F&M MANAGEMENT LTD.
Corporate Advisors

The Strategic Advisor

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Business Transition Management

Regardless of how big your organization is or whether you are a startup company or a well-established organization, as an executive responsible for the growth of the organization you need a proper transition management strategy in mind as you grow your company.

To kick start the business, startups are challenged with having adequate financing, resources and a basic corporate infrastructure. Once the company is established and the early startup constraints are dealt with, the growth and transition management become the priority for the company executives.

Well established companies also go through growing pains and growth transition management phases. Whether the growth is organic or through acquisitions or both, many consulting companies face the numerous challenges of managing the growth and transitioning the organization in a way that it can sustain the growth.

Growth in so many ways results in additional operating costs, additional capital costs, more corporate infrastructure to support the growth which may all result in lower profitability, at least in the short term, and pressure on the resources to manage the growth effectively.

Five strategies to manage growth and properly transition the organization:

1. Do you have short-, mid- and long-term goals?

Clearly define your vision for the organization's growth. Make sure the vision is realistic and achievable considering the resources, the market and the geographic coverage where you plan to grow the business. Once the vision is defined, ensure that long-, mid- and short-term growth strategies are established.

Long -term strategy - Where would you like to position the company in the next 5-10 years, and how do you plan to achieve it? Usually these long-term goals or vision changes depend on how your mid- and short-term goals are implemented. Make sure a level of flexibility is incorporated to these long-term strategies, as many long-term goals may not be achieved due to external influences beyond your control.

Mid-term Strategy - These are strategies you would like to implement in 3-5 years. These are more realistic goals that you should be able to control and influence.

Short-term Strategy - Goals that are achievable within 12-18 months or simply your next 12 month operational goals and growth strategies. These goals are well within your control and by far the most realistic ones that you can achieve, therefore, it is critical that these goals are given far more detail analysis and are very well defined. These goals can also be defined as your annual operating business plan.

2. Do you have the right team?

This aspect of your business transition management cannot be taken lightly. Many growth strategies have failed due to a non-cohesive management team or a team loaded with individuals with very little experience in growing organizations and sustaining the growth. Having 20 years of technical experience does not necessarily qualify the individual to be part of the growth strategy or even to lead it.

The right management team should possess the foresight to manage the growth through good and bad times. In fact, sometimes growing organizations may require re-equipping the tool box with the right people who are capable of not only ensuring the current operations remain healthy and profitable, they also have an eye on the mid- and long-term growth strategies.

Sometimes a different breed of management is needed to effectively grow the business organically and in particular through acquisitions. Organic growth during the market boom has its own set of challenges of retaining and recruiting the right people to fuel the growth. The acquisition strategy as the means to grow the organization requires far more management and business skills to identify the right targets, negotiate the best terms and more importantly have the skills to integrate the acquired organizations. Far too many consulting firms acquire companies that have cultures which do not match theirs, or even fit the overall growth strategy of the organization. Most acquisitions do not meet the overall initial business objectives of the company, leading to significant costs, business interruptions and in some cases the demise of the company. The simplest approach is; make sure you hire the right people when you grow the business organically and acquire companies that fit the culture of your company and your overall business objectives.

Continued...

Business Transition Management (continued)

3. Do you have the corporate infrastructure to match your growth strategy?

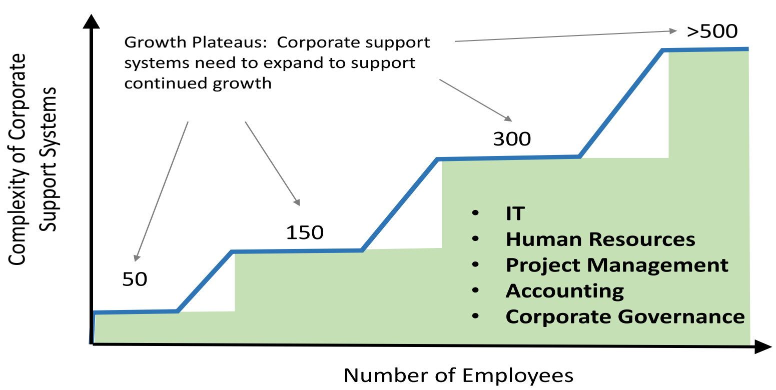
Too often this aspect of business transition is ignored or considered too late in the process. As organizations grow they need to ensure they have the corporate infrastructure to support their growth.

Accounting Systems - Using a simple and rudimentary accounting system when you start a consulting company may be sufficient for companies with staff of 50-100, however the same may not be adequate if you are running a 250-man operation or larger.

IT Systems - You may not need a robust and sophisticated IT system or IT staff for a small business but as you grow the business, the IT infrastructure becomes an essential part of your organization.

Project Management Tools/System - An effective project management tool with an accounting system to support it is also an essential part of your growth strategy.

Human Resources - May be looked after by the senior operation management at the outset but as you grow the business you may need dedicated Human Resource personnel to assist in hiring practices, setting up and executing HR policies etc.



