Michael Maas On…
6 Key Lessons He Learned in Turning His Company Around From Near Bankruptcy to a Thriving $300 Million Business

Steve Sanduski: Hello, everybody. Steve Sanduski here. I'd like to welcome you back to another episode of On Your Mark, Get Set, Grow. Joining me today is Michael Maas. Michael is a very successful professional manager as well as an entrepreneur who has helped grow 2 companies to $300 million in revenue. He's got an interesting story here about one of those companies, and that's what we're going to talk about today.

Michael, welcome to the show.

Michael Maas: Thank you, Steve. It's a pleasure to be with you today.

Steve Sanduski: Michael, you're also the newest coach here at CEO Coaching International, so congratulations on that new opportunity.

Michael Maas: Thank you very much. It's a pleasure and an honor to join Mark and the CEO Coaching team.

Steve Sanduski: It's a great organization. Happy to have you here on board.

Today, we want to talk about one of the companies that you work for called Crave Entertainment Group. This is a company that you joined back in 1994 as president of the company, had about $11 million in revenue and, over the next few years, by 1999, you guys had built this up to about $175 million in revenue and a profitable business.

Now, tell me what happened after 1999 because it gets really interesting here.

Michael Maas: That's correct, Steve. We had really great success through the mid- and late-'90s, and we took our success and tried to expand rapidly. We expanded the nature of our product development, the nature of the investments that we were making to grow the business with a higher margin segments. We expanded our infrastructure into 3 countries in Europe to be able to handle the sales and distribution of our products directly instead of on an outsourced basis. We didn't have the proper capital structure in place. We didn't have the experience and expertise to really manage the new investments properly.

We took on too many investments simultaneously, and so we had too many priorities, which that we had really none in terms of our ability to execute on them, and we simply ran into a significant liquidity crisis in the year 2000 and, as a result of that, we had a cold loan from our lender, and we had a $10-million loss because of the investment write-offs due to inexperience and mismanagement as well as the dramatic increase in overhead spending. We just weren't, even at a $175 million, give or take, in sales, it wasn't enough to offset the investment write-offs and the dramatic increase in overhead commitments.

Steve Sanduski: If that was the end of the story, then you and I wouldn't be talking today because that's kind of a sad story. You guys were able to turn things around over the next few years, and that's really what we want to focus on today is what did you guys do to turn the business around. Let's get to the end of the story here first so we can tell what the success what and then let's go through and talk about some of the things that you and your leadership team did to turn this thing around.

What happened a few years later? What did the situation look like at the company?

Michael Maas: By the middle of 2005, we were back on track very, very well. We were up towards 300 million of revenue. We had retooled the business model back towards really what our core competencies were and where our key relationships could maximize the value of our business, and we were on track to generate about $15 million in profit that year. We were fortunate enough to execute a transaction where we sold the company in November of 2005 to a publicly traded company for an enterprise value of roughly a $100 million.

Steve Sanduski: Okay. It turns into a great success story. From 2000 where you're about $175 million in revenue, $10 million loss to, a few years later, you turn it into about $300 million in revenue and roughly $15 million in profit and then you actually sell for roughly a $100 million enterprise valuation, so a great success story.

Let's dig in to some of the details here. What did you do as the president of the company on the leadership team to turn this business around? Let's talk about how some of these principles can be applicable to other entrepreneurs and CEOs that are listening today.

Michael Maas: Let's go back to the summer of 2000. That's when it started becoming apparent to us that these investments we made were not going to be monetized as quickly as we planned. We realized that we had overbuilt the infrastructure and the fixed cost. We realized that we were facing a major liquidity crisis. We were having these conversations with our lenders as well, and it was really apparent to us and to our lender-partners that things could not go on as they were.

What we did, the CEO and I, my business partner and I decided that we were experts in the business and we had great relationships and we had what we would call goodwill relationships, we had a lot of people within the industry that we did business with that cared enough for us where they would, within reason, help us. We were in a situation where we had to take immediate action to have any chance of saving this business. We just simply didn't feel we the experience or expertise to do it, and so what we did is we brought in an expert, an experienced turnaround guy, as our COO and really followed his lead in terms of what was going to be necessary to turn this company around.

We were fully aware of the fact that significant and serious action had to be taken, but we just felt we needed to bring in the experience and the expertise to do that.

Steve Sanduski: I think that's a very interesting point because, when people are building companies, it takes a certain type of manager to build a company or start a company. It takes a certain kind of person. It takes a different kind of person to manage an existing company. It takes a different kind of person to handle a mature company. What you just mentioned was you guys needed it to turnaround. You guys were business builders, not necessarily business turnaround experts, so you went out and you hired someone who was an expert in that particular aspect.

