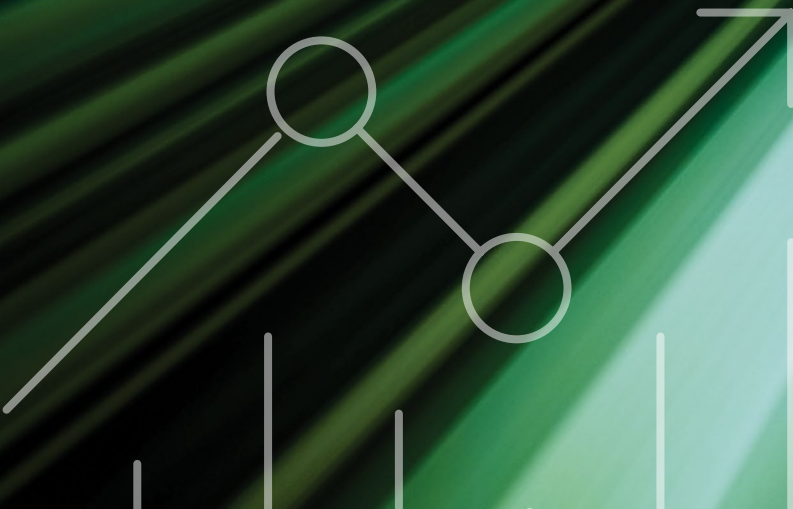# TECHNOLOGY'S NEXT TRAIN IS LEAVING THE STATION

BY SAM ROSENFELD, MANAGING DIRECTOR, PONTEX ADVISORS

"Technology" is the ubiquitous term for the engine of innovation. Today that means the digital and artificial intelligence (AI) revolutions—but it's worth reminding ourselves that banks, as a business to borrow and lend money, and insurance, as a tool to spread risk, were innovations of their day. Both expanded their impact by the introduction of additional innovations, such as counting machines, calculators, and then computers so large that they took up entire rooms.

Those innovations are immediately relevant because they're echoed today in turnaround by the machine learning (ML) and AI tools revolutionizing cash flow forecasting, variance and analysis reporting, and document and data review. The deployment of these technologies will be used not only to streamline clients, but they, when properly structured in partnerships, will become early warning mechanisms for finding or being referred to clients. In each case, the chances of expanded success and impact grow significantly.

Change is constant. Technology is a driver of that change. And the pace of change continues to increase. Building on these three truths, companies and industries are best placed to compete in the long term when embracing change and using it to their advantage. When the process of looking for, familiarizing yourself with, and looking for the next

innovation can impact a business becomes part of its DNA—that is when the company can realize consistent industry advantage and growth.

For the turnaround industry, this means understanding the innovation opportunity in two forms:

- **Turnaround Industry.** The turnaround company itself must know how to adopt new innovations to remain competitive, grow revenues, control costs, and continue to claim market share.

- **Clients.** Every client's industry will have different technology drivers. What is the strategy for understanding and potentially incorporating those drivers to help achieve the mission of rehabilitation?

Change driven by technology occurs two ways—first, where technology enables change as an enabler, and, second, where technology forces change quickly on an industry. The innovators and early adopters force change, the rest of the industry must adopt or wither.

The pace of today's technology change is a constant for why companies come to experts in the turnaround industry. With so many options in play, it is easy to get distracted by irrelevant options or invest in the latest technology fad and miss out on the underlying—and

important—innovation. Failure to appropriately identify the right areas of investment can yield the same fate as doing nothing. Practitioners must be able to quickly understand the levers for a company, and what that means for how best to save them.

Those who embrace technology and the change it brings will survive and thrive as a result. There will also be those who will be left behind. Here are some ways to think about technology for turnaround experts, the restructuring industry, and how it does business, so professionals will be prepared for what's ahead.

## Why Technology Is More Than You Think

Merriam Webster defines technology as the "practical application of knowledge especially in a particular area." Today, the term is primarily used to describe technical processes, methods, or knowledge based in some form of digital enhancement, up to and include machine learning and artificial intelligence.

It's critical to consider the "why" of technology—what is it intended to achieve? There are many technology solutions out there in search of a problem to fix. To remain competitive, it's helpful to remember that technology is there to support the business effect, not the other way around.

> If a task can be automated, it will be. From monitoring borrower cash flows and 13-week forecasts to searching for capital or legal and other document and data review, there are off-the-shelf solutions for all of them and many besides.

### Key Points

**Technology enables individuals to focus on core strengths and outsource the rest.** This is true—even if it's a company that knows how to use technology for a process better than others do.

**Technology provides both threats and opportunities.** It is essential to have a decision-making process that helps identify which is which.

**The only constant is change.** Turnaround professionals must remain adaptable because whole industries can change overnight. This approach is as critical for clients as for restructuring experts.

If a task can be automated, it will be. From monitoring borrower cash flows and 13-week forecasts to searching for capital or legal and other document and data review, there are off-the-shelf solutions for all of them and many besides. Amazon has proven adept at showing the way for warehouse management using RFID and location services, delivery with drones, and whatever they develop next week—because their competitors know that they will need to keep up with something that Amazon creates, and whole industries are unaware that they may be only months away from being disrupted.

