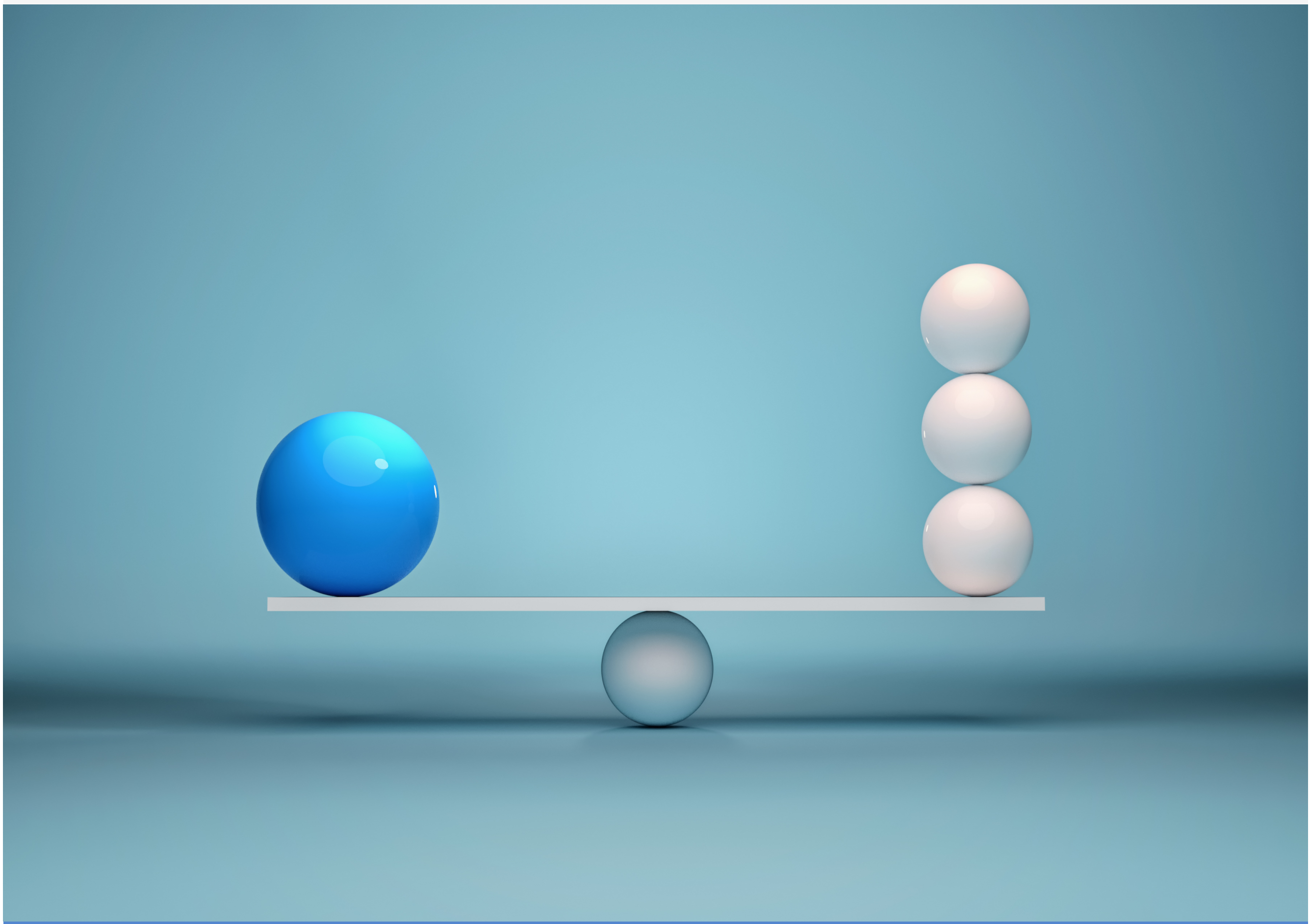
THE STRATEGIC RESET

Becoming Small Again



There is no harm in growing up again, and this time getting it right.

This is a case study of a Firm with a powerful but very difficult legacy which ultimately took the very brave decision of dealing head-on with that legacy as a way of a strategic reset.

talentonic®

BACKGROUND

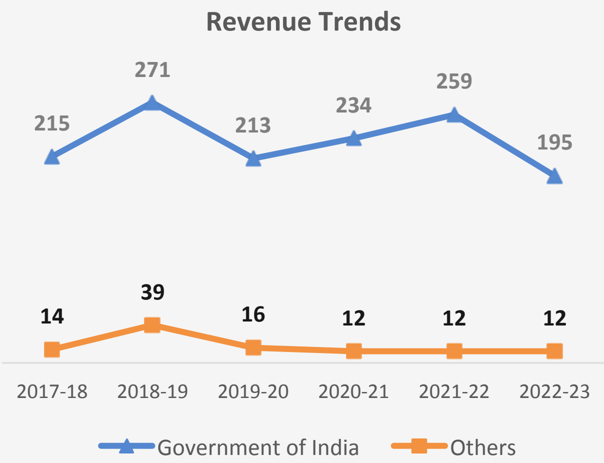
The Firm has a strong R&D/ engineering base in a strategic sector where the government is encouraging local investment and is itself a big buyer. Its business model is based on B2B sales through a technical process with a long gestation period, which is followed by a service agreement consisting of installations for new projects and long-term maintenance contracts. Cashflow is one of the biggest constraints, given the government relationships, making account management a pivotal role.

