



TACTICAL

INSIGHTS

strategies for maximizing your financial performance

SPRING 2003

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Please e-mail your comments or questions to:

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Today's Credit Environment

OVER THE PAST TWELVE MONTHS several of our clients have posed questions regarding the current "lending environment" and the policies being enforced by their lenders. Similar to the economy, lending policies are cyclical in nature and tend to get restrictive as the economy softens. It is important for companies to have an understanding of this dynamic and to incorporate these cycles into their long-term business strategies.

Currently, as interest rates linger at historical lows, many companies have been prohibited from procuring additional financing due to the current "credit environment". To exacerbate matters, lenders are taking measures to further restrict availability in their existing credit relationships. Reducing advances against inventories, tightening the definitions for "qualified receivables" and lowering the total advances allowed under a loan agreement, are all examples of methods being implemented to reduce credit exposure.

Lending policies act in the same manner as a pendulum. When the economy is strong, banks and other lenders are eager to lend and tend to ease credit requirements. At some point in time, the current lending environment will realign its focus and begin to "swing" in the opposite direction. As cash deposits build, the economy starts to pick up and demand for goods and services increases, lenders will be under increasing pressures to identify new lending opportunities and the "pendulum" will shift direction.



Patrick J. Furnari

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

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The Firm is happy to announce that, effective January 1, 2003, **Joseph Furnari** has been promoted to partner. Joe has been working with Tactical since its inception in 2001 and was also a member of the predecessor firm. Joe is a CPA with six years of public accounting experience and has been providing consulting services for the past five years. His expertise is currently focused in the areas of company operations, financial management and overall engagement responsibilities.

Managing Vendor Relationships When Cash Flow is Tight

Joseph Furnari

IN SITUATIONS WHERE CASH flows are weak and decisions are solely determined based on available cash, companies need to effectively manage their relationships with key suppliers and vendors.

During difficult periods, a company's ability to manage creditor relationships is critical to its survival and often is the determining factor in its ability to successfully navigate through "tough times". We believe that there are three key ingredients that are critical to achieving success in these situations:

- **Developing a "plan" to address the creditor problems and adhering to commitments communicated to the vendors/suppliers.**
- **Timely communication with the vendors/suppliers.**
- **Establishing credibility by implementing and executing the company's plan.**

Prior to initiating discussions with the vendors/suppliers, it is important to develop a "plan of action". Although creditors may understand a company's financial situation, their main focus will be on "the resolution" of the problem. Having a plan in place that outlines the actions that are being implemented establishes immediate credibility with the vendors and will go a long way in gaining their support.

A company's inability to manage vendor/creditor relationships effectively is most often attributed to its failure to communicate timely. Creditors, more often than not, will agree to work with companies if they are informed and updated on a continuing basis. Oftentimes, management makes the mistake of not communicating with its creditors, refusing to respond to vendor phone calls, avoiding contact

with key suppliers by changing vendors and falling back on the old adage, "No news is good news." This is a recipe for failure, often resulting in the loss of key vendors, creditor actions, and unpleasant rumors within the industry.

It is imperative that companies develop and maintain relationships that will instill confidence in their vendors and creditors. We recommend the following when faced with difficult cash flow periods:

- **Respond timely to vendors/creditors** and return all calls. Even if the news is bad news, creditors will gain confidence and respect your organization by simply returning the call. Maintaining a dialog and communicating with all audiences is key to a successful effort, especially during a crisis situation.
- **Consider the appropriateness of all commitments.** The lack of following through on commitments impairs the integrity of any relationship and will only further impact the organization's ability to manage its business effectively.
- **Prepare a cash flow analysis** on a weekly basis. This will enable management to have updated, timely information when negotiating payment terms with vendors.
- **Written communication** in certain situations could be very effective. Outlining strategies and periodic updates with the Company's progress allows your audience to be informed and could provide the necessary credibility during difficult times.

Ultimately, the key in managing creditor and vendor relationships during a cash flow crisis is timely communication. Creditors and vendors would rather coordinate terms and payments directly from their customers, and in most cases will work with the company, if they believe they are well informed and commitments are kept.



