$OLUTIONS FOR THE STRUGGLING SOLUTIONS PROVIDERS

Almost every company goes through a rough spell. How you prepare for those dark times or emerge from the abyss can serve as inspiration. By D. Craig MacCormack

EVEN THE MOST successful companies have gone through some level of problems on their way to the *Inc. 5000*. When the recession smothered the U.S. economy starting in 2008, it forced business leaders to come up with new ways to pay their bills, find new work and keep their employees happy. Many small-to-medium businesses, like those that comprise most of the commercial integration industry, are still dealing with the lingering effects — *if* they survived the recession.

But it doesn't take a recession for an integrator to feel the financial heat. Sometimes cost-cutting measures are harsh, but necessary realities of running a business, along with the self-assessment and realization that doing things "the way we've always done them" doesn't quite work anymore. Two integrators agreed to share their tales of tumble and turnaround to help those who may face the same problems prepare for the worst and limit the length and depth of the downturn.

SVT Spread Too Thin

SVT president Josh Shanahan wasn't directly responsible for the mess his Brighton, Mich.-based integration company has been trying to clean up for most of the past five years, but

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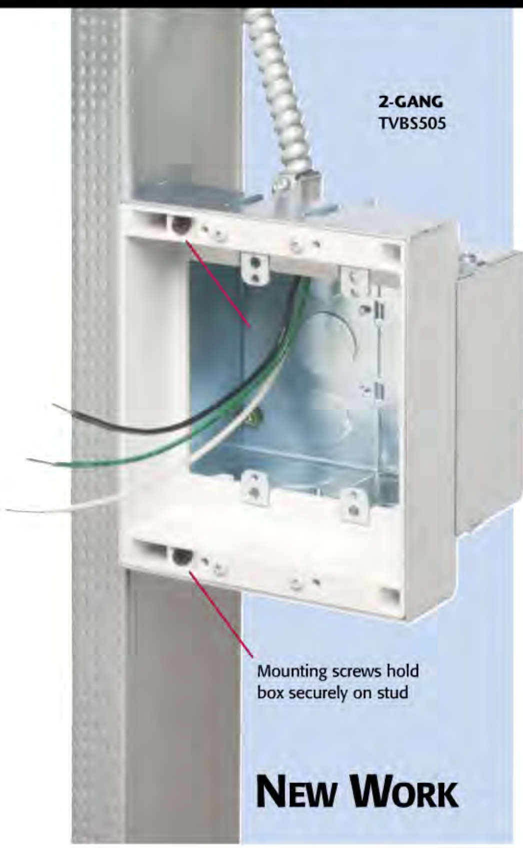

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www.aifittings.com Scranton, PA 18517 800/233-4717 that doesn't take any of the sting out of the decisions that led to the struggles.

Before he took over the business from his father, Shanahan watched as company leaders moved heavily into managed services and SVT found itself with two-thirds of its cash flow and 20 percent of its revenue invested in two Alabama gaming and entertainment facilities, both of which closed within weeks of each other in 2010 because of new legislation forbidding them.

"That left us with a 55-year-old business in need of diversification in serious debt and a lack of working capital," says Shanahan, who became president in 2011. "We were faced with keeping the house standing when it's in need of new walls. We were struggling between managing our debt and investing in the business."

As part of cost-cutting measures at SVT, several family members were shown the door, says Shanahan. It reflected the cold reality of business, triggered by the fact the company had never done a risk assessment and that it had been using an old contract template that didn't cover SVT in the event its largest client had to suddenly close its doors.

Although SVT got its equipment back from the Alabama gaming facilities when they closed, it was analog equipment, meaning its value was minimal, says Shanahan. SVT was able to repurpose some of the gear but not enough to put a dent in the bank debt, he says.

"THE COMPANY WAS DOING SO WELL, THINGS WERE SWEPT UNDER THE RUG. IT SEEMED LIKE THE GRAVY TRAIN WAS NEVER GOING TO END. IF WE HAD DONE A RISK ASSESSMENT, WE WOULD HAVE SEEN [HAVING SO MUCH INVESTED IN SO FEW CLIENTS] WASN'T A GOOD IDEA." *—JOSH SHANAHAN, SVT*

"The company was doing so well, things were swept under the rug," says Shanahan. "It seemed like the gravy train was never going to end. If we had done a risk assessment, we would have seen [having so much invested in so few clients] wasn't a good idea."