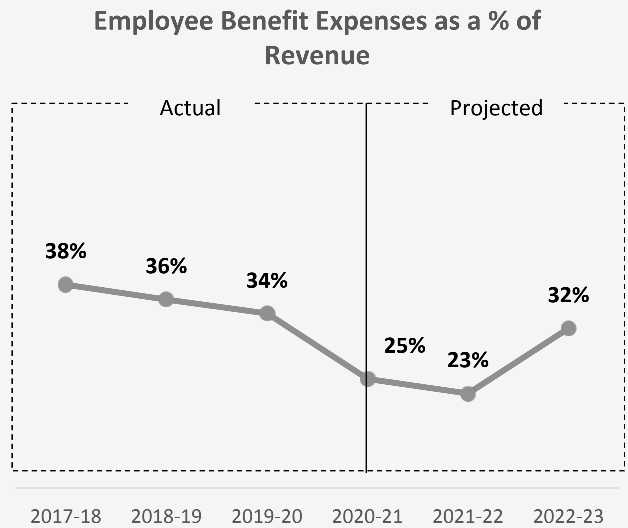
“The narrative for growth is a compelling one, sometimes that is the sole measure of success. But that narrative may also make you miss the opportunity lying in becoming young again. Life affords you that opportunity. And so does your business!”

- Deepak Dhawan, CEO & Founder, Talentonic HR Solutions

PROBLEM STATEMENT

The client concentration risk was a killing 92% and the Firm was pretty much surviving on one O&M order. Over the last 4-5 years various efforts had been made to expand the product-market matrix but at best these efforts, globally, had resulted in producing 7-8% of the total revenue. The business model and the technology which was the original source of the business had not been able to keep pace with changing market needs and technologies. There were various sales innovations, structures, and talents, which were attempted but did not produce the desired result.





The Firm was not purposed behind its cost base. There was a strong Engineering / R&D function of over 150 employees, and even though this capability had existed and grown over the years, the firm had a narrow product base which was considered insufficient to address the market. There was a large sales/ presales/ solutioning/ product management/ marketing function that basically had responsibility for roughly 8% of the sales and over the years had been unable to expand the market. There was a fair degree of finger pointing between R&D and Sales.

In addition, there was HR, Finance, Manufacturing, Quality, Procurement & IT functions that at current levels of operation were under utilized and in many cases over paid.

So, the question was **how can we improve productivity of our manpower cost by taking a realistic view of the business opportunity over the next 2-3 years?**

OUR APPROACH

Talentonic was engaged to assist the Firm in addressing this question for its non-engineering organization and manpower. We followed the following approach.

1. **The organization diagnostic to get a sense of the Firm's purpose and issues.**

   Conclusion: The non – GOI revenue was a flat line and was even projected to be a flat line in the future. The survival of the Firm in the near term depended on the efficient and productive delivery to the single client and strategizing to get additional business from the same client. Reducing client concentration risk required a significant change in the business model involving product work and solution driven partnerships.

2. **Finalized the strategic intent in discussion with the Leadership.**

   Conclusion: There was clearly an opportunity. However, it was obvious that the Client would not be able to run this 3-legged race with their internal issues of resource , strategy and leadership. Sharply protect the existing P&L and prune the rest of the non-engineering organization to focus on the single client. Create a Business Unit Head position who will take care of Account Management, Project Management, Servicing and Manufacturing and leave the CEO to craft a new phase 2 business model to exploit the market potential.

3. **Met with approximately 150 role-holders and studied roles as well as transaction volumes of current operations.**

   Conclusion: Given low revenue from non-government projects, eliminated many duplicate roles, such that unique role-holders could meet the dwindling demand. Simplified the organization structure, in some areas, by eliminating supervisory layers. Recommended a **reduction of 52 positions** with major reduction in headcounts in production functions like manufacturing and purchase and planning**.**

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4. **Evaluated opportunities for synergy within Group Company for HR, Finance, IT , Purchase and Company Secretarial/ Legal.**

   Conclusion: Reduced the headcount in the HR, Purchase, Legal and CS function by synergizing the high-cost top-level to achieve savings of 2.2 Cr. across these three functions. Created a partial shared service in the finance function too, reducing the headcount by 4 and achieving a savings of ~1.1 Cr.

