Overview:

Growing an established company by more than 50% in a 5 year period requires the consideration of a number of factors and organizational components. However, after reviewing product, industry and geographic markets, sales channel partners and competitive comparables, it is fair to consider potential organizational changes that can be implemented to achieve significant growth.

The Company has a reasonable portfolio of industrial products including a number of legacy products, sales channel partners including distributors and independent representatives focused primarily on industrial products and a worldwide sales and manufacturing organizations. In order to get a clearer picture of the industry position of Company, we considered competitive comparables for size, markets and product mix. We believe that there is a close comparable that can help in considering potential new markets. As a pseudonym, let's call the company Brand X. Brand X has a similar product portfolio and has an estimated annual sales figure of $170 million. Until a recent acquisition by a foreign holding company, they focused primarily on domestic sales with the majority of their sales coming from direct to customer transactions through their web presence. Brand X is also primarily focused on the industrial marketplace and was constructed by acquisitions over a period of years similar to Company.

Geographic Markets:

Let's consider the development of geographic markets first. During the review of the Company operations, there was no information regarding the efforts to develop the largest and most dynamic geographic industrial market available today, mainland China. The effective integration of the Company product line into the emerging markets of China, Singapore and south-east Asia can easily mean $25 - $30 million in increased annual sales within 5 years. Company has already established itself as a world-wide supplier of industrial products and the addition of operations in China augments that. The premise for the acquisition of Brand X by the new owner was to grow the company by way of existing international sales channels. This magnifies the need to quickly and effectively attack the south-east Asia market.

Profitability of sales into this geographic market should be similar to the margins of existing sales channels with a potential small offset for product shipping considering the point of manufacture. The assumption is, that with distributor discounts and/or representative commissions, and given acceptable manufacturing costs and pricing strategy, that product margins are in the 20 – 25% range. Additional required resources would depend on the structure of the operation established in China and who would be bearing the cost burden of those resources. At a minimum, there is likely to be a need for a dedicated management resource to oversee the sales process.

Product Markets:

We would open for consideration the addition of a product line and the augmentation/expansion of another. Adding a strain gage product line would be a great complimentary product to include in the industrial portfolio. Assuming internal engineering capabilities are present, the development of a strain gage line could be developed in 12 – 18 months with a cost of around $750,000. With an estimated near-term, world-wide sales volume of $5 million and a nominal product margin of 20%, the ROI would be less than one year. I would suggest that within the five year window of this review, the estimated world-wide sales volume could reach $10 million.

The industrial equipment manufactures remain uncertain regarding the necessity and requirements for in-house data collection as well as real-time information dissemination and accessibility. Traditional process outputs of voltage and current analog signals as well as pulse outputs and switch closures have been the standard for years. Even those products that are capable of RS-232/485 communications are limited in their ability to be distributed systematically to all users and processes that may need access to the information. There remains trepidation in old line product manufacturers to include these capabilities in product portfolios.

In a 2010 market review and forecast, ABI Research predicted the growth of the BAS market to grow more than $36 billion by 2015. ABI suggests that "Government financial incentives and regulations as well as organizations' own financial and environmental goals <u>are coinciding with a drive to open up building automation systems to wider network management and integration</u> …" and "shifts that will take place between revenue streams within the BAS market, as contract values will increasingly skew toward software and services and away from hardware – <u>another result of the emerging trend for improved communication and connectivity with BASs</u>."

Several competitive comparables, including those within the Company's business group, have focused on adding the network and system integration capabilities within their product portfolio. These products allow for network integration of Ethernet, wi-fi, power line carrier and cell capabilities. This capability supports the industry need for improved communication and connectivity.

The further development of Company indicators, data loggers and recorders could allow for not only an increased sales volume for those stand-alone products but could well increase sales other Company products that might go to other vendors due to their communication capabilities. Development of these products or capabilities may well require outside resources. In-house hardware developers may not have the capabilities and skills to develop open network communication products. Outside development of standard communication gateways and data collection products can be less costly and quicker to market by using previously developed modules.

