resources."

That's tenacity.

It's a force of personality. I evoke realism and determine what can truly be done within the organization—then move toward it. You've got to communicate, communicate, communicate. I let people know that I may not have everything worked out yet, but they are going to help me get there and we are going to work it out as we go—then they can make the 'stay versus go' decision.