Even during its darkest days, SVT's banking partners "remained very supportive," says Shanahan, but bonding has become "a challenge" and SVT has become limited to pursuing only jobs that don't involve bonding. SVT used to offer payment terms that allowed customers to pay within 30 days of the job being wrapped up, but now only offers progressive terms that

NSCA Lends a Financial Advisory Hand

NSCA executive director Chuck Wilson often tells integrators to have "a walk-away number," an absolute minimum margin they need to achieve in order to take on a new job. This tip will surely be part of NSCA's new Exclusive Advisory Network, a group of experts in a variety of business topics — including business valuation, forensic accounting, social media and marketing, recurring monthly revenue, project management, accounting and financial management, strategic planning and software support.

The program will officially launch at the 2015 NSCA Business and Leadership Conference, says Wilson. It's already part of the membership fee for gold and platinum level members, who get two hours to talk to their fearless leader about whatever's bothering them with their companies.

"Whatever your problem is, we've got some good talent to help our members with that," says Wilson. "There's always that transition point where a new company has to employ serious business practices. It happens at different times for different companies and some are better prepared for it than others."

The new offering will include closer looks at benchmarking and understanding ratios and analytics as well as the basics of project management and contract administration and improving employee productivity and utilization.

The 2008 recession was a death knell for many companies, but others were able to navigate the waters with aplomb, says Wilson.

"Some companies bounced back in a year or two. Others are still struggling," he says. The key to faster recovery, says Wilson, is knowing how to avoid "unintentional consequences" when you add new employees, launch in a new market, open a new office, work with a new customer or countless other daily business activities.

The good news is, having an association like NSCA to work through the problems can often help either avoid trap doors or turn the company around faster than you could have on your own.

"We can take what's a problem for one company and share that with others who are going through the same thing," says Wilson. "All of our members experience ups and downs and this is a way of extending our circle of influence."

require payments as certain aspects of the job are completed.

As part of that change in approach over the past three years, SVT brought in a new CFO who has more experience in percentage-of-completion accounting, says Shanahan. These changes were led when SVT brought in Calderone Advisory Group LLC to review its business from top to bottom, looking at operational deficiencies, helping them create metrics and dashboards and launching a rigorous analytics process.

"We needed to bring in a third party to do a complete business analysis," says Shanahan, noting the company also evaluated its legal and accounting firms, implemented Solutions360 business management software and leveraged its NSCA membership to help turn the company back toward break-even. They trimmed serious overhead and stopped working with customers who weren't paying or weren't within its new margin threshold, explains Shanahan.

"We didn't need as much revenue as we thought if we'd been bringing in the right kind of revenue," he says.

SVT recently hired someone to run its procurement and supply chain program and has brought in other new employees with experience in its core vertical markets (gaming/entertainment, enterprise and retail) and is working with partners with large sales teams to sell SVT products and services.

With outside help and a new lease on life, along with an improved economy, "we feel the processes are providing us with positive traction and we're pursuing opportunities with far more laser focus," says Shanahan. "There's still a great deal of concern, though, because we're highly leveraged. We look at it like we're a brand-new company with a much better focus, but with a bit of a monkey on our backs."

Shanahan is philosophical about SVT's situation and that of others who've struggled like them.

"It's a practice, not a science," he says. "The reality of business is most go through cycles."

Slow Turnaround for Altel

Brewster, N.Y.-headquartered Altel Systems Inc. found itself staring at lots of red ink in large part because the integration firm didn't change anything it was doing as the U.S. economy went into a protracted recession starting in 2008 and extending several years, says president and CEO Andy Musci.

Even as there appeared to be less work coming in and less new work to bid on, Altel kept its staffing levels at 24 and dealt with high overhead as it tried to navigate the choppy economic waters almost 60 years after the business began.

Because Musci and the Altel team were slow to react to the economic conditions around them, they were faced with a series of collection letters, he says.

"I woke up one day and realized we had to do something," says Musci. Altel lost viability on potential projects because of a credit hold and was dealing with a long payment window by its vendors.

"As the economy turned down, we were lulled into thinking it would turn around," says Musci. "We didn't think we had to make any aggressive changes. Because of prior experience with this type of thing, you have certain expectations about how it's going to go, but there was a much deeper trough this time. Five years later, it's still very slow.

"It's my business so I'm responsible for what happened. When you're trying to get jobs in and out, it's hard to look closely at the finances," he says.

About 18 months ago, Altel trimmed its staff to 10 and scaled back on all expenses that were not considered mission-critical, says Musci. Altel also had to adjust some employee benefits and perks to help turn the company around, he says. The moves were tough, but necessary.