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Manufacturing Department

Average Monthly revenue from Plant ~ 30 Lacs	Inventory ~ 34 Cr	Employees in Manufacturing = 31 plus outsourced	Monthly cost (Manf. Team) ~ 20-25 Lacs	Proposed Count = 21 employees

Scale of Manufacturing	Production Vol. (3-month total)	R&R Vol. (3-month total)	No. of Employees	Total Employee Cost	Proposed Count
Line 1	89	154	2+1	25.80	1
Line 2	53	4	10-2	77.87	7
Line 3	16	146	2	19.02	1
Line 4	19	20	6	38.14	4
Line 5	1109	NA	5	25.53	4
Manuf. Automation	Total Projects being managed: 14		1	12	1
Stores	Total No. of GRNs: 861		7	39.06	3
Total	**Prod.: 1286 units. 324 R&R Units. 14 proj. + 861 GRN**		**31**	**237.4**	**21**

- **The productivity & resource utilization in the plant seems extremely low with revenue to employee cost ratio ~ 1.** In most plants this will ratio will be 12-15.
- Maximum quantum of work is happening on line 5. While the **line 2 team is most staffed with significantly lower volumes**.
- Cost in stores seem to be on a higher side, with 861 GRNs being raised in 3 months, 13-14 GRNs in a day being managed by 5 employees
- The employee cost per unit comes to ~ 0.18.

5. Created a talent inventory by running a talent discovery process using past data and multiple assessments.

Conclusion. Categorized employees into **top talent**, (17%) **solid citizens**, (44%) **trainable** (27%) and **let-go** (13%). Also developed material on each talent to enable creation of a development trajectory.

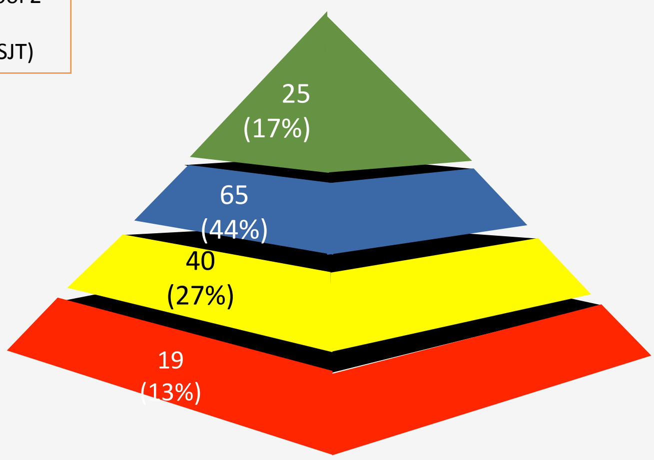
Past 1 year performance rating	Assessment tool 1 (like BEI, Group Case Study)	Assessment tool 2 (like 360-assessment, SJT)

TOP TALENT
Above level average on all 3 parameters

SOLID CITIZENS
Above level average on at least 2 parameters

TRAINABLE
Above the level average on 1 parameter

LET GO
Below the level average on all parameters



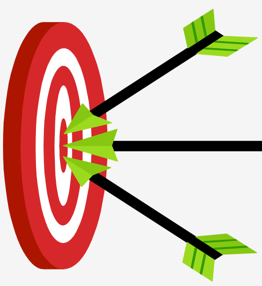
6. Led one-on-one conversations with the function heads to discuss the revised organization structure, the talent in the function and collaborated with them to place role holders in the boxes in the leaner organization chart.

Conclusion: Manned the revised organization structure with appropriate talent.

THE BUSINESS BENEFIT

1. A **31% reduction in annualized employee cost** in the non-engineering functions. Took out over INR 7.0 Cr from a total employee cost of INR 23.0 Cr. This was achieved by **reducing 52 positions** out of a total of 154 positions. This was achieved without impacting the expected trajectory of the firm over the coming 2-3 years.
2. A **strong talent inventory** to protect the business in the future
3. Significant **functional consolidation** and expansion of roles across the Group in areas such as HR, Finance, Procurement, IT, Legal and company Secretary, leading to better controls and efficiency.
4. **Restructuring the existing sales team** to be accountable for growth of existing products and creation of a new sales vertical to focus on new product areas, partnerships, investments which have lower gestation. Thus, creating an engine for future growth.
5. A **codified organization** structure to closely monitor all headcount and role related changes.

OUR LEARNINGS



1. A **highly personalized leadership** style bereft of leadership accountability can cause serious damage to the health of the firm. Arrogance in business comes at a heavy cost.
2. In a **long sales cycle model**, if the firm cannot agree to a viable sales strategy based on their existing product / market matrix, it's better to peal cost till they do.
3. When reviewing functional structures, group companies offer an **opportunity for functional integration** if leadership and technology can be aligned.