Steering Clear of Business Shoals

Early Signs of Trouble
What To Do ...
What Not To ...

September 15, 2011
Executives in Session
Marine Trades Association of Maryland

Strategic Management Partners, Inc.

Turnaround Management,
Strategic Repositioning,
Board Advisory, M&A,
Build Value to Attract Capital,
New Capital Infusion,
Asset & Investment Recovery

Summary Bio
John M. Collard
Operating Manager
35+ Years in P/L Management/Turnarounds
Public & Private — High & Low Tech — Fast / Slow, Int'l
Asset & Investment Recovery and Book, Creditors
Ventures to Acquisitions Merger, CIC, CyberSpace, NCS, SMP
Turnaround, Restructuring & Investment Involving Hall of Fame
Top 12 Outstanding Turnaround Experts (JLP)
M&A, Small Business of Your, Governor’s Choice,
Certified Turnaround Professional (CTP), Past Chairman TMA,
Certified Turnaround Manager (CTM),
Prince George, Business Leader of the Year,
Global Turnaround Atlas Award - TA Firm of the Year,
Advisor: Bush, Clinton, World Bank, EBRD, Russian Gov’t,
T/A Technique, Investing, B/R Law Reform, Privatization
Money Manager
$80M Private Equity Restructuring Fund
Business Developer
Revenue Generator
Over $670M+ Systems Integration & $280M+ Com't growth
Manufacturing, Computer, Electronics, High Tech Industries
M&A, Divestitures
Deal Flow
42+ Transactions, $780M+
thought to sold for $500M, eight major industry segments

Strategic Management Partners
“If you find yourself in a hole, stop digging.”
- Will Rogers

Need 3 Things ... For A Turnaround

Revenue Growth
Build Enterprises ...
Latter Rogers
Want to Investor ...
Hard, as Tough Economic Times ...
Banks Are Holding Back

Management
Why Failure, Signs, Toward, Phases and Actions

Capital
Finance The Turnaround
Banks Aren’t Lending
Fees to Attract Capital

Ten Steps Toward Growth

Management
Turnover
Communications
Planning
Compensation
Sales Growth
Customers
Market Analysis
Reporting
Expansion

Plan Ahead.
Avert Troubles
Latter On.
Businesses Fail Because of Mismanagement

- Autocratic Management, Overextension
- Ineffective, Non-existent Communications
- High Turnover
- Neglect of Human Resources
- Inefficient Compensation & Incentive Programs
- Company Goals Not Achieved or Understood

Ask Questions... If You Answer Yes®, Then Call for Help

Avoid Management Over-Extension & Denial

1. Do work for which no one else is qualified.
2. You can’t do everything yourself.
3. Delegate & Monitor.
4. Define owner’s/key manager’s roles.
5. Retain competent people - Replace if not.
6. Stay informed without being immersed in detail.
7. Deal with the issues.

Change Leadership Style

<table>
<thead>
<tr>
<th>Skill</th>
<th>Stable or Growth Scenario</th>
<th>Turnaround or Troublesome Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus</td>
<td>On Objectives</td>
<td>On Survival, Action, Problem Solving</td>
</tr>
<tr>
<td>Decision Making</td>
<td>Deliberate</td>
<td>Decisive, Immediate</td>
</tr>
<tr>
<td>Authority</td>
<td>Delegate</td>
<td>Direct Involvement</td>
</tr>
<tr>
<td>People</td>
<td>Develop</td>
<td>Recruit Talent, Communications</td>
</tr>
<tr>
<td>Respected For:</td>
<td>Management Reputation</td>
<td>Financial Credibility</td>
</tr>
<tr>
<td>Known For:</td>
<td>Consistency</td>
<td>Ability to Shift Gears</td>
</tr>
</tbody>
</table>
**Important Management Team Members**

- **Ferret.** To find cash in assets, overhead expenses and all other cost areas.
- **Lion.** To defend the company against attacks.
- **Bulldog.** To guide operations though the rocky shoals of building period without losing anything of value.
- **Beaver.** To build an operating plan based on changing capital structure.

**Key Psychological Characteristics**

- **Heart** is the inner drive that impels a person to make sacrifices to build and support the company.
- **Courage** is the inner strength to stand up to the most severe attacks without backing off.
- **Ability to Cooperate** is awareness of when to push or pull, but work as a team to grow.
- **Understanding Leverage** is an internal sense that the company needs time, cash and supporters, coupled with a divining rod for locating all three.

**Control Employee Turnover**

- Clearly define: Responsibilities, Expectations, Rewards, and Authority.
- Spend time with new employees.
- Employees see underlying problems . . . Replacement costs are high.
- Keep it interesting, challenging.
Communicate Effectively

'Bull Sessions'
Where little is accomplished . . .
Is the fault of the leader.
- Establish an agenda and stick to it.
- Limit scope of topics and participants.
- Set an example by managing meetings.
  Your team will manage the company.
- Listen . . . They have something to say.
- Sharing Information increases Motivation
- If you have a point, make it.

