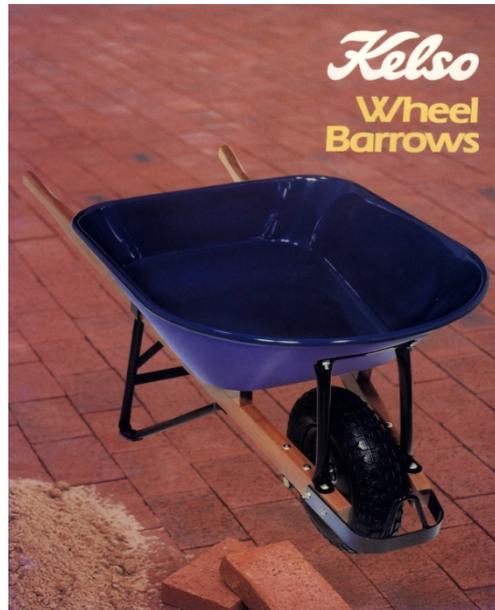


Turn Around Case Study: The One That Got Away

Setting

Kelso Australia made wheelbarrows and hand trollies. Originally it was part of the Adelaide Steamship group but it was sold to a group of investors from Adelaide. Despite all the Adelaide connections, the business was centred in Sydney.

The Adelaide investors were interested in Kelso because they had been developing an upmarket, motorised wheel barrow: put a Honda engine and a clutch on the front wheel and away you go. Kelso made wheelbarrows and was the leading brand name. The company had borrowed some \$4 million from the bank to make the acquisition and to develop the motorised wheelbarrow from prototype to production model.



However, Kelso was living on past glories. Production quality was falling, costs were woefully out of control, manufacturing processes were slack and administration was top heavy. Two customers, a retail chain and trade chain, accounted for 60% of sales but sales were stagnating.

The company owned its land, nearly a hectare in the inner west suburb of Arncliffe. The NSW Government Housing Commission offered \$4.5 million for the property and was prepared to lease it back to Kelso for a year or two while the company moved premises.

By the time we were called in, the company had already defaulted on its loans to the bank for two months in a row. Losses were running at an annual rate of about \$1.5 million. Time was running out.

What we did

We quickly analysed the company. Prices were not the problem, it was largely costs and the cash bleed. We identified at least 30 workers and managers that needed to go. This may sound harsh but unless such remedial action was taken, about 80 workers would soon lose their jobs when the receiver walked in.

We streamlined the processes, the product lines and the customers. For example, there were 47 different types of wheelbarrows made but just 4 models accounted for over 90% of wheelbarrow sales. Likewise, the top 20 customers accounted for nearly 90% of sales but another 320 customers were services (some buying only 1 or 2 barrows a year).

The streamlined (but more profitable) business we recommended did not need the large premises of its history. When the offer to buy came from the NSW Government, we strongly urged the business owners to accept. It would have removed the bank from the equation and given enough funds to invest in new markets and products that had been identified where Kelso had strengths.

Our marketing analysis also clearly demonstrated that the new motorised wheelbarrow was never going to be a “goer”. It was too heavy, too much maintenance and too expensive without any major benefits. A good quality trade barrow would retail for about \$150. But by the time they had engineered the Honda engine and clutch onto the wheelbarrow, the cost was over \$1,000. We recommended the immediate axing of the motorised project.

In the end, the company implemented nearly all of our 16 major recommendations for improvement. Except for two: they did not sell the land (“we will develop it ourselves in a few years’ time and be property developers”) nor did they drop the motorised wheelbarrow (“that is our dream”).

The receiver had no such inhibitions. He put the property to auction within a month of his appointment and the motorised wheelbarrow was canned immediately. The brand name was sold to Hills Industries.

The moral

Sadly the business could have been saved, could have been grown and could have been very profitable. But the owners needed to face reality. While our business improvement actions were all helping the business and costs were starting to reduce, we needed more time and capital. For example, we could not afford all the redundancies to get the costs under control or afford to the powder coating equipment to move from the inferior and expensive paint dipping method used.

The sale of the land would have removed about \$500,000 in interest costs and removed the bank from appointing the receiver. The canning of the motorised wheelbarrow would have saved \$1 million and much management attention spent on a product that was never going to succeed.

The one that got away!