



TACTICAL

INSIGHTS

strategies for maximizing your financial performance

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"Common Threads" in Troubled Companies

EVEN THOUGH THERE ARE A NUMBER of external factors that often create adverse circumstances for companies, more often than not, companies experiencing problems have several common traits. Over the years, we have often been asked the question: **"What are the repetitive problems present in most turnarounds?"** The following is a representation of the "common threads" usually present at troubled companies:

- Financial systems and information are usually inadequate, which often impacts the accuracy of the financial data. In addition, in many organizations, systems are underutilized due to the absence of qualified financial personnel.
- There is a lack of a coordinated management effort. This is often due to the absence of clear lines of authority and responsibility, qualified management personnel and a defined plan for the future of the business.
- Poor communication levels exist throughout the organization. Employees are often unclear as to their role at the company and feel "out of the loop". This contributes to problems related to productivity, accountability, discipline and attitude.
- There is a "bunker mentality" at the company. This is further compounded by weak outside professionals who make no effort to influence the direction of the company and create little, if any, value for their clients.
- Technology is outdated and prohibits the organization from competing effectively in all areas; price, quality, efficiency, on time delivery and service.

Companies and owners need to recognize where their organizations are weak and funnel resources and efforts into those areas. Often times, things can be improved with limited capital investment, resulting in a significant impact on a company's productivity and profits. We recommend that all our clients evaluate their organization on a regular basis and establish goals and objectives that address some of the "common threads" outlined above.

Patrick J. Furnari

C O N G R A T U L A T I O N S



Craig Cutone has joined Tactical Solutions as Staff Consultant. Prior to coming aboard, Craig was the controller for Quail Piping Products, Inc., a client of the firms' during 2002 and 2003. His expertise is in the areas of financial forecasting and budgeting, operational analysis, vendor negotiations and cash management strategies. We look forward to having Craig at the Firm and believe his skills will well complement the needs of our clients.

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The Value of “Good” Outside Professionals

Patrick J. Furnari

WHEN WE INTERVIEW a new client, and inquire about their outside professionals, their answers are always interesting. Comments vary from “my closest and trusted advisors” to “I really do not have an attorney and my accountant prepares the taxes”. In the majority of our cases, the level of involvement of the outside professionals is usually somewhere in the middle.

The value of good outside professionals is often overlooked by business owners and more than not, is a contributing factor to a company’s inability to address and resolve problems in a timely fashion. Outside professionals should offer an independent perspective that the business owner needs and should value. In addition to being familiar with your company, professionals have a broad range of experiences to draw from in order to provide proper advice and guidance to their clients.

The involvement of outside professionals is only justified when they deliver appropriate “value” for the services performed.

Many business owners build strong relationships with their advisors and consult with them on a regular basis. However, there is also a tendency of business owners to limit, or possibly avoid, the involvement of their outside advisors. This tendency is, more often than not, driven by cost considerations, which is understandable. The involvement of outside professionals is only justified when they deliver appropriate “value” for the services performed.

We believe “good professionals” do this and they do it on a consistent basis. Some of the major benefits to be realized from strong outside professionals include the following:

- **Independent advice that provides a structure for proper support, guidance and direction for the business owner.**
- **Qualified expertise in specialized areas such as tax, accounting, legal and other disciplines that are necessary in today’s complex environment.**
- **A network of contacts that often creates synergies between clients, provides additional resources for unique situations, and exposes the professional to a variety of situations that enhances the value of their advice and guidance to their clients.**
- **Effective intervention to assist with the settlement of employee, stockholder, and family disputes.**
- **Assist with and execute strategies for succession planning to ensure the continuity of the business operation.**

There are many other benefits to having strong professionals in place to assist your business. When evaluating and selecting professionals, it is critical to get independent thinkers who will provide candid and realistic guidance.

Over the years we have been involved with several engagements where the outside professionals were weak. In these cases it was often difficult to move forward due to the reluctance, or inability, of the professionals to encourage their client to make hard decisions. Good advisors do not “rubber stamp” the owner’s opinions, but rather challenge bad decisions and attempt to guide their client in the right direction. These are the types of professionals that deliver value and the benefits of their involvement far outweigh the related cost.



Patrick Furnari is the managing partner of Tactical Solutions, LLC., and has over 18 years of experience in turnaround management, mergers and acquisitions, and business tax strategies, with particular strength in the areas of Finance, Strategic Planning, Vendor and Secured Creditor Negotiations and Deal Structure.

He is a member of the American Institute of Certified Public Accountants, Massachusetts Society of Certified Public Accountants, and a former member of the National Association of Certified Valuation Analysts.

Pat earned an undergraduate degree in Business Administration from North Adams State College and Masters Degree in taxation from Bentley College.

Metro Siding & Roofing

Capitalizing Upon Its Strengths

a case analysis



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METRO SIDING & ROOFING is a local distributor of building related materials in the Boston area. The Company currently has two distribution centers, located in Woburn and Braintree, Massachusetts. These locations serve different geographical areas, with Woburn providing products to those customers located north of Boston, and Braintree supporting those areas south of Boston.

In addition to the distribution centers, the Company also owns a manufacturing facility located in Haverhill, Massachusetts. The manufacturing plant produces vinyl windows for the construction industry and is capable of manufacturing "welded," as well as mechanical windows. The ability to manufacture quality windows provides the Company with a significant cost advantage over its competition.

