

Finding Their Way Back

How two NH manufacturers battled back from bankruptcy.

BY MATTHEW J. MOWRY



It wasn't that long ago that Foss Manufacturing and Spaulding Composites were about to add their names to the list of manufacturing casualties in NH — two more cautionary tales of how once successful companies went terribly wrong.

By 2003, Spaulding Composites was suffering through its second bankruptcy. In 2005, Foss was also languishing in bankruptcy and its former president and CEO was indicted for fraud related to the company's finances.

Conventional wisdom had written these companies off. Since then, something amazing happened.

Investors and new management teams took over the reins and turned these com-

panies around. Not only did they survive, they're thriving.

Spaulding Composites

Spaulding Composites in Rochester was struggling through its second bankruptcy when Metapoint Partners, a private investment firm in Peabody, Mass., purchased the company. "Spaulding came an hour away of the bank locking the doors and closing it forever," says Donnita Rockwell, the company's current president. At the time, delivery times were being measured in months, customers were canceling orders and the company's credit had deteriorated to the point where it could no longer afford the raw materials it needed. In fact, some of its remaining customers were buying the raw materials for the company.

"The company had lost its integrity and confidence from its market base. It struggled from the first Chapter 11," Rockwell says.

The company began laying off employees, decimating its workforce from 150 to 37. "The core group of employees who remained was discouraged. Some of the key management and technical people left the company. There was a lot of turnover," Rockwell says.

Before the buyout, Metapoint executives contacted the company's largest customers and found there was still a core of loyal customers and a demand for the company's products. Spaulding Composites creates engineered thermoset composite materials used in air motors, pumps and compressors for products ranging from

flare guns to ejection systems in fighter jets to medical devices.

"Our customers include Caterpillar, Kodak, Ingersoll Rand, Snap-on Tools, and John Deere. Our customers are a Who's Who of manufacturing in the United States," Rockwell says. "This was a company with customers with money to buy product and clamoring for product and the company couldn't get out of its way," Rockwell says.

Ever increasing lead times were testing the patience of customers and the financial quicksand that the company found itself in was deepening until Metapoint stepped in. However, Spaulding Composites continued to struggle to get back on its feet.

While the company was able to retain customers and purchased its low-price competitor to strengthen its standing in the market, it was not able to reduce its delivery time and product continued to go out late. Rockwell says while the purchase of its competitor made sense, the acquisition taxed an already struggling organization.

In 2005, Metapoint brought Rockwell on board to turn the company around. Rockwell has an extensive background in manufacturing operations and specializes in taking failing companies and getting them back on track.

Her first goal was to reduce lead times and get operations back to where they needed to be in order to retain customers and attract new ones. "Spaulding required a cultural change," Rockwell says, explaining the company had essentially gone through more than a decade of struggle. "There was a culture of failure here. We had to change that to a culture of success. We had an organization that was a skeleton of its former self. We had to do fundamental 101 of discipline and consistency."

She says she knew she had her work cut out for her, and that included gaining the trust of employees. She was the fourth president in five years. "I didn't ask for a formal company gathering to be introduced to the employees. I knew there was a sense of skepticism from employees of, 'Here we go again,'" Rockwell says.

Instead, she did a walk through of the plant and met with each employee individually to let them know she had been in a company in a similar situation and that success was possible. She let employees know the company would not improve through leaps and bounds, but by taking smaller steps. "It gave me credibility. Employees had been here long enough to know Spaulding wouldn't turn on a dime," Rockwell says.

Some employees had been with the company for 35 years and remained loyal to Spaulding through its recent roller-coaster history. "They told me each day they went home not knowing if the doors would be locked the next day and they



would not have a job," she says. Other employees seemed disconnected from the reality of the dire situation the company was in. "They were in denial. The company had been through bankruptcy twice and made it. They didn't have any idea the company was in an extraordinary situation and they needed to respond in an extraordinary way."

