**ASI-Q CASE HISTORIES, CONTINUED FROM OUR WEB SITE**
**(www.asiqmanagement.com)**

***Turnaround Narratives:*** *Where we cut our teeth…and sometimes lost a few.*

***ATI***

This San Antonio, TX based defense contractor manufactured jet engine testing equipment under contract to the U.S. Department of Defense and sold contract engineering and management services, primarily to government agencies. The company launched itself on an aggressive growth plan, acquiring new operations managers to succeed the founders and drive the company to higher levels of performance. The company attracted approximately $3 million in venture capital to finance new management's plan.

In this program, the company's growth plans started poorly and finished badly. Marketing and administrative resources were added to implement the growth plan so that the company operated at a loss in anticipation of better things to come. Instead, the new contracts did not materialize as forecast and project management on existing contracts deteriorated. This was due in part to internal management problems, and in part to U.S. Air Force management deficiencies. Within two years the company had radically downsized, terminated the new growth managers, impaired 100% of the investors' capital with losses, and was in conflict on all of its major contracts with each of its customers. The contract disputes caused slowdowns in the speed with which the company could perform the contracts, further aggravating both the customers and ATI alike. The major contracts were threatened with termination for non-performance. A "top-five" international defense contractor was suing the company for non-payment and cancellation of orders. Cash flow was negative. Company survival was at stake.

ASi/Q personnel provided interim management services, furnishing the company with an acting CEO. A rapid appraisal of the company disclosed that during the hard times endured prior to ASi/Q's arrival, ATI's managers had reduced costs dramatically and effectively. We also found that, typical of most service contracting companies, ATI's primary assets were its personnel. There were no assets that could be converted to significant cash. Thus, this company was going to have to be rescued with positive acts only.

Very quickly, the interim CEO provided by ASi/Q set up a series of presentations and meetings with the customers' program managers and their superiors concerning the major contracts. Integrated teams of government personnel and ATI personnel were set up to expedite solving of the contract issues. Concurrently, the CEO established a working relationship with the top government contracting authority in the District, and together they pushed and monitored their respective employees on resolving problems. In the background the CEO established a working relationship with the appropriate government contract auditors and co-developed a positive problem solving approach. Within 90 days, ATI's largest contract was beginning to show positive cash flow again. The CEO worked with third party contractors to re-evaluate and re-source business that was in house but unprofitable; within 90 more days the company was shipping high quality chaff dispensers for F16s at profitable margins. The CEO brought in a new VP of Finance who in turn brought more systematic information systems and more reliable data to the company. The rejuvenated top and middle management of the company trained and practiced ‘team selling’ and then won a major new contract. The total company achieved positive cash flow. The CEO analyzed the major contract and the substantial embedded claims available to ATI due to Air Force management behavior. He concluded that the company would recover more money faster through a “Termination for the Convenience of the Government” than by running out the contract. He established a “tiger team” to modernize the antiquated design of the military jet engine test equipment. The team developed a smaller lighter, faster, cheaper, and more reliable design. The government customers greeted the new equipment design with distrust and skepticism by most, but with excitement by a few who were well positioned in the Air Force supply chain. The CEO launched a parallel strategy of negotiating an end to the existing contract as a Termination for the Convenience of the Government. Simultaneously, the company launched a marketing initiative on the new design. The CEO and the Government agreed on terms of the contract termination that recouped all of ATI’s investors’ capital plus a profit. With the promise of being made whole, the investors sold the company while retaining their profits. Management and employees all made the transition to the buyer.

***Crest Ultrasonics Corp.***

Crest emerged from its start-up stage with a strong customer base anchored by IBM. The company had very strong and reliable ultrasonic technology and a skilled design and engineering staff. The company’s business was divided between manufacturing of standard ultrasonic cleaning equipment and customized automated handling systems – typically, but not always, including parts cleaning stations. In its early years, the company was able to attract venture capital. The capital injection permitted the company to successfully execute a plan of technical improvement and market expansion. The lead venture investors took the company public. Within three years of the successful IPO, Crest was beginning to languish: sales flattened; gross margins eroded; the company began to lose money; cash flow turned negative; investors became restive; the Board of Directors gave up trying to work change through existing executive management and decided to launch a turn-around. ASi/Q’s founder was brought in as CEO and acting Chairman of the Board with the mission of restoring the company to health. The Board advised him that he could have virtually unlimited authority to change the business, but no new capital.

From the outset, the new CEO was impressed with the quality of product and engineering personnel. He launched the first turnaround focus on the business personnel, practices, and processes of the company. The company was bidding its major custom systems at 45-50% gross margins, but then delivering them at 20-25% gross margins. The company’s business had shifted away from a sales mix and manufacturing mix dominated by standard products to a mix dominated by custom products. The company was selling through a combination of manufacturer's representatives and in-house salespeople The company had a defensive and unconfident business culture manifested by demoralization, lost momentum, embarrassment about riding vendors, and fear of enforcing its own collection terms.