How long was that person with the company?

Michael Maas: The COO was with the company about 24 months, about 2 years, so for most of or for all of 2001, and I would say through 2002. What this gentleman did is much like the coaches at CEO Coaching International. This gentleman came in and helped the management team, the leadership team develop goals and an action plan that were focused on a turnaround situation and then held the team accountable to achieving what it said it was going to be able to achieve based upon its experience and expertise in the industry.

Steve Sanduski: What are some other specific things that you folks did over that several-year period to turn this thing around?

Michael Maas: What we did was, when we brought the turnaround COO on board, the first thing he did was he called a Sunday morning meeting, Sunday at 8:00am. We had never met on a Sunday, let alone Sunday at 8:00am. I looked back on that now and I realized he did that as a way of making it clear that the culture needed to change immediately because we were in a serious turnaround situation. He brought the management team in, including the CEO and myself, and we met for several hours that Sunday and, on a legal pad with a pen, we hammered out an entire turnaround action plan with ownership accountability for the various members of the management team and away we went. We held daily 7 days a week 8:00am meetings to attack the action plan and to measure our progress and make changes or enhancements as necessary.

Steve Sanduski: I think that's a great strategy there, 8:00am Sunday morning, just to let people know, "Hey, it's no longer business as usual," and then, of course, having the specific measurements, knowing exactly what needs to be done and holding people accountable. Having those regular meetings to follow up on that is certainly a good business practice. What would be a second thing that you folks did?

Michael Maas: Once we had the action plan in place, we began executing upon it as quickly as possible. The action plan included everything from reducing the overhead by eliminating jobs, closing down our European operations entirely, selling off certain assets that had some value to them, shutting down parts of our business that either we could not afford from a capital standpoint to manage or they were lower margin or didn't have quite the growth prospects as some of the other parts of the business.

We really tried to focus on how much money can we raise through the sell off of assets, how quickly and how significantly can we reduce our operating expenses, and then what is the core business that we feel most confident that we can continue to maintain and, eventually, grow so that we would continue to generate cash flow for the company. In other words, what is the right size of business for us that we can capably manage and afford to have?

Steve Sanduski: Yeah. You talked a little bit earlier about the importance of having those good relationships with your stakeholders, that you had built some goodwill there. Tell me a little bit more about how that played into the turnaround situation.

Michael Maas: Absolutely. One of the things you want to do at any point of a business' life is putting the time and the effort to invest and develop what I call goodwill relationships, that is, a relationship with somebody who, within reason, will help you because they want to see you and your business succeed. Clearly, there was a personal connection there. Fortunately, when we got ourselves in all this hot water, we had a lot of those from our key customers, our key supplier-partners. Even our lenders worked with us even in a workout situation.

One of the things that helps to establish a goodwill relationship is transparency, as we all know. It's that much more critical in this kind of situation to have full transparency. We talked about needing the courage to face the fire in a situation like this. We also needed the courage to be fully transparent to our stakeholders because, if you're not communicating what situation you're in, people are going to know you're having a difficulty and they're going to begin writing the story for you. Having the transparency to communicate the situation exactly as it is, how difficult the challenges are, how deep the troubles are, but that you're fully committed to doing whatever it's going to take to move the business forward and get back to good health and to communicate what steps you're taking and communicate what commitments you're willing to make and then, of course, following through on those commitments is incredibly important.

I think it's hard in a situation like this to share information because you think it might work against you if people understand how deep the trouble is, but, trust me, from my own experience, I can tell you it only works in your favor to communicate exactly what the situation is as honestly and as often as possible.

Steve Sanduski: Who are you defining as your stakeholders?

Michael Maas: The stakeholders start with us. Looking at the mirror and being fully transparent and fully honest with ourselves, my business partner and me, of course, the stakeholders are the rest of the team at the company, and being fully transparent and honest with them, your team recognizes the issues and, as leaders, you need to own the issues and you need to be honest and communicate constantly about "here's what we're faced with, here's what we need to do, here's what we're going to do, here's where we're going to get."

Then, of course, there's external stakeholders. In my case, it was our large retail customers like Wal-Mart and Toys "R" Us. It was large supplier-partners like Sony PlayStation and Nintendo and Microsoft and then, of course, your financial stakeholders. In our case, it was our bank, our lender.

Steve Sanduski: How do you maintain confidence and how do you handle that from a psychological standpoint when you're going through a very difficult situation like this?

