

QUARTERLY REVIEW

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Letter from the Chairman

Business Building Knowledge: *A Holistic Approach*

At BBK we bring a holistic approach to turnaround management. That is to say, we look at the whole company from cash flow to product line, from customer base to supply chain management. We know that healthy companies must be strong in all these areas. We typically see companies in crisis... more often than not, a cash crisis. But a cash crisis is a symptom of a more critical or "root" problem. A company may have a problem with its core products. Are the products priced properly; do they meet the needs of the marketplace? Supply chain management is another area of increased concern for companies. Forging key supplier relationships is a critical part of success. How do you choose the right supplier, a supplier you can count on? BBK's new web-based service, BBK Ratings, is designed to help companies make these kinds of decisions. It is a reliable, affordable tool to help identify strong suppliers and to anticipate supply chain problems. This is one way we can help companies be pro-active and avoid a potential crisis in the future.



B.N. Bahadur
Chairman & CEO, BBK, Ltd.

BBK Ratings introduced at Management Briefing Seminars

A reliable and efficient new supplier rating product, called BBK Ratings, was introduced at the recent U of M Management Briefing Seminars to much industry interest. Developed specifically for the automotive industry, this web-based application can predict the financial strength or weakness of a company.

BBK Principal Peter Pappas, who outlined the benefits of this new product at a speech during the 2002 Traverse City Seminars, said unlike other metrics and models that evaluate companies across industry lines, BBK Ratings is auto industry-specific.

"With more than 8,000 auto suppliers in North America alone, the cost of manually analyzing each of them is mind-boggling. And many of those companies supply other industries. But it's their capability to meet the auto industry's requirements and standards that the OEM or Tier One or lending institution needs to judge," Pappas said.

Continued on Page 2

Coming Soon...



BBK will launch its
newly designed
Web site
this October.

Log on to
www.e-bbk.com
for information that can
help your company
avoid the pitfalls of
today's marketplace -
and keep on the steady
path toward success.



BBK Principal G. Peter Pappas introduced BBK Ratings, a new service developed specifically for the automotive industry to evaluate a company's financial health.

Need to KNOW



Left: General Motors' Jim Queen, Vice President, North American Engineering, and BBK Principal Pete Pappas joined two other distinguished guests (not pictured) – Sue Cishke, Vice President of Environmental and Safety Engineering for Ford, and Susan Unger, Sr. Vice President and CIO of DaimlerChrysler – on the Thursday panel at the U of M Management Briefing Seminars.

BBK Ratings offer specific information to evaluate suppliers' financial health

Continued from Page 1

BBK worked with two faculty members from Northeastern University in Boston to develop a model specific to the auto industry. Dr. Harlan Platt, professor of finance, and his wife Dr. Marjory Platt, professor of accounting statistics, have extensive experience in creating predictive models. The Platts created a model specifically for this industry by first determining the data needed and then scientifically developing an accurate mathematical formula to rate the financial health of the supplier.

"In choosing a supplier, you obviously look at price, quality, service and technological capabilities," said Pappas. "But if a supplier gets straight A's in those four categories and gets a C minus in financial strength, then you could be in for trouble."

BBK Ratings is accessed via the Internet. The user enters certain financial data about a company, such as net sales and net income. BBK Ratings provides three types of information:

- 1) Probability of Distress: Expressed as a percentage, this number tells you the likelihood that a particular supplier will fall into financial distress within the next 12 months.
- 2) A Letter Grade: The company's overall corporate financial strength is rated A through F.
- 3) Six key financial metrics for the target company as compared to healthy company benchmarks.

"These three pieces of information provide a very simple way to compare one supplier to another, based on consistent, scientifically proven measures," said Pappas. The cost for subscribing is based upon volume.

With the current emphasis on lean manufacturing techniques and Just-in-Time inventory control OEMs and Tier Ones are more dependent than ever on their suppliers, Pappas explained. BBK Ratings information can pinpoint potential problem suppliers in advance, allowing time to deal with a supplier's problems or find a new parts source.

For more BBK Ratings information, contact BBK Principal Alicia Masse at 800-634-4722.

UPCOMING CALENDAR OF EVENTS 4TH QUARTER 2002

SEPTEMBER

24

Turnaround Management Association Senior Lender's Reception
- Chicago, Illinois
www.turnaround.org

OCTOBER

1

Michigan Minority Business Development Council 19th Annual Awards Dinner - Detroit, Michigan

2-5

National Conference of Bankruptcy Judges - Chicago, Illinois
www.ncbj.org

9-11

International Federation of Insolvency Professionals (INSOL) Annual Conference
- Beijing, China
www.insol.org

23-26

Turnaround Management Association National Annual Conference
- Colorado Springs, Colorado
www.turnaround.org

NOVEMBER

6-8

Commercial Finance Association Conference - Atlanta, Georgia
www.cfa.com

DECEMBER

5-7

American Bankruptcy Institute 14th Annual Winter Leadership Conference
- Tucson, Arizona
www.abiworld.org

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Opportunities for Turnaround Support



by Robert J. McCabe, BBK Principal

Robert J. McCabe joined the BBK staff as a Principal out of the Southfield headquarters in July. A seasoned management and financial analyst, Bob brings to his new position more than 32 years of automotive industry experience with General Motors SPO, GM Assembly, Detroit Diesel Allison, TEREX, Packard and GM Powertrain. He received his MBA from Cornell University.

