ASIWW [Analytic Solutions @ the Intersection of the Warehouse and the Web] A

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Introduction

It was Wednesday night, June 30, 2004. Tomorrow was July 1, Canada Day, for many people a four day long week-end, as Canadians welcomed the arrival of their short summer.

For Syl Kennedy it was not to be a long week-end, even though his wife and two children had gone north two days previously. He just had too many problems that had to be attended too. The problems never seemed to go away. For the past four years they just seemed to multiply, ever since the crash of the dot.com boom in 2000.

Syl was in his early 40s, but at this point in time he felt older as he reflected back on his six years as CEO of ASIWW.

Those first two years had been great as he turned the company around, getting it ready for dramatic growth and profitability. But neither the growth nor profitability had materialized. Rather there had been four consecutive years of flat top line revenue, around the $4.5 million level, and profitability had been mixed.

This year was supposed to be different. In late 2003 the Company had obtained over $2million in financing through a convertible preferred issue. That was to provide them with the much-needed cash to hire the sales and marketing skills necessary to take their products/solutions to market.

This was to be the year, finally, of the big break through but so far it had not occurred. They were still stuck in a rut, where the exciting plans developed in the fall just didn't materialize in the harsh reality of the new fiscal year [Nov. 30 year end]. Sales were flat and now they had not only all the normal pressures but also the pressures of the preferred shareholders and the cost of the 7% preferred dividend.

What on earth was he going to do to get out of this mess?

How it all began

Syl Kennedy was a small town boy from southwestern Ontario. He was smart and ambitious. After completing his undergraduate degree at Western he came to the University of Toronto to do law. After convocation he joined a prestigious down town Toronto law firm.

In the early 1990s, when the economy was not that great, he and a couple of friends, left the security of the big firm and started their own practice. They had risked a great deal, even renting space in First Canadian Place rather than a cheaper location.

Their practice expanded rapidly, much more quickly than they had dared hope. Syl's specialty was corporate work, particularly in the new and developing field of high tech start-ups.

In early 1996, a boy hood friend, Chuck Etkin, had approached him about joining the Board of Directors of a small high tech company in the new area of data mining. [See Exhibit 1 – for a brief description of data mining] Chuck had done very well for himself, having started a company after graduating from Waterloo. Sales of the Company were already $150 million and Chuck was generally recognized as one of the up and coming stars in the Canadian business community.

Syl was a bit of a visionary and the nature of the business, data mining, intrigued him. Besides which, this tied in well with his legal work. And so he agreed to join the Board at the Annual General Meeting [AGM].

The Early Years, 1996-2000

Joining the Board was a much more tumultuous experience than he had anticipated. At the very first Board meeting they had changed the Chair. At the second meeting they had removed the CEO, who was also the founder of the Company. In her place they had appointed Fred Marshall, the Vice President of Technology.

The next two years were better but anything but great. At the summer 1998 Board meeting one of the Directors said "It's time for Marshall to go – he may know a lot about technology, but he's a big company man. He doesn't know how to operate in a small company environment and we're a small company". Another Director added, "And getting smaller by the day".

The Chairman then said, "Well that's all very well and good and I don't mind firing my second President in two years, IF I know who is going to succeed him". Syl spoke up, "I'll do it." Stunned silence and then relief followed his response when Syl said, "I believe in this company and I am very frustrated with our lack of results. I've never lost at anything I have undertaken and I don’t intend to lose now. And something has to be done”.

And so in July 1998 Syl became President of ASIWW. And the wild ride began. The first challenge was to save the company from insolvency. He slashed costs and cleaned up the balance sheet. He did not pay attention to sales and they dropped precipitously in `99 but came roaring back in the millennial year – jumping 50%.

Furthermore in early 2000 the stock, which had been trading @ 8¢ had taken off like a rocket passing $8:00 in early March. But since then, like other stocks on the NASDAQ and TSE Venture Exchange it had been caught in the downdraft. The irony was they had made so much progress, but the stock, which had been swept up with the euphoria had been brought down with all those other companies, that did not have real products.

The Post Dot.Com Boom World, 2000-2003

An extremely difficult business environment followed the dot comm. boom, the period of ‘irrational exuberance’. Mere survival became a sign of success. With hard work and not much fun ASIWW survived.

Sales were flat in the $4.5 million range [see Exhibit 2]. Costs jumped 20% in 2001 to the $4.9 million level. With costs greater than revenue, plus foreign exchange losses, amortization and other costs, the Company was back in the red, with the exception of 2002 when a recovery from a discontinued operation gave them a modest profit.

