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# Turnaround tale

Tim Tumanic of J&R Machine, Shawano,  
put it all on the line to save his business

Margaret LeBrun



*Tim Tumanic, owner of J&R Machine, Shawano, survived the cathartic experience of his business' near death. He smiles to think how far his company has come since its lowest point. "It seems like a blur," he says with a chuckle. Photos by Dave Wallace, Image Studios*

One fateful Thursday in February 2004, J&R Machine owner Tim Tumanic called a company wide meeting at his Shawano plant to share bad news. It was the end of their four-day workweek, possibly their last day in business.

"I'm not sure if we can open the doors Monday," he told them. "I don't know if we can make payroll. ... You have families to feed. If you want to walk out the door, I understand."

The economy was still suffering the effects of 9/11. A major client of the small machining company had yanked all its orders and sent them to Taiwan. Steel prices had doubled. Inventory was gone. Receivables had dried up. Payments were three months overdue to suppliers. Overdrafts were piling up from the bank.

Without bridge financing, the dilemma J&R faced was like a diver at the bottom of the ocean, running out of air, recalls Dave Finkbiner, a Wausau-based turnaround consultant who was brought in to help save the company.

"You're there, 1,000 feet under, and you wonder how much air you've got left in the tank. Can you get up to the surface? We had two alternatives: either shut everything down or do everything possible to try to keep it alive."

Bob Van Asten, senior vice president of First State Bank, New London says he could have cut off funds, essentially forcing J&R to close the doors. Instead, he put Tumanic in touch with Finkbiner.

"Even in the absolute worst of times, we still believed the company could pull through this," Van Asten says. "We believed in Tim and his business, so we introduced him to other people who could help him be successful."

Flash forward three years. Finkbiner and Van Asten sit in Tumanic's office and reflect on the upswing the company enjoys today. Tumanic "looks a lot different now," Finkbiner says. Sales and new business are growing. The shop floor is neat, orderly and humming. J&R Machine could be a poster child for lean manufacturing at its best.

In 2006, the company earned international recognition when Finkbiner won the Turnaround of the Year Award for small companies from the Turnaround Management Association.

In 2003, the losses were 15 percent of sales, and accumulated losses were 46 percent of assets, according to Finkbiner, who now serves as part-time chief financial officer for J&R. In 2006, revenue was \$3.6 million. This year, Tumanic expects sales will exceed \$4

million, and he projects \$5 million in sales in 2008.

Tumanic smiles to think how far his company has come since its lowest point.

"It seems like a blur," he says with a chuckle.

### Financial first aid

With little choice back in 2004, Tumanic (pronounced TOO-man-ic) knew he couldn't rescue his company from drowning without a lifeguard. His priorities were to bring in new business and communicate with customers, suppliers and employees. These tasks, while handling stresses in his personal life as he went through a divorce, left little time for big-picture thinking. Finkbiner outlined what he could do. Then he named his price.

"He told me the (cost of his) retainer and I just about choked," Tumanic recalls. "I thought, 'How am I going to do this?'"

Without hope, Tumanic could have said forget it. Instead, he began turning over rocks to find a way to save his business.

No bank would loan him money, no order could be fulfilled without raw materials, no materials could be bought without money.

"This was my life's work," says Tumanic, 48, who had worked in family machining businesses since he was a teen. He bought the business from his stepfather in 1990, and (after a stint in the sports fishing promotions industry) began to focus on it in 1994, building it from three employees to 25. "I've worked for myself most of my life," he adds. "Succeeding was the only option there was."

Not to mention, he had invited his son to work with him. He had hopes that Parker, then a recent high school graduate, would one day succeed him in the business. "I wasn't going to let it go," he says. "I wanted it to continue for him."

Tumanic turned to his personal assets. About a year earlier, he had purchased nine acres of land. As luck would have it, he was able to sell it for twice what he paid.

He invited Finkbiner in and they went to work.

