

Business Turnarounds – A Delicate Balance

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Business turnarounds – pre-bankruptcy challenges – often require a deft touch to balance the constituents' needs, i.e. lenders and suppliers want to collect the debt ... owners want to preserve ownership. It is important to understand the *constituents' requirements* to execute a successful turnaround.

Once in a *turnaround state*, the CFO must first identify the key constituents and meet with them to identify critical issues, and develop a turnaround agenda to review with company executives. Ideally, the constituents' needs will be satisfied through a well-developed plan with deliverables, and accountabilities.

Turnarounds can often be classified into three categories:

- Financial turnarounds, which result from impending debt-agreement defaults and late payments.
- Operational turnarounds, which result from missed performance expectations due to missed objectives.
- Market turnarounds, which result from poor performance in competitive markets.

This article will focus on financial turnarounds, which are seldom one-dimensional and require a business review to be successful. *Cash flow, earnings and financial performance will be the focus, and judgment is the key to a successful turnaround.*

Once the CFO develops a turnaround agenda, discuss the critical issues with the executive team to develop solutions including specific activities, timelines and results expected. The solutions should satisfy the key constituent's objectives which may provide for continuing operations or may require complete business liquidation. Get executive commitment to deliver the required results, and establish rules of governance for the turnaround activity (reporting, approvals, spending controls etc.) Areas of focus often will include:

- *Cash flow*: The CFO should focus initially on accounts receivable, inventory and accounts payable. Use Pareto's Law (80% of the value is in 20% of the items) to manage the cycle time for receivables and payables, and carefully manage the inventory investments. Once the essential business requirements are defined, aggressively manage working capital and capital expenditures. It is not just a spending control, but also rather an investment analysis that may require liquidation of non-critical inventory and/or capital assets that do not satisfy the new priorities.
- *Revenue*: Whenever possible, accelerate the revenue cycle through sales/marketing programs. Carefully review pricing alternatives to improve revenue/earnings and cash flow.
- *Expense control*: Review spending based on the new priorities, and re-evaluate the value-added of any expenditure. Consider the expense review in two phases:

- Existing commitments such as any spending contracts, current headcount, outsourced services, advertising, marketing, insurance etc.
- New spending for any additional expense – consulting, supplies, etc.

As the CFO assesses the business, (s)he must be alert to identify operational failures, which could cause delays in cash flow and drain profitability. Examples such as shipping errors or quality failures will alienate customers and delay cash flow. Throughout the assessment and execution, maintain open communications with key constituents and the executive team. Develop standard communications for the constituents to avoid surprises and misunderstandings. The CFO must also maintain open communications with the executive team to align their activities and performance to meet the new priorities.

In any turnaround, dedication to delivering results for the key constituents will make a very difficult job more fulfilling and personally rewarding, and deliver the required results for the constituents.

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