



# Answers from outside

## TWO CEOS SHARE CONSULTANT EXPERIENCE

**T**wo years ago, operations at two Denver companies, Regal Plastics, a distribution and fabrication firm with 110 employees, and E3 Consulting LLC, a five-year-old, 20-employee energy-sector adviser, looked pretty stable in the face of Colorado's harsh economic downturn. Yet the firms' CEOs, Al Stoltz at Regal and Don Hurd at E3, unbeknownst to each other, shared something in common: too many sleepless nights. >>>

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## Two CEOs

“It was tough on some days to come in here and focus,” recalls Hurd, who founded E3 Consulting in 1999 along with two partners, James Short and Paul Plath. The three energy-sector consultants were refugees from much larger firms, and they had launched E3 because they believed they could provide better client service to customers and at the same time be happier and more successful on their own.

“We had created a company, but none of us had ever run one before,” says Hurd. “My experience was not sufficient for me to understand how to run a firm, nor was the experience of the folks who were working here when we started this company. The reasons you start a business are far different than how you look at the business after you have had five or six years of experience.”

In spite of E3’s growth over those years, and in no small measure because of it, the three founding partners had reached a point in



LARRY VALANT, PRESIDENT AND CEO OF VALANT & CO., A TURN-AROUND CONSULTANT. HE IS ONE OF THE WRITERS OF THIS ARTICLE.

2003 when they were sometimes at odds over business, organizational, financial, compensation and operational decisions.

Staff morale was being affected. Overall, long-term direction and business focus had become uncertain.

At Regal Plastics, company growth had become stagnant for a number of reasons, including price undercutting by its competition. Stoltz concluded the company also was suffering from a host of seemingly intractable internal problems. Receivables and inventory were excessively high, and the company’s debt load was costing it nearly \$500,000 in interest annually. In addition, there were leadership, ac-

countability and general management challenges at some of Regal’s 11 locations (four in northern Mexico). Competition was becoming more brutal with each passing month.



DON HURD, 47, CEO AND PARTNER, E3 CONSULTING LLC, A FIVE-YEAR-OLD ENERGY-SECTOR CONSULTANCY.

One of the most important and difficult decisions a CEO can make is to admit he or she needs help, rein in that ego, and ask someone outside the company to come in and begin to ask the tough questions that lead to the right answers. Stoltz and Hurd each turned to Valant & Co., a turn-around consultant (for which Larry Valant, the co-writer of this article, is president and CEO). It takes courage to make that decision, but courage, after all, is one of the chief character traits valued in CEOs.

### BIG PROBLEMS

Stoltz said Regal had been experiencing a long decline of residual income — a key indicator Valant uses to predict long-term business success or impending failure. Residual income is a cost-of-capital measure of a company’s economic growth. It looks like this:

Net profit after taxes  
— (minus)  
cost of capital  
= residual income

When RI is growing, a company’s value is growing, and when it is negative, the company’s value is declining. Regal Plastics experienced declining RI for four years.

E3 Consulting was in a completely different financial situation.

Since its founding, E3 Consulting had grown at a rate of 35 percent annually to achieve revenues topping \$5 million in 2004.

Its residual income was strong, averaging \$600,000 over the past five years, and the future looked bright from that perspective. What’s more, E3 had been profitable for each year — an achievement that was just the opposite of Regal Plastics.

But Hurd and his management team realized they had major challenges in managing E3’s evolution from an entrepreneurial venture to a sustainable company with a clear future.

Managers had considered the idea of creating an in-house executive committee assigned to achieve stability and sustained profits — but rejected it.

“I am so happy that we never went down the road very far to make this happen on our own because, looking back, it would have been counterproductive,” Hurd said. “For some time, I knew I had to bring in someone from the outside to assist us in seeing the forest for the trees. It’s not often as president or CEO you get a chance to go out with the guys and grab a beer and bitch about what you don’t know.”



AL, STOLTZ, 60, CEO OF REGAL PLASTICS, A 50-YEAR-OLD PLASTICS DISTRIBUTION-AND-FABRICATION FIRM.

