

# Transforming an Old Line Company into a Profit Machine

## An Interview with Robert Friedman, CFO, BAMCO, Inc.

Following is the transcript of a CFO Studio interview between Andrew Zezas, CEO of New Jersey based Real Estate Strategies Corporation and finance executive, Robert Friedman, CFO of BAMCO, Inc.

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**Zeas:** Hi, this is Andrew Zezas, your host at CFO studio. I am joined today by Robert Friedman of BAMCO Inc. BAMCO, Inc. is an industry leader in the green building space designing, fabricating, and installing metal panel systems for commercial building exteriors. Mr. Friedman's career highlights have include having been in public accounting for 15 years, and most recently having served as the CFO of BAMCO for more than 10 years. Mr. Friedman is here to talk to us today about Transforming an Old Line Company into a Profit Machine. Robert, it's wonderful to have you here on CFO studio.

**Friedman:** Nice to be here, Andrew.

**Zeas:** So, we're talking about transforming an old company and transforming into a profit machine. Any time you step into an old line company, as a finance executive you encounter challenges, and I'm sure you've encountered some. What did you find when you joined BAMCO?

**Friedman:** Yes, some of the issues that I've found at this privately-owned company were some very strong opinions of how to run the business by the founders and the owners, some problems with communications back and forth up and down and across the chain. Also, the owners were very skeptical about having any kind of outside influences on their business. Lastly, but very importantly, profitability was very variable inside the company in different units of the business.

**Zeas:** So, with a lot of privately held companies you'll encounter owners and principals who are hard drivers that are reasons the company is successful and have their own ways of doing things, but I would imagine in this company

you had principals who were focused on different parts of the company and very often we see that silos get built around them and that's what breaks down communication. Is that what you experienced?

**Friedman:** Yes, that is common in smaller entrepreneurial businesses.

**Zeas:** So, let me ask you about the objectives. You arrived at the company and encountered some challenges, but it was a rock solid company and you set objectives. What were the first objectives you set for the company?

**Friedman:** Well, our first objective from my standpoint and it became the standpoint of the entire organization, was to become financially best in class.

**Zeas:** That's a pretty big objective.

**Friedman:** It's a good objective to start out, I was fortunate. The first thing I did when I came in was I sought out to be a sponge, to learn anything I could about the company and everything I could about the industry.

**Zeas:** Now, you were not involved in this industry before, so you were brand new to the industry?

**Friedman:** For the most part, yes. I had some exposure to the industry through public accounting, but I was not an expert by any means.

**Zeas:** So, what did you do to become an expert?

**Friedman:** Well, the first thing I did was I interviewed everyone inside the company. I spent time in all the different

aspects of the company to see how everything worked, the processes, the people, the capabilities, things like that. And externally what I did, which was one of the most helpful things, was I joined the Construction Financial Management Association, which is a national organization that has some very high quality information that comes from it, and they publish a book which is actually about a 1500 page book with tons information about the industry. One of the things that come also is each year they do an annual survey of their membership, and you're getting high quality very deep data on financial ratios, balance sheets, P&Ls, and the structure of those.

**Zeas:** And do they produce that report themselves or through an outside firm?

**Friedman:** It's produced with the help of Mercer Consulting, and so that really was extremely helpful for me, and what I did was basically modeled our financials in our accounting system after this benchmark information

**Zeas:** So, you've spent a lot of time interviewing internal and external influencers and you gathered information based on industry standards. I've got to believe as you're starting to set the foundation to restructure things, you've encountered sacred cows and "you know we've always done it this way and this is forged in concrete", how did you deal with these issues?

**Friedman:** Oh, there's no question. One of the very interesting things that happened as a result of setting up these systems that we set up is that we got a lot of great information, and you know we are in a business of running jobs, and what we found out in the process was that 80% of our profits were really being generated by only 20% of our jobs and those jobs...

**Zeas:** Let me interrupt you and ask you to say that again, you had 80% of your profits coming from?

**Friedman:** 20% of our jobs, yes.

**Zeas:** 20% of your jobs, hmm, wow that's very unusual.

**Friedman:** Yeah, it could be. In this case, what we found out was the jobs that were generating the most profit were the jobs that we were using our propriety product that we had developed, and we weren't really promoting this product. The interesting thing was I remember the turning point, and one of the turning points was that we were fighting very, very hard to get this job with the pharmaceutical project. Everybody, all the competitors were out there fighting for this thing, so it was who was going to drop the price down the most. So, at the end of the job it basically was a loss, and one

of the founders said "I know in my bones you are wrong I've been doing this for 15 years."

