

Marketing Turnaround Case Study

A technology company

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ABSTRACT

This case study shows how a declining \$100 million division of a struggling parent company saved itself by adding services to its product line. Complicating factors included a lack of capital, a non-innovative culture and the mismanagement and bankruptcy of the parent company.

Background

In 1998 the data storage industry started showing rapid growth as the Internet and other digital factors drove up data storage demands exponentially. This \$100 million manufacturer of analog IBM storage products, primarily magnetic tape, was experiencing a significant slowdown in sales growth as newer and better storage products from competitors emerged.

In 1998 the parent company, Anacomp, was a \$460 million California-based document management company that manufactured and sold microfiche plus related services for the data center. The company had just emerged from bankruptcy and wanted to divest its data storage division to raise cash for developing an Internet-based document management solution.

Unfortunately with declining products across the board and no cash to invest in the newer storage technologies, the data storage division attracted no buyers and appeared to have little choice but sunset its products and try to optimize profits as it rode the curve down.

How corporate mismanagement led to the problem

Although it had nearly \$600 million in revenues in 1995, Anacomp was a poorly managed company. Throughout the 80's and early 90's the company's leaders took it on an acquisition binge that drove the company into bankruptcy in 1994. It emerged from bankruptcy in 1996 having divested itself of a hodgepodge of bad businesses. Anacomp had existed for decades as a sales-driven microfiche and document management company, starting out in Indianapolis and later moving to San Diego. The company's flagship product was computer output to microfiche (COM), itself a declining product. At Anacomp, strategic marketing was considered unimportant and the company had particular problems innovating new products.

Anacomp had acquired Texas-based Graham Magnetics in 1994. Graham's brands included Memorex and it was the world's largest manufacturer of reel-to-reel tape. At the time of its acquisition, it was one of three companies dominating the enterprise magnetic data tape industry. The other two were 3M and German chemical company BASF, each with far more strength than Anacomp. Each competitor managed its magnetic tape business as a cash cow.

The Graham acquisition was poorly planned, one made without foresight into the rapid changes under way as data storage switched from analog to digital formats.

By 1998, without the capital needed to stay competitive, the division was looking at certain rapid decline and eventual closure. However with \$100 million in profitable sales, it was hoped the division could attract a buyer.

Complicating everything was the company's emergence from bankruptcy, a direct result of corporate excess and bad acquisitions.

Next steps

The newly appointed Magnetics Division President, an Anacomp sales veteran and ex-IBMer, understood that the division needed strategy and marketing help. He hired a marketing VP with successful turnaround experience in electronics to help create a data transfer service business for selling data conversion services to the company's impressive list of customers.

One of Anacomp's core strengths was its blue chip client list, primarily companies in banking, finance and credit. Another core strength was a valuable hidden resource: the employees' collective knowledge of how data center operations worked.

This is what happened next:

- The new manager assembled a team focused solely on the new data conversion business. The new team included energized marketing and sales people from both inside and outside the company.
- Marketing team members were sequestered for two weeks and given the assignment of researching and understanding the division's most profitable opportunities, both existing and new. The team followed this format:

- What are the trends in our industry?
- What is driving the trends?
- What are we currently doing to address the trends?
- What are our competitors doing to address the trends?
- What *should* we be doing to address the trends and increase profits?

- The new services business was headquartered in a leased Atlanta, GA facility, far from corporate headquarters in San Diego and the concerns there.
- The new services line was refined and rapidly gained proof of concept at customer data centers. Additional services were added.
- Products and training were added to sell customers in-house data conversion.

- Targeted investments in marketing and sales for the new products and services were made including advertising, direct marketing, internet marketing, telesales and other areas.
- Customer acceptance was near immediate.

The results

The turnaround took six months to ramp and achieve respectable market penetration. At the end of the first full year of operations, the services business had added \$5.1 million in profitable sales, at much higher margins than the tape business.

A private equity firm became aware of the reinvigorated division and made a successful offer of acquisition. The division was sold and its headquarters remained in Atlanta. Today it is a thriving standalone company still doing data conversions and selling a host of related services and products.

Anacomp Epilogue

Anacomp, on the other hand, continued its decline. It filed again for bankruptcy in 2001 and its stock price (pink sheets) as of July 2011 was \$0.20. The company has not filed financial statements since 2008.

Key Lessons

1. Many companies have hidden assets that can be turned into profits
2. New product development is the lifeblood of most companies
3. A culture of innovation and strategic marketing must exist to stay competitive
4. Sales dominated companies are at a competitive disadvantage. Sales relies on what's working today and is seldom compensated for creating the future.
5. Bad management gets bad results.

About the author:

Mike Harris is the founder of **Harris Consulting LLC** and is an expert in resolving challenging marketing situations. He has served as the top marketing and business development executive for companies or divisions in consumer electronics, software, data storage/networking and others with revenues up to \$120 million. He has also served as a corporate officer and head of investor relations for NASDAQ:NM companies. He is a former management consultant with PriceWaterhouse Coopers.

Mike holds a B.S. from the University of Tennessee and an MBA in Marketing and Finance from Vanderbilt University. He is a frequent guest lecturer at the Rady School of Management at UCSD, where he is also a student mentor.

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