"When you have to do a harsh analysis and cut back on access to certain perks, it's hard," says Musci. "Everyone in the company has to come to realize they can do more. It's forced us to also look at our processes and how much we put into certain parts of the job. Any big business does this regularly; small businesses need to do it too."

Facing the prospect of more bidders than ever on most projects and living in a world that seems to favor larger companies, especially at a time when IT is becoming a more important part of the equation, Musci and the Altel team are changing how they do business, he says.

"We got a lot of religion on cash flow analysis," says Musci. Altel changed its CPA firm as part of its new approach, dumping a company that wasn't giving them much support, he says.

Partnerships are becoming "a huge part of what's going to lead to our success," says Musci. Altel installed a public address system and information signage in the World Trade Center transportation hub and outfitted the educational spaces of Carnegie Hall with new technology, among its recent successes.

"Things are improving slowly, but it's still very tepid," says Musci. "When you're coming out of a downturn, it takes tremendous discipline to raise your prices again. We've always made margin on gear, so it's been a rough ride."

In addition, through its relationships with other NSCA members, Musci has learned and understood other companies have experienced similar struggles to Altel.

"It's good to know you're not the only one," he says.

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Steps for Staying Out of Trouble

Brad Dempsey, founder and CEO at Solutions360, isn't surprised to hear stories about integrators running into problems. He's seen it before and will likely see it again.

"It's not uncommon for us to see integrators getting into an 'over-earned' position on their projects," says Dempsey. "This happens when the integrator has realized the total revenue on the project and still has labor and/or material left to deliver." Sometimes, he says, this takes the form of a never-ending punch list; in other cases, they simply underestimate the scope of the project.

"Once the project revenue is earned and the expense keeps on coming, the integrator is in a very tough spot indeed," says Dempsey. Tips to avoiding over-earning, according to Dempsey, include: monitor estimated vs. actual labor by category; review and adjust your estimate on a regular basis; compare "gut feel" to the calculation of percent complete; and get timely information to the field labor involved to make sure you are always working in scope.

Another common pitfall happens during the estimating and bidding of the project, says Dempsey.

"Many integrators are bidding at tight margins, and not using previous data to better understand their true margins," he says. "For a small project, all it takes is a few express overnight shipments of parts, or some overtime labor to blow the budget."

Using the feedback of previous projects to properly estimate and plan new projects is critical, says Dempsey. This should be a feedback loop, constantly updating assumptions. This allows the integrator to properly budget, and set customer expectations, he says.

Establishing Processes Can Make Positive Impact

Alex Calderone, managing director of Calderone Advisory Group, says contractors often get themselves in financial pickles because they don't have a firm grasp on how to project their cash flow because they're working on so many different projects at the same time that are at various levels of completion.

"They're not widget manufacturers," says Calderone. "They're working on projects that use different materials, different vendors, different subcontractors and different levels of labor, for example. Very few contractors have established robust practices and that's how they can run into trouble."

The most important tool for any contractor, says Calderone, is a reliable process for forecasting cash flow at the project level. That can help them discover problems before it's too late to fix them.

"Contracting is a game of attrition and sometimes the best leaders stash away dry powder for when they need it," says Calderone. "Most companies, instead of stashing money away, decide to invest in the company by adding new employees or acquiring another company or going into a new market."

While growth in business is certainly a good thing, it can be fraught with potholes too, warns Calderone.

"A lot of businesses started as a mom-and-pop shop, then they grow to a $100-million company and the infrastructure hasn't changed," he says. "It's important that the company's financial and operational capabilities grow with the business. Owners want to work with people they trust but sometimes you need to bring in someone from the outside."

Certainly, the recession was a cold slap in the face for many companies on the edge of viability.

"A GOOD PROJECT MANAGER CAN BE WORTH HIS WEIGHT IN GOLD WHILE A BAD ONE CAN BE A BIG PROBLEM TO THE BUSINESS." *—ALEX CALDERONE, CALDERONE ADVISORY GROUP*

"During the good times, people don't notice infrastructure deficiencies," says Calderone. However, it's important to not grow too fast, or change the infrastructure too much too quickly by adding sales staff or building a new headquarters, for instance. "The long-term viability of commercial integrators depends on their ability to react to variable cycles. When things get slow, they take on work at barely profitable terms just to keep their people busy. In many instances, they end up losing more money on those jobs than they would have if they had kept those people idle."

Accountability through the project manager is another key to steady, sustained business growth.

"A good project manager can be worth his weight in gold while a bad one can be a big problem to the business," says Calderone. That comes into play in accounting, where CIs often rely on project managers for estimates on job-completion percentage. Too many falsified or incorrect estimates can lead to a credibility problem with bankers, says Calderone.

