

MSI Turnaround

At the end of 1985 MSI was literally bankrupt. The founder, John, called me up in Australia while we were on a "Round the World" trip. He said we had run out of money and needed to face up to some tough realities (when I left all was well, but the new VP of Sales quit the next week and things went down hill very fast). John was totally freaked out by what had happened and was in no shape to lead the company. I told him I had 5 more days and then I would be back. I proposed that I take over the management of the company and he agreed. We had a lot of trouble with Jack who became the acting VP of Sales (and long term friend of John) and Francine (VP of Development and employee #2) over this decision (but that is another story). Thus my first task was to work out, with the Senior Management Team (John, Francine and Jack), a "**Turnaround Strategy**". I provided the structure for the discussion of our current situation and what our alternatives were. Through a set of long meetings, some on weekends, I was able to lead the group to a strategy. That strategy had four major elements.

First, we put together a **REALISTIC PLAN**. During 1985 we had been trying to achieve a revenue target that turned out to be unrealistic. Thus we first developed what everyone felt was a "doable" bookings/revenue plan. We then cut headcount & expenses to bring us to profitability in the last 3 quarters (there was no way to achieve that in the first quarter). As part of the expense cut we came up with a creative "Profit Sharing Plan" that reduced everyone's salary by approximately 10%(20% for the Executives) but gave them a chance to earn that reduction plus back if we exceeded our plan. We then sized what additional capital would be required to bridge the gap until we could become profitable.

Second, we focused the Executive team on **CLOSING BUSINESS**. Instead of just relying on the VP Sales (who was now Jack) and the sales reps (Cheryl & Andrea) we would have the Executives actively involved. My contribution to that portion was leading the sales effort on John Hancock Leasing and Diamond Leasing to win both of these accounts. The Hancock decision to select us as the vendor came in late Feb and provided a real morale boost to the company. We had to make a 3-day presentation to their evaluation group and came out of it as the winner over DSI, our major competitor. It was also a pure IBM account and this was the first Dec VAX in Hancock (we not only sold them our application, we also sold them a complete Office Automation/Decision Support solution).

I created the first pass of the Total Solution strategy for use at Hancock, along with a very powerful Office Automation/Decision Support Demo. The Total Solution was portrayed as a cylinder; we have a large coffee can covered with paper for the Hancock demo because our professional one was not ready. It had three elements – the top was the Software, the bottom was the Systems Base and the sides were the Professional Services. The Software part had as its core LeasePak, our lease accounting application, with DEC's All-in-One software around the outside. The Systems Base was the Dec VAX hardware and software. We were able to show Hancock, and later other customers, that we had the best "Total Solution" – even though our competitor had a better lease accounting application (we did not say that, but we knew it). The OA/DS demo really wowed Hancock and the rest of the company. It was integrated with our application; e.g. you could take data from LeasePak via Datatrieve and put it in a spreadsheet for analysis and

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graphing. It showed the company I was much more than just a financial person. The two sales provided 30% of the total year's revenue. I went on to also close Kodak Credit (an almost all IBM shop – they had VAX's on the production floor, but not in the Tower) and Bankers Trust (an almost all IBM shop). I had been trying to get Bankers Trust Ventures to invest – our second product was BankPak – an asset banking solution. I told the VC person we were working on a sale to the parent company, Bankers Trust. He said if I could close them he would invest and ask Dick (head of the Bankers Trust Asset Based Lending business and the President of the Trade Association) to join our Board. Bankers Trust used a consultant to help them select the right solution and it came down to our major competitor and us. In the end, the consultant said we had the best Total Solution, even though our competitor had the best Asset Based Lending application – the competitor was on HP and we were on VAX – at that time VAX was an acceptable alternative in a lot of IBM shops, and HP was not. At Diamond Leasing I helped create a Sample RFP to help them go out for bids. We then refined this idea and started using it on both products. We had a very honest Sample RFP, but it stressed the "Total Solution", which put our solution in its best light. (Today I would add Total Cost of Ownership – but I did not understand that back then).

Third, I led the effort to **RAISE CAPITAL** by convincing our lead VC that we had a workable plan to turn the company around. I convinced him to provide us with \$425K of Long Term Debt. The debt had no interest due until the end of year, but did give them 220,000 warrants. The price of the warrants was tied to our performance for the year. If we met our revenue plan it would be \$2.50 and if not could go as low as \$1.25. Next I visited our bank to convince them to not call our line of credit loan since we were in technical default. They agreed to leave it outstanding, but not to let us borrow any more on it. In both Neill's and the bank's case the fact that we had a realistic plan to turn the company around and that we had taken measures to bring in revenue and reduce costs convinced them to go along with us.

Fourth, we had to **IMPROVE THE MORALE** by managing the impact of all this on our employees. The company had never laid-off people before. We decided to involve the first line managers in the problem and the solution. I was real upfront with them about the realities. We also decided to make all the cuts we felt were necessary at one time to get it over with and let people move on. Unfortunately we did have 4 good people quit soon after this was announced. We then moved quickly to replace them to show that we really had a plan. We also, later in the second quarter, formed an employee committee to increase morale. Our past experience with giving our awards had not been good. They did not seem to motivate people. Thus we took the quarterly awards budget (\$1,500) and gave it to a 3-person employee committee and said they could do whatever they wanted with the money. Then at the end of the quarter they would choose the next committee. This turned into a competition between committees and complaints about events stopped.

In summary I feel my leadership really turned the company around. I showed people that we had a plan and that I was confident it would work. This calmed down the investors and employees and allowed them to focus on doing their jobs, instead of worrying about the company.