### Off to see the wizard

Finkbiner looks for three key ingredients when evaluating whether an ailing company can be salvaged. First, the core product must be in demand, with enough sales and profit potential to keep the business alive. Second, the owner must be totally committed to the company's success. Finally, bridge financing must be available to pull the drowning company out of the rip tide of debt.

It became immediately evident that Tumanic was committed.

"I came to the conclusion that yes, he would do what the heck was necessary to turn this thing around," Finkbiner says. "I could see that he was willing to make changes."

Bridge financing was nonexistent, how-

ever. Finkbiner soon learned that Tumanic had several strong, longtime relationships with some of J&R's best customers and suppliers. Tumanic invited Finkbiner to join him for a visit to David Brule Jr., executive vice president of BOSS snow plow in Iron Mountain, Mich., his largest customer. BOSS relied on J&R as the sole supplier for specific snow plow parts and Brule decided it was in his best interest to keep the company afloat. BOSS agreed to wire transfer payment for parts as soon as they were received, in return for a small discount. Brule even met with the banker at First State Bank in New London to vouch for Tumanic.

The visit to BOSS proved to Finkbiner that indeed, J&R manufactured products that were critical to its customers, and that the potential for healthy profits was there. He urged Tumanic to visit his next largest customers and ask them for similar payment arrangements. Others agreed, and some even offered to pay up front for raw materials.

### Intangible advantages

"The objective is to really leverage that intangible that we put our hands on with BOSS snow plow," Finkbiner says. "What I saw was an extremely significant intangible that didn't show up on a balance sheet, and that intangible was that his machining capability and his engineering capability were so important to his (largest customer's) operation, along with the fact his parts were critical to their main pieces of equipment. They couldn't quickly get those parts elsewhere."

This realization helped Tumanic view his overall client mix more clearly. He identified key customers who relied on J&R's expertise in machining critical components, and moved them to the top of his priority list. Customers who needed commodity parts that could be made overseas moved off his list. He even went so far as to sever a relationship with his second largest customer because that customer made unrealistic

demands — rush orders that were later cancelled, slow payments — that did not help his bottom line.

"This was monumental," Finkbiner says. "We needed every piece of business we could get our hands on, and he says, 'I'd like to get rid of our second largest customer.' But he had an alternative with better margins."

"I gave him a 60 day notice," Tumanic adds.

"At that point, I knew I had my man," says Finkbiner.

Creative suggestions made a difference on the supplier end, as well. For example, longtime friend Steve Ford, senior vice president of Lapham-Hickey Steel Corp. in Oshkosh, agreed to supply steel to J&R at \$2 for every \$1 it paid (to a given limit) and not to charge interest on bills less than 70 days old.

"I have not done that with very many other companies," says Ford. "I trusted Tim's judgment and with our long-term relationship, I felt although it was a risk, this was a risk worth taking to support a long-term customer."

Tumanic also began to ship the largest gross orders more quickly, even if their orders came in later, because their prompt payments helped his top line. He favored jobs that called for less material components and those with a greater potential for long-term relationships and profitability.

"We're looking at a lot of the same markets, but those that make the most sense to J&R," Tumanic says.

### Lean machine

All the employees chose to stay. No one was laid off. Ninety percent of the dollars owed to creditors was paid back in full, and the rest settled for 30 cents on the dollar. Within nine months, J&R was profitable once again.

"We always made payroll," Tumanic says. "Along the way, as our credibility started



Dave Finkbiner, left, won the Turnaround of the Year Award for small companies from the Turnaround Management Association in 2006 for his work with J&R Machine owner Tim Tumanic, center. Bob Van Asten of First State Bank New London, right, who came close to pulling the plug on loans to the company, became an important partner in its comeback.

improving, the bank stepped in with another loan, and when at the end of 2005 we needed to get our whole financial picture restructured, we went to other banks." Three banks responded, and one of them was First State Bank of New London.

