

# Chainsaw AI? Not Really

*Written by Stephen Sandler*

**T**urnaround firms sometimes get a bad rap. It is said that typically they come in to “restructure,” but ultimately cause a demolition. Personnel are terminated; product lines are eliminated; facilities are shuttered; settlements are made with lenders; and indeed, the company may be dismantled.

From time to time, some or all of the above are necessary. However, the turnaround consultant must also look at the revenue side of the ledger. Are there possibilities for new, high margin products that will improve the company’s financial picture? Are all current products being exploited fully? Can pricing be fine tuned to maximize revenue and margins? Is the company marketing effectively? Is the sales organization operating effectively?

A company can benefit greatly from realigning its product and marketing strategies while also optimizing the cost side of its operations. A superior turnaround firm looks at all aspects of a company’s strategy, operations, management and Balance Sheet and offers solutions that don’t necessarily involve just a chainsaw.

The following example represents a turnaround strategy employed by Capital Restoration, LLC (CRL) in a recent case:

A medical device firm had been struggling for a number of years. Their product line consisted of some older lead products undifferentiated in the marketplace and a few related ancillary products. The company had invested substantial sums on creating two new products, expending funds on research, patenting, and outside professionals to bring the new products through the strict FDA regulatory process. The funds consumed by the untested new products created a cash crisis and impacting the operations of the whole company. Among the many problems were that customers were not being served adequately and the manufacturing operation was being starved for funds.

The market for the new products and the length of time to bring them to market had not been assessed accurately. As a result, sales of the new products fell short of projections.

Overall gross profits plummeted because manufacturing was well below capacity. The sales force and employees were disappointed in the results, became demoralized, and sales of the company’s successful products decreased. The company began losing money, and its lender became concerned.

CRL was engaged to offer professional consulting. Our recommendations included a number of changes to increase cash flow, refine the product mix, and align the product strategy. We also determined that one of the ancillary products had a much greater market potential than its current sales suggested. While not “sexy,” the inexpensive product had strong margins and faced minimal competition in the near term. Further, there was room to

grow within the niche; and the company had a sustainable competitive advantage because of certain proprietary processes involved in the product's manufacture.

After a further review, the CRL consultants recommended the following actions:

- Keep the two new products but de-emphasize them. Although they were not big winners, they rounded out the product line, gave the sales force an additional reason for face time with physicians and contributed a small but steady amount to overhead.
- Increase supply of critical components and source raw materials from new, lower cost suppliers.
- Terminate unproductive sales representatives and improve the incentives for the rest of the sales force.
- Sell off slow-moving and obsolete inventory
- Most importantly, focus on growing sales of the "ancillary" product. The product was exactly aligned with the company's core competencies, and had significant sales and gross margin upsides.

The recommendations were adopted. Revenues and gross profits increased. Overhead costs decreased. The company became profitable, and the value of the company's stock soared.

Rather than being pulled, the company's line of credit was increased. The lender trusted CRL's forecasts and found the presentation of the new product strategy to be credible. The lender was pleased, because it was in the business of making good loans and felt confident that extending the company's credit line would maximize its return.

Moral of the story? Many corporate renewal firms look at only cost and expense cuts to drive a turnaround. Capital Restoration scrutinizes both sides of the ledger, maximizing value by rationalizing costs but also focusing on actual and potential revenue drivers. We identify products that align with a company's core competencies, provide lucrative margins and offer substantial upside potential. This dual track approach is often critical in driving the most successful turnaround possible.

Capital Restoration is a full service corporate renewal firm that uses innovative strategies such as those described above to provide solutions for companies in need.