TACTICAL iNSIGHTS

strategies for maximizing your financial performance

FALL 2002

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Please e-mail your comments or questions to:

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An Introduction

TACTICAL SOLUTIONS was established in February of 2001 with the objective of providing various services to its client base. Historically, our primary focus has been directed at "crisis management" and "turn around" consulting engagements, which continues to be a major core for the firm. In addition to these core services, we recognized a need to offer our clients other solutions for solving complex business issues. Consequently, we have expanded our services to meet those needs.

Presently, as a compliment to our core services, we now provide alternative financing options, business valuations, interim financial and management personnel, systems implementation and MIS consulting. In addition, we offer services related to the sale and acquisition of business entities.

The objective of our newsletter is to familiarize our referral network with the types of services we offer and provide our clients with helpful information to assist them with their ongoing operation. We look forward to providing you with more Tactical Tips, and encourage anyone to contact us directly with any questions about Tactical Solutions, the services we offer — or general comments about our newsletter.

Sincerely,

Patrick J. Furnari, CPA, MST, CVA

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 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.

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The Importance of "Product Flow" Within the Operation:

Maria Cotoia

MANY OF THE COMPANIES we provide services to often overlook the importance of "product flow" within the organization. Although it is important to evaluate this aspect of the business on a continuous basis, in difficult economic times it can provide a cost effective way to reduce costs and improve bottom line performance.

Improper product flow, especially in a manufacturing environment will directly impact a company's ability to achieve "on-time" shipments, maintain proper costing standards and drive down margin performance. As a result of the potential impact on profits, it is important to institute a process that incorporates and coordinates the efforts of all employees to ensure that efficient product flow is present at all times.

We often are presented with problems that occur as a result of a "bottleneck" in an operation. When this occurs, the first objective of our engineering staff is to define the problem and determine why it is happening. We then focus on determining what the company's need truly is and how to resolve the problem. Employers often make the mistake of not involving employees when attempting to "resolve the problem".

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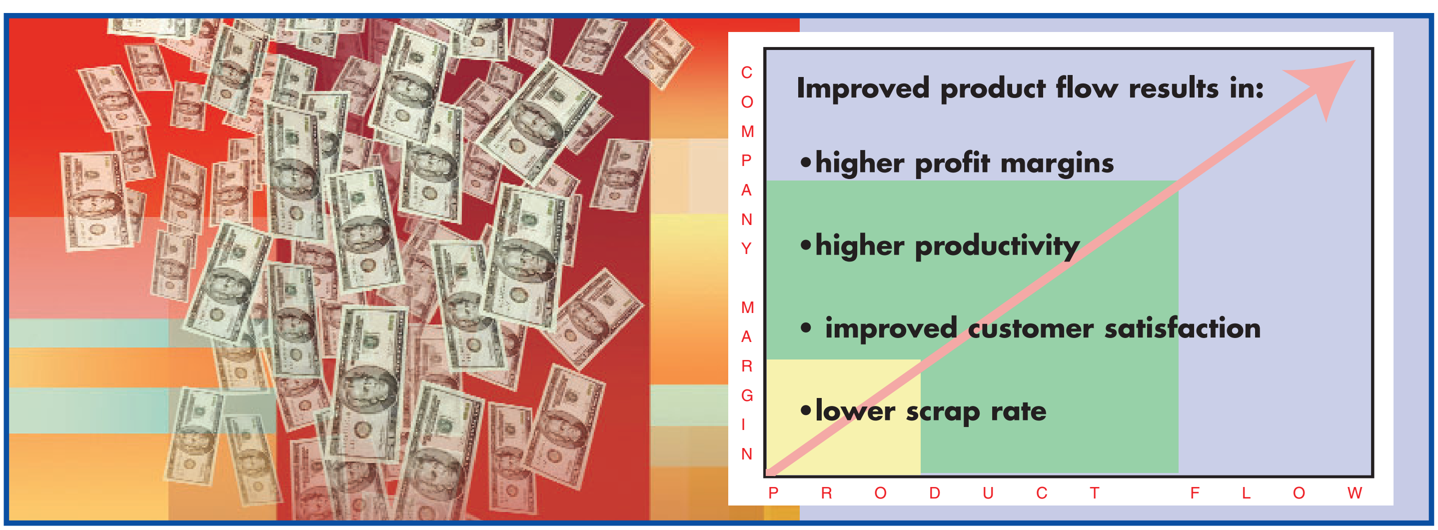
In many cases employees need to be involved in "the whole process". By doing this, employees tend to "buy in" to the solution and increase the probability of success. Designing a process that eliminates bottlenecks will translate into improved productivity, better delivery performance, higher employee morale and enhanced profitability.

Although this approach requires the investment of time, in most cases it does not require a major investment of capital. When cash is tight, its efforts like this that can be critical to a company's ability to survive through the economic downturn.

We recommend, that on a periodic basis, all business owners and managers consider the following:

- **Stop and evaluate any issues that are impacting the operation.**
- **Define what is really needed and how the problem is impacting the company's ability to fill that "need".**
- **Encourage employee participation to design a strategy for addressing the "need".**
- **Implement the strategy and monitor the progress on a periodic basis.**

Maria Cotoia received her BS in Industrial Engineering and a MS in Manufacturing Management from Worcester Polytechnic Institute. Maria has over 10 years of industry experience that she relies on to create effective business solutions that meet clients' operational goals and objectives.



