

Distribution Turnaround – A Case Study

By Steve Hancox and Leonard Eppel, Summer, 2015

Think about owning a company where you have to pay to work there. That was essentially the situation for these owners. The company had been experiencing significant losses that required added funding from the principals.

Background

Lack of inventory control systems wreaked havoc on operating profits and A/R collections had slowed, draining even more cash. In addition, margins were low and financial reporting was weak and untimely. On the positive side, the top line was growing and it looked as though only the Sales Department was doing its job.

Upon closer inspection however, this company's problem was the Sales Department. Every salesperson had the authority to purchase inventory to sell and they also could extend credit to their customers. One might think with the Sales Department doing all of these jobs that overhead would be low; however, that wasn't even the case.

Role

As one might expect, much of the work involved the customer base and the supply chain. FRA evaluated the customers, modifying agreements where needed and eliminating unprofitable customers who were unwilling to change. We also led the implementation of a much improved A/R collection process and pressed for more effective and current financial information to assist management in its decision making.

Controls over the supply chain were tightened in several respects. A centralized purchasing function was empowered to review and approve all material purchases and major improvements were added to the company's computerized inventory management system. These changes, plus proactive communications with the vendors, alleviated a number of vendor relationship problems.

Financial reporting was improved and management was taught how to maintain and review the customized cash forecasting system FRA put into place. This system now serves as the company's early warning of deviations from the best practice implementation that returned them to profitability and positive cash flow.

Outcome

In the world of corporate workouts, nothing beats a turnaround. That is the one outcome where everybody wins. Obvious benefits accrue to owners, lenders, creditors and employees. But even the workout professional wins in a turnaround, due to the satisfaction of knowing they made a difference.

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