

Worcester Telegram & Gazette (MA)

KomTeK makes most of reprieve

December 25, 2005

Section: BUSINESS

Page: E1

By Andi Esposito

COLUMN: ANDI ESPOSITO

WORCESTER - When people get a second chance at life, they often change. They might lose weight, stop smoking or spend more time with people they love. They might slow down or speed up; mend old relationships or begin new ones. Aware of the precious gift they have received, all is different and yet the same.

Exactly a year ago, KomTeK Inc., a Worcester forging and castings company that had been in bankruptcy proceedings since July 2004, won a court reprieve from the likelihood of a shutdown and liquidation.

A deal struck just before Christmas and accepted by creditors gave the company a second chance.

On the verge of being permanently closed, KomTeK's minority owner and president, Robert B. **Kervick**, secured financing to buy the assets for \$1.3 million and keep the company in business.

In need of critical jet fighter parts for the Iraq war, Parker Hannifin Corp., KomTeK's biggest customer, clinched the deal by agreeing to put down a \$110,000 deposit on the purchase. To lessen the obligations on the bankruptcy estate, employees gave up \$80,000 in vacation pay claims.

A year later, KomTeK has more than survived.

Mr. **Kervick** talked recently about how KomTek recovered from its near-death experience. With him were company directors Dan H. Eberly, chief financial officer, and Deborah S. Emmons, treasurer; Mr. **Kervick**'s son and 83-year-old father, and Phillip C. Lincoln, chairman of the company's United Steelworkers bargaining unit.

It is a story that leans heavily on changes that come with second chances and on the remarkable partnership between KomTeK and its union.

After winning court approval Jan. 3, Mr. **Kervick** bought KomTeK's assets and assumed certain liabilities including the union contract, which he extended for two more years. He rehired 47 people. Each month since then, KomTeK has operated profitably, met and exceeded cash flow requirements and grown its backlog, with some contracts in place through 2007, said Mr. **Kervick**.

At the end of September, KomTeK achieved earnings before interest, taxes, depreciation and amortization, or EBITDA, it hadn't expected to reach until year's end. The company is on track to repay its financing in two more years, and its lender, Corsair Special Opportunities Fund LLP, provided additional money in November so KomTeK could buy back its real estate from the bank.

"We have more opportunities we are looking at, and next year should be as good as this year," said Mr. **Kervick**, whose father, Paul, formed KomTeK in 1968. "I never thought a year ago we would be sitting here saying that. We are doing better than we expected," he said, and added: "I bought a Christmas tree this year."

To make good on Mr. **Kervick's** promise to the court that KomTeK would operate profitably in 2005, the company, its employees and union have worked closely, which wasn't new. A decade ago, when the union sought a sign of commitment toward pursuit of a mutually beneficial partnership, Mr. **Kervick** had the union's name, United Steelworkers of America Local 2936, installed under KomTeK's name on the side of the 40 Rockdale St. factory.

Change was also part of the equation. A strong financial plan to preserve and grow working capital was adopted, the product portfolio was refocused and a new system developed by Mr. **Kervick's** son, Kristopher, was put in place to track material. "That has played a significant role as we look at why jobs are slow, how to speed them up and where bottlenecks are," said Mr. Eberly, who is also chief operating officer.

Freed in exiting bankruptcy to renegotiate long-term contracts, KomTeK increased prices to cover metals costs, which rose 50 percent to 100 percent this past year. Cobalt alloys used in forged hip joints for medical devices have jumped from \$28 to \$40 a pound, for example.

And Mr. **Kervick** took to the road. To regain the confidence of a marketplace he said was "nervous and spooked" after the threat of the company's liquidation, Mr. **Kervick**, Mr. Lincoln and sales employees Kathleen J. McQuade and Janette Martinez visited customers together. Mr. Lincoln's presence sent a special message.

"I call on customers and I bring Phil. 'Who's he?' they ask. 'The head of the bargaining unit,'" Mr. **Kervick** said. "It's a powerful means of telling the story of what the company will provide customers - good-quality products, very efficiently."

John J. Healy, chief executive officer of the Manufacturing Advancement Center in Worcester, said bringing the union leader on calls "is a good move" because original equipment manufacturers are looking for stability in the supply chain.

"When someone comes in with the union, that's a good representation that this is a solid company, and the union is working with them to secure the business," said Mr. Healy. They are "singing to the same song sheets."

Having sat with customers, Mr. Lincoln can take a desire or concern directly to those who make parts, a level of communication that is critical as KomTeK refocuses on "boutique, higher-end products, where delivery and quality are more important than price," said Mr. **Kervick**.

"In the market we are in, quality drives the product," Mr. Lincoln said. "You must sell with the prospect that you will be there if a problem arises."