4. Have you considered the financial implications or financial support to fuel your growth?

As you expand and grow the business you need to take into consideration the financial implications of such growth. Growth normally impacts cash flow and demands for capital to fuel and support the growth. As part of your growth strategy you need to ensure that operations cash turnover is robust, all efforts are converted to receivables and collected in time to support the operations and its growth.

Many organizations undertaking a rapid growth strategy suffer from its financial impacts, in particular impact on working capital.

5. Are you keeping a close eye on your existing business while growing it?

You cannot sacrifice your existing business in the interest of your growth strategy. Growth brings extra stress on the organization which may show its ugly face by losing market share, client dissatisfaction related to project delivery, human resource instability due to lack of attention to the day-to-day business and the needs of the employees, cash management and banking ratios impacts due to the stress on the working capital and the company's obligations to its lenders.

Going from struggles of a startup consulting company to managing a fast-growing business will require a flexible, well-thought out strategy with a view to accept changes in tactics. By considering the above strategies and key factors influencing growth and adopting to maneuver quickly will help your organization grow and become successful.

Faramarz Bogzaran, CMC, EP
Managing Partner

F&M News

F&M will be launching the first annual **Canadian Environmental & Engineering Executives Conference** in 2018. As part of this exciting new initiative F&M plans to bring together 10 senior executives of different companies from across the country for a one-day consultation and information gathering session in October.

The outcome and input from these executives attending the meeting in October will be used to address the challenges facing the industry and focus the main conference in 2018 on matters that are important to companies in the sector.

Canadian Environmental & Engineering Executives Conference

Business Optimization

There are several processes, all working together, that make a good business a great business. Strategic planning, effective marketing, understanding your clients' needs, and having the best resources to meet those needs are extremely important. One process, that is often overlooked, is business optimization. While not as interesting or exciting as other aspects of your business, optimization can have significant impacts of bottom line profits while at the same time providing your clients better service.

What is optimization? By definition optimization is the action of making the best or most effective use of a situation or resource. We accomplish this by developing alternatives with the most cost effective or highest achievable performance within the given constraints of our operations. We identify and maximize desired factors and while minimizing the undesired ones.

Business optimization has its biggest and best impact on repetitive tasks. Optimization takes time and effort to complete – you want to ensure that you are getting the best return on your investment. It makes little sense to spend money on optimizing an inexpensive process that occurs rarely. Also, the practice of effective optimization can be limited by the absence of information, and the lack of time to evaluate what information is available.

When considering a business there are two general categories we consider for optimization: processes and products. Let's look at each a little more closely.

Process optimization deals with improving the efficiency of business practices. Any process that is part of your business can be optimized. These processes can involve the delivery of products to clients or other aspects of the business such as marketing or accounting procedures. For larger firms, small optimizations of standard procedures can have a big impact.
For example, just about every consulting professional completes their timesheet once per week. Generally, as firms get larger, the IT system becomes larger and some of the procedures become less efficient. I've witnessed one firm where every employee would spend about 90 minutes to complete their timesheet - every week - because the process was so complex and the timesheet interface poorly designed. This is a task that should take 30 minutes or less to complete. In a firm of 10,000 professionals that extra hour per week adds up to a half-million hours per year. Spending $250,000 to optimize this process would see this return of investment paid back the first week!

Spending effort to streamline your processes for producing products can also have a big impact on your business. While working at SEACOR in the late 1990's we would still get environmental analytical testing results (literally just pages and pages of numbers) faxed to us every day. Engineers and scientists would take these numbers and type them into MS Excel tables that we would then include in our environmental reports. This happened multiple times per day across the country. We realized that this was an excellent opportunity for process optimization. As the process of automating this would take significant resources, we did a business case for the optimization first. When this case showed an excellent return on the investment, we proceeded with the step of optimizing this process – which took 6 months to implement. We ended up taking a process that took hours (and sometimes days) and reduced that process to minutes. Plus, we reduced errors along the way as well. While making us more efficient in our day-to-day work, it also gave us a competitive advantage that we leveraged to win significant contracts.

Another aspect of optimization is improving the quality and desirability of the products you produce. This type of optimization is a little more obvious for business that manufacture physical products, but there are definite opportunities in our industry as well. For example, I believe the technical reports that we provide clients has a lot of room for improvement and optimization. Communicating results in simple tables and figures as opposed to "walls of text" make the documents much more functional for clients. A firm that produces hundreds (or even thousands) of reports per year should continually assess their reports and how to optimize the communication of their finding to clients. While there are many approaches to optimization I would suggest starting with these simple four steps.

1. **Identify.** Look at all aspects of your business and determine which repetitive processes could benefit from optimization. Once you determine which business process/product needs an overhaul, list out all the key components.
2. **Reconsider.** Consider the key components involved in your processes and projects; develop new methodologies for the completion of these components. Focus on maximizing the desirable factors and minimizing the undesirable ones.
3. **Evaluate.** Complete a cost-benefit analysis on the components you would like to change. Focus on optimizations that provide the biggest bang for the buck. Drop optimization ideas that don't really pay off.
4. **Implement.** Implement your revised processes/products and reap the benefits!

