conversus group

finance

marketing

content

human capital

operations

technology

sales

Turning Around Entrepreneurial Companies

Steps in a Small Company Turn-Around

- What does it mean to be “broken”?
- Spotting the *real* reasons why companies fail
- What to do about your broken company
- Case study: PartsCo major corporate investor portfolio company

What It Means to be Broken

- Key executive turn-over
- Missed product launches
- Forced change in control
- Stock price won’t buy a cup of coffee
- David Letterman makes jokes about you

The *Real* Reasons Companies Fail

- **The 16 Deadly Sins of Business**

  also known as

- **The Seven Deadly Sins Plus Nine …**

conversus group

The 16 Deadly Sins

1. Elephant in the boardroom
2. Blinded by the light
3. The mouth that roars
4. 42
5. Too big to think small
6. Cowboys
7. Say when
8. All in the family

The 16 Deadly Sins, *cont'd*

9. Swiss watch
10. Who's on first
11. Dead right
12. Opportunity only knocks once
13. Blue angels
14. White knight
15. Patron saint
16. More money

Elephant in the Boardroom

- So named to illustrate the most dangerous of behaviors:
- Where Management and/or the Board can sit surrounded by huge issues and ignore them until the mess gets so big they can't get out of it.
- Knowing there is danger, but refusing to acknowledge it, usually occurs because the problems conflict with the way you want the world to be.

Blinded by the Light

- Believing so much in the wonder of your product (usually nifty new technology) or your own infallible talents that you fail to see the realties of the marketplace.
- Includes ignoring the market, misunderstanding the market and believing your own PR.
- See *hubris.*

The Mouth that Roars

- Covering the lack of clear marketing strategy with the noise of marketing communications.
- An all too common mistake where the role of marketing is simply confused.
- A company must first have a clear definition of its markets, their needs and its best abilities to meet them.
- Otherwise, PR and advertising are just as Shakespeare said, "*all sound and fury, signifying nothing.*"

42 – *or, “The Four Too’s”*

- The most widely known of the “*Four Too’s*”:

  too little, too late

- A company wanders around in too many directions without adequate focus or direction until nothing is done and the money’s all gone.

- But there are three more deadly “*Too’s*”…

conversus group

42: 2) Too Little Too Soon

- The second is:

  too little, too soon

- Generally happens to innovative technology companies, where their product is really just science and some technical capabilities.

- Eager to make it big, they rush out into the market, spend all their remaining funds on sales and marketing and finally discover that what they have is not yet a product, so no one will buy it.

42: 3) Too Much Too Soon

- Next is:

  too much, too soon

- Frankly, just as egregious.

- Here you find the company so focused on making it big that they over build their infrastructure, loading up on overhead until the burn rate burns them up, long before product sales can ever save the day.

42: 4) Too Much Too Late

- And finally:

  too much, too late

- A syndrome where the technology people running the company are perfectionists to a fault.
- Scope creep is their biggest enemy.
- They keep building the product, adding functionality, perfecting its performance until they are running out of money and can't find a market willing to pay for all that they have built

Too Big to Think Small

- Not directly related to the other "*Too's*",
- Refers to the fact that most large company executives fail when asked to run or *even help* run a small company.
- One reason: many of the tried and true methods for managing a large organization require an economy of scale that doesn't exist in smaller companies; scaled down, those methods just don't work in a small company where management is mostly managing momentum.
- In a small company, the executive must first create the momentum, then sustain it, all while directing its force.
- The result is that many large company executives are found in a small company just waiting for things to happen, *and nothing ever does.*

Cowboys

- Fun to watch in the wild, wild west, but not much fun when they are running your company.
- Cowboys are shoot from the hip artists, who often mask their ultimate short comings with lots of action. The problem is they can't scale.
- Planning and organizational development not only escapes them, it bores them.
- They believe the only goal of a company is to go public, not necessarily build a viable long term business.

Worst of all, they can't be helped.

- If you've got a cowboy on your hands, there's just one thing to do - tell him to "get out of town."

