LEVELTEN CONSULTING GROUP LLC

Business Recovery & Value Enhancement Specialists
P: 616.915.2627
www.leveltengroup.com
P.O. Box 529 Ada, Michigan 49301-0529

Client

A heavy equipment dealership with sales and service operations.

Company Profile

West Michigan – 2 locations

$12 million annual revenues

33 employees

Challenge

The economic climate in Michigan and deep recession exacerbated the company's financial difficulties. Its major equipment franchise was threatened with revocation, and its senior secured lender had sold the loan portfolio to a private financing concern. Cash flows were negative, and excessive inventories made its future viability questionable.

Findings

The company did not have an effective tool to use in the management of its cash, receivables collections were becoming more doubtful, high quantities of inventories were aging rapidly with interest accruing at very high rates, and collateral value was eroding. The actual profit margins on equipment being sold after considering the sales commissions paid, interest accruing on the related floor plan obligation, and inflated trade-in allowances were extremely low or negative. The company's relationship was deteriorating rapidly with its major OEM franchisor and the senior secured lender due to the lack of confidence in an effective turnaround strategy.

Results

A sophisticated dynamic forecasting model was developed to show projected operating statements, collateral borrowing base, and cash flows for use in making short and long term strategic decisions. Changes were made to the company's sales approach that included price and terms setting, compensation policies, and inventory management. Alternative financing was sought for the maintenance of receivables, and a forbearance agreement with the senior lender was executed after presenting a credible restructuring and turnaround strategic plan, and the OEM agreed to continue to honor the franchise. Inventory levels were sharply reduced through an aggressive sales approach which included a public auction of certain inventory stocks; this achieved a manageable inventory level and reduced debt. Ultimately, the protracted recession took its toll on the OEM as well, and it subsequently revoked its franchise agreement. The company responded by closing one of its locations and continued to operate in a single location primarily as a service facility.

Notes:
The previous case study was derived from actual engagements in which Level Ten professionals were actively involved over the course of their consulting careers. The Level Ten professional is referred to as "the consultant". The names and other confidential information are not disclosed.