"Those types of diagnostics can be a pain but can also be life-savers," he says. "When you see companies going out of business, most waited too long to take the necessary steps. It's much easier for me to help these companies if I'm not brought in at the last minute." CI

Concentrating on Cash Flow

Part of the problem is that the economy, while showing improvement, is doing so only slowly. Banks, therefore, are very cautious about lending money to businesses with overly optimistic revenue increases.

Furthermore, federal banking regulations introduced after the Great Recession often act as roadblocks to loans that might otherwise be made. Marry that fact with a persistent low interest rate environment and it's little wonder many loan officers sit on their hands (*See sidebar, "What's Holding Banks Back?"*).

So how do you cut through the financing thicket? You can ease the way by making sure you produce the financials the banks desire. "Historically banks have looked at the five Cs of credit," says McDermott. "Those are character, collateral, cash flow, credit and conditions (economic)."

In the years prior to the recession many banks were willing to make loans with one or two of the Cs missing. They would often just look at collateral such as commercial buildings. Not so today. Bankers are likely to look at all five Cs. Cash flow, in particular, has taken a front seat. Why? A desire to reduce the risk of default. It's not unusual today for a bank to ask for cash flow reports for the previous 18 months before granting a loan.

Cash flow requirements may become even more conservative because of widespread expectations that interest rates are about to start rising again. Says McQuaig: "The bottom line is you have to have as much cash flow as you can."

"I DON'T KNOW IF I CAN THINK OF A MORE IMPORTANT PARTNER THAN YOUR BANK," SAYS TIM CZYZAK OF IVIDEO TECHNOLOGIES, WHO WONDERS WHY MORE IN THE INTEGRATION SPACE DON'T MEET REGULARLY WITH THEIR BANKS.

Read Your Covenants Carefully

Cash flow (and other) requirements are defined in the "covenants" that appear in your loan document. Overlooking them can be costly. Even if the bank does not immediately call your loan, it may require drastic changes to your operations to better secure the cash it has at risk.

"The bank may issue a 'forbearance agreement,' which extends the line of credit in exchange for something," says McDermott. "That something might be a plan that shows how you will turn around the business. That might involve a move into a new market, the introduction of a new product or the selling of inventory and real estate to skinny down your company to its core profitable business."

Keep in mind that maintaining the required cash flow can mean adjusting your selling prices.

"Many small businesses don't have margins set properly, so they are not making the money they need to cover their loans," says Marilyn J. Holt, a Poulsbo, Wash.,-based management consultant. "That's where they get into trouble."

Seasonal or cyclical businesses (such as retailers or systems integrators) have a special problem, says Holt. They need money to invest in materials or inventory for the next sales season or big-ticket project. That kind of investment can be looked down upon by banks, which are nervous that the business will not make the sales needed to justify the investment.

Picking Your Target Wisely

It might be time to reassess the banks you are approaching. Even in the best of times the larger banks with household names — the ones you are likely to think of first when seeking loans — are less than ideal partners for the small enterprise. McQuaig says that many such banks tend to be interested only in larger clients requiring over $50 million in financing.

The lack of an easily tapped knowledge bank causes problems for business owners in general, and especially for those without a financial background. "Small business owners are turning for financial advice to their CPAs and attorneys," says McDermott. "But those people do not have experience as bankers."

As a result of these issues, smaller banks are more attractive to small businesses. "Community and local banks are doing well financially, have no or fewer regulatory issues, and are also more open to making small business loans," says Holt.

Since taking over 25-employee iVideo Technologies in Cleveland in January 2010, president Tim Czyzak has met each quarter with a representative from Lorain National Bank, a large community bank in the area that helped him move from investment banking into AV and broadcast integration. They do a business performance review and talk about what each side expects from the other over the next three months.

He's met the president of the bank, he says, and feels connected to the institution and believes they feel that same allegiance to him and his business. "I don't know if I can think of a more important partner than your bank," says Czyzak.

Czyzak has noticed more "want and willingness" to lend money than in the past and his bank representative is more likely to offer Czyzak money for potential investments than in the past. "Having a four-year history with them helps that too," he says.

Czyzak wonders why more in the integration space don't meet regularly with their banks.

The right community bank will take the time and effort to understand your business requirements and take care of your needs on a long-term basis. But do your groundwork first.

"Start by figuring out your business vision and be able to articulate it," says McQuaig. "Then make sure your bank understands it. Build

What's Holding Banks Back?