Say When

- Not knowing when to say when is the fundamental problem of so called *threshold companies*.
- It's simply the inability of the original founders to take a company beyond a given size. Ironically, this syndrome is often the victim of success.
- Founders are usually young, inexperienced, visionary, and enthusiastic, but don't know what to do when the company is ready to scale to meet increasing market demand.
- Ultimately the company begins to collapse under its own weight.
- The human capital and other infrastructure elements needed to grow to the next level are inadequate or simply missing..
- Unfortunately for these founders, they just won't or don't know when to say when by bringing in seasoned management and at best are saved from themselves by an ouster by their board.

All In The Family

- Usually happens with 2nd or 3rd generation owners of a company (they rarely ever survive as a family controlled business into the 4th generation).
- Similar to the threshold syndrome in that the new generation owners lack the skills (and, often in this case, the work ethic) to get the job done.
- Once again, they don't know when to say when and turn the company over to the outside management it needs. Worse for them, family companies usually lack the outside board members necessary to force them to face reality.
- So they carry on, not wanting to deal with the need to replace family members with better managers, until all they can do is look back and say:

"those were the days."

Swiss Watch

- Also known as the "not invented here" syndrome, this well known problem is actually a particularly stubborn cousin of *blinded by the light.*
- A great example is the Swiss watch, where the Japanese and their quartz technology almost put a centuries old industry out of business.
- In the end (or almost), the Swiss watch market share fell from around 80% to around 8% before they finally admitted that quartz technology was better and began to adopt it.
- Companies of all stages and industries can fall in love with their own methodology to the point that they refuse to consider buying outside technology or services that will get the job done faster, better and cheaper.
- It's a good lesson to learn before you run out of time

Who's On First

- Characterized by a fundamental absence of accountability, including a lack of clear, meaningful metrics for the performance of the company and its mangers.
- Major points of weakness to watch for are inadequate accounting to tell you where you really are and unrealistic business forecasts and revolving business models to tell you where you're going.
- In other words, everything looks fine on the surface, but in-depth analysis of the company's performance and future requirements reveals "oh my God" size problems.

Dead Right

- Sometimes you can work so hard at being right that you end up being dead right, or just plain dead.
- Also know as "paralysis by analysis, this syndrome is, to a great extent, the opposite of *who's on first.*
- With *dead right* there is too much importance put on analysis and reporting to the point that critical decisions get made too late or not at all.
- Seen most vividly with financially-oriented CEOs who drown decisions with quantification rather than qualification and insight
- *Also a plight of scientists who run companies …*

conversus group

Opportunity Knocks But Once

- Manifested by seizing every opportunity, selling anything to any customer that will buy and contouring the product to capture business at-hand.
- The problem here is that by thinking opportunistically and *not strategically*, the majority of effort invested goes into specific deliverables that can only be sold once.
- That's okay if your goal is to be a systems integrator and your business model is structured accordingly.
- But if your goal is to build and market a product to many buyers over and over again, then opportunity marketing will leave your company knocking and knocking and no one's home.

Blue Angels

- Characterize the phenomenon of competent managers blindly following their leader to their demise - a very real hazard of the tight formations of the actual Blue Angels.
- This crash landing usually occurs with a charismatic leader who is himself *blinded by the light*.
- A similar fate befalls companies that follow their competitors into the ground on the assumption that their competitors are doing the right thing.

White Knight

- Thinking that someone else can solve or even want their problems, these companies expend significant portions of their remaining resources exploring every possible alliance or merger that comes along.
- Also includes the pursuit of some huge customer, often through some one-off personal contact, as the answer to the sales dilemma.

These types of sales rarely actually come through

conversus group

Patron Saint

- Where investors doom their own company by unquestioningly feeding money to once-successful entrepreneurs and their companies, despite their obvious problems.
- This has happened most often with "name brand" executives, who typically either were successful in other types of companies, such as the *too big, too small* syndrome, or came from a strong academic or consulting back-ground with no real business management experience.
- The other mistake investors can make to doom their company is to set such unrealistic expectations that the company kills itself trying to live up to them.
- Many reasonably good businesses died an early death in the "dotcom" era due to this problem.
- For executives of the company, the advice is "*manage your money; don't let your money manage you.*"

More Money

All we need is more money.