Michael Maas: Great question. You have to. It's a deliberate choice. You have to go to bed every night thinking, "We have what it takes. We were successful in building this business. We know how to do it. We can do it again. We have to get back to what made us successful."

You have to believe that within yourself. You have to have confidence and a positive attitude. You have to be up for the challenge. You have to want to overcome the situation and be successful again. It's a deliberate choice to have that attitude when you go to bed at night and have that attitude again when you wake up the next morning.

Now, the confidence, of course, has to be realistic. We have to be realistic about the situation we're in and what our capabilities are and what our resources are. You have to know that you've done it, you've been there before, and it's up to you to do it again.

Steve Sanduski: How do you instill that level of confidence in realism with the employees? Did you have any key people that left during this time because they thought, "Hey, this is a sinking ship. I'm going to go to a better opportunity?"

Michael Maas: Great question. Again, it goes back to the transparency. It goes back to communicating often and honestly, sharing what the vision is, sharing what the goals are, reminding the team that we were successful for a reason, reminding the team that if we pull at 1 direction, we can accomplish this, that the sum of our parts is greater than any of us could accomplish individually. That's just being an effective leader. In our case, fortunately, it worked.

We did not have key departures during this period of time. Now, we laid off two-thirds of the total staff, but we were very proactive in our communication. We were very honest and transparent. We met daily. We did our best to reassure people. I think we had goodwill relationships established internally up to this point, which helped. We had those bonds in place. I think, looking back, we treated people fairly and did the right thing and we believed together, and it worked out for us.

Steve Sanduski: You mentioned that you laid off about two-thirds of your staff. Was that done in several batches? Was it done all at once? What did you learn from that? Would you have done anything different there?

Michael Maas: Yeah, great, great question again. We did it in 3 tranches. The takeaway there was, even though we ultimately had success, it was a mistake. What we learned is you need to cut very deeply, you need to cut very quickly and you can't try to bet on the future too much by balancing, reducing operating expenses, but wanting to keep a certain level of infrastructure in place for where you think you might be in 12 or 24 months.

Had I done it all over again, and I have done this in my career since then and I've gotten better at it, in terms of really just making the tough choices, to cut deep and to cut quickly. Fortunately, for us, we were very open and honest about additional rounds of layoffs. People did not get too skirmish where they started leaving the company, but there's always that risk where, if there are multiple rounds of layoffs, people won't know when they're going to end and so they're going to assume they're going to continue to happen, and they, some of your best people that you really want to keep, may leave because of their concern or the lack of credibility that's established as a result of that.

That is 1 thing that I absolutely look back and recognize that we would have been better off had we cut deeper and cut more quickly. The turnaround would have been that much more effective and would've happened that much more quickly had we done that.

Steve Sanduski: Death by a thousand cut is not a good strategy?

Michael Maas: Not a good strategy. Not a good strategy, but, again, it goes back to the inexperience at that time. With an experienced COO, he's coming in and he's only as good as the information we're giving initially. We, as the leadership team, just really didn't get that one right.

Steve Sanduski: You're making all these cuts. You're selling pieces of the business. How do you do that as a president, as the CEO? I mean, like, this is your baby, and you're getting rid of the stuff. Psychologically, how do you get past that and make that decision to like cut off the left arm?

Michael Maas: That's an excellent question again. What I realized through this process is that what I like to say is letting go is the only real way to keep the business. You have to emotionally be willing to let go. Your analogy there, I often think of it the same way. You have to cut off 1 or more limbs to preserve the core of the body. You have to get in that mindset. Letting go of people, letting go of customer, letting go of products and development, letting go of facilities, letting go of certain relationships is essential. It's nonnegotiable to turning around a business. You have to find a way to get in that mindset no matter how difficult it is because there's no alternative. If you try to keep everything, you'll end up keeping nothing.

Steve Sanduski: How did you go about making the decision about what was essential, what was the core to the company versus what was expendable?

Michael Maas: For us, it was pretty clear because we had built the business from the early '90s to the late '90s with tremendous growth and tremendous success and, really, the problems that we ran into were not industry related, they were not that our model wasn't working. It was the expansion into areas that we just weren't very competent, number 1, and, number 2, didn't have the proper capital structure in place, and, number 3, tried to do too much at 1 time. For us, it was clear that we needed to discontinue or sell off everything that was related to the expansion that happened in the late '90s and focus on the core business where we were experts at and what allowed us to be successful through the '90s. That's what we did.

The investments that we had made, some of them were relatively new. It's hard to pull the plug on something that is so new and exciting, but you have to cut your losses and you have to be honest and get back to really what you're really, really good at.

