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A VC Model for the Recession

By Richard S. Garnick, The ConJoin Group

(Continued)

In order to create jobs in our new economic reality, it is important that money-losing enterprises streamline their operations through business process re-engineering and strategic outsourcing. For successful execution following are a few simple steps companies can take to begin to streamline their operations:

- **Redesign Processes** - Recreate the organizational structure of the portfolio company, which would include outsourcing key functions to a third-party company that acts like a VC/management consulting entity. The functions to be outsourced should be operational tasks that are digital, distributed and repeatable, which will allow for substantial reinvestment in market facing resources in North America to spur growth. Establish Execution Excellence with quality metrics and set CSAT Improvement as a key focus.
- **Optimize Costs** - Cost is an outcome of the process. A solid process redesign will drive substantial cost optimization for the company. Implementing a robust transition plan to ensure that the company could maintain "business as usual" while the transformation took place will be essential.
- **Revenue Acceleration** - Optimizing costs and reinvesting savings into the business will set the stage for efficient and profitable operations and revenue acceleration. By generating measurable cost savings, companies would be able to redirect capital into sales and account management. This would result in stronger client relationships, an effective and efficient sales team, and more customizable solutions. This approach also provides a clear path to increasing enterprise value, and reducing dependence on ongoing funding for many venture and private equity backed enterprises. It is essential that underperforming companies take decisive action to improve their situation, rather than waiting on the sidelines.

Real World Example: How to Orchestrate a Dramatic Turnaround

Ontario-based Avotus is a leading provider of telecom expense management solutions. Avotus had many strengths including a high percentage of recurring and predictable revenue serving leading global companies such as Motorola, HSBC, Merrill Lynch and many others. However, Avotus was facing accelerated losses - driven by their original "build it and they will come" philosophy better suited for more upbeat economic times. As a mid-sized telecom expense management (TEM) provider, Avotus had great promise but was underperforming financially and burning significant cash.

The company and its investors faced a dilemma that many VC/PE backed companies are facing right now - more investor capital is no longer a viable option to turnaround broken businesses. The investors could try to bail, but getting any value from a negative cash flow business in this environment means tremendous write downs of asset values or just shut the business down to stop the bleeding.

Another choice for the company was to embark on a radical business transformation - not a traditional cost cutting measure to save 10-20 percent - but fundamentally transforming what we call the "physics of the business". The ConJoin Group helped change the business. They inserted new leadership and outsourced 80 percent of the company's resources, making the business economically viable and exponentially more scalable.

ConJoin architected and executed a transformation in which operational tasks that are "digital, distributed and repeatable" in nature has been transitioned

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to the Conjoin team in Mumbai, India. This has created more than \$12 million swing on the EBITDA line - while expanding capacity on almost all value creation areas of the business. The company is now reinvesting in areas like software platform development, New Product & Services and increase the market-facing North American resource three-fold.

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