- A generational cultural dictum that all it takes is money to build a business and create success – completely losing sight of the time-honored discipline of boot-strapping an idea through the early, evolutionary stages of gaining market acceptance.
- While more money may *help* a company that is falling short of its goal to self-sufficiency, it is rarely the ultimate answer.
- In fact, one or more of the other 15 sins is likely to hold the real challenge to achieving success. *In the world of The New Reality, ruthless pragmatism is far more in vogue than revenues growth.*
- If your company can be bootstrapped to profitability with scaled back growth, do it.
- Once you are profitable, the money for expansion will come. If your business absolutely requires additional capital to survive, make sure you can articulate in detail a very realistic path to profitability that just a little *More Money* can achieve.

What to do about Your Broken Company

- Antidotes to the 16 Deadly Sins
- Constant Vigilance
- Garlic and Crosses
- The Ancient Practice of *Sepaku*
- Conversus Compass Session

conversus group

Case Study:

PartsCo Portfolio Company

"PartsCo" Portfolio Company

"PartsCo" Portfolio Company
A100-person, venture-backed energy-related technology developer recently funded by BigCo to commercialize its Intellectual Property

Catalyst: Brought in by the BigCo Corporate Venture Group to deliver *a much-needed dose of reality*

Mission: Develop a success strategy, achieve value restoration, convince a highly reticent CEO, dwindling cash balances and disappointing sales

What We Did

Conversus Compass Program

- a day-long, 360° intensive workshop at their offices attended by all senior managers
- followed by a week long program of research, follow-up and synthesis
- understood the nature and causes of this company's challenges – rapidly developed recovery strategy

comprehensive, written deliverable

- a written brief prepared by the Conversus team
- special sections covering every area of needed specialty
- detailed recommendations were finite, tactical and actionable

Our Credentials

- Evaluation team consisted of 5 senior executives each with an average of 20 years business experience
- Professionals in project management, sales, marketing, finance, R&D, power systems and defense contracting
- Experts in restoring value to the portfolio companies of corporate venture groups

Observations

- PartsCo functions not as one but as two organizations
- The company may not be able to maximize the value of its various product lines
- The IP and products have real value
- The company may not be fundable in its current state

Options We Considered

- Redouble efforts in existing structure
- Sell the company
- Find a strategic partner
- Restructure the company to create separate R&D and commercial units

Our Recommendation

- Restructure the organization to result in two separate companies, R&D and commercial
- Refocus the existing management on the opportunity to build value as two separate companies

Why This Is a Good Idea

- The most practical solution
- Has the support of the executives involved, and a management team in place
- Will require the least amount of time and money
- Extracts value from an under-performing company
- Allows the commercial entity to come to maturity
- New commercial entity is likely to be fundable
- R&D organization may be profitable almost immediately
- Maximizes the skills of the management team

Important Considerations

- Cash flow will be needed to put this in place
- Need for management focus and buy-in
- Rapid development of a plan
- Dividing up the products and IP
- New product development for the commercial company
- Equity divided among existing shareholders
- Potential tax implications

Mitigating Factors

- Commercial entity appears highly fundable
- Capable commercial leadership can be brought on board
- Plans can be rapidly completed
- Commercial entity has a compelling value proposition
- Relationship for IP/product development can be created
- Shareholder interests can be worked out
- Little downside risk to shareholders

What Happened

- CEO rejected Conversus' recommendations
- Minority shareholder Board members voted together to over-ride the CEO and move to replace him
- Board members requested a proposal to install a Conversus-led turnaround team and turnaround CEO

And the Moral of that Story is …

- Dead Right
- Don’t Mess with BigCo
- Think long and hard before you bring in Conversus Group …

conversus group

Conversus

fast . finite . effective