How important can business optimization be to a business? Just look at Apple. In the mid to late 1990s Apple almost collapsed. Their supply chain was a mess. The Company was so poor at managing its inventory that they had products sitting in warehouses for months. In the technology industry that is a disaster – products were sitting around becoming obsolete before they were even sold. In 1998 Steve Jobs hired a new Senior Vice President for worldwide operations. That person was Tim Cook – now CEO of Apple. Cook's first assignment was to optimize Apple's supply chain. Cook was quoted as saying: "You kind of want to manage it like you're in the dairy business. If it gets past its freshness date, you have a problem". Cook, using the four simple optimization steps mentioned above, managed to reduce the amount of time between a product coming off the assembly line to arriving into a user's hands. He changed that key performance indicator so that Apple no longer measured its inventory in months, weeks or even days. He managed to optimize the process so they began measuring the age of their inventory in hours. This exercise in business optimization gave Apple the streamlined processes that it needed to become what it is today.

Leroy Banack, M.Sc., EP
Senior Partner

Impact of Growth on Cash Flow

Growth is an important aspect of any business, and a top priority for majority of CEOs according to "KPMG 2017 Canadian Outlook". While growth is usually expected to increase sales and profitability, if it's not carefully planned, it may impact the financial health of the company negatively and cause serious cashflow problems during the process.

Access to steady and consistent cashflow is one of the biggest challenges in achieving growth. During the normal course of business, management should watch company's cashflow to prevent shortfalls. Yet, monitoring company's cashflow is critical during the growth process. A company with limited capital has to align its growth with how much money is in the bank now, how much money is received and when invoices are paid. It's almost a full-time job staying on top of receivables and payables, and then prioritizing payments.

Growth is a balancing act. If a company grows faster than it can financially support the growth, the company is on its way to failure. During the growth process, a company's cash outflows may exceed the cash inflows for activities such as purchasing inventory, hiring new staff, leasing new space, travelling more, acquiring new technology and so on. The management should analyze the impact of growth on company's cashflow and determine the amount of cash required to support growth and pay for the existing operation. The cashflow management gets more complicated as the business grows.

The management should secure financing before implementing the growth strategy, if the current cash flow cannot support the growth. If the company plans to borrow funds to finance the growth, it is critical to weigh all the costs and benefits of borrowing, including the interest rate and the overall length of the loan, as cost of borrowing, re-payment terms, and banking covenants and ratios may make or break a business.

In conclusion, while the purpose of growth is improving the company's performance and meet the company's growth strategy, it also means growing its liabilities. By performing a careful cashflow analysis of the growth strategy, the business will have steadier income and greater financial stability.

Mojgan Bogzaran, CPA, CGA, BBA
Senior Associate

M&A News Q3-2017

- **CEP Forensic** (Laval, QC) merged with **Sintra Engineering** (Edmonton, AB), a forensic engineering firm in Western Canada. The merger forms the largest forensic engineering firm in the country.
- **Stantec** (Edmonton, AB), acquired **RNL Design** (Denver, CO), an architectural, interior, and urban design firm.
- **Chuck Mills Design** (Ottawa, ON), merged with **Amsted Design-Build** (Ottawa, ON).
- **WSP** (Montreal, QC) entered into an agreement to acquire **UEM Edgenta's** (Kuala Lumpur, Malaysia).
- **Jacobs** (Dallas, TX) and **CH2M** (Englewood, CO) entered into a definitive agreement for Jacobs to acquire all outstanding shares of CH2M.
- **WSP** (Montreal, QC) acquired **POCH** (Santiago, Chile), a 730-employee engineering and environmental consulting firm.
- **WSP** (Montreal, QC), acquired **YR&G** (Denver, CO), a firm specializing in sustainable consulting.
- **Martens Group** (Calgary, AB), joined **Kasian** (Vancouver, BC), an architecture & design firm.
- **Lemay** (Montreal, QC), architecture & design firm and **Toker+Associates** (Calgary, AB) have merged.
- **Hatch** (Mississauga, ON), acquired **g3baxi Partnership** (Dorking, UK), an employee-owned upstream oil and gas company.
- **Stantec** (Edmonton, AB) acquired **Inentrix** (Seattle, WA), a 22-person mechanical engineering firm.

Who is F&M

F&M Management Ltd.,

offers a range of corporate advisory services to the engineering/consulting and environmental sector with emphasis on the following disciplines:

- Mergers and Acquisitions
- Management Buyouts & Company Valuation
- Strategic Planning
- Business Optimization
- Management Transition & Corporate Restructuring
- Management Training
- Program Management & Implementation

Visit our website for more information on how we can assist you with your organization's business success.

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