Turnaround opportunities exist whenever there is an under-performing company or even a business segment that is not generating a positive cash flow, and / or an acceptable return for the capital invested in that business.

For a corporate entity with a clearly defined profit and loss statement, the need for a turnaround should become clear rather quickly, particularly when a BBK Ratings analysis is performed. In the case of divisions and cost centers within a company, turnaround opportunities become harder to discern but in the longer term the investors or owners should not subsidize businesses, operations or products that are not competitive. Turnaround specialists such as BBK are needed to analyze businesses, financially and operationally, to determine their viability and, where appropriate, develop and implement specific turnaround plans.

For example, I was involved with the turnaround of The TEREX Corporation. As a division of General Motors, it was not required to be financially independent, and its operating results were not clearly defined. However, when TEREX was sold and had to stand on its own cash flow, it took only a couple of years and a downturn in the construction equipment industry before it was declared bankrupt. Because GM substantially financed the sale, it was forced to again become very involved in the operation of the TEREX business and in the development and implementation of the turnaround plan. I was named by GM as the chairman and CEO of TEREX to direct these activities.

Under the supervision of the bankruptcy court, a thorough analysis of the Hudson, Ohio-based North American operations was performed, which indicated that it was not a viable stand-alone business. On the other hand, the operations near Glasgow, Scotland were competitive and profitable. With these facts, the turnaround plan was developed. All manufacturing in Hudson, Ohio was discontinued and relocated to Scotland for worldwide distribution. Once TEREX was

financially and operationally viable it was sold for cash. Under the terms of the sale, I became a consultant to the TEREX Corporation for five months, overseeing an orderly transition of the business. During this time, I also finalized the negotiation and formation of a joint venture in Baotou, Inner Mongolia, utilizing the duplicate machinery, equipment, and tooling from the Ohio plant as the sole, non-cash equity injection from TEREX into the venture.

There are other occasions however, when – with some foresight and the right tools – the need for a turnaround can be anticipated before a financial crisis occurs. As mentioned earlier, BBK Ratings is one tool that will identify when there is a significant financial risk. In this situation, the company should immediately initiate a more in-depth viability analysis, possibly with the assistance of a turnaround specialist. A strategic review of financial and operating trends in a business may also reveal the need for the development of a turnaround plan, which happened with Packard Electric.

Packard, while still a division of General Motors, recognized that the wiring harness business was extremely labor-intensive and the company could never remain competitive with all its operations located in Eastern Ohio. After much study and negotiation, they developed a significant turnaround plan and initiated GM's so-called "Southern strategy"; first, by putting harness assembly facilities in Jackson, Mississippi, and shortly thereafter, by establishing GM's first *maquiladoras* in Juarez, Mexico. With the rapid expansion of vehicle electrical content during the time I was the CFO at Packard, we were able to reduce the average cost of an hour of labor in our wiring harnesses and thus significantly improve Packard's competitive position and profitability. With the achievement of a strong competitive position in cost as well as quality and technology, Packard also significantly grew its non-traditional GM business. ■

BBK, Ltd.
is an experienced leader in performance improvement, corporate turnaround, revitalization and crisis management.

We have the knowledge and expertise to spot trouble before it affects your organization's performance and reputation, or to assist in minimizing the damage if trouble has already arrived.

We know what to look for. Our knowledge is based on decades of real-world experience. And that knowledge is rapidly leveraged to your best outcome.

BBK - The Partner Behind Your Success.



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Strategic Planning: The Key to a Successful Turnaround

by Nancy Colah, BBK Senior Consultant

Editor's Note: Last month Mike Boudreau discussed the the vital first steps to take when your company "hits the wall." This month BBK Senior Consultant Nancy Colah continues the discussion with an overview of the strategic plan.

A key element of strategic planning is an understanding of the firm's ability to execute a proposed course of action. This includes resources (both capital and human) and perhaps most importantly, the time needed to implement the plan. It is important that your strategic plan acknowledges the inherent weaknesses of the company and relies on its strengths. Such strengths may include strong brand names, specialized or innovative products, or low-cost production methods.

Based on your assessment of resources, strengths and weaknesses, you should develop a plan of specific actions that need to be taken to help the organization achieve the desired result. Of course, in a turnaround situation, time is never on your side. Not only do you have a short time frame for strategy development, you typically do not have a large window for plan execution.

First, try to break down the actions required into specific, meaningful, smaller steps. In turnarounds, it is important to focus on the "low hanging fruit" first, and then attack the longer-term issues gradually over time, showing progress along the way. Prioritize based on "bang for your buck."

Next, you should communicate what you are trying to do to others both within and outside of the company. At many companies in distress, creditors and concerned constituencies are not only interested in the company's performance to plan – they demand it. Periodic reporting of progress and accountability provides troubled companies with credibility. More credibility sometimes buys the company more time.

Performance measurements should be clearly established, tied to action plans, easily understood, and relatively simple to monitor. Tracking progress over time against pre-defined milestones helps keep a plan on track and provides insight into the company's ability to achieve the desired goals. If trouble is detected, the company should have time to react before recovery becomes too difficult. ■



Nancy Colah

Nancy Colah, a senior consultant with BBK, is a CPA and has more than 10 years' experience working with manufacturing companies, particularly in the automotive sector.



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