Stoltz, at Regal, faced the same kind of intramural stasis. “A lot of us have been here for a long time, and we have had the same ideas, and we’d kick ‘em around, and we’d never get anything done. There would always be an obstacle of some kind, and what it came down to is we really were not executing very well. In hindsight, we really should have brought in an outside consultant we could trust much sooner.”

Each CEO admitted to experiencing less-than-acceptable relationships with outside management consultants in the past, and were

gun-shy about bringing in another. For both, however, the stakes were becoming increasingly more critical. Unknown to each other, both chose Valant & Co. of Castle Rock, a business performance improvement consultancy with a 30-year track record. Stoltz made the move in 2003, Hurd in 2004.

#### BUSINESS PLAN

All management-performance-improvement consultancies use different approaches

to identify a company's problems and develop solutions to get desired results. Valant & Co.'s approach is to thoroughly analyze and quantify company performance in five distinct areas:

- Objectives
- Obstacles
- Strategies
- Organization
- Compensation

#### GOOD TO GREAT: TOUGH ROAD TO GO ALONE

Now that their companies have turned a corner toward increased profitability, what counsel would E3 Consulting CEO Don Hurd and Regal Plastics CEO Al Stoltz offer colleagues in the executive suites at mid-sized and small Colorado businesses?

Hurd is very clear: "We had a good company, and there are a lot of good companies, a lot of B companies," he says. "But if you want to be an A company, you've got to get to a different level. And you can't do that unless you are an exceptional individual. I don't think you can do that on your own.

"So if there is any question or shadow of a doubt, pick up the phone and make the phone call. It's not about having all the answers, it's about knowing where to find the answers. In today's world, there is no way, as a CEO of a growing company, you can have all the answers.... Being a CEO is a position of courage anyway. It takes more courage to say 'I need some help'; this seems to kind of add up to me, but I need somebody to bounce this off, and somebody outside is going to know a lot quicker, (because) there is no agenda.

"There is no person that a CEO can talk to internally who won't have an agenda."

Stoltz's advice: "First of all you have to recognize that you have a problem and you can't have your head in the sand.... You have to lay yourself wide open and you can't worry about that. Whatever you've done, you've done, and if you are committed to fixing it, then it is fixing you and everything else at the same time.

"Then you have to have the courage to take action. It sounds kind of short and sweet, but it is very, very hard work. Don't for one minute think this is easy, because you've got to run your business at the same time you are trying to change it. You question yourself, and that's why you need sound leadership and guidance from a strong and experienced person on the outside. You have to question yourself, but you have to get by that and on to the task. It's hard work with a high payback, and our payback has been very successful."

When CEOs consider seeking an outside consultant, they must make sure the firm they bring in will precipitate positive change by working personally with the CEO and his or her executive teams. The senior people at the consultancy must work with the senior people at the company and down through every level of management for the duration of the effort. Too often, it's bait and switch: You see the senior people at the pitch and at the outset of the campaign, but much younger staff are assigned to handle the client from then on.

It doesn't work.

The consultant first must work directly with the CEO to define very clear and quantitative objectives, and determine what obstacles exist that must be overcome to achieve the objectives. Then a process for implementing the CEO's strategy must be honed. The whole package is tied together with a compensation plan that rewards performance for implementing it, and then the CEO presents the plan to his or her senior management to achieve their buy in.

As the CEO working with a consultant, you should expect some pushback. It's your management team's way of getting a better understanding of what you are asking, where you are going, where you are taking them. And, it's a good test for you as the CEO, as well, to determine if you're really on the right track. If there's no push-back, no questions, and just nodding heads, you've got deeper problems.

One of Valant & Co.'s recommended initiatives is developing quantifiable 13-week performance plans for all management personnel, from the CEO, through the executive team, down to line- and shop-floor managers.

The deliverables in each 13-week plan, whether it is the CEO's plan or the loading dock supervisor's, are agreed upon by everyone involved. The tactics in each 13-week plan clearly reflect the objectives and strategies of the CEO and his executive team. Of course, the plans are living documents that can change to meet a changing business environment.

All expectations are clear and negotiable up front, and all communications are unambiguous. Subject areas that previously had not been examined openly because of timidity, the



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fear of hurting feelings, the sacred-cow syndrome or some other inexplicable reason are now completely open for discussion.