Steve Sanduski: Going back to 2000, things were falling apart, are you thinking to yourself, "Oh, my God, are we a failure here?" How do you get past the fact that we were so successful to start this thing? We built this great company and then it almost turned on a dime because of some business decisions that you made. How do you deal with that?

Michael Maas: Yeah, of course, you'd think you're a failure. I think anybody in that situation would have thoughts of failing especially after such a tremendous amount of success. It was a completely different experience. We went from feeling very successful and very competent to not successful and not competent, but then, again, it goes back to what we were talking about in terms of making deliberate choices, to have an attitude of "I've done this before, I need to focus on what made us successful, and we can do this again."

Furthermore, we don't really achieve true, sustainable success in my view unless we failed along the way, and I'd like to say you fail your way to success. The success that we had in the '90s was success, but we hadn't had failure up to that point and everything went our way. The ball seemed to bounce our way and we seemed to be in the right place at the right time and had a lot of momentum and made some good decisions, and, of course, we worked really hard. For us, ultimately, to earn it and build something with a lasting value, we had to, in my view, go through this significant failure, have to gut check ourselves, figure out what we need to learn, what's the opportunity here that we can learn to be better and then, when we rebuild this thing, we'll take those lessons and we'll make sure we implement them into what we build on forward.

Steve Sanduski: Michael, a couple of insights that I just picked up from what you were talking about there are, first of all, you probably heard that old saying that, if you want to increase your success rate, you have to double your failure rate. Entrepreneurs know this very well, that you've got to take risk and, if you're not taking risk, if you're not failing, then you're just not trying hard enough and you're never going to build a successful business. That's kind of the first insight.

The second one would be, yes, we're going to fail, but we have to learn from those and not make that same mistake again, and take those lessons that we learn from that and use them to help make the business even stronger going down the road.

Michael Maas: Yes, that's correct. Not only not repeat the same mistakes, but look at how decisions were made, what kind of discipline was in the organization, and apply a higher level, a more informed level of decision-making to future decisions, and having the discipline, to stick with what you're good at, what's working, and focusing on being best-of-breed in the business that you do the best.

Steve Sanduski: Michael, as we wrap up here, I'm just going to go through some notes that I was jotting down here as we were talking that I think I picked up 6 ideas here that you talked about in terms of what you folks did to turn your company around. The first one would be really developing and executing a turnaround plan. In your case, you hired a chief operating officer, someone who was an expert in turning around companies. You're finding the right person for the right job at the right time in the company's development. I think that's a good key insight.

Second one, you talked about just having that positive attitude about the situation, but also having a realistic attitude of understanding the depth of the situation that you were in. I think there's a lot of psychology that was going on there that helped you turn this thing around.

A third thing you talked about was that you have to be fully transparent with your stakeholders. You mentioned that you already had some goodwill, which was great, but you were very open and honest with them and explained to them, "Here's the situation we're in," and you got them to help you turn things around, so all the stakeholders, being transparent with them.

A fourth thing that you talked about was this idea of letting go, that the only way to keep your business is to actually let go and that nothing is sacred, and that you just have to have a good plan and understand what is key, core to the business and what's not, and let go of what's not.

I guess the fifth thing would be kind of this idea of the core, to get very clear on what is the essence of your business, what is the critical piece of your business where you have the expertise where, if you're going to retrench, if you're going to let go of some of these extra pieces of the business, what's the core piece that you can rebuild from. Then, I think, the final thing that we were just talking about here is just this idea of having humility and having the discipline to understand that, yes, we're going to make some bad decisions over time, but we're going to power through, we're going to learn from that, and then we're going to take the lessons that we learned in that failure and use that to make the business stronger.

Was that a summary of what you talked about here?

Michael Maas: That's perfect, Steve. You summarized that perfectly.

Steve Sanduski: Great. As we finalize here, is there anything else that you want to add that I haven't asked you yet?

Michael Maas: I would just say to all the listeners out there, we all go through tough times and challenges, and, if we can get in the mindset of looking at every challenge as an opportunity and substitute the word "opportunity" instead of using the word "challenge." For me, that was something that really allowed me to be excited and passionate about what we were building or what we were dealing with at any point whether or not you're in a growth phase or turnaround phase. I just wanted to share that little bit of mindset with the listeners out there.

Steve Sanduski: Thanks, Michael. I really appreciate your time here today. Welcome to the team here at CEO Coaching International.

Michael Maas: Thank you, Steve. It's been a pleasure to be with you. Thank you for your time. I really enjoyed myself.

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