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Company Turnaround - What To Do and How To Do It?

When the dreaded turnaround is required to save your company, there are certain consistently applied approaches the experts use. Most will deal with the turnaround as a process that starts with a critical event or announcement that gets everyone's attention and focus. While it is usually preferable to avoid filing Chapter 11, sometimes filing is part of the turnaround. The following are some of the issues, activities and steps involved in the turnaround process:

1. **Have a sense of urgency.** Imbue it in everyone. As you make everyone aware of the turn around urgency, the sense of helpful commitment becomes an interest-holder focus that is critical in the early stages. Initially, everything you do is all about tactics.

2. **Instill Confidence.** Many times, along with the sense of urgency comes panic or anxiety about the unknown outcomes. This is the time to reassure employees, suppliers and customers that the company can and will be fixed. Let them know that there will be tough decisions to be made but these actions will be worth it in the end. Ensure that everyone is communicating within and among functional areas.

3. **Get Control of Your Cash.** The first key objective is to get the company to breakeven cash flow. That process entails being miserly with your scarce, available cash. Once you have determined how much is available, you begin an orderly process. Portion out accounts payable payments. Slow them down, and stretch them out. You always must prioritize who are the most important suppliers and creditors and favor them over the less important.

   This step must be done with highly pro-active communications. You must preemptively call those whom you owe; tell them what you are going to do and what they can expect. Call them frequently with updates. Never wait for them to call you. Many will rightfully squawk, but you must be firm. Saving your company is at stake.

4. **Create Cash.** Stop sales growth so that receivables overcome payables. Stopping growth involves change in managing customers and in-house operations. Each step involves thoughtful decision-making.
   - You must decide to whom you will sell. Chose your most profitable customers and let competitors sell to those least profitable.
   - Reduce payroll ruthlessly by layoff and temporary salary cutbacks.

- Reduce the workweek from 40 hours to 32 hours.
- Proactively accelerate account receivable collections.
- Stop any projects that are current cash users even if they will generate returns later.
- Sell out of inventory to the extent possible. Sell those seldom or unused assets. Sell less profitable lines of business if possible.
- Renegotiate contracts and contract terms that accelerate your cash in; then lengthen your cash out.
- Bring frequently used services in house such as fleet maintenance, janitorial and cleaning.

5. **Understand Your Options.** You must understand your costs, gross margins and operating margins. Do both a cash budget and a liquidation analysis to understand true balance sheet expected values in an orderly business wind down, forced liquidation, and Chapter 11 filing. (Many assets shrink or disappear if there is no going concern). Determine what the true values are if the company is a going concern.

   As owners, determine who is best suited management-wise to execute a turnaround. The Turnaround Management Association advocates that a turnaround will best be accomplished by a third party, i.e. one of their members. We believe it can often be done better in-house, less expensively, and with more control, but with some outside help, such as EquiCap Partners.

   Questions must be answered with true root cause evaluation and considered solution options. Determine the cause of the problem(s) that got your company into this state. Was it:
   - Too much debt?
   - Management inadequacies?
   - Operational problems?
   - Financial controls or lack thereof?
   - Competitive issues?
   - Should you file Chapter 11? If so, where will the new cash come from to exit?
   - Can you execute a non-bankruptcy workout and turnaround?

   An informal plan of reorganization is a superior approach to bankruptcy if you can do it. Since the revised Federal Bankruptcy Code took effect October 2005, the code now provides more legal strength to material suppliers, landlords and utilities. As such, bankruptcy today requires more cash of the debtor thereby making it a less attractive option.

   Your clear understanding of the causes and options available to you will yield the goals for the near future. The solutions will be part of your plan.

6. **Deal With Your Debt.** Whatever it is; it is probably too much. By taking a studied approach, you can address debt management issues. Many times debtors are reluctant to deal with these issues, or you may be unsure how to best arrange

for necessary change. Seek advice. Business experts should know what debt restructuring options are available. EquiCap often becomes the third-party voice of negotiation that can approach these difficult issues both knowledgeably and objectively as your representative. But someone must do it.

Debt structure change should provide a new path for your company, not just a short-term forbearance. Restructure your debt with your lenders – they want you to be successful. Possibly convert debt for equity or creative equity-like instrument if the debt holder is a bank.

Arrange for fresh cash and/or new equity to come into the company in the event you are going to file Chapter 11. In a prepackaged bankruptcy, you will need to have arranged or know you can arrange debtor-in-possession (DIP) financing before you file. Avoid bankruptcy if possible. Bankruptcy offers many opportunities to lose the company. It usually provides the equity owners with little or no control.

Propose to creditors what you can do, but let them know there will be no exceptions. Some money for them or a note is better than no money. They may not like it but it may be their best or only option.

7. **Develop a Plan**. While a turnaround seems tactically oriented, it is critical to develop a strategic plan as soon as the crisis is handled. The plan should demonstrate that your company could generate both near and long term positive cash and profitability. Get senior management's creative involvement and buy-in. Communicate the plan to all stakeholders clearly and often.

8. **Execute the plan.** Do more with less. Be efficient and productive. Now is the time to be lean and fit. Improve how you do things around here. Streamline processes. Reduce timelines. Keep your customer base. Improve service. Be aggressive. Be positive. You have come through challenging times and are a better manager because of it.

If your company is in need of a turnaround, get some help. Call EquiCap Partners to explore what your options might be - whether you engage EquiCap or not. EquiCap can often help with financial restructuring and negotiating with your bank and with your creditors in a non-filing restructuring program. Sooner rather than later is better isn't it?