

Significant turnaround in profitability through improved management structure

The challenge facing KGB Holdings Limited at the end of 2004 was a lack of width in senior management, over reliance on family members and no clear succession plan.

Client Profile: KGB is a fast growing private company specializing in industrial, commercial and retail cleaning and other facilities services. It also owns a software development company. Clients include Tate Modern, Tate Britain, Leicestershire Police, Queen Mary University, Kent C.C, Camden C.C and various retail shopping centres. The company has been successfully run by the MD Kevan Brown for 10years and has regularly featured in the top half of the Inner City list of 100 fastest growing urban businesses across the UK. In 2003 Kevan was also winner of East London and Essex Business Awards.

Background: Kevan's stated goal at the beginning of 2004 was to grow the business organically and by acquisition at around 50% per annum to achieve sales of £1Billion by c2015. For this to happen the calibre and depth of the existing management team needed improving. For example there was no Finance Director or official Company Secretary . Accounting practices were also not in line with the size and projected growth of KGB. Cost control was another area where professional attention was needed. At the end of Q2 2004 KGB was structured as a group of independent regional operating companies under a local Director with strong incentives for local profit centre growth and options to buy shares in the master company KGB Holdings. Another major issue was Kevan's wish to implement a working style which would allow him two weeks on in the UK and two weeks off at his home in Spain.

The Challenge: To develop a new business plan which would accommodate a harmonious change in the management structure without disturbing the strong sense of corporate loyalty and close client relations. This would require careful handling as psychometric profiling revealed that Kevan did not place great emphasis on inter personal skills and his preferred management style was command and control with low levels of emotional engagement. KGB's rapid growth had also led to over concentration of day to day management in Kevan's hands.

Methodology: In January 2004 Kevan, recognizing that it could be beneficial to seek third party input from other business owners and professionals decided to become a member of an Institute of Directors CEO Peer Group (CHEOPS) and also to participate in 1:1 coaching and mentoring, administered by a Director of LeaderShape Limited. On a personal note Kevan decided to re-clarify his personal values.

A key decision was taken in mid 2004 to employ a full time Managing Director as a first step to extending management width.

In September 2004 the following decisions were taken:

- ✔ To centralise the financial functions(then managed locally)
- ✔ To close down the regional franchises
- ✔ To phase out the Head of these departments
- ✔ To spend more time on creative and strategic thinking
- ✔ To widen the KGB product offering
- ✔ To start pursuing an acquisition strategy

"The significant improvements in how KGB now operates would not have happened so quickly without the support mechanism provided by the CEO Peer Group and 1:1 coaching facilitated by LeaderShape.

By challenging previous assumptions and helping us to move through some tough decisions LeaderShape has also had a big impact on the performance, profitability and sustainability of KGB Holdings."

Kevan Brown – Non Executive Chairman

For further information on our services contact us on **0870 990 5576** or visit our website at www.leadershape.biz

- 🚩 By November 2004 a revised business plan was in place which posited that 1/3 of the total turnover should derive from new projects scheduled to become effective in 2008. There were discussions about changing Bankers to provide invoice discounting and thereby generate a cash-line to provide funds for acquisition. Consideration was given to looking for Non Executive Directors for Operations and Finance. A specialist adviser was also sought in recognition of KGB's lack of expertise in key areas of finance to support the planned growth.
- 🚩 At the beginning of 2005 both Goals and KPI's were reset and serious steps taken to move from being a "family business" (wife, son, daughter) to a more professional structure whereby both the Managing Director and Chief Operating Officer could fulfil their roles appropriately. In April 2005 Kevan decided to resign as CEO to concentrate on developing the business more widely and to allow a new management structure to emerge. His new role was to be more of a Managing Chairman. Internal management systems were further upgraded and a maximum of 5 Direct Reports to the Managing Director agreed.
- 🚩 By September 2005 the new MD was confident he could achieve £50Million turnover by fiscal 2008 at a gross profit margin of 10% - more than double the current gross profit margin. A new Director for London was engaged who had previously held a senior position at ISS. He also brought his dynamic number 2 sales lady with him. A decision was taken to move to more modern premises which would also facilitate acquiring good quality staff.
- 🚩 By the end of Q3 2005 there had been a significant change of emphasis from the 50% annual growth formula which was very much turnover focused towards a policy of creating shareholder value. This meant that there were less constraints on how the business should look. Throughout Q4 2005 there were significant improvements in the culture and climate of KGB. Kevan also took care to ensure that his own unusual role as Non Exec Chairman was both properly defined and understood by the rest of the senior management team.

As a result of the various measures taken in 2005 the first 2 quarters of 2006 produced the highest ever monthly profits. MD believes that on estimated turnover of £18.5Million profits will be comfortably in excess of £1.5Million, effectively doubling previous gross profit margins.

Results at the end of the two year programme

- ***Profitability had moved from breakeven(2004) to £1.5 Million est(2006)***
- Kevan Brown had handed over his MD role and repositioned himself.
- The management team had been significantly strengthened and the internal structure of KGB had been redesigned.
- The move from a family business to a professional structure had effectively taken place. A succession planning policy was now in operation.
- New accountants had been appointed to ensure tighter and more timely reporting. Operating costs were also being rigorously reviewed internally.
- Steps were been taken to widen KGB's service offerings and develop new growth strategies.
- Overall a less confrontational culture within KGB had been developed.
- Kevan Brown was able to spend 2 weeks a month at his Spanish home.

For further information on our services contact us on **0870 990 5576** or visit our website at www.leadershape.biz

LS061017M1-CaseStudy-Mgt&StructureReorgKGB-PL©LeaderShape Ltd 2006