A customer had trouble gripping small parts for machining made by KomTeK and others, for example. "Phil saw the problem and how we could make a change, and sat down with the forge shop, machine and inspection departments and figured out how to eliminate the problem," said Mr. **Kervick**.

"No companies we compete with bring people from the floor to the customer to help them solve issues," he said.

As KomTeK's fortunes improved, more people were recalled. The company now employs 90. The union's average hourly wage has increased to \$17.50, or \$25 an hour with benefits, from \$17 as more people at higher pay scales are brought on.

In the forge shop, for example, an operator of a 2,000-pound hammer now forges and "hot trims" parts, eliminating a task that had been done by a lower-paid worker. The hammer operator makes fewer but more complete pieces in a day, saving KomTeK money, producing parts at lower cost and building job security, said Mr. Lincoln.

The union has also brought other flexibility to the factory floor - using people in different jobs, for example, but paying them at the higher job level instead hiring for spikes and then laying off. And when a job wasn't needed even though it was required by the contract, it was combined with another.

Both have contributed to labor savings, said Mr. Lincoln, who has praised Mr. **Kervick** for not bailing out on pension and wages when he bought the assets.

Workers have also helped wring out costs in other ways. In its dark days, KomTeK began to refurbish tooling because it didn't have cash to buy new dies. Now it is done routinely, said Mr. Lincoln.

Also, union workers help quote prices on jobs, something only management did a year ago, he said.

Having lost half its members in 20 years, "the Steelworkers is a union that will work with employers to lower costs and raise productivity by relaxing restricting work rules because the union realizes how difficult it is to protect the high-paying and high-benefit jobs of its members in the face of global competition," said Gary N. Chaison, professor of industrial relations at Clark University's Graduate School of Management and author of "Unions in America."

"The union will be flexible in its dealings with management because it understands the reality of protecting workers' jobs in a highly competitive environment," but collaboration must be based on acceptance, said Mr. Chaison.

"If the union feels management still entertains hopes of getting rid of it, it will be defensive and wary of any overtures to help. If it feels secure in the workplace and it has strong, well-entrenched leadership, there can be remarkable collaboration and flexibility, and the members will accept and perhaps even welcome it."

KomTeK didn't lose any customers, but did jettison a few contracts that involved lengthy and costly R&D, said Mr. **Kervick**. It has built business with existing accounts and brought on new contracts and new customers, he said.

Honesty played a part. KomTeK "told the truth of what happened and what we were capable of doing and in every case, the customer chose to go forward," said Mr. **Kervick**.

"There was trust on a lot of levels - by customers, suppliers and employees. They believed it and we were able to move forward because of it."

Parker-Hannifin Corp., the savior that turned the tide a year ago, remains KomTeK's biggest customer, buying such items as fuel nozzles for aircraft engines and fittings and valves used in high-end industrial applications.

Putting down the \$110,000 deposit "was not only in KomTeK's interest but ours," said James C. Cartwright, a spokesman for Cleveland-based Parker-Hannifin.

"Our company is first and foremost about customer service, and it would have been probably impossible to serve our customers that buy the ultimate product if KomTeK had

been liquidated," he said. "They have continued to be a good supplier to us, so evidently it was worth our investment."

Vendors also regained confidence, over time softening their demands for cash on delivery. "A lot of vendors came back and gave us terms as soon as four months after the purchase," said Ms. Emmons, the treasurer. "Very few are not working with us on that basis."

Yet challenges remain, Mr. **Kervick** acknowledged. To pass on its intellectual capital, KomTeK must plan for succession - most of the employees are in their 50s - and encourage younger people to train for shop floor jobs that are physically and mentally demanding. Equipment must be maintained, rebuilt and upgraded.

KomTeK must also be ever willing to change, said Mr. Lincoln, something the company has demonstrated in the past. "You cannot be complacent in American manufacturing today or someone will beat you."

Last year, Mr. **Kervick** spent months in a dervish dance of survival among creditors, customers and in court. "They tried to rip out our heart in Chapter 11," said Mr. **Kervick**. "But they didn't get our soul."

Contact Business editor Andi Esposito by e-mail at aesposito@telegram.com.

ART: PHOTOS

CUTLINE: (1) KomTeK Inc. technician Brian Leboeff forges stainless steel fittings on a 2,000-pound hammer at the reborn Worcester company earlier this month. (2) From left, three generations of KomTeK principals pose at the company earlier this month: Paul **Kervick**, chairman; Robert B. **Kervick**, minority owner and president; and Kris **Kervick**, marketing/sales manager.

PHOTO: T&G Staff/PAUL KAPTEYN

[Previous Page](#)

[Archives Start Page](#)

All content © 2005- Telegram & Gazette
and may not be republished without permission.
Send comments or questions to info@eworcester.com