BANKS ARE ENJOYING IMPROVED PROFITS — the best, in fact, since the Great Recession of 2008. But for many a small business owner with a healthy P&L statement and an ambitious agenda, getting a loan application approved is still tough.

Why the reluctance to lend? For starters, banks have to comply with a number of federal regulations introduced since 2008 to avoid another meltdown. Those regulations can cause lending officers to sharpen their pencils when analyzing the financials of loan applicants.

A number of other factors are cited by Bill McDermott, CEO of Atlanta-based McDermott Financial Solutions.

"Many banks have less money to loan because they need to maintain elevated cash reserves to comply with the Dodd–Frank Wall Street Reform and Consumer Protection Act," he says. Any cash that needs to be stockpiled for federal review can't be lent to small businesses.

McDermott cites another reason "Banks make less profit on their loans than in the days prior to the Great Recession because of the current low interest rate environment," he says. Banks typically loan money to business customers at the rate of 2.5 percentage points above prime, which is the rate charged a bank's most credit-worthy large corporations. And the prime rate, hovering recently at around 3.25 percent, remains close to an all-time low.

Interest rate stability is still another depressant on lending activity, says McDermott. An economic environment with rising interest rates would be more favorable for banks, because they would not have to raise the rates they paid depositors as quickly as they could hike interest rates for new loans. The "spread" between the two interest rates amounts to additional profit for the bank. Absent such opportunity to make money from the spread, banks feel less incentive to make loans.

While banks see diminished opportunity for profitable lending, they are also incurring expenses in two areas. The first is investment in technology for the support of mobile banking. The second is compliance with federal regulations related to legislation such as Dodd-Frank, the Patriot Act, and the Bank Secrecy Act. Given their need to make a certain level of profit to pay for all those expenses, many banks are prone to lend money only at rates less than attractive to the typical small business owner.

It all adds up to a challenging lending environment despite the favorable factors of higher bank profitability and a recovering economy. The right bank will be eager to lend, but that doesn't mean every business will qualify. "Banks will fall over each other for a good company," says John McQuaig, managing partner of McQuaig & Welk, a Wenatchee, Wash., based management consulting firm. "But they still can't afford to take much risk, so poor quality deals will remain hard to place."

That's not great news for integration firms or contractors in general, although there are still ways to get loans, says Alex Calderone of Calderone Advisory Group in Birmingham, Mich., who advises contractors to seek out specialty finance companies rather than more traditional banks.

Calderone expects you'll see more consolidation of integration companies, with the larger ones buying the contracts of their smaller counterparts "at distressed prices" in many cases.

a relationship with one or two bankers who know what you are doing and what you are trying to achieve. If you make your vision clear to them they can help you get in position to accomplish your mission."

Speaking of smaller financial institutions, include credit unions on your short list. But choose carefully.

"Credit unions are relatively new to commercial lending," says McQuaig. "Make sure you are with one that has a true commitment to business lending, and is in it for the long term."

That can be bad, because it's usually more favorable for a business to consolidate all of its banking activity under one institutional roof.

Thoroughly Vet Your Lender

While smaller banks may be more approachable, they are also more prone to fail. Perform some due diligence when checking out a new bank.

"Most financial information is available online from the banks themselves," says Holt. "But you should also go to the site of your state banking commission. You can look up the records on every bank operating in your state, including their ratings from S&P, D&B and other agencies."

Is your prospective bank struggling with capital adequacy problems? (That is, are its cash reserves insufficient to satisfy new and more stringent federal regulations?) If so, it may be looking to trim its assets to get its balance sheet in line. "A bank that is undercapitalized may not renew loans that it otherwise would," says McDermott.

"BANKS ARE VERY RISK-AVERSE TODAY. THEY'RE LOOKING AT MORE THAN JUST CASH FLOW. THEY WANT TO SEE ASSETS AND THEY'RE ASKING FOR PERSONAL COLLATERAL," SAYS ALEX CALDERONE OF CALDERONE ADVISORY GROUP.

Are there merger rumors? Problems can arise when a bank is acquired by another that wants to exit your industry. Just one more reason why your loan might not be renewed come maturity. You can also get a bead on the quality of the institution by personal visits. Do they take a real interest in your business?

As for getting references, a prospective bank will not give you the names of their current business customers because that is a violation of privacy. But you can ask for feedback from fellow members of organizations to which you belong, such as the Chamber of Commerce and Rotary.

"It's a good market for companies to ask for money and grow their businesses," says Czyzak. "It's a favorable banking market, especially compared to a few years ago." CI

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