In addition to selling analytical tools Syl recognized the need to develop partnerships whereby ASIWW products would be available through major software vendors such as Seibel, Peoplesoft and Microsoft. Another development was the recognition that the company could no longer rely solely on tool sales but rather had to be able to provide enterprise solutions to their customers.

Having done all that, something more had to be done in light of flat sales and lack of profitability. And in the Fall of 2003 a number of key moves were made;
1] a Vice President of North American sales was hired, the small European sales organization was strengthened, and an arrangement was made to start selling in Australia,
2] the services organization was strengthened so the company was no longer just dependent on tool sales but was able to offer a more complete solution involving both tools and advice,
3] a $2.3 million financing was closed which not only provided the resources to execute a growth strategy but also significantly improved the balance sheet [see Exhibit 3].

In addition, one of the newer Board members, Ralph Braveheart, was convinced to become Chairman of the Board. Ralph was well known as the former President of a major financial institution with a strong knowledge of mathematics.

With these steps taken in the last quarter of the fiscal year [November 30 year end] Syl confidently submitted an aggressive plan for 2004, envisaging growth in the top line and a solid profit.

More Disappointment in 2004

The Business Plan for the following year was always submitted prior to the end of the fiscal year. This meant projecting the numbers for the current year and, based on that projection, figuring out what the plan numbers would be for the next year.

Things rapidly started to go wrong when the auditors informed the Company in December that sales, which the company considered current, had to be booked as deferred revenue. As a consequence the final year-end figure was lower than anticipated, which not only affected the stock adversely, but also meant that the stretch plan for 2004 was now really a stretch. The stock price, which had performed well in 2003, was hammered in 2004 and Syl was a big shareholder [see Exhibit 4].

To make matters worse, sales in the 1st ¼ were below the previous year, not ahead.

As he thought about this, he wondered what was the problem? True he was stretched too thin, but that was always a problem in small companies.

Syl met with the new Chair of the Board, Ralph Braveheart and they agreed on a set of problems and the Chair asked Syl to come back with some strategic options for the Board to consider.

The problems were;

1] PRODUCT UNDERSTANDING

The Company didn't have embedded in its corporate mentality a shared and supported overview of what its product was, and the future direction of the product. This lack underlay a number of difficulties:

- confused positions with respect to "tools" versus "enterprise solutions"
- absence of product management
- misaligned research and development
- weak market analysis and marketing planning

2] BUSINESS PLAN

Marketing and sales activity were not well-connected to a set of business outcomes that would lead to the continued survival and ultimate prosperity of ASIWW. Factors that had to be tied together included :

- recognition of products and clients for the margins entailed
- scale of distribution effort
- financing and time frame covered by the business plan

3] SALES MANAGEMENT

Management of the sales effort had been patchy. The majority of the sales force was focused on "tools", not "enterprise solutions" and "enterprise solutions" seemed clearly the way of the future..

4] FOCUS ON REVENUE GENERATION

Too much energy was expended internally without any focus on whether or not the outcome would lead to revenue generation. Everyone at ASIWW needed to understand that every hour of time spent that did not lead promptly to revenue was a debatable use of time.

After meeting with Ralph, Syl contemplated the options before the Company and wondered which he should recommend to the Board. The options included;

1] Continue current course, managing resources (down if needed; and supplementing as needed – for example in marketing) to deliver break-even to profitable revenue growth while shifting focus from tools sales toward higher value solutions sales on an opportunistic, targeted basis.

2] Change gears and shift completely away from low transaction value tools sales. The poor performance of the North American tools business and the competition from giant players such as SAS indicated this might be the way to go. Shut down Europe and Australia, and reposition / relaunch the Company with new personnel, a new name, new positioning and a new product set specifically oriented to higher value "end to end" solutions that may (or may not) incorporate data mining capability.

3] Establish a relationship with a global enterprise software vendor that could benefit from the ASIWW product by a joint-offering. The partner would provide access to needed resources such as distribution channels, sales force, and complementary software. ASIWW would focus its efforts within this framework and partnership.

4] Through either a private or a public sale transaction, ASIWW sells all its shares or its data mining assets to a strategic buyer.

5] Pursue a transaction to de-list ASIWW as a public company through a management led, private investor funded buy-out.