Automatic Machine Products

An instance where
bankruptcy made sense



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AUTOMATIC MACHINE PRODUCTS has been supplying valves to the refrigeration industry for over fifty years. Initially, the company was a manufacturer of military related products and supplied parts to the government during World War II. Subsequent to the war, Automatic transitioned its manufacturing operation and began producing steel and brass valves for the refrigeration industry.

Over the years, Automatic has established itself as one of the premier manufacturers in its field. Its ability to respond to customer needs in the areas of design, engineering and quality standards has allowed the company to develop relationships with many key accounts. The company is currently ISO certified and is also approved as a "Tier 2" supplier for the automotive industry.

Throughout the company's history, and up until March of 2001, the company utilized the services of an outside sales organization to conduct sales and marketing efforts on its behalf. The organization was responsible for all aspects of the sales efforts, including customer contact, generation of quotes, product design support, trade show representation, and marketing. In return for these efforts, the organization was paid a sales commission on all revenues generated at the company.

Automatic became disenchanted with the sales efforts and arrived at the conclusion that the company would be better served by an internal sales force. As a result, and in accordance with the terms of its contract, the company notified the sales organization that it was terminating its contract effective March of 2001. In

With legal costs averaging \$40,000 per month and expectations of increasing fees, the company's only option was bankruptcy.



June of 2001, the sales organization sued the company for breach of contract.

Tactical Solutions became involved with the company in April of 2002. Although we identified several opportunities for enhancing profitability at the company, we recognized immediately that the ongoing litigation costs were prohibitive to the long-term viability of the company. We informed management that, absent a resolution of the litigation, it was our opinion that the continuous cash drain would ultimately force the company to close.

At that point in time, we felt the company had two alternatives to consider:

1. **Negotiate a settlement and end the litigation.**
2. **File bankruptcy and expedite the litigation through the bankruptcy court.**

The company elected to pursue a settlement and attempted to resolve the matter in an expeditious manner; however, these efforts proved to be unproductive. With legal costs averaging \$40,000 per month and expectations of increasing fees, the company's only option was

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Tactical Happenings

Director of Finance



As of January 1st, **Dave Torrey** has joined Tactical Solutions as the "Director of Finance". Dave has over forty years of lending experience and understands the necessary elements to completing a successful financing effort.

Structuring deals properly and identifying the appropriate lending source are the two most important factors when attempting to obtain financing for a "difficult transaction". Dave's experience, as well as his network of contacts, should prove to be a valuable asset for the clients of Tactical Solutions.

Financial Consultant



Brian McCusker joins Tactical as a seasoned business consultant with heavy expertise in the areas of finance, operations and creditor negotiations. Prior to joining Tactical, Brian was an independent consultant with significant exposure to the manufacturing,

distribution and service industries. He has acted in the capacity of an interim general manager, operations manager and chief financial officer on several past engagements. Brian's efforts should provide a significant contribution to Tactical's client base.

New Web Site

With the increasing expansion of our services, as well as the demands from the marketplace, Tactical has recently designed a comprehensive web site to provide information to our clients and referral sources. The site provides a Firm profile, including summary resumes for our key consultants, a service listing, access to our newsletters, and contact information. Please take a minute to visit our site:

www.tacticalsolutions-llc.com



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bankruptcy. In July of 2002, the company filed for bankruptcy protection in Worcester Federal Court.

The company did so with the full support of its bank and with a proposed plan to pay out all unsecured creditors in full. As explained to the court, the primary motivation for the filing revolved around the prohibitive cost of the ongoing litigation and the need to resolve the dispute expeditiously.

Within ninety days of filing for bankruptcy, the company's plan was accepted and confirmed by the court. Immediately thereafter, the court scheduled a two-day trial to resolve the ongoing litigation. The matter was resolved and settled after the first day of testimony. The ultimate settlement was approximately forty percent of the last offer that had been proposed by Automatic prior to filing. In addition, the court scheduled payments over a three-year period, based on a fifteen-year amortization and a balloon payment at the end of year three.

Since its emergence from bankruptcy, the company has been profitable every month. Tactical is now in the process of assisting Automatic with its refinancing efforts and has provided ongoing engineering support to enhance the company's production efficiencies. Although bankruptcy is normally the last option for consideration, there are instances where it can be a valuable alternative to address a specific problem.