

# The Avalon Edge

Impact Paper 2

**E**ntrepreneurship  
**D**edication To Excellence  
**G**reat Value Creation  
**E**thical Approach



**AVALON**  
Consulting



**Cordence**  
WORLDWIDE

## Value Enhancement

for a road construction equipment business

### Client Situation



- 01** The client (a technology, defence and engineering group) wanted to turnaround its Indian subsidiary (a well-known brand in the road construction equipment segment) and prepare it for strategic sale
- 02** Their business was underperforming with a huge negative gross margin and poor sales practices leading to weak pricing decisions
- 03** In addition, inefficient working capital management processes and an ineffective S&OP process led to huge accumulation of stock and receivables

### Avalon Intervention



- 01** Avalon Consulting conducted a diagnostic of the business and a 6 month value enhancement program was developed, with the objective of implementing measures to steer the company towards positive gross margins and EBITDA and preparing it for strategic sale
- 02** After the value enhancement exercise, we engaged in a systematic search for a buyer for the business. A select group of companies was identified and transaction related interactions were conducted including supporting the due diligence, structuring of the deal and negotiations. Ultimately the business was acquired by a strategic investor

## Enhancing Gross Margins

### Initiatives

- 01 Established a system of checks and balances for price integrity through a redline price for all products (developed Gross Margin Tracking sheet and Step-by-Step Process Flowchart). Pricing below this required senior leadership approval and needed to be backed by strong rationale
- 02 Introduced a process to track leads in order to build a robust sales pipeline and increase transparency and information flow (developed Sales Tracker and Step-by-Step Process Flowchart)
- 03 Established a process for managing procurement and production planning to meet the Sales Targets by developing an S&OP model

### Impact

**3%** improvement in average price realisation

**16%** improvement in gross margins

Successful implementation of sales tracking and production planning process

## Improving Working Capital Management

### Initiatives

- 01 Ensured collection discipline by fixing responsibility with respective sales team
- 02 Set up monthly collection targets against legacy AR accounts
- 03 Linked incentives to a combination of sales and collection
- 04 Process refinements for efficient inventory control including defining min-max levels for raw materials and finished goods inventory
- 05 Segregated inventory into re-usable and saleable items and identified buyers for saleable items and enabling sale

### Impact

**55%** resolution of legacy accounts receivables by collection / adjustment

**62%** reduction in debtor days

**15%** liquidation of obsolete inventory



**Total Impact = 5 times fee over a 12-18 month period**

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