

A PROVEN BUSINESS IMPROVEMENT APPROACH TO ACHIEVE “EXCELLENCE WITH INTEGRITY”

By... Craig Marton

[Particularly, with privately equity or privately owned businesses needing management capable of meeting/exceeding expectations – then sustaining and constantly improving performance]

This following illustrates the approach used to successfully complete six (6) challenging business growth/improvement assignments. A brief definition of the companies is as follows.

- A. Home office Private Equity owned Composites and Metals Manufacturing company – successfully executed financial, operational, and cultural turnaround – including sale/exit.
- B. Private Equity owned consumer products manufacturing division of a larger holding company – grew revenues from \$100 million to \$150 million (\$20 million via acquisition plus \$30 million organic), and EBITDA from an annualized loss to a ROS of 10% successfully exiting bankruptcy – with significantly improved customer satisfaction, new product innovation/launch, product quality, supply chain optimization, delivery, and culture.
- C. Independently owned metal, plastics and tooling manufacturer primarily serving the automotive and industrial sector – \$47 million in revenues and EBITDA improvement from an annualized loss to a meaningful profit while growing revenues 25% with reduced dependence on automotive industry. Significantly reduced debt and improved customer relations, program launch, product quality (from 4+% COQ to < 1%), achieving best-in-class performance and reduced overall cost structure by \$5 million in 3 years.
- D. Unionized motor components manufacturing division of larger parent corporation – \$30 million in revenues and EBITDA improvement from an annualized break-even to 10% return-on-sales – with significantly improved quality, delivery, and employee relations.
- E. Private Equity owned financial services company – between \$40 & \$50 million in revenues and EBITDA improvement from an annualized loss position to a substantial profit, growing revenues 30% and significantly reducing debt in 2 years (successfully avoiding bankruptcy) – with repeat service call reduction of 70+%, productivity improvement of 32% and significantly improved customer satisfaction and supply chain effectiveness.
- F. Private Equity owned commercial glass sub-contractor with < \$30 million in revenues. Executed financial, operational, and cultural turnaround. Eliminated \$5 million in annualized costs, designed improved business development, and production process.

Opening

There are many commonalities with companies seeking to improve. In my experience as CEO and in consulting assignments, one that stands out is the need for a clear and unwavering code of ethics – INTEGRITY. This affects all transactions and interactions – internal and external. The leadership team must be the example to all stakeholders – owners, customers, employees, etc.

Accordingly, an early priority is to set the tone and expectations. I use a timeless lesson I learned in the Marine Corps. It’s their code of ethics, civilianized for business purposes.

- **HONOR:** This is the bedrock of character. It is the quality that empowers leaders to exemplify the ultimate in ethical and moral behavior – to never lie, cheat, or steal; to respect human dignity and each other. It represents the maturity, dedication, trust, and dependability to commit ourselves to act responsibly, be accountable for our actions, fulfill our obligations, and hold others accountable for their actions.

- **COURAGE:** Is the mental, moral, and physical strength ingrained in leaders that see us through the business challenges and the mastery of fear. Courage enables leaders to do what is right, to adhere to a higher standard of personal conduct, to lead by example, and to make tough decisions under stress and pressure.
- **COMMITMENT:** This is the spirit of determination and dedication that defines professionalism. It promotes the highest order of discipline for teamwork and self and is the ingredient that instills dedication to our company, pride, concern for others, and an unrelenting determination to achieve a standard of excellence in every endeavor.

*Without exception, people welcome this. **Employees WANT to be part of an ethical company.***

NOTE: *While reviewing the process, it's important to understand this is not a one-size-fits-all set of action steps (menu) – nor is the approach JUST for distressed businesses. It works equally well with stable and/or successful companies seeking to mature/grow/succeed even further. In this case, as in every case, the leadership and change management process must be flexible and proactive with the ever-evolving conditions. In each of these examples, the teams flourished.*

The sequence of improvements must be aligned with the priorities of the unique business environment. Again, no two companies are exactly alike. Nor, do they respond to change alike.

Every part of the business must be examined for opportunities to improve the overall business. And these business components are interdependent. The leadership team must determine the objectives and what areas need attention first. This example reflects the initial areas of focus.

- Business Development (Sales) & Marketing
- Customer profitability
- Internal efficiencies/operational execution
- Organizational Development & Capabilities
- Culture (including a variety of communication methods used frequently/consistently)

A critical component of an effective improvement plan/strategy is managing the transition from "as-is" to the "desired state". In other words, getting buy-in from the entire organization. To do this, we must be able to affirmatively answer the following questions:

1. What does success look like?
2. Is it achievable? Measurable? Sustainable?
3. Is it easily communicated to the entire organization? And, reinforced over again.
4. Does every person in the organization understand their role?
5. Is every person capable, committed and motivated to make it happen?