"We knew they were shopping the deal but we wanted to stay with them," Van Asten says. "They met the benchmarks we wanted to see. It was a company that people really believed in, that we believed in." Even in the midst of their divorce, Tumanic's ex-wife signed the papers for new loans to keep the business afloat.

"Tim and his employees committed to making this thing work, to commit to the buy-in to the changes that needed to be made not only in the office here but on the floor, in the shop, to improve efficiencies," says Van Asten.

First State refinanced all of J&R's debt, loaned it more and recently lowered interest on the company's loans to favorable market rates.

As the financial threats were lifted, Tumanic began to revisit earlier efforts to save money within the operations. "Before" photos of the shop show a sloppy factory with tools strewn about. Workers wasted time finding tools, or worse, the company bought more tools because the existing tools could not be found.

A grant from a client company helped pay for a trainer from the Wisconsin Manufacturing Extension Partnership to train every employee in lean principles.

Tumanic asked his son Parker to help spearhead the lean program. Over the course of several months, Parker worked seven days a week, along with others, to organize tools, label everything and establish new procedures to improve efficiencies.

Recently, the company installed a vending machine called the AutoCrib that dispenses about 100 different tools via a touchscreen that tracks every item. A computer monitors tool usage by job and by employee, so they can track excessive tool wear. "By doing that, we've lowered our perishable tooling costs by 1 percent of sales (from 4 to 3 percent), which is huge," Tumanic says.

Incentives were built into the lean program to ensure it remained top of mind. Employees who suggest new, "rapid improvement" production processes that save the company money receive incentives of 10 percent of the annual savings. Last year, four employees split \$10,000 on their suggestion that saved the company \$100,000.

Today, J&R ships its parts on average about 4.5 days early, with a 13-day throughput; Tumanic's goal is to ship 1.5 days in advance with an ambitious seven-day throughput. Since January, the company has shipped parts to BOSS at 100 percent on time, with zero defects.

"This is how we're going to be competitive: With service," Tumanic says. "I tell everybody here, 'We're not a manufacturing company, we're a service company.' That's how you're going to beat the Chinas and the

Indias." Finkbiner adds that J&R will differentiate itself in the global market by rejecting commodity jobs and targeting clients who rely on the company's expertise in engineering and machining.

"We track this performance closely," Tumanic says, "because this is our competitive edge."

He is so confident about his promises to customers today that he will soon be posting average shipping times and throughput on J&R's new Web site.

Within five years, he hopes to retire. His succession plan includes leadership from Parker and operations manager Scott Schenk, now 32, who also started working at J&R while still in high school.

"I look forward to that day," Schenk says. "I respect Tim and what he has done. But Parker and I relate to each other. I think the future looks bright from my perspective."

Joining the company at its worst was a trial by fire for Parker. At 18, he recalls wondering, "If this is what it's going to be like the rest of my life, I don't want to be part of it." But having weathered the turnaround, he's brimming with optimism.

"We're only in the middle of it (the turnaround) now," he says. "The first step was getting money generated, and now we're just starting to get money generated. There's so much more we plan on doing around here. It's not where you get to a point and you leave it. You've got to keep growing with the times."



"We're only in the middle of it (the turnaround) now," says Parker Tumanic, 21, pictured with his dad, who plans to eventually turn the business to him and operations manager Scott Schenk. "There's so much more we plan on doing around here."

### J&R MACHINE, SHAWANO

Machining manufacturer of non-ferrous parts for manufacturers of such varied products as snowplows, firefighting equipment, hospital beds, office furniture, hydraulic components and computer docking stations.

**Owner:** Tim Tumanic

**Founded:** 1987; purchased by Tumanic in 1990

**Employees:** 25

**Sales:** \$3.6 million in 2006

**Awards:**

- Turnaround Management Association, "National Turnaround of the Year," small companies
- Nominee, 2006, Wisconsin Manufacturer of the Year Award, small companies, Wisconsin Manufacturers & Commerce
- Shawano Chamber of Commerce, "Manufacturer of the Year" 2006

**Web site:** jrmachine.com