Articulate Goals Clearly . . .
Then Get Agreement

Be a Leader!

Failure to achieve goals suggests lack of clarity about owner’s real objectives.
- Obtain ‘Buy In’ (Management & Employee).
- Set Goals & Timeframes - Hold people accountable!
- Communicate Methodology: to Measure and Reward
- Goals must have substance - or they can’t be achieved.

LEAD, FOLLOW, or Get OUT of the WAY

Create Mission Statement
Aimed at Capturing New Business

How will we sell more products (new) to existing customers?

How will we sell existing products to new customers, new markets?
Design Compensation and Incentive Plans to Get Results

- Reward for successful job performance. Don’t pay when NO performance.
- Compensation structures often fall short.
- Be careful what you pay for – you might just get it.
- Pay incentives on gross margin, not gross sales.
- Piece Rate for cost control.
- Hours Billed vs Hours Worked
- If Goals are achieved then there will be $ to pay Incentives

1 to 1, Incentive-Based Management

Manager’s Bonus:
- 50% on what they directly control
- 30% on what they can influence
- 20% on how the whole company does

Worker-Bee’s Incentive:
- Piece Rate does wonders to control cost
- % improvement on hours billed versus worked

Use Contracts When Possible:
- Establish Key Employee Commitment

Obtain New Business at Increasing Levels

If Not... You are out of touch with marketplace.
- Manage Price, Be Responsive
- Understand Specific Customer Needs
- Commit To Winning New Business
- Bid To Win, Then Manage For Profit
- Develop ‘Do What It Takes’ Attitude
- Take the Low-Hanging Fruit

Golden Rule of Selling:
- Sell unto others the way they want to be sold to.
**Analyze Markets and Competitors**

*Products in search of markets?*
- Create product awareness to meet existing demand.
- Developing a market can be costly.
- Identify key competencies to yield customer benefit.
- Understand your customer.

**Identify Customer Needs**

*The engineer wants to create a ‘Rembrandt’…*
- Keep ‘Bells and Whistles’ to a minimum.
- Ask your customer… Simple but effective.
- Bill ‘Only’ what they ask for…
- Then Locate Change Orders
- No Surprises … Communicate Superior Customer Service

**Perception is Key**

*It Can…*
- Confuse the competition…
- Comfort the customer…
- Fool yourself!

*Hello Handsome!*
Demand Accurate, Timely, Pertinent Management Reports

Are you managing to P/L performance, or cash flow? CASH FLOW is the best indicator of a business’ health. Determine performance at each ‘Center’ level of the business: Profit – Cost – Cash – Incentive. Prepare forecasts; Mange to them. Update often.

Metrics are Key . . . To Watch

- **Relationships** tell the story...
  - Not just P/L, B/S, Source & Use
- **Revenue . . . Volume In**
  - Existing versus New Business
  - Revenue (or cost) per employee
  - Average Revenue per job or unit
- **Throughput . . . Volume Out**
  - Hours Paid versus Billed
  - % Improvement vs Stability
- Look for Changes in Ratios and Trends

Expand Carefully

- Setbacks drain cash, time, and morale.
- Manage Change. Analyze, Control.
- Model success to produce growth.
- Build around a Business Unit Manager
Establish Strong Capital Structure

- Create Reasons to Invest
- Secure New Capital, Keep it Coming
- Manage Tranche Infusions Carefully
- Provide Exit Strategies

Business Owners Often Resist Outside Advisors

A variety of misconceptions and myths abound.

The Specialist:
- has "no heart"
- doesn't understand culture
- has private agenda
- has no loyalty from employees
- will steal ideas or techniques
- will not have to live with recommendations when gone

Advisors CAN Make the Difference.

Help is Available
Advisors Can Provide:

- Contacts - Customers, Suppliers, Personnel, Lenders, Investors
- Industry Knowledge - Strategic Repositioning, Plan Preparation
- Financial Structuring - Customize Right Side of Balance Sheet
- Capital Infusion - Acquisition, Divestiture, Debt, Equity
- Attract Talent - Management, Sales, Marketing, R&D, Operational
- Financial Modeling "What If" - New Markets, New Methods
- Discipline - Credibility - Time - Perspective
Expect the Unexpected
Turning a Business Brings Uncertainty

Some Parting Thoughts
- Never Give Up
- Continually Market Yourself
- Don’t Take Business Personally
- Focus, Set Your Mind To Achieve
- Tie Employees to YOUR Goals
- Be Consistent in Application
- Impact what you CAN control,
  Don’t worry about what you CAN’T
- Good Luck to You All

Caveat Emptor
It is never quite what it seems!

Change is Eminent!  Expect Surprise!
A Final Word of Advice:

DON'T EXPECT MIRACLES OVERNIGHT

Questions from our audience?

Reference Info

Interesting Links

Strategic Management Partners, Inc.

Recover & Preserve Value: Working Successfully w/ Turnaround Pros
Asset-Based Finance Journal

Is Your Company In Trouble? Corporate Board

Incentive-Based Management
Show Them the Money
Fabricator Magazine

More …