Strategic Topics / Issues:

1. Where to compete and how to compete
 - a. Are we regional, national, or international?
 - b. Are we a low cost or premium product/service provider?
 - c. Are there conflicting metrics, e.g., profits vs. customer satisfaction

- d. What are our core competencies, product characteristics, and manufacturing capabilities? Are we competitive in our market?
- e. Other?
2. Assessing target customer and transitional customer profitability
 - a. Have we clearly defined our target customers?
 - b. How do we deal in the short term with current customers that don't fit our defined target?
 - c. How will we handle our current situation of revenues and contribution margin?
 - i. Target margin versus loss of revenue and positive contribution margin
 - ii. How to assess others
3. Building the infrastructure for success
 - a. Major organization enhancements
 - i. Is the equipment/machinery obsolete?
 - ii. How can IT/software assist?
 - b. Managing in the current labor environment
 - i. Wage issues – how do we market total compensation including hourly rate, benefits, other?
 - ii. Recruiting strategies – how are we recruiting talent/assessing their fit?
 - iii. Developing and retaining – how do we develop and retain the best employees?

What is our Vision? What is our value proposition or differentiation from competitors? What are our strategic financial objectives? What is in it for the employees?

The first step to improving business performance is to assess why the company isn't performing to its full potential –

- Why isn't the business meeting/exceeding customer cost, quality, delivery and/or other expectations?
- Why isn't the business meeting/exceeding ownership profitability, cash flow, and other requirements?
- Why doesn't the business meet/exceed employee needs and expectations?

Business Development (Sales) & Marketing

We must look at the business from the customer's perspective to see if an achievable strategic marketing plan is in place and being implemented properly. There must be a specific, differentiated purpose to exist and to expect market share growth – 'value proposition'. And there has to be the right marketing plan to bring this strategy to life, help the right customers find us and convince them they should buy from us. This is not done by selling products, but by selling solutions.

At these businesses (privately-owned or not), the company expected to sell what the company made. This is a typical manufacturer's perspective – "sell what we make" vs. "making what the market wants or needs".

To address this, we partnered with the customer base that needed more than an easy-to-make commodity. These were customers who needed help engineering a component product that would work, customers who had extremely high-quality requirements, and/or customers who needed engineering help to finalize the design of manufacture-able products and the respective tooling. Accordingly, we changed our messaging to reflect this type of target customer and we focused our business development and quoting on opportunities where those special customer needs exist. This was how the company grew revenues profitably.

Specifically, we had to develop our management infrastructure, add engineering resources to help potential customers (at a fee), develop processes that reflected our strategic customer focus, and fully utilize our information system to give us the data needed to make good decisions. These add-on services were billable, self-sufficient, and profitable. And it was easily justified by customers because they could reduce their internal costs/headcount.

Concurrently, we determined how well the company manufactures what it promises the market. This is a function of pricing, cost, quality, and speed – supported by key process metrics.

As you might expect, we had problems in all these areas. The worst areas were poor product pricing and inadequate quality systems – inspecting quality at the end of the production process vs. engineering quality into the process. High scrap, rework, over-inspection, and overtime was costly and compromised our ability to meet quality and just-in-time delivery expectations.

Customer Profitability

In parallel with re-engineering our costing system to make it more activity-based, we determined whether unacceptable customer profitability was due to poor pricing or an uncompetitive cost structure, or both – then, we addressed the issues accordingly, and quickly.

- For incorrectly priced business, the customer must be part of the solution based on our analysis justifying the need for changes in price (e.g., material price fluctuations, tariffs, etc.). If the customer(s) cooperate and allow prices to reflect a fair margin, do it quickly. If the customer is unwilling to accept price adjustments, we must be willing to instruct the customer to find a different supplier, while we find replacement customers/revenues.
- For correctly priced business, where the company is underperforming from a cost basis, the company must quickly identify and implement permanent solutions (lean, 6-sigma, automation, etc.) bringing the customer profitability to an acceptable margin level.
- There will be marginal levels of profitability (gray areas) for some customers which may require both the above steps. This is determined by “fit” with our strategic customer definition – target industry, growth opportunity, etc.

Internal Efficiencies/Operational Execution

In parallel with the customer profitability initiative, it’s critical to take the appropriate actions to drive overall cost reductions allowing the company to quote new business and grow revenues profitably – with improved processes to allow the remaining workforce to complete all the necessary work more competitively.

In addition to improvements in sales, marketing, customer relations, manufacturing operations, organizational development, and employee relations, we created a cash management process

allowing us to accurately predict sources and uses of cash, revenue and profit, and balance sheet performance. NOTE: By demonstrating our improvement and being transparent and forthright in our regular communications with our banking partners, we earned their trust, confidence and the leverage needed to successfully negotiate the best rates and services available.