There was also the alternative of Syl stepping aside as CEO and letting someone else see if they could do better. He thought about that. Although the Company had made up some ground in the 2nd ¼ - enough to put them ahead for the first ½ the top line was nowhere near the plan level, which was required to bring the company to a break even position or better. North American tool sales were a particular problem [see Exhibit 5].

Conclusion

Syl was both angry and annoyed. He saw little enough of his family and Canada had such a short summer, why was he here in Toronto when his family was up at their lovely cottage in the Muskoka country?

It didn't make sense. He was going to leave very early for the north, and try and escape the holiday traffic. He knew what he would do when he got back on Monday.

He was going to call on Bill Pirie, one of the Directors, who was a Faculty member at the Rotman School of Management, and ask him to recommend one of his students to come in and work for ASIWW during the summer. The assignment would be straightforward, reporting directly to the CEO, the student would be asked to; 1] assess the situation, 2] provide Syl with a set of recommendations of what to do, including next steps.

Exhibit 1 Industry Analysis [BI]

The Data Mining/Business Intelligence Industry and ASIWW

Just as the early 1990s resulted in data warehousing [storing gigabytes of data offsite in a 'warehouse'] so the latter part of the 1990s resulted in data mining [the ability to go into the warehouse and 'mine' the data].

Data mining is the extraction of previously unknown information from huge databases and using that information to make crucial business decisions.

With the arrival of the 21st century this infant industry changed again and started to be called the Business Intelligence [BI] Industry. The BI industry has evolved, like many maturing industries, from islands of technology to several larger vendors offering integrated solutions.

The solutions begin with Data Integration products providing the first step in BI analysis by aggregating data from disparate sources into a common format in a Data Warehouse. There, a variety of Analytical Tools – Data Mining, On-line Analytical Processing [OLAP], and Query & Reporting [Q & R] – are brought into play. Data Mining products focus on building predictive models based on patterns in data. Finally Analytical Applications [CRM, Financials and Operations] measure, understand, and respond to key business.

In spite of the trend to integrated solutions BI is still very much a fragmented, best-of-breed, point-solution market. No single vendor has yet developed a robust end-to-end solution, which is likely one of the reasons more than 90% of Global organizations rely on several BI vendors.

However, like most high-tech arenas, the business intelligence software market is mature enough for consolidation, with survivors buying and developing additional capabilities or partnering for them. Opinions vary on how rapidly or how completely that will happen, but it is generally agreed that it is now primarily a matter of timing.

Corporations considering deploying BI tools and functions throughout their organization are looking for a single vendor to supply all of their BI needs on a global scale. To respond to these market pressures, the BI industry is consolidating to attain a more complete, integrated product package, economies of scale, as well as deeper segment expertise and global resources.

The big data base vendors, including Oracle, IBM, Microsoft, and NCR, are all adding online analytical processing and data mining functionality to their core data base engines. In addition, enterprise resource planning (ERP) specialists, such as SAP, Seibel and PeopleSoft, are enabling their products to run analytic functions

Among the pure play Data Mining companies ASIWW is much smaller than the companies it competes against such as SAS, a North Carolina based non profit; Fair Isaac, a California base NYSE company; SPSS a Chicago based organization, which was spun out of the University of Chicago in the 1970s; Mathsoft, a privately based Cambridge Massachusetts company.

Current estimates are that the worldwide Business Intelligence market will grow at a CAGR of 18% per year. The estimates for the packaged analytics market are that it will grow at a CAGR of 20%. This is a consequence of increased market acceptance driven by the need for market place agility and the availability of more effective solutions.

Customer for data mining are those industries which generate and store enormous amounts of data such as Financial Institutions, Retail Chains, Telecommunication and Pharmaceutical Companies and the Electrical Generation and Distribution Industry, especially with the globalization trends in that industry. The demand is for financial, operational and marketing data with Customer Relationship Marketing [CRM] being the area of greatest growth.