Rockwell went about transforming the company culture by setting modest goals and objectives in order to build a pattern of success at Spaulding. "We didn't set an objective of taking lead times from 26 to four weeks, but from 26 to 22 to 20. Each goal was reason to celebrate because each milestone represented success," Rockwell says.

Rockwell went through a similar process with customers, meeting with them to explain the company's strategy to turn business around and asking them to be patient just a little while more. "While it wouldn't happen overnight, they would see improvement in Spaulding's ability to deliver quality product," Rockwell says. "The customer base was willing to work with us, but I took my lumps."

Within six months, lead times were back to industry standards. By May 2006, Spaulding celebrated one of the largest shipping months in the company's history. It reduced lead times from 26 weeks to three to four weeks, and not only retained customers, but added a half dozen new ones. "Existing customer volume has increased 10 percent," she says.

The company closed its plant in Illinois between 2005 and 2006 and began transferring the 40 jobs there to the Rochester plant, improving profitability and eliminating duplicative efforts. The Rochester facility now employs 103 people. Spaulding remains focused on the future and continuing its success. "We want to measure our performance in days [not weeks]," Rockwell says. The company is entering an

exciting phase with the development of new products. Prior to Rockwell's arrival, there was barely any engineering and technical staff left.

"Part of what led to Spaulding's problem was, in trying to grow revenue, they tried to be all things to all people. They lost track of their core competencies and strengths, and without that, you don't have a direction for the company," Rockwell says. Recognizing that Spaulding's core strength lay in composite manufacturing, Rockwell set about rebuilding the engineering and quality control departments. "The company lost sight that it was a specialty engineered products company and we brought that focus back. For the first time in 10 to 12 years, Spaulding has a deep engineering and technical staff. We now have three new products in development — two in trials with customers — which we believe will create significant revenue and new jobs," Rockwell says.

And Metapoint continues to invest in the company. It recently renovated the offices, which had the same carpeting and fixtures it had in 1972. The company built a state-of-the-art laboratory for product development. Rockwell says the company's investment is approaching \$1 million with another \$750,000 slated for upgrades and new equipment. And for the first time in many years, employees are receiving performance reviews and salary raises. "It's important to demonstrate commitment to our employees and customers with investment," Rockwell says.

Rockwell explains that maintaining open and honest communication with employees has been key to Spaulding's success. "I'm forthright with employees about how the company is doing and have done so since the beginning," Rockwell says. "I can walk through the shop floor and employees can tell you how we're doing, the markets we're in and the new products that are in develop-

ment. That sense that every employee is participating makes the difference. The morale is very high. Employees are committed to the process and show a dedication that in my experience is unusual.”

Spaulding Composites expects to increase business by 10 to 15 percent annually during the next five years and expects to increase profitability by five percent this year alone, Rockwell says. “There isn’t a magic button you push. What it comes down to is assembling a group of people who share the same goal and methodically pursuing it. The management and workforce team have put in a tremendous amount of effort to make it happen,” she says of Spaulding’s turnaround. “Spaulding is healthy, vibrant and growing. The worst is behind us. We have growing pains now — the issues you want to deal with. To see a group of people so disenchanting and discouraged come together as a team and change the face of the organization, it doesn’t get any better than that.”

Foss Manufacturing

A similar turnaround success story is taking place at the other end of the Seacoast. Foss Manufacturing, a specialty fibers and non-woven fabric manufacturer, was a financial and organizational mess when Alinian Capital Group, LLC purchased it in May 2006. Alinian, a private equity firm based in Florida, had its work cut out for it. “It was a completely devastated organization. Morale was low. People had lost their pensions,” says Jim Magruder, principal of Foss Manufacturing and a partner and executive vice president of Alinian Capital Group, LLC.

