

Anatomy of a Turnaround

By: Leonard Eppel and Steve Hancox, 2013

For more than thirty years, our firm has been working with both healthy and stressed companies that experience cash flow problems. Business owners do much better when we are brought in early to help turn the business around. When we are brought in late, our job is to reorganize, liquidate, or sell the company. Turnarounds, reorganizations, liquidations, and sales are subsets of what are collectively referred to as Workouts or Crisis Management.

Tightness of cash is the symptom that typically gets the attention of the owner or the bank. This can occur when: (a) vendors are refusing shipments; (b) the company has reached beyond its credit limit; or (c) the company has been operating at or near its credit capacity for an extended period. Upon arrival, cash is a primary focus. Following are the steps through which we lead our client.

Stop the Bleeding - Working capital is the first place to look for unproductive investments. We may find that the manufacturing manager has been praised for continuing to reduce unit costs by extending the run cycle and creating finished goods in advance of needs. In this case, the investment in inventory is excessive and a questionable financial decision, bleeding the cash needed to operate.

Stabilize Cash - Concurrent with our direct analysis of the elements of working capital, we institute a weekly cash forecasting and reconciliation procedure. This forecast needs to be based on good and shared assumptions regarding the Sales Forecast, Cash Cycle, etc.

Vendor & Bank Communications - Opening a dialog with the company's bank and vendors is usually the right thing to do, but most companies may be reluctant to take this step. The company's suppliers and its bank want the company to prosper and continue to do business with them. Vendors will be far more trusting of the company if they are informed, rather than discover the problem on their own. Therefore, it is in the company's best interests to address this issue quickly.

Profit Improvement - Correcting inappropriate working capital investments generally yields a quick improvement in the company's cash position and time to focus on profit improvement. We seek to know the profit contribution of every product, service, and customer, but often find that information lacking. While we are creating that perspective, we evaluate product lines and/or services for their contribution to profit and overhead.

Overhead Expenses - Even the best process can allow unnecessary expenses to work their way into the budget over the years. There is never a better time than during a workout to get people's attention on expense reductions.

Return on Capital Employed - Regardless of what the executives might tell us, we believe in the axiom that one only manages what they measure. Armed with a clear understanding of the company's goals and objectives, we seek to find and correct any reports that are missing the point. Faulty or nonexistent measurements can cause leadership to reward the wrong activities or to be unaware of problems until they become severe. Our focus on the basics ensures a highly efficient operation that is aligned with the company's objectives.

Sustain the Improvements - The completion of a successful turnaround involves making improvements permanent. The final step of the process is to educate the management team and ensure that systems are understood and sustainable.

Imagine asking a CEO you know to think back five years and to envision their future. Would today's state of the business be the future they had hoped? If not, what is going to change to make the next five years any better? Early action should be taken.

For more information, contact Financial Resource Associates (FRA) today.

About Financial Resource Associates

Founded by Leonard Eppel in 1986, Financial Resource Associates (FRA) is a highly respected profit improvement consultancy based in Cincinnati, Ohio, serving the Midwest. Best known for its successful turnaround work, FRA's professionals have also been quietly helping healthy companies solve longstanding problems.