In addition to the cost advantages, the manufacturing facility can support major project requirements and, in most cases, deliver within three weeks of accepting an order; this is often the key factor in winning orders. The two retail locations also allow the Company to stock and sell "common" window sizes, which generate favorable revenue margins for the Company.

Throughout the eighties and nineties, the Company was owned and operated by three principals. Two of the three principals were heavily focused on marketing and sales, while the third principal managed the administrative functions at the Company. In the late nineties, the principal responsible for running the inside operations retired. Initially the Company's controller assumed the administrative responsibilities of the operations. As time went on, despite

Marketing and training had been "shelved" as a result of the time demands being placed upon the owners and, as a direct result, revenues were continuing to decline.



his best efforts, the task was overwhelming and, as a result, the owners were forced to assume more of the day-to-day administrative responsibilities.

The impact of this change was not immediately obvious, however, over the next twelve to eighteen months the Company experienced a significant drop in revenues. Management recognized that it needed to develop a strategy for addressing the issues at the Company and retained Tactical Solutions to assist with the effort in 2001.

After we completed our initial analysis it was clear to us that the strengths and expertise of the principals were not being utilized properly.

The Company was fortunate to possess several highly experienced and talented sales personnel, however, their production was being impacted by administrative duties and the lack of adequate internal support. Marketing and training had been "shelved" as a result of the time demands being placed upon the owners and, as a direct result, revenues were continuing to decline.

During a three month period, management implemented a strategic plan to address the

continued on back

Commodity Prices & Their Impact

AS MOST PEOPLE KNOW, commodity prices have dramatically escalated over the past twelve months. Many of our clients are experiencing significant increases in their costs for raw materials and are being forced to absorb the increases due to customer resistance to accept price increases. We thought it would be helpful to pass along a few observations and comments to our clients:

Sourcing Raw Materials: Although raw material costs are rising, many of our clients have informed us that “availability” is also a problem. Many suppliers, especially those related to “metals”, are restricting purchases and preventing companies from “stockpiling” inventories. In addition, credit terms are being tightened and slow-paying accounts are being shut-off. In order to prevent an interruption in the supply of raw materials, we strongly recommend that our clients evaluate the status of their key vendor accounts, communicate with their vendors and adhere to the current payment terms. Failure to do this could trigger an interruption in supply, an inability to source raw material from other suppliers and higher raw material costs.

Evaluate Inventory Levels: As commodity prices rise, so does the carrying cost of inventories. Over the past ten years most companies have focused on reducing inventories and streamlining their operations. Just-In-Time (JIT) inventory has become a standard within the business community and has enhanced the bottom line performance for many of our clients. However, we also

believe there are “recoverable inventory dollars” in many businesses. We recommend that companies evaluate their inventory with a sensitivity to inventory turns. Items that turned well last year may not be turning this year. Reducing inventories, especially when prices are rising, is a necessity. This will also generate future benefits during a period when interest rates rise, by reducing the company’s financing costs.

Disposition of Obsolete or Slow Moving Inventory:

One of the benefits of rising commodity costs could be sitting in that old inventory that you have been hanging on to for years. Clients are informing us that the “scrap value” of their slow moving and obsolete inventory is higher than the book value currently reflected on their balance sheet. Disposing of this inventory has several major benefits. In addition to generating cash, it also disposes of assets that are non-performing, frees up space within the facility and reduces financing costs. We recommend that our clients’ take this opportunity to “clean house” and attempt to benefit from the rising costs.

Instituting Price Increases: This is a delicate area for many of our clients. However, the reality is, absent the implementation of price increases, the long-term viability of many companies will be in jeopardy. Our clients are having difficulty passing price increases onto their customers. Many fear the loss of business to competition and are concerned about losing volume accounts that offset carrying costs at their facilities. Although these are legitimate fears, losing money is not a more desirable option. We believe that price increases will continue to materialize in all industries and encourage our clients to strategically implement increases over an appropriate period of time.

Metro Siding & Roofing- continued from page 3

issues. Three of the major areas included the following:

- The administrative staff was completely reorganized. This included the hiring of a new controller, two accounting staff personnel and new management personnel for the distribution centers.
- Marketing efforts were resumed with the completion of the product catalog, the re-institution of the MetroGram, which is the Company’s monthly newsletter, the introduction of the “MetroFax”, which was utilized for monthly “product promotions” and the resumption of periodic customer events.
- The owners refocused efforts and resources into the sales area. Formalized training programs were established, along with the addition of new sales representatives in geographical areas that had previously lacked adequate coverage. Lastly, there was “a push” to increase customer interaction and capture more market share.

Within six months the Company was back to historical sales levels. The flow of information, as well as the administrative functions, at the Company continued to improve. In conjunction with the enhanced efficiencies on the administrative side, the distribution centers became more efficient and effective in supporting customer needs, managing inventory levels and reducing costs.

The Company entered 2003 positioned for success and delivered its strongest performance in its history. Unlike many of our engagements, Metro had the personnel, sales talent and the expertise to generate sales. The formula for accomplishing success related to the Company’s ability to properly utilize the “strengths” of the organization. In our opinion, administrative problems are easy to fix; generating revenue is the challenge.