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QUARTERLY REVIEW

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Detroit

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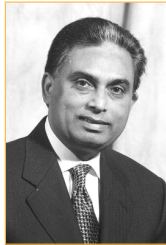
BUSINESS KNOWLEDGE BUILDING

LETTER FROM THE CHAIRMAN

Business Building Knowledge:

Revitalizing Industry on the Homefront

As hostilities have nearly come to a close in Iraq, we find that many economic challenges remain on the homefront. As reported by The Associated Press, the April unemployment rate was six percent, pushing total layoffs for the past three months to more than half a million workers. Our nation's factories lost 95,000 jobs in April, for a total of 2.2 million manufacturing jobs that have been eliminated in the past three months.



Now, we are faced with solving two issues.

First, companies of all sizes must confront shorter-term difficulties—those impacted by unemployment, consumer debt and overcapacity due to lack of new orders. Next, we must address the structural issues that have developed over time in various industries.

For example, the domestic automotive industry faces a new round of overseas competition and renewed issues of underfunded pensions along with new demands for safety and fuel economy initiatives. Industries, like retail, that depend on discretionary spending are hampered by consumer debt and the overbuilding of the last decade.

As news of international conflict dies down and we get back to business, it is critically important that we focus on reinvigorating and modernizing all industries. BBK, Ltd. stands ready to assist as we continue on a path to sound business strategy and prosperity.

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

Service Overview:

BBK Retail Services Group

The BBK Quarterly Review recently sat down with Gary Ruffing, manager of BBK, Ltd.'s Retail Services Group to talk about today's retail market.

Give us an overview of the state of retail today.

It continues to be dynamic, volatile, and more competitive than ever. National chains still dominate mass merchandising and specialty retailing, placing pressure on regional and local outlets, negatively impacting revenue, margins, product availability, supply chain, operations, cost structure, and the ability to retain key associates. This mid-market is more susceptible to minor fluctuations in the economy, weather, and the over-stored marketplace. The smaller retailer will always have to be at its best with brand messaging, pricing, operations, merchandising, cash flow, and providing a differentiated service that creates customer demand.

Continued on Page 2

BBK UPDATE CENTER

New Hire Spotlight: *Michael Clodfelter*



BBK, Ltd. is proud to welcome aboard Michael Clodfelter, who joined the firm in March of this year as a new Principal in our Chicago office.

Clodfelter has more than 20 years experience in financial consulting as a partner in the Corporate Recovery Practices of Ernst & Young and, just prior to joining BBK, of KPMG. He has worked on cases involving a broad spectrum of companies and industries ranging in size from less than \$20 million to in excess of \$10 billion in assets by providing business advice to the array of interested parties (e.g. troubled companies, secured bank lenders, unsecured creditor groups, investors, etc.) in either formal bankruptcy proceedings or out-of-court workouts.

Clodfelter will concentrate on BBK's growing range of non-automotive industry engagements. Of particular emphasis will be the retail industry, transportation, and core manufacturers, like foundries, that supply the automotive industry.

"I am enthusiastic about how BBK works closely with its clients as a strategic partner. I will have an opportunity to have a greater impact on our clients' management, key decisions and future course than I have in the past," Clodfelter says.

Clodfelter earned his undergraduate degree in finance from the University of Illinois and his MBA from the University of Chicago. He is a Certified Insolvency and Restructuring Advisor (CIRA) and a Chartered Financial Analyst (CFA).

BBK, Ltd. is also pleased to announce the recent hiring of two experienced credit analysts, Brian Gerth and Jack Garrett.

Michael D. Clodfelter can be reached at (312) 795-1211 or mclodfelter@e-bbk.com



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Need to Know

2

BBK Retail Services Group

Continued from Page 1

What is the first thing you look for when asked to assess a retailer's performance? Are there consistent, telltale signs of distress?

There are several common benchmarks in the industry that tend to point toward distress including: same-store sales, market share, inventory aging and turnover, sales per square foot, technology and customer focus. Other signs include store closings, shrinkage, capital expenditures, and turnover of key management.

Of all the functional areas that impact retail performance, which ones do retailers most commonly stumble on?

The largest stumbling block for most retailers is the inability to understand, interpret and execute at store-level to the targeted customer base through merchandise mix and operational performance. What the executives say, along with what advertising communicates, must be in sync with what the customer encounters during every shopping experience. Making strategy reality through execution is a significant challenge for most retail organizations.

Kmart's ongoing restructuring is the latest in a series of troubled, high-profile, locally-based retailers, including Harmony House and Jacobson's. Can Kmart make it? Does it matter to the retail marketplace whether Kmart does?

Kmart has found the struggle for consumer confidence a battle lost to competitors that are more nimble, decisive, customer-centric, and have winning cultures. Over the years, the once-cash-rich company lost its focus on the customer, and instead, defined itself in terms of the competition. Kmart is a prime example of failing to understand or address customer needs, to invest in infrastructure that provides unprecedented service through in-stocks, and to deliver on the promises they made.

Losing a retail giant like Kmart would be a major loss to customers, vendors, and the remainder of the retail segment. Kmart is still the third largest retailer in the U.S. Their current restructuring efforts will provide the opportunity to redefine its niche, develop a customer-focused plan and recapture its once-loyal customer base.

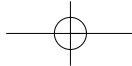
Is there anything new in retail in terms of expansion strategy, new consumer relationships, or integration of "bricks and mortar" with Web-based selling?

