FINANCIAL RESOURCE ASSOCIATES, LLC
Crisis Management/Business Initiatives

Service Provider Case Study

By Steve Hancox and Leonard Eppel, Winter, 2015

A small family business ran into financial difficulty. This business is highly unusual in that their working capital tends to produce cash. Most companies find they must pay for inventory and labor first, then collect on sales. This company's business model results in their collecting proceeds first and later paying the contract manufacturers and sharing the revenue with its customers, to whom it provides services.

Phase I – Financial Difficulty

The company has been in business for about 15 years and the troubles began around the time of the financial collapse of 2008. Revenues fell sharply during the financial crisis; however, certain contracts obligated the company to a guaranteed level of remittance (yielding large losses). Moreover, the company had a very poor accounting system and management was under-informed about their financial condition.

That combination of poor accounting and positive cash flow enabled a serious problem to go undetected for some time. Within a few years, they had accumulated significant losses and cash flow problems. They changed accounting firms and began to get a clearer picture of their problem. They cut substantial fat from their operation and the owners took a hefty pay cut (from essentially fair market value to below market). They had become seriously late in paying their creditors and had accumulated a negative net worth nearly equal to a full year's sales. The company hired a bankruptcy attorney and contacted our firm to help them bring this to resolution.

Phase II – Turnaround

Upon arrival, we analyzed their revenue and cost structure and constructed a forecast of their cash flows. We instituted a halt to all check writing, at first exempting payroll and COD payments to suppliers. The owners expressed their desire, if possible, to dig out of the problem and repay all vendors and customers the money

Phase III – Growth

Few, if any, of its current customers are even aware that our client ever had a problem. While the company is providing an excellent level of service to its customer base, it will only eke by financially until the debt is repaid. The owners continue to pay themselves sub-market wages as the company plows all excess funds into debt repayment.

The company has developed certain technologies that offer many benefits to its customers. Given the facts that they can grow without needing financing, their product and service is excellent, and their market share has substantial room for growth; adding new customers is our client's top priority.

FRA continues to work with this outstanding family business. Our role is to help them stay on track with their retrenchment plan and continue to support the dialog with their creditors. Additionally, FRA continues to meet with the Management Team and assist them with their growth strategies.

Financial Resource Associates, LLC is a profit and cash flow improvement consultancy that has been serving the business community for over thirty years. FRA possesses tools to assist companies in a variety of leadership and management areas. Services include Strategic Planning, Family Business Succession Planning, Management Assessments, Cash Management & Forecasting, Workouts, and Interim C-Suite Assignments. To learn more, visit www.finresource.com. To schedule an appointment or discuss your situation, call 513.793.8688.