The turnaround CEO determined that the company's cash flow had to be repaired at once, but that he could not implement normal business practice corrections fast enough to meet this urgent need. He called an all-hands meeting on the factory floor. With white board, markers, and pizza for all, he laid out the company's facts and problems for all of the employees. He explained that Crest was on its own – no investors, no banks, no angels, nobody at all, was going to help this company repair itself. He then challenged the people of the company to save it with him. He laid out a program of 10% and 15% salary reductions and hourly wage freezes such that everyone at every compensation level of the company was being asked to participate. He proposed that if everyone participated in the plan that it would be the crucial beginning of a slow steady repair of the company. He stated his conviction that if the employees did not get behind the plan, that the company would fail. Then, he proposed that if the people of the company made the sacrifices he was asking, that the company would set up a profit-sharing pool and distribute 10% of profits to employees *pro rata* with their participation in the plan.

He observed that the company was a publicly traded company, and that its financial results could be found in the newspaper. Therefore, the CEO stated, he would make a monthly internal presentation to the company's personnel about its operating results. He would detail the distribution due to employees, and discuss why the month's results were whatever they turned out to be, and he would look for ways to improve them with employee help. After discussion that ranged from inspiring to hostile to exasperating and back again to inspiring, the people of Crest bought into the CEO's proposal. The company atmosphere transformed from one of suspicious anxiety to one of friendly curious involvement. Spirits rose as people at all levels and capacities within the company began to step forward with warnings about pending problems, and with new ideas about how to do things better.

The CEO met at length with the company's major customers. He asked them bluntly for feedback so that Crest could become far and away their best supplier. Combining customer feedback with his financial analyses, the CEO launched a round of process changes. The custom bidding, design departments and engineering departments were merged into a large integrated team which also included the head of factory production. The custom systems bid by this group, beginning with the first effort, always shipped at 46% margins or greater. The company was now bidding machines that it had mentally developed, including how to engineer and how to manufacture, before the purchase order arrived.

Concurrently, the CEO made two personnel changes. He replaced the company's CFO with a traditional "controller personality" with a strong cost accounting background. He limited the manufacturer's representative to the selling of standard equipment, and hired an additional in-house sales engineer for custom sales support. To change and reject the prior business culture, he eliminated rank based privileges like parking slots closest to the door, and spoke and acted the message "merit wins". The CEO put his own office in a glassed-in area on the edge of the production floor and beside the engineers and designers. He was visible and accessible to almost every employee almost all of the time.

The company's cash flow returned to breakeven within 60 days, turned positive within 90 days, and the first distribution of 10% profit sharing was made 5 months after implementation of the program. Crest had returned to profitability. The interim CEO helped recruit a successor. Crest went on to prosper. http://www.crest-ultrasonics.com/

***Mohawk Recreation Products, Inc.***

This leather-goods company was founded in the 19th Century and remained a family owned business until the late 20th Century. Leather tanning and skilled hand sewing gradually migrated south and then out of the United States altogether. Dynamic young management was brought in to resurrect the company, to rekindle growth, and to make it competitive. An aggressive new business model was conceived and implemented. All production was shifted overseas. Products were focused on U.S. sporting goods markets only: skiing in the winter; and golf in the remaining seasons. Venture capitalists invested equity in the company and the company leveraged that equity with Chase Manhattan Bank. It borrowed $2 million in a revolving line of credit to finance imported inventory, and $1 million in long-term debt to finance capital improvements and acquisitions.

In this revitalization, management was not deep enough to support its own plan, but fueled by adequate capital, they did attempt to implement the plan. Two years later, ASi/Q personnel were brought in as part of a larger team to turn the company around. The problems were: the company had failed to achieve its aggressive sales projections; had failed to trim its production fast enough, then deep enough as its sales shortfalls were developing; had failed to build binding business ties of mutual trust and respect with customers, suppliers, and its own independent sales representatives; had bad luck (It didn't snow in the Eastern US that year.); had product deployed in the wrong places; had fully used the bank's financing instruments; and had insufficient cash flow to service the debt and continue to conduct operations.

The turnaround team was divided into three problem sectors: finance; marketing; and production. ASi/Q personnel provided support to the new CEO's plan with production, logistics, and marketing interventions. We immediately shifted goods warehoused in the US to locations that had active markets. We immediately arrested the flow of excess product into the US. We negotiated with Japanese suppliers and discount buyers from Canada, New Zealand, and Europe to purchase the Japanese and Korean overproduction and sell it only in their markets.

We held urgent but upbeat sales meetings in the West and stole market share from competition. We opened and negotiated long-term production agreements in Korea and the Philippines to reduce product cost and to replace the tattered products of the Japanese suppliers. We cut costs of imported cross country ski products by opening up direct long term relationships with Norwegian manufacturers. We reduced costs and increased the quality of golf glove products by closing the company's poorly managed Puerto Rico manufacturing plant and creating new supplier relationships in France and the

Philippines. After 12 months, the company's inventories were purged of obsolete merchandise and the production pipelines streamlined with current goods only. Within 18 months the US inventories had been reduced by 40% and were in balance with demand. Within 36 months the bank was paid in full, and the company began a successful search for a buyer.