

# Reinventing a company

*Sometimes, a company that looks “down and out” really just needs a makeover.*

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In late 1997, there was an investor backed buy-in at Varel International, a company that historically had been a provider of low-cost, low-performance drill bits. Due diligence indicated inconsistency in product quality, unmanageable inventory, and chaotic management systems (for example, there were only six PCs in the entire company, and some international communications were still conducted via Telex). About 5% of company revenues each month were being returned to customers as credits for poor performance. The company appeared to be in very poor shape.

However, there were several “islands of excellence” in the chaos that had the potential to form the catalyst for a turnaround. Among the positives were the beginnings of a sealed bearing engineering effort and a manufacturing facility capable of high-volume production that incorporated several surprisingly innovative processes. Most importantly, there was a core group of employees who wanted to overcome the chaos and make the company successful.

Implementing the changes necessary to make that possible began in the summer of 1998. Key initiatives were identified. They included changing the oilfield distribution channel to direct sales, putting in place company employees to oversee regional mining distribution, ramping up recruitment (especially in sales and engineering), putting much more emphasis on product quality, and taking the company for the first time

into the polycrystalline diamond compact (PDC) bit arena.

One of the first steps was to acquire a very small US manufacturer of matrix bits. This acquisition was followed by the acquisition of Crystal Profor in France. Though Crystal Profor was a minor player in the PDC market, the company had solid engineering, R&D, analytical software, and manufacturing capabilities. That acquisition was a springboard for expanding the company’s international sales team, which led to gaining a better balance of sales. The purchase of Crystal Profor also helped leverage the PDC effort in the US. A new commitment was to the fast and flexible design and manufacture of PDC bits. One of the requirements was to ensure that the processes in France and the US were uniform.

The acquisition of Walker McDonald added skilled personnel to the company’s labor force. It also expanded the company’s customer and technology base in mining and in sealed bearing oilfield bits. In addition, it extended production capacity in the US PDC plant.

Lean manufacturing (a production theory that considers the expenditure of resources for any means other than value creation for the customer to be wasteful) was implemented in Matamoros twice. The second time, the company got it right and realized a huge increase in product consistency and quality, while dramatically dropping manufacturing scrap levels. At this point, the company finally had the chance to clearly evaluate engineering changes in product design.

These basic changes transformed a failing company, creating in its place a performance-competitive company that is among the first tier of drill bit suppliers

across the spectrum of oilfield roller cone and PDC products. All four of its manufacturing facilities are certified to ISO 9001, and the company is in the process of implementing a global management system using SAP.

Today the company’s revenues are well balanced between North American and international markets and between roller cone and PDC bits. The company is solidly capitalized and is 800% larger in both revenue and enterprise value than it was in 1998.

The 10-year process that resulted in the reinvention of the company was not solely a management effort. It included contributions made by the company’s workforce. Together, they achieved a level of performance that has begun to gain recognition, allowing the company to partner with customers that would have not given Varel a chance previously.

The company has launched two new series of roller cones: High Energy for oil and gas, and D-force, which targets the types of broken and highly abrasive rock typically encountered when mining gold.

In 2008, it acquired Downhole Products plc (DHP) a high-tech provider of centralizers and reamer shoes. The goal of this acquisition is for DHP to increase the company’s presence in the downhole expendables market while benefitting from the infrastructural systems in place at Varel today.

The moral of the story is that in many cases, a company that is not successful is not necessarily a lost cause. The road forward is sometimes one that requires management to step outside its comfort zone, but often there are solutions for the ills that plague a struggling company. In this case, as in many, the journey was not an easy one, but it led to a destination that will be the launching point for the company’s future success. **E&P**