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StoneWood Interview Series

Anatomy of a Turnaround
A Discussion with CSI Wireless CEO Steve Koles

In 2006 Steven Koles was hired as the CEO of CSI Wireless. The high flying Calgary-based company, which once boasted a share price of $8.65 in 2000, was then in dire straits and in the midst of dramatically reorganizing, selling divisions and focusing on the GPS industry. Over the past two years the firm has seen a dramatic turn in its fortunes. Re-branded as Hemisphere GPS the company's stock price has moved from a low of $1.19 in Dec 2005 to over $4.50 currently. In its most recent quarter the company delivered a profit that was greater than any annual profit in the history of the company.

Paul Hudson sat down with CEO Steven Koles to discuss the firm's tremendous turnaround.

You were hired by the board to execute a turnaround strategy. At a very high level can you speak a little to the challenges the company faced?

The company had been created through a series of acquisitions and we had a number of organizations in different locations. These companies had not fully been integrated and a number had even retained their original names. Several of the companies had been customers of other divisions so we had historical client supplier relationships inside the organization. We had misalignment of interests, conflicting cultures, and disparate location issues. Having come through a couple of challenging years, including the divestiture activities, there was also a degree of limited trust between employees and management.

When the decision was made to divest many of these divisions in favor of streamlining and focusing the business, everyone looked forward to what was hoped was going to be a better tomorrow. But exiting and divesting businesses proved to be a lot harder and took a lot longer than we expected. We found it very difficult to plan through all the potential variables and to manage the process gracefully; especially when it was tough to predict what was going to happen next with the divested businesses. For example, we had warranty obligations, customer relationships, and supplier contracts in many of the businesses we wanted to divest which complicated matters. These divisions were embedded in their markets so it took a long time to untangle them and the market reactions varied.

Was the decision to exit several businesses and focus on GPS technology made before you arrived and if so how did you feel about that?

The board had already made the decision to focus on the GPS business and academically as the CEO I would have liked to have been part of that decision. But from a practical perspective it was a good decision and the process was a little further along when I arrived. That helped with the socialization of the change and the fact that the will to make those changes already existed. The team knew that there were going to be significant changes and were prepared for the type of things that needed to be done and some of the divestitures had already started so in some ways it was an advantage. It did not take much of my own research into GPS to realize that was the right way to go. The telematics business was interesting and may have been interesting to retain but the economics of that industry are just so difficult that it didn't make sense to keep it.

Can you speak a little bit about your first 3 months... what did you focus on and why?

My first priority was to learn and analyze the business. I met everyone and asked a lot of questions. I was soon able to figure out what was working well and what needed to be fixed. The second priority was to build a new strategic plan and get it socialized to all levels of the company. We did the development of the plan very inclusively with the senior team and really underscored the process for subsequent planning cycles. The third priority was to execute on the key elements of the strategic plan. For us, this included building more maturity into the business in order to scale it for growth. This had been a very entrepreneurially managed company, but if we executed we would need scaling so we introduced processes and systems to make sure this would be possible.

Once you decided what needed to be done, how did you break down what to do first?

We prioritized elements of the plan which were revenue producing or growth related. We needed to get on the right trajectory with some revenue wins. The elements which were more efficiency and profitability related came next.

There was a lot of pressure during this period to spend time meeting the investment community and marketing myself to shareholders and potential shareholders. We have some large institutional shareholders who were keen to meet and talk and analysts who were very keen to understand our new story. For the first three months we put an embargo on investor relations activity so we could focus on the business. Some people were irritated but most understood. The board was very supportive and encouraged me to focus on the business and not the investor community. Even now as a public company CEO, investor relations could be my full-time job however, it is still important to keep attention and focus on the needs of the business first.

Soon after joining the firm you re-branded it. Why?

It was important that we transitioned the business and really focused on our pure-play GPS applications strategy.