We estimate a sales volume of for the new automation products to be $3 - $4 million per year. Because of the value of the systemic solution that the new equipment embodies, we suggest that the margins on the products would be incrementally higher, 30 – 35%. With development costs of $500K - $750K, we are still looking at a ROI of less than 18 months. Additionally we estimate that being able to package existing standard products with network enabled gateways could well increase the sales volume of standard products upwards of 5 – 10%.

Sales Channels:

Traditionally Company sells its products through authorized distributors, independent representatives and direct to the customer through the web portal. Our review of some of these channel partners suggests that they are focused primarily on industrial applications and commercial HVAC applications. Without additional first-hand knowledge regarding the industry mix of these sales channels or the management of these sales channels, we can't give an evaluation of the effectiveness of these partners to attack the growing and healthy industries on behalf of Company. It is important to the overall health and growth of a company, especially one that primarily uses non-direct sales channels, to focus its' sales efforts and product development to industries that will bear fruit in the near term and long term.

A consensus of experts concerning high growth industries for the near-term include rubber and plastics, automotive, metals manufacturing, health care, mining including support services, and pharmaceuticals. All of these industries have the ability to be strong markets for Company if the management of these sectors is done effectively. Proper use of District sales managers and industry sector managers can allow the company to aggressively pursue by aligning the proper industry segments with the proper sales channels partners. Using 2 – 3 industry sector managers in conjunction with district sales managers and product managers can help the company grow business 5 – 10% year over year with the proper alignment of product and resources. Over the five year period of this study could mean an increase of 30% in sales volume. The cost to the company would be 2 FE at the going rate with product margins equivalent to those achieved currently.

From the information received from Company heretofore, there seems to be an interest by Company in pursuing a consumer based sales and marketing approach. Without knowing exactly what that might entail, we are going to entertain two different possible meanings of that strategy.

The intent is to do more business-to-business transactions, where Company markets the same products directly to the same industrial and commercial type of customers, there is certainly a reasonable dynamic to do that. For example, Brand X, primarily does this is the type of marketing and sales. Certainly there are strategic, organizational and profit motivation for companies to begin selling directly to users. Combination/Hybrid sales channels using direct and indirect sales forces can be used with success, especially if the long term expectation is that sales and marketing will be almost entirely in house in the future. The advent of internet based sales capabilities have created a much more capable marketing and sales channel than the "feet on the ground approach" that was required in the past. Using internet marketing strategies such as SEO, per click, keyword, content placement and social marketing can allow the company to drive potential customers to the company web portal. Company is doing some of that PPC advertising now.

Finding the best avenues for cultivating new customers and creating a brand and site preference becomes the marketing challenge. Print and online advertising, brand and company awareness, in addition to building online application resources are vital. Marketing the web portal as a store front for consumers to find and purchase products can be an effective and more profitable method of delivering small quantity, standard use products.

Another potential consumer marketing program would be marketing and selling through retail channels to customers for home or business for small quantity. Certainly there are some products in the existing Company portfolio that could be adapted to meet this consumer model. It would require a paradigm shift in the design, manufacture, marketing and sale of the products. Opening up sales partners with Big Box retailers is possible but would take significant resources to get established. Design and manufacture of products for retail consumption would also require some reconfiguration. Additionally, while the margin dollars could be significant, product margins are typically less (15 – 20%) for this type of market.

Conclusion:

Without more detailed information regarding the history of the company in terms of products, markets, sales channels and partners, as well as prior successes and failures, not to mention understanding the core competencies of the organization, it is difficult to be overly specific regarding the likely outcomes of these recommendations. Growing this company or any company by two and three times the current sales volume requires a number of multi-faceted transformations. It requires visionary leadership with strong communicative skills. It also requires engaging employees at all levels of the organization to dedicate themselves to the challenges that lay ahead. We believe that the universe of opportunities for Company is significant and obtaining a sales volume of $250 million or more is certainly obtainable.