The significant shift in the application of technology is the movement of effort from labor to capital. Investment in technology is crucial because, in the long run, it's cheaper than hiring people to achieve the same effect, which is as relevant to turnaround professionals as their clients.

Many banks manage much of their commercial credit book by exception. They pay attention only after things go wrong. In recent credit markets, this approach has led to a much higher than expected borrower failure rate, with damage to bank balance sheets. It was clear that a better solution was necessary.

A business process was created for banks to proactively manage the commercial credit default risk. This addressed a number of challenges, including the reliance on client reporting of financials and changes in condition, while also addressing the built-up impact of a changing labor force that was unwilling to physically or even verbally connect and stay informed about clients. The abundance of available data and different thinking about risk management created the opportunity to deliver better, proactive risk management. The abundance of data made a path to apply AI inevitable, but it is also important to plan ahead to avoid applying a technology solution without the right foundation.

The sponsors built a process from the ground up and first used people to run the innovative process to understand how the data flows and to learn the systems, before then using those examples to begin to train AI to fulfill the same function. AI learned from the process that had gone before at a granular level; each task had documented processes, so those processes could each be checked and verified equally for humans or for the machine learning process conducting them. Both steps are critical for good operation and for demonstrating the proven process to regulators. The critical step was understanding the eventual role of AI and building for it, rather than forcing old processes into an AI infrastructure as many are attempting with the rise of "AI washing" of business services in today's markets.

Building a process map of the small steps that the business takes and then identifying where technology can help will manage any risks during implementation.

The examples of inherent bias in AI are evidenced from failures in facial recognition to reinforcing redlining practices in lending. Transparency and accountability in the process are critical. Just as with outsourcing efforts to external contractors, AI must be subjected to strict policies, processes, controls, and quality control to ensure that the model is delivering the required result. AI was deployed in small sections throughout the process, providing incremental gains throughout the process before a larger conversion can be contemplated.

This example is particularly relevant to this audience because the process also acts as a business development tool for turnaround businesses—identifying bank clients that may have a problem and prompting the relationship manager at the bank when a borrower meets the conditions that a turnaround firm

# Article 9 Restructuring
## Prioritizes Senior Lender Recovery

" The ability of the incumbent lender to potentially recover deficiency loan balances over time under an Article 9 Restructuring is obviously one of the **headline benefits of this methodology**. "

Justin A. Barr
SVP / Special Assets Director
Carter Bank & Trust

" For those banks not as knowledgeable and experienced in how the Article 9 Restructuring works, **it would be advisable to be educated on this.** "

James Van Horn, Barnes & Thornburg,
in American Banker

**secondwind**
CONSULTANTS

be introduced, while also providing a list of the most suitable options.

The more the data grows within the organization, the more focused those referrals can become and the greater the hunt for precursors becomes.

## Look to Your Own Business First

Looking in the mirror is a great educational tool. Be clear in the effect you want to achieve as a business—and the effects that you must achieve to get there. For instance:

- Marketing (filling the pipeline)
  - Writing copy
  - Selecting channels
  - Booking advertising
  - Organizing travel

- Sales (closing clients)
  - Research on client
  - Pre-engagement analysis
  - Documentation

- Analysis (diagnosing problem)
  - Document review
  - Financials review
  - Comparables

- Management (resolving problems)
  - 13-week forecasts
  - Market sensitivities
  - Report writing (informing)
  - Compiling the data
  - Drafting the report

All these have technology solutions that take the onerous, often low-value work away, freeing up much needed time to focus on value-add activities such as closing potential clients, and spending time in the boardroom, executive offices, and on the shopfloor diagnosing and solving problems.

In doing so, technology can significantly reduce overhead, focusing it on labor that can operate it. The threat is that if too many people are removed from roles, there's no one left who knows what a good outcome looks like.

## Actions to Take Now

These actions are internally directed, they provide a good map for the process at a client.

**Keep track of developments.** Find ML/AI podcasts, articles, or books that resonate with you. If you're industry specific, make sure you find the materials relevant to them.

**Doctor, heal thyself.** Take a scalpel to your own business, if only as an educational activity:

- Identify the actions that take place in your business.

- Classify which of those can be done by a machine.

- Research options for replacing those tasks with a technology solution. Do not develop for yourself. There is an off-the-shelf solution or cost-effective service option for anything you might need.

- Price replacement by the option(s) that already exist to do it.

- Real cost by examining the implications of making those changes now versus in the future.

**The only constant is change—train now.** Remain current with the tools that come into the market that can make you more efficient. There are constantly advances, so you and your clients should be staying up to date with those developments. You and your team must be able to use the technologies that provide a competitive advantage to you and your (potential) clients. Trying to learn a system on the job is too late—a competitor will win the work because they know how to use the accounting, management, plant management, or other systems. In an industry where success is denoted in our ability to execute swiftly, stay up to speed on the critical capabilities.

Have a technology strategy for client onboarding. Some good questions when you start with a new turnaround client:

- What are the technologies that are popular in your industry?

- Have you adopted any?
- What is your experience?
- If you haven't, why not?
- Can you show the decision process that took you there?

For clients, technology may be a great solution for reducing spend once the business has been stabilized—few solutions are easy to implement overnight. Similarly, there are many examples of technology being described as the great solution, but the company doesn't have the ability to develop or implement the solution being touted. ◪

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