Valant & Co. calls this kind of obstacle success "elephants on the conference room table." Everyone knows they are there, but everyone is afraid to do anything about them, so they are quickly herded off the table and out of the room through direct confrontation.

Weekly staff meetings are held, with attendance mandatory, in which each individual manager provides an update on his or her 13-week plan's deliverables for that week. What emerges are two factors that are absolutely essential to execution: unrelenting follow-up and total accountability. Excuses aren't tolerated. In addition, CEOs and other executives must sit in on weekly accountability meetings being held in other levels of the business.

### CHANGES AT REGAL

After a thorough examination of Regal Plastic's operations, which took 20 weeks,

Stoltz admitted his organization itself had become an obstacle to its success. Valant & Co.'s team determined that roles and responsibilities among Regal's management ranks were not clear and accountabilities did not exist. Stoltz and his key reports had identified marginal branch managers, some of whom had promise, but others who had to go. Stoltz knew the company had to attack its overall working capital problem by significantly reducing those managers' receivables and inventories — or by finding new managers.

What had to be done next required courage.

The CEO had to confront reality and personally embrace the need to make strategic personnel changes. Once that was done, company performance measures began to respond positively. In the meantime, ongoing checks were made regarding Regal's objectives, strategies and compensation — with compensation tied literally to an increase in residual income. The weekly accountability meetings, begun in

2003, continue today.

Residual income at Regal, negative for four years, improved by \$500,000 in 2003 and by \$400,000 in 2004. The company's debt decreased significantly, and the company became attractive enough to be sought out for a joint venture by 40-year-old industry giant Piedmont Plastics, based in Charlotte, N.C., a company with annual revenues of more than \$130 million. The merger, which had not been under consideration, was consummated in early 2005.

"The hardest part was changing the organization, changing the underperformers who had been here for many years. We had tolerated their underachievement," says Stoltz. "We had some major repair work to do, and people were it. When you look at the facts, you knew it had to be done, but still, doing it to long-time friends was difficult. We did that, and we got new people in place. And now I do concentrate even more on having the right people in the right places and I make sure that they

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know what they are supposed to do.

"Accountability in the organization is key. Getting to accountability is essential, but always difficult."

#### MEANWHILE AT E3

Working with Hurd and his key executives, Valant & Co.'s team identified, not surprisingly, that E3 needed guidance in developing long-term objectives and strategies on which all partners could agree comfortably. That process included instituting a realistic exit strategy, not for the purpose of getting out, but rather for providing a clear picture of what success looked like. The exit strategy would keep the partners focused on the future. Once unified by common objectives and strategies for achieving those objectives, the partners at E3 turned their collective attention to meeting E3's organizational and compensation challenges.

Valant & Co. identified the need for more cooperation, trust, interdependency and intel-

lectual teamwork at E3 Consulting by the CEO, his partners and executive team — all very ambitious professionals.

At E3, it wasn't so much an organizational problem — as had been identified at Regal — but more of an issue of relationships within the organization. The near-term future was bright, Valant's team told the partners, but not nearly as promising as the company's long-term prospects. But only if all the partners agreed to work together. They agreed.

Each of the partners' 13-week plans included aggressive operational objectives, while the weekly reporting requirements actually brought the executive team closer together — both professionally and personally. A new accounting system was installed. The compensation plan that was developed — closely tied to residual income — for the first time included an attractive profit-sharing and stock-option plan that helped to raise company morale.

Performance and profitability soared. With

the executive team hitting on all cylinders, the new accounting and compensation systems in place, E3's residual income began to improve dramatically. Projected in the range of \$900,000 for 2004, E3's actual RI for 2004 came in at \$1.5 million.

"It was hard work," says Hurd. "Strategy is easy stuff. It's execution that's the tough part. But once execution becomes a weekly requirement and a weekly commitment by everyone, it's amazing the difference that occurs — in operations, finance, personnel and in client service."

Stoltz and Hurd must continue to focus on closely managing the 13-week plans they've written for themselves and their employees in order to make their turn arounds complete. But that means their final and toughest goal is still ahead. They must make sure the execution model that has taken root becomes ingrained in the day-to-day life of the people and operations of their firms and becomes, in fact, a cornerstone of their corporate culture. ☺



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