**Zeas:** And you won the job?

**Friedman:** We won the job.

**Zeas:** You won the job, and it was a loss, and your founder thought it was profitable?

**Friedman:** Yes, he said "I know it in my bones its' profitable," and I took the job sheet with all the detailed information, and I passed over to him and I said, "Please show me where I'm wrong?" And it was an interesting moment.

**Zeas:** So, you were able to affect how they were thinking about their business?

**Friedman:** Yes, and over time Andrew, what happened was that we flipped it, 80% of our business became working in this proprietary product, and we sought out to become experts and the best in the business in this particular niche.

**Zeas:** Now how did you do this, what steps did you take to get them to change their thinking, did you do internal planning, did you go off site, how did you handle this?

**Friedman:** Well, it's a combination of a lot of different things, but one of the most important things that we did, I think, is that we implemented an annual strategic planning process, and it was a very robust process which brought in a lot of information and energy from all of our employees and outside sources as well.

**Zeas:** How did you involve your employees in the process?

**Friedman:** I asked people to write a one page memo for me about some of the strengths weaknesses of our organization and things they'd like to see changed in the company. I took all that information, and I compiled basically a master list of what we had, where we stood versus our industry, and it was one of the starting points for what we were doing. Each year we have repeated this process, and each year we get deeper and deeper into it, and we've eliminated a lot of the weaknesses, and we've actually converted some of the weaknesses into strengths. We've taken some of the opportunities and acted upon them, and we've actually taken some of threats off the list over time.

**Zeas:** So, what's been the result? It sounds like a very strategic process, what's been the outcome?

**Friedman:** Well, over time we've doubled our revenue, our margins have almost doubled—at one point had doubled from the original starting point. We are clearly best in class in

our industry, at least financially and in other ways as well. I'm sure operationally we have an excellent reputation, quality is high, our safety is high, and it's a fun place to work.

**Zeas:** Now, sounds like tremendous results. Let me take you back to one thing, you have people involved on the company level and you've got management level, there was a discussion about metrics too at one point, what kind of metrics did you bring into this overall analysis?

**Friedman:** Well, the metrics really formed the basis for eventually becoming the financial information. So, it's very important to get down and dig deeper, people want to do a good job. And if you do not measure them, you are going to get a lot of mediocrity. So, initially people will resist some of these metrics, but later on they start to love them.

**Zeas:** Because they understand where they stand?

**Friedman:** They know where they stand. They know they're doing a good job. You know they're doing a good job, and people want to continue to improve as well. So each time you reach your targets you can elevate your targets slightly, and people respond.

**Zeas:** And you started using industry information, and I would imagine after a while you would have good information from within the company. Do you still use industry information?

**Friedman:** That's a good point. Within two years we've received financially best in class in the industry, and that was a long time ago. I mean within 3 or 4 years we've realized those best in class benchmarks were useless for us, and we've used our own internal benchmarks since then.

**Zeas:** That's phenomenal. Now, how do you sustain this? This has been going on for a while, you've become very good at it, how do you sustain this every year?

**Friedman:** Well, we stay with the annual process continually researching our competitors and doing business intelligence, but what we've done is we have incorporated into our strategic process what I'm calling it the "5% solution," and the 5% solution is we are looking to reduce waste, increase productivity, and enhance revenue in ways that will give us 5% more in our gross margin each year. And I'll tell you what Andrew, it does get challenging after a while, the low hanging fruit has been harvested several years ago, but we always come up with good ideas, and we just keep pushing forward to continually improve.

**Zeas:** So constant improvement, constantly looking for 5%, I would imagine sometimes you're getting 5, sometimes you are getting less, sometimes you are getting more?

**Friedman:** That's true.

**Zeas:** And where does the company stand today? You mentioned margins are up, and costs are down.

**Friedman:** Well business is competitive, but we've become, I think, a regional industry leader, and it's a great company to work.

**Zeas:** Excellent, glad to hear you say that. Robert, we're about out of time. Let me ask you a personal question. When you're not a CFO, when you're not rebuilding companies, what do you do personal time?

**Friedman:** Well, I have a wonderful family, a beautiful wife and three children. I also collect wine, I enjoy good food and friends, and I love music and play a little guitar on the side.

**Zeas:** A little guitar?

**Friedman:** Yes.

**Zeas:** Robert, this has been wonderful. I truly appreciate you joining us here on CFO Studio. I hope you'll permit us to listen to you again sometime.

**Friedman:** I would love to.

**Zeas:** It's been a pleasure.

**Friedman:** Thank you.

**Zeas:** This is Andrew Zeas, your host at CFO Studio, with Robert Friedman CFO of BAMCO, saying thank you very much for watching. We'll see you again.

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