Exhibit 2 - Consolidated Statement of Income [Loss]
2000-2003 [$000]

Item	2003	2002	2001	2000
Revenue	4,542	4,475	4,444	4,476
Cost of goods sold	28	23	25	37
	4,514	**4,453**	**4,419**	**4,439**
Costs & Expenses				
Sales & Mkting	2,328	2,194	2,416	1,672
Gen. &. Admin.	1,329	1,197	1,217	1,053
Bad debts	-	85	-	153
R & D	1,210	1,068	1,234	1,195
	4,867	**4,544**	**4,867**	**4,073**
Inc/loss pre other items	[353]	[91]	[448]	366
Other income	58	79	91	335
Amortization	[71]	[108]	[198]	[148]
For.Ex.gain/loss	[317]	[57]	[99]	39
Fin. fees	[10]	[6]	[53]	[12]
Loss from continuing ops	[693]	[183]	[707]	581
Future inc tax recovery [expense]	125	[125]	-	-
Discontinued Ops	-	574	17	26
Net Income [loss]	**[569]**	**266**	**[690]**	**606**

Exhibit 3 – Consolidated Balance Sheet
2000 – 2003 [$000]

	2003	2002	2001	2000
ASSETS				
Current				
Cash & cash equiv.	3,261	662	1,005	938
Accts. Rec.	1,418	1,420	968	1,184
Prepaid expenses	77	100	92	66
Total current	4,756	2,182	2,193	2,188
Capital Assets	121	95	180	276
Other	85	-	51	116
Liabilities & Shareholder Equity	4,962	2,277	2,425	2,580
Current				
Accounts payable	255	317	485	465
Licence fees payable	6	5	2	4
Deferred revenue	1,451	861	593	377
Liabilities of Discontinued operation	-	-	796	426
Other	47	-	48	89
Pref Shs Divs	7	-	-	-
Total current liabilities	1,766	1,183	1,875	1,361
Tax Liabilities	125	250	143	125
R& D Liabilities	199	-	-	-
Deferred Rev	289	90	-	70
Pref. Shs.	1,991	-	-	-
Total Liabilities	4,370	1,523	2,018	1,556
Shareholders Equity				
Sh Capital	13,684	13,277	13,197	13,123
Deficit	[13,092]	[12,523]	[12,790]	[12,099]
Total Sh Equity	592	754	407	1,024
	4,962	2,277	2,425	2,580

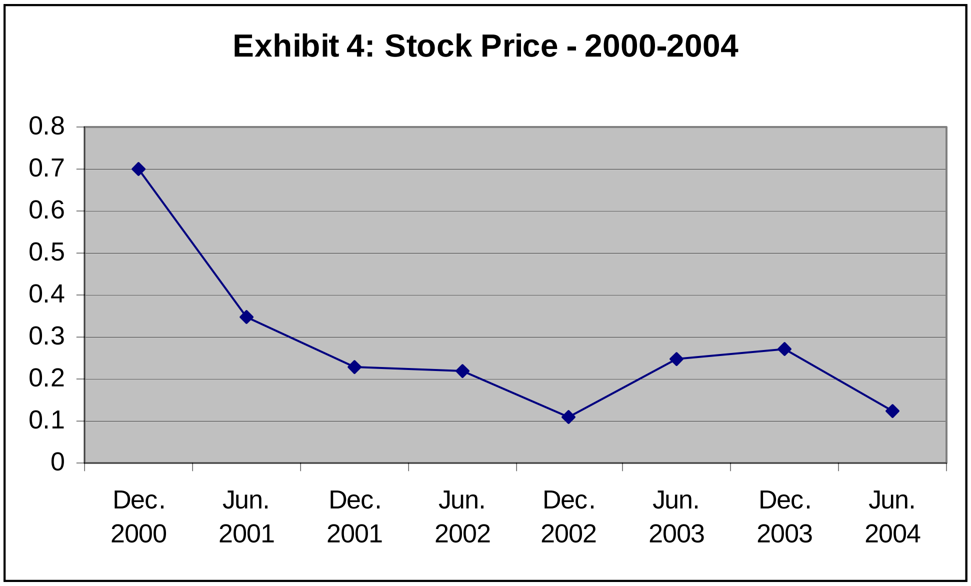
Exhibit 4: Stock Price - 2000-2004
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Dec. 2000
Jun. 2001
Dec. 2001
Jun. 2002
Dec. 2002
Jun. 2003
Dec. 2003
Jun. 2004

Exhibit 5 – First Half Revenue by Location and Product Line
[$000]

Location/Product Line	Plan 2004	Actual 2004	Actual 2003
N. A. Tools*	2,125	792	1,417
International Tools	255	487	171
N.A. Renewals	975	796	650
Int. Renewals	60	92	42
Services & Solutions	540	284	361
Partner Products[1]	265	337	5
TOTAL	4,220	2,788	2,646

* N.A. = North America

[1] Mostly Seibel