Finding Profit in a Failing Business Requires Dedication to Change

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In traditional engagements, turnaround and corporate renewal professionals present knowledgeable, predictable answers to management's fear of the unknown, focus attention on their intellectual challenges, and provide time-tested solutions to identify and solve external or internal contemporary and serious business problems. This article addresses the principles common to every turnaround and shares tenets common to achieving successful business turnarounds that can be applied to avoid business failures.

During early discussions with company officials, executives or the owner lament that the business is broken and has suffered a history of marginal performance, raising concerns over whether the company has a future. Causes or symptoms include major customers that have changed their relationship with the company, vendors that have cut off credit lines, and/or banks that have asked the company to find another lending institution.

Upon retention, turnaround professionals request key information from the company. If they are

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lucky enough to be provided with a business model or forecast—more than 75% of the companies have no business model, or they have one model that is entirely unrealistic—they may point out that while the business model is questionable, everyone has lost something much more valuable—time. Money can be won or lost, but time can never be replaced. Until the company's executives recognize this, they are not emotionally or intellectually ready to face the tough decisions ahead to create and master a turnaround.

Some fundamental concepts distinguish a profitable ongoing business from one that is near collapse. The following guidelines may be expanded or contracted, depending on a company's unique circumstances. Regardless, they serve as trustworthy navigational aids to help a company steer the ship into calmer seas in a financial whirlwind of issues:

- Ensure the company has a reliable financial reporting system
- Establish goals
- Increase revenues
- Improve cost efficiency and/or decrease costs
- Manage for cash
- Sell or abandon idle nonperforming assets
- Restructure debt obligations
- Continuously solve for breakeven and better financial results

Employees often know more than management suspects about troubling issues facing the company. The company should face all of its problems directly and prioritize efforts to create solutions. Management should keep it simple while managing people, numbers, and strategies.

Underlying a consolidated approach, the company must develop a plan to document and remind everyone of the required effects and resources necessary to implement the turnaround.

It is important to establish benchmark reporting of financial results. Good businesses that lack sound recordkeeping hasten their demise, while troubled businesses can delay failure by using reliable numbers. The company must know where it is today, where it was last month, and where it expects to be next month.

"Failing to plan is a plan to fail" is a business axiom that offers dramatic and succinct insight. The company should consider developing a business plan that includes rewards, such as a bonus plan, paid vacation or extra time off, a company car, or other benefits.

The company should communicate openly with its key customers or vendors. Most of its customers and vendors have faced similar problems themselves and will understand what the company is going through. Management should share its knowledge of the problems and the proposed solutions with all affected parties to reassure them that management is in control of the situation, recognizes

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the problems, and is working on solutions going forward.

Increasing Revenues

The company’s first effort must emphasize increasing revenues or sales. Presuming costs are necessary for the business and remain relatively constant, management should focus on improving sales and gross margin.

The company must understand the cost of its product, the strengths and vulnerabilities of its competition, and the means to employ to increase its sales volume and margins. The plan must revisit every available marketing tool and resource to get that next sale.

In terms of sales, the plan must provide for someone to investigate and justify every cost. This requires accurate, timely financial records that can show where the company has been or where it’s going. Every expenditure should be made for the express purpose of generating or supporting business revenues.

It’s best to tackle the "largest dollar" accounts first to keep from becoming overwhelmed. A company’s biggest savings can occur with the smallest changes in large dollar volumes of expenditures. It is also a sound practice to utilize purchase orders for every company purchase. This practice restricts expenditures and commitments before they become financial liabilities. An executive-level officer or owner must approve every purchase order or expenditure to monitor the pipeline of liabilities rushing at the company.

Managing for Cash

Cash operations and positive cash flow are more important than profits at this stage. When profits are low or nonexistent, cash flow becomes anemic, which is disruptive to the company’s business cycle. When this occurs, vendor calls for payment frequently interrupt employees from more productive responsibilities,

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inventory for a customer order is out of stock, or the company cannot meet an important commitment, such as payroll or its utility bills.

The following can help to eliminate those problems or the potential for such issues.

Maintain an Efficient Inventory. There should be no excess items, so the company must know what it has in inventory by maintaining current, accurate listings. Items that cannot be sold within 45 to 75 days should not be stocked, and dust-covered inventory should be sold at any price to eliminate the cost of carrying idle or unusable items The company should buy only what it needs and should not be tempted to place a larger order just to receive a discount. It should refrain from building and holding inventory for future releases unless a customer specifically requests that it do so.

Address Accounts Receivable. The company should insist that customers pay according to the agreed upon terms and should know its legal rights and remedies when customers don't honor those terms. The company should not compete with banks to provide customers with credit. The company may also want to consider offering a one-time discount to convert accounts receivable to cash. While maintaining constant communications with delinquent accounts, the company might also consider having delinquent customers pay 110% on invoices for everything they purchase to help amortize the past due balance yet continue to provide business.

Sell or Abandon Idle Assets. Any asset on the company books that is not utilized to support revenues in the business or is not being used should be converted into cash; it should be sold or rented, but it should do something to help the business. The company should only purchase fixed assets that offer a short payback, the length of which should be determined by the severity of the company's troubles. Typically, this author suggests establishing a payback of three years or less, which approximates a 30% to 45% return on investment.

Restructure Debt. The company should reorganize and restructure its debt to minimize cash outflows during the early critical time of damage control. All fixed commitments should be reviewed with an eye toward renegotiating wherever possible. These include bank loans, leases, and retirement and pension obligations. All such commitments should be reviewed with professional advisors to ascertain what is possible.

Conclusion

The steps outlined in this article represent the major considerations a company must face immediately upon deciding to create a turnaround. Numerous additional time-tested steps may need to be considered within each of these major areas. The management team or owner should seek advice to help with this review from a competent professional who lacks the emotional baggage that friends, relatives, and/or employees may unintentionally carry.

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