For years, retail has been integrating new technology into the decision-making process and has created merchandise planning and distribution departments for the sole purpose of using store-specific sales data to distribute demographically correct items at the right time and in the right quantity. Pricing departments were established to ensure maximum margin on each item, based on competitive prices and the number of times the item is promoted. Pricing is managed in detail by item, by store and is key to the profitability of a company.

Today, new technology is combining planning and distribution with a managed price. This integration enables the retailer to distribute merchandise more closely to the anticipated sale date and price the item for optimal sell-through. This helps the company improve productivity by allocating to the locations that are selling the fastest and at the optimum price, and adjust prices to stimulate sales in locations that are experiencing a slower sell. Combining distribution and price allows the company to be more profitable, hold buyers to a higher standard of merchandise assortment, and ensure that operators strive for flawless execution at store level.

For more information or case studies on BBK's Retail Services Group, contact Gary Ruffing at (248) 603-6377 or gruffing@e-bbk.com.

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Employee Spotlight:

Tim Skillman

Tim Skillman, BBK, Ltd. Principal and head of the firm's non-automotive practice, grew up in southeastern Michigan, where he was able to observe the Detroit area business climate firsthand, as his father owned a series of automotive and defense industry suppliers. "Like most of us here, my bread was buttered with axle grease as a kid," he says.

The BBK Quarterly Review recently caught up with the ever-in-motion Skillman, who knows his way around troubled businesses as well as he does our globe.



Tim Skillman
Principal

What brought you to BBK?

My last position was at NBD, managing the Bank's troubled loans. Working with turnaround advisors like B.N. Bahadur, I saw how they had tremendous opportunity to make improvements in a company's prospects. When I decided to leave banking, I joined BBK because I wanted to learn those skills—from the best.

Is there a common thread to what you do; something that guides you when a company needs help?

Yes. First, we must understand how much time is left before a business runs out of cash and is unable to operate. Second, we dig deep to understand the business, the drivers of profitability and the issues that the company is facing, which allows us to develop a realistic action plan. Communication with employees is critical during this time to maintain production requirements, morale and employees' commitment to the company.

As the turnaround consulting field matures, are we learning some valuable lessons that can keep companies from defaulting in the first place or speed recovery?

The profession has grown from a cottage industry populated by small firms in the early 1980s to a consolidating industry today with a number of nationwide firms. We have attracted a lot of talent in recent years and I expect the industry to grow both domestically and internationally.

I don't think that the number of loan defaults is likely to decline. We live in a capitalist market where financial strength continues to shift. I do, however, think that as we get more proficient in our task, the amount of time that passes from crisis to recovery will shorten.

Does American business suffer from a lack of leadership?

American industry thrives on aggressive risk takers, people who embrace change and create value for their constituents. It would be devastating to the U.S. economy if our entrepreneurs went "on strike," as Ayn Rand described in *Atlas Shrugged*.

A successful turnaround requires a leader who can inspire performance from his people and can persuade all of the constituents that the plan is achievable. This requires vision, confidence, integrity, and a willingness to work shoulder-to-shoulder with the team that will execute the plan. Our experience is that if we ask the right questions and search properly, the necessary leaders are out there.

Tim Skillman can be reached at (248) 603-6369 or tskillman@e-bbk.com

CALENDAR 2003

Upcoming Calendar of Events

3rd Quarter 2003

June 1-3

Detroit Regional Chamber Leadership Policy Conference – Mackinac Island, MI

June 5-8

American Bankruptcy Institute Central States Conference – Traverse City, MI*

June 9

Michigan Minority Business Development Council 19th Annual Golf Tournament – Ann Arbor, MI*

June 10

Variety Golf Outing – Detroit, MI*

July 11-16

Commercial Law League of America National Convention – Kohala Coast, HI

July 17-20

American Bankruptcy Institute 10th Annual Northeast Conference – Newport, RI

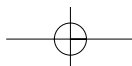
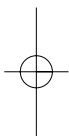
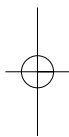
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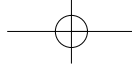
Association of Certified Fraud Examiners 14th Annual Fraud Conference & Exhibition – Chicago, IL

August 5-9

U of M Center for Automotive Research Management Briefing Seminars – Traverse City, MI

*BBK-sponsored events





Service Overview: *Good Business* 4

BBK Presents Donation to Salvation Army

Ray Reynolds Graves, BBK principal and retired U.S. Bankruptcy Judge, presented a \$2,000 donation on behalf of BBK and the Consumer Bankruptcy Association to WOMC's Dick Purtan and Salvation Army Major Marshall. Purtan broadcasted his annual radiothon from Oakland Mall in Troy to benefit The Salvation Army's Bed & Bread Club.

The all-day broadcast featured local entertainers and celebrities, including Detroit Tigers Manager Alan Trammell, Joe Dumars of the Detroit Pistons, and musical group Teen Angels.

The Salvation Army's Bed & Bread trucks are mobile canteens that deliver hot food and drinks to the homeless and other people in need. The trucks serve an average of 1,500 meals each day, including holidays and weekends. Detroit was the first city in the nation to have a Bed & Bread truck. The Salvation Army has served the Detroit community since 1887 and helps more than three million people a year in the metro area.



Dick Purtan (center) of WOMC FM 104.3 takes a break from his radiothon to chat with BBK's Ray Graves (left) and Salvation Army Major Marshall (right).



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