Eastern Connection
Changing with The Times

a case analysis

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AS THE LARGEST REGIONAL overnight delivery company on the east coast, Eastern Connection has boasted tremendous growth rates from its inception in 1982. As the company entered the year 2000, prospects for new accounts were promising and management was confident that the company would continue to experience increased revenue and improved profit performance.

As a result of an aggressive marketing effort, as well as its ability to service the "corridor" from Maine to Washington, the company was successful in its efforts to procure a new major customer in the summer of 2000. The incremental revenue from the new account was significant and required major modifications to the existing service area, "footprint", of Eastern's service area.

With the introduction of the new account, larger administrative demands materialized and the costs associated with supporting the business escalated. These higher operating costs were directly related to the efforts to expand and grow the company's service routes, as well as the additional burden being created from the increased activity level throughout the company. Although revenues were increasing, the costs to support the business were escalating and management recognized the need to evaluate, and possibly restructure, operations.

The company retained Tactical Solutions in December of 2000 to assist with the development of a "Strategic Business Plan". Within thirty days a "Plan" was outlined and delivered to the company's management team. The "Plan" focused on four major areas:

A). The design and implementation of new technology to address the needs of its customers, eliminate unnecessary labor costs and improve operational efficiencies.

B.) The consolidation of the administrative offices in Wellesley, MA with the company's primary warehouse operation in Woburn, MA. The objectives were to improve operational efficiencies, departmental communication and "bottom line" performance.

C.) A complete customer analysis to identify "priority accounts", unprofitable business, accurate pricing and opportunities for the consolidation, or elimination, of "under-performing routes."

D.) Streamline all administrative practices and responsibilities, as well as develop the proper informational reports for management.

Throughout 2001 Tactical worked with Eastern Connection's management team to implement the objectives and recommendations outlined in the "Strategic Plan". In July of 2001 the consolidation of the two locations was completed and all major accounts had been evaluated to determine profitability levels and contribution.

By the fall of 2001, the company had begun its efforts to restructure its service area, eliminate unprofitable routes and targeted the sales effort with a focused strategy. Cost containment and purchasing procedures were introduced and enforced. Administrative responsibilities were reallocated and the department was streamlined to eliminate duplication and unnecessary efforts. After a lengthy evaluation

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Tactical Tips for the Fall

ONE OF THE BENEFITS we experience as a consulting firm relates to the numerous entities we work with and the information that we are exposed to during our engagements. As a result of our involvement, we often have a better perspective to evaluate and compare pricing levels for "common" goods and services. We would recommend that management analyze the following areas for possible cost reductions:

Interest Costs: As reflected by the activity in the residential mortgage market, interest rates are at all time lows. Companies should evaluate their current debt structure and attempt to capitalize on today's low rates by refinancing term debt. By refinancing equipment loans, companies may be able to significantly enhance cash flow, lock in current rates over a three to five year term, and potentially generate new funds without increasing monthly payments.

Insurance Premiums: As a result of 9/11 and minimal premium increases over the last four years, companies are experiencing significant increases on renewal premiums for all categories of insurance. Companies may be able to offset a portion of the increases through an evaluation of their current policies. Coverages should be evaluated to identify opportunities to increase deductibles, eliminate excessive or duplicate coverages, and to ensure all "in-force" policies are necessary. We also recommend that our clients procure annual proposals from at least three reputable insurance agencies.

Labor Costs: Unlike the late 1990s and 2000, the economic climate over the last eighteen months has created a favorable labor market for employers. The quality of the unemployed labor force has dramatically improved. Qualified professionals are available and "reasonably priced," as is the case for most worker categories. With good quality people available, companies need to evaluate their personnel to ensure compensation levels are appropriate and reflective of the market.

Other areas that appear to be opportunities for potential cost savings include the following:

- *Costs associated with leasing activities, whereby leasing companies are now offering lower rates, longer terms and often will allow for a "payment deferral period" when the lease is initiated.*
- *Rental rates have dropped and space is available in most areas at reduced rates.*
- *Technology costs continue to be driven down and offer potential productivity gains at attractive prices.*

Expenses related to operating a business tend to rotate in cycles. It is important to capitalize in areas that provide opportunities whenever possible. For this reason, we recommend that our clients review their cost structure on an annual basis.

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of the available technology, the company, in partnership with an industry software vendor, launched a major program to develop new technology to integrate all facets of the business. The objectives of the effort are focused in three major areas:

A.) Eliminating excess labor costs through "signature capture" at the point of delivery.

B.) Improving the level of customer service by providing "real time" information in response to customer inquiries.

C.) Improving profitability at the company by utilizing the systems capability to ensure accurate pricing at all service levels, tracking profitability of all service routes and tracking financial performance in a number of different areas.

The company is currently in the final stages of testing the various aspects of the software and is scheduled to "go live" with the technology on January 1, 2003. The combination of costs reductions and improved operating efficiencies should result in a twenty percent improvement to the company's bottom line in 2003.

Although 2001 was a challenging year, the performance in 2002 has been exceptional. With the final phase of the "Strategic Plan" scheduled for completion in December, we believe 2003 will be the best year in the company's twenty-year history.