It's important to note that sometimes companies perform well one year, then not so well the next. So, once we've diagnosed the problem(s) and made the corresponding changes, we must permanently embed this new level of performance in the company. This requires there to be a specific (& improved) set of processes in place for all the work in a company with metrics to monitor processes and results – with appropriate countermeasures. It is also a function of developing human resource capabilities with clear expectations, personal and functional goals to match the needs of the company and its strategic plan. And to assure permanent solutions, we utilize common sense, basic problem-solving tools, creativity and proven 6-sigma/lean methods.

Organizational Development & Capabilities

Like most businesses transitioning from private (family, etc.) ownership to a small or mid-sized corporation, the business must also mature from being people-driven to process-driven – this is critical to sustaining and building on improvements in place. Even in the businesses where we were not required to be ISO certified, we used a similar approach with process documentation and internal audits – without paying for 3rd party certifications.

To assure we have “the right people in the right seats”, we use an approach I learned from working with world-class corporations like AlliedSignal and Tenneco to develop and upgrade the organization – including future core competency needs. The tool assesses the performance, effectiveness, and trend of each key position, it includes a thorough succession plan for key/critical positions, and it identifies individual and organizational development needs. Then, to assure support for all improvement initiatives, organizational changes are made as necessary.

Leadership must continually ask themselves the following questions and adjust as needed:

Self Assessment:	
Yes	No
<input type="checkbox"/>	<input type="checkbox"/> My team consist of top talent – “I would put my team up against any team!”
<input type="checkbox"/>	<input type="checkbox"/> More than 90% of my external hires are successful
<input type="checkbox"/>	<input type="checkbox"/> I have the bench strength to assure a team of top talent in all key positions three years from now
<input type="checkbox"/>	<input type="checkbox"/> In relationship to competitors I look harder & screen harder for talent
<input type="checkbox"/>	<input type="checkbox"/> I act quickly to confront and resolve performance problems
<input type="checkbox"/>	<input type="checkbox"/> I provide ongoing coaching and development to support top talent as their jobs become more complex
<input type="checkbox"/>	<input type="checkbox"/> I have no chronic poor performers (C-players)
<input type="checkbox"/>	<input type="checkbox"/> I don't use “short-term results” as an excuse not to create an organization of top performances (Topgrade)
<input type="checkbox"/>	<input type="checkbox"/> I retain my best talent (A-players) by taking their pulse regularly and proactively meeting their needs
<input type="checkbox"/>	<input type="checkbox"/> All under performing employees have plans to become top performers (A-players)
<input type="checkbox"/>	<input type="checkbox"/> I realize that I can make a top performer into a poor performer by over-paying, under utilizing talent, putting people in the wrong job, and failing to develop people
<input type="checkbox"/>	<input type="checkbox"/> People get ahead – are promoted by the merits of their contribution to the organization, not by being part of the “Club”

If you answered “no” to more than 2 or 3 of the questions, you are not Winning through your people

Culture

This refers to the beliefs and behaviors that determine how employees and management interact and effectively handle internal and external business transactions/interactions. Often, company culture is implied, not expressly defined, and develops organically over time from the cumulative traits of the people the company hires.

We chose to define and build the desired culture as part of our strategic plan implementation. In 4 of these turnaround companies, our strategy was to create (top-down) a culture of:

“Excellence with Integrity”, defined as achieving superior performance in planning, execution, and results; while adhering to a strict, ethical code of conduct and principles.

We had to (re)teach the organization how to make money ... emphasizing the importance of accountability, commitment and full ownership of the defined expectations, processes, goals and results – see “Code of Ethics” on page 1. And we also defined our culture as, treating each other and all business associations (internal and external) with dignity, trust, respect, and compassion.

*A Marines/soldier’s greatest asset is his/her skill set. But it’s worthless if he/she can’t or doesn’t pass it along. This is equally true for business leaders – **leaders must be teachers too.***

Then, we developed, documented, and formalized our **“Rules of Doing Business”** as a roadmap to our most critical decision-making processes, quoting criteria, customer T&C’s, definition of the desired customer, spending authorizations, asset management (inventory, etc.), hiring authority, wages/compensation, travel guidelines, etc. This eliminated any confusion relating to how we do business. And it’s updated and republished as need and circumstance dictate.

Lastly

As the CEO/President in all 6 turnarounds, I established what everyone can expect from me.

In every leadership position I've had the honor and pleasure of holding, I sign and publish the following written promise to the entire organization. I promise:

1. to set the right example,
2. to be consistent in temperament,
3. to be fair and impartial,
4. to show personal interest in others,
5. to seek advice and suggestions,
6. to allow individuality,
7. to communicate expectations clearly,
8. to be appreciative and generous with praise,
9. to develop people to achieve their life goals, and,
10. to help and support.

Then, I challenge everyone to call me out if I don't keep these promises.

*Craig S. Marton ~ 314-799-8900 ~ craigmarton@gmail.com
www.linkedin.com/in/csmarton ~ www.craigmarton.com*