As mentioned earlier, some of the acquisitions had never changed their company names or signs on their buildings and we had employees in those divisions never even changed their business cards. It was more like a collection of businesses than one coherent entity. Re-branding the business was partly a milestone to reflect putting the past behind us. This was as much an internal program as it was an external one, and it really helped to bring the company together under a common banner and to help it deal with some of the location-based multi-culture issues. We now have all the business cards and building signs the same, all the e-mail addresses the same. Some of them are small things but they are very important when trying to bring a company together. We also have people acting in a more aligned fashion. I wouldn't say we are 100% there yet and there are still people that haven't fully embraced the change but there have been huge strides.

How did you get the people onside with the turnaround?

The good news was that the will of the team was already there. They all wanted to get through the transition and focus the business. We had to harness this motivation and energy to make as much progress as possible. This included some changes to the team to align with the new direction. There was a little bit of anxiety because some people were going to be leaving but we needed to make the transition to a world-class GPS team. There were some tough decisions and difficult discussions with people but everyone knew the path we were on and why it was necessary.

It is also much more motivating to build than to tear down so it was important to focus as much of the team as possible on the continuing business versus the discontinued operations. To the extent that we could, we kept the divestiture activities for myself and the CFO as well as one or two of the board members. The Chairman, who had been the interim CEO, had started a few of the deals so it made sense to have him continue to have some involvement. The CFO spent a considerable amount of his time focused on the divestiture activities. The rest of the team we kept focused on the new strategy and executing that plan.

You arrived without a lot of domain expertise in GPS. How did that affect your interaction with team and overall turnaround?

Initially I did a lot of research online. There are research reports, analyst reports, and industry activities all readily available and I immersed myself in those as much as possible. The information was heavily skewed towards the consumer part of GPS but there is still a lot of information to be gleaned. GPS technology and telecom technology are very related which made for a very quick learning process given some of my prior experience.

What made the transition easier is that our challenges and issues were business-related and not technology-related. It also helped to have some of the world's leaders in GPS already resident in the company. That group was great in providing a "GPS 101" for me within the first few weeks and I was able to get fully briefed on the technology in our company as well as what our competitors were up to and how it all compared. The first few weeks were a real deep dive and I was visiting customers in the second week so you get to hear all the perspectives. Some of those initial customer meetings were challenging as I wasn't in position that I could promise a lot other than to work hard to make things better. Happily a lot has changed for the better and some of those customer relations that were strained are now much better.

When did you start to see that the new strategy was working and how did you build on it?

We've had a number of wins along the way. First, 2006 became known as our "transition year" as we exited the businesses that were holding back our growth and profitability potential. Then, 2007 became our "stabilization year" as we built more elements of maturity into the business such as a new ERP platform, new corporate processes, and a new manufacturing business model. These were all required to set up 2008 and beyond as our "break-out years". It has been particularly rewarding to have our Q1 2008 financial results include record revenue and profitability. We've generated more quarterly revenue in our GPS business alone compared to when we had three separate businesses. We also generated more profit in Q1 than we've ever generated in a full fiscal year.

What did you do right that has enabled the firm to now thrive?

We've been most successful with a balanced focus and innovation strategy. We needed to increase our innovation to increase the competitiveness of our product portfolio. However, we engaged the development on a focused basis and resisted trying to be everything to everyone.

What has surprised you in this whole process? What would you have done differently?

Exiting a business, especially more than one at the same time, is a lot harder and takes a lot longer than expected. In trading off the balance of disruption, it may have been wise to make some people changes sooner in retrospect.

Looking back over what you have been through in the past two years what advice would you now give someone being hired into a turnaround situation?

It's easy to try to get involved in too many things out of the gate. I would recommend clearing your calendar of unnecessary meetings and rolling up your sleeves. Real heavy lifting is required to execute on the real priorities. I would also caution people to expect the unexpected and do as much scenario-based planning as possible, both upside and downside related.

I highly recommend reading a book called So You're In Charge - Now What? It's a great preparation guide for stepping into a transition opportunity. I really felt like the book was written for me and it had lots of the standard ideas like a 30-60-90 day plan but also things that are less apparent such as being well rested and in shape physically. I rested and worked out to make sure that I was in good physical condition and that helped immensely in the physical effort in the first month.

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