A.J. Nassar, CEO of Foss and a managing member of Alinian, has 15 years of experience in the textile industry and pushed for the Foss acquisition. Where others saw a dying company, he saw opportunity. The acquisition allows Foss to carry out its mission — putting more Americans back to work in manufacturing. “We’re really focused on getting American jobs back from China,” Magruder says. He and Nassar restructured the management team, including bringing Mike Degrace on board as president. Degrace is a 30-year veteran of the carpet industry who has served in executive positions at a variety of companies.

Two weeks after acquiring the company, the new leadership team pulled together managers and conducted a mock draft, allowing managers to pick the people they would want on their teams. The management team reorganized the company, based on that draft, into five divisions: fabric, fiber, finishing, quality and inspection, and logistics and shipping.

However, Magruder knew it would take more than that to turn the company around. It required a complete overhaul of the company’s culture. Magruder describes the management style of the previous owners as dictatorial. “We had to change the cul-



Foss’s management team, from left, are: David Rowell, executive vice president of sales and marketing; Principal Jim Magruder; and President Mike DeGrace.

ture here from a dictatorial style to enabling employees to speak up with ideas and suggestions,” he says.

Magruder tackled efficiency and morale issues head on and by February developed a horse race competition, complete with a racetrack board, to create both competition and camaraderie among employees. Each division was renamed as a New England sports team and each month they compete in the areas of production and labor efficiency. Each team is assigned a horse and their weekly progress is tracked on the display-board racetrack, called Hampton Downs. At the end of each month, the winning team that improves most against their previous average receives \$50 gas cards and a catered meal for the entire team. “It really brought employees together and morale is at an all-time high,” Magruder says.

Those aren’t the only results. Since May 2006, the company has hired 165 people, bringing its workforce to 476 employees, and increased production efficiency and labor efficiency by double-digit figures. In under a year, the company has emerged from bankruptcy, operating firmly in the black. It is projecting significant growth for 2008 and has released new products with more on the way.

Foss fibers are used in products that run the gamut from underwear, sheets and blankets to sleeping bags, filtration devices and face masks. Foss has penetrated new markets, supplying carpets and carpet pads to such retail giants as Costco, Lowe’s and Menards. Foss also produces craft felt for Jo-Ann Fabric and Craft Stores and Wal-Mart. About 30 percent of Foss’ business is in the automotive industry. “We’ve penetrated the Toyota brand and Honda is a customer,” Magruder says. Two products in particular are expected to drive the company’s success — Fosshield and Ecospun. Fos-

shield is an antimicrobial fiber that kills odor-causing bacteria, mold, mildew, fungi, and viruses, including the bird flu and MRSA, a staph infection that is resistant to many antibiotics. Foss is manufacturing face masks made of the self-sanitizing material and is already receiving orders. The fiber can be used in a variety of products, including carpets and carpet pads. Foss expects a full launch of its antimicrobial fiber product by January. “We’ve penetrated the carpet industry in a big way,” Magruder says.

Ecospun is a polyester fiber made of 100 percent certified recycled plastic bottles and can be used in textiles ranging from clothing to wall coverings to auto interiors. And it only takes 10 bottles to create one pound of fiber.

Foss Manufacturing, a privately-held company that occupies a 528,000-square-foot building that sits on 46 acres, is reinvesting through growth. “We intend to grow the company and not sell it,” Magruder says. “We invested \$3.5 million in revitalization of equipment and we intend to invest another \$3 million in the first half of ‘08.” Magruder says it is likely that Foss will complete some acquisitions in the coming year. “We have our eyes on other opportunities in vertical industry segments,” he says.

The company is also applying for state and federal grants for workforce development and alternative energy initiatives. Such funds would be used to grow its workforce and erect a wind turbine. The company lets nothing go to waste, reusing and recycling all waste materials. Foss Manufacturing is also off the electric grid, producing its own power to the extent that Unitil Corporation has approached the company about selling energy back to them. “We have revitalized the company to the point where it is thriving,” Magruder says. ■