"MASTERMIND FOR CALAMITY"

Seven Components For A Successful Turnaround

You, the business owner are trying to reckon as to why your company has problems, i.e. struggling to make the net profit the company is capable of, why you're working 70 hours a week, why one of your largest customers is doing less business, why a new competitor is mucking up the market, why your company (ox) is in the ditch.

What can you do and do fast? Make personnel cuts? Get everyone to work harder? Take action on a new budget, you know the one in your head? Get advice from your banker, accountant, lawyer?

The Advisor© asked a turnaround specialist, Ron Hequet to share some of his formulae for putting companies on the profit performance track.

General Norman Schwarzkopf said *"No organization will improve until leadership admits that there is something wrong."*

I have always agreed with that philosophy as a guideline during my initial client dialogue. A turnaround has other various common assumptions. Money is very tight, morale is usually low, good employees may be looking for a different job, non-productive staffers are not making eye contact and many are doing the blame game; if the owner hadn't bought a new..., if we hadn't expanded..., if somebody would make those guys in the warehouse work..., if we had better salespeople..., if we had new software..., if I had a bigger budget..., etc.

get the people to relax.

This firm has never believed that for a turnaround to be successful, a reduction in a company's payroll or body count is the answer. A turnaround professional should speak confidentially to every *key* person with the company, from the front door to the back. Along the way assess how work is done to determine the company's strengths and where the work is amiss. We have never recommended an employment adjustment unless we, along with the company ownership, is sure that the employee is detrimental to, unable or unwilling to contribute in the turnaround plan.

Can there be some fat? Of course, but not unless a company has entirely employed the wrong group of people (and I have never seen that) the existing employees need to stay, and then build from there with the reorganization process.

Guiding the owners and sales management team in the implementation of a new marketing strategy for RFG Distributing, Inc.

Staff cuts in the very short-term can cause cash resources to be shored up, but the talent resources are now gone. And, if you want to be expeditious with the turnaround, the rehiring, training time and downtime costs will usually make matters worse.

management team commitment.

The management team is especially important in this undertaking. How loyal to the company are they in their willingness to instigate the required changes? Most managers don't think their company is in bad shape and often think a turnaround only requires minor tweaking, especially if it is in someone else's department.

There can be no "sacred cows" in a turnaround. Emotion cannot be part of imperative change decisions. If the company has the right talent on board and the product or service has marketability, that company can be made very profitable with the right "Business Profit Plan". When that documented plan is complete, get the right people informed. A turnaround professional should be prepared to explain each turnaround recommendation and how it will affect the company's well being. When people know their jobs are safe and that the Management Team as well as others will participate in the turnaround planning and implementation, there is less resistance to remodeling.

We try to implement a direction change with the Management Team in less than 30 days, to show people that the ship is starting to turn, meaning that we are making a difference, and that builds confidence.

catch your capital.

Especially when economic times are difficult, sales should take a back seat to "profit". If a company has had less than acceptable net operating profit levels and needs capital to stay alive, we never use ominous words like liquidation, cutbacks or downsize. Reorganization of a company many times calls for financial/procedural restructuring.

Many business people in this dot.com new economy have not paid attention to unsophisticated procedures like inventory control, cash flow planning (not cash requirements), productivity accountability, asset / debt management and other nitty-gritty leaks in the bucket.

We recommend performing a due diligence on the company, a business and asset valuation, market conditions analysis, and annual cash flow calculations as well as many other ratios that financial institutions may deem significant. We then assist the client with acquiring a restructuring package, including making presentations to the appropriate sources. Admittedly, adequate capital is one of the fundamental components to a turnaround plan, *but not the most important component.*

improve the rate of growth.

I recommend that ownership participate

in revenue analysis. If there is anything an owner should know it's the company's source of revenues, i.e. history, trends, product / service mix, etc. A proper analysis will indicate what may appear to be a strong revenue source today but may have to be deleted because it doesn't fit into the bigger picture, and what seems a weak revenue source may have to be nurtured because it is part of the new strategy.

I can help a company define its cost centers and corresponding overhead for a predetermined net profit, but really knowing your revenue sources and projected income is the chief component to growth.

What role do a company's customers play in a turnaround? I admit that it does vary from industry to industry; however, where it makes a difference (and it almost always does) is in surveying satisfied as well as unsatisfied customers. Many customers are aware of your company's problems. An effective turnaround strategy that informs the customer of changes that will be to their benefit will result in enhanced customer satisfaction and ultimately customer growth and retention.

It may seem as though I am talking out of both sides of my mouth when I say again however, sales is not number one. If a company has a pre-tax net operating profit of .05% on 8MM in sales, it may have the same percent of pre-tax net operating profit on 12MM in sales (add or subtract any number of zeros you want). Why? The problems that contribute to the low net profits have not been rectified.

the plan!

Therefore, the most important component to a successful turnaround plan is the "Business Profit Plan" itself. Any plan that is farther out than about two years is not manageable for a turnaround. After all, if you don't make your plan the first year, you won't make it in the third, fourth or fifth. Also, it has been my experience that these types of plans are usually abandoned and leadership falls back into focusing on the "fire of the day" or "crisis" type management.

Once we help a client company with an ultimate long-term direction, I create a one-year plan that starts the ship turning quickly, as I mentioned before. In addition, I develop a second year broad plan overview to provide basic continuity to the initial first year plan. Then as the first few months pass by, the second year plan is further developed until a final second year plan is established, no later that 60-45 days prior to the end of the first year.

This plan, by the way, has many parts. Just as there is never one cause as to how a company can get in trouble, there can never be a "just fix one thing" approach. The parts I refer to are the processes, procedures and various management authority, accountability and responsibility issues that will change the way a company works and quantifies itself.

Leading a training session on performance evaluation for key managers, Sadler's Sales, Inc.

Woe to those who believe in the creation of a new "budget" as the answer to the company prayers. Unless specific processes, procedures and management methodologies are changed to fit the objectives of the turnaround plan, the company will be like "driving an old jalopy with a new paint job." Looks good, but the innards are falling apart.

next, implementation.

Besides the creation of the plan itself implementation is the next most important component of a company turnaround. I have never seen a turnaround plan succeed where the creator of the plan was not involved in the implementation. Which is why in almost every successful turnaround, that company has brought in expertise that has been there before and is not emotionally or otherwise attached. Owners, as well as employees are too close, have bias and sometimes an agenda that is not in line with the plan.

Like it or not, a turnaround is essentially about one thing; profitability! And profitability is not just reducing costs, overhead or selling more stuff. I have seen companies accomplish those things and still be unprofitable. Therefore, implementation is the performance training required for the execution of new processes, procedures and organizational changes that are part of the turnaround plan. *Implementation is said to be completed when change is installed and it works.*

Maximizing profitability begets security, high morale, growth and the ability to accomplish dreams.

stick-to-itiveness.

Many companies in trouble have some good talent on board and often have financial resources, but do not have a definitive completely documented plan. And an unclear or undocumented plan squanders financial resources. So, once the turnaround plan has been created, there is commitment from the top and implementation is complete, the company must have the resolve to stick to the plan.

I believe this is best accomplished through a Mentor, again someone without bias or certain company attachments. A Mentor, by knowing and understanding the long term plan, what to quantify, having the ability to analyze deviations, and knowing which corrective action to apply, will serve as the imperative "road sign" to the company, not necessarily in the driver's seat but providing the appropriate direction.

You have heard the phrase, **"Failure is not an option!"** Where is your company in relation to General Schwarzkopf's statement?

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