How to Turn Around A STRUGGLING OR FAILING BUSINESS

By Alan Lammey

Business owners face a myriad of challenges regarding strategy, personnel, customer retention, sales, or perhaps all four combined. Sometimes good businesses get into trouble financially. When that happens, the ownership must make tough decisions. But there are viable solutions to fix floundering businesses. Selling the business, making acquisitions, bringing in a turn-around consultant—even implementing some self-help strategies—can make a once-profitable business successful again.

Usually, when businesses begin to struggle, the first area that is negatively impacted is cash flow. When a business runs out of money, it can't function. Unless the business owner can find someone to acquire the business, it's game over: doors shut, company closed, and everybody out of work. Some good businesses have simply run out of money. However, if there's enough time to fix the problems with the business, then the idea of hiring a turn-around consultant may make sense.

Turn-around consultants conduct a root-to-branch total analysis of the business, assessing its viability and source methods to increase liquidity—and doing as their name says: turning around failing businesses. Turn-around consultants are professionals who, for a fee (and sometimes for equity ownership in a company) provide independent advice on how to achieve goals through improved resource utilization. They diagnose problems and opportunities, recommend solutions, and help implement the improvements to the point that cash flow improves again.

TURN-AROUND CONSULTANTS AND REALITY TV

The results yielded from turn-around consultation can be amazing, but the management of the failing company must be willing to work with the consultant to instill the changes required for the business to improve their situation. This is sometimes a challenge in itself. The concept of fixing broken businesses has gained considerable media popularity and attention in recent years, particularly in the reality-TV realm, with shows such as the Food Network's *Restaurant Impossible*.

The premise of this highly popular TV series is that, within two days and on a budget of $10,000, chef and highly successful restaurateur Robert Irvine renovates a failing American restaurant with the goal of helping to restore its profitability and prominence. After assessing the problems with the restaurant, Robert Irvine typically creates a plan for the new decor, oversees the cleaning of the restaurant, reduces the size of the menu and improves the food, develops a promotional activity, educates the restaurant's owners, and trains the staff as needed by each restaurant. The strategy utilized in *Restaurant Impossible* is not so different from the strategies implemented in the turn-around industry. The bottom line is to quickly identify the root cause of the problems and then fix them as quickly and efficiently as possible.

FIXING A BUSINESS STARTS WITH TAKING ACTION

At the start of an engagement, turn-around professionals assess whether the forces affecting a troubled company are internal or external, and whether the fix should be strategic, tactical, or something else.

Ralph Gotto is the CEO of NRG Group Inc., a highly successful turn-around business consultancy that has been effectively helping businesses large and small in about 20 different industries for decades. They maintain about a 75 percent success rate for their clients.

According to Gotto, some companies are strategically well-positioned and operationally well-run, and some are poorly positioned both strategically and operationally. "We put businesses back on track to becoming well-positioned and well-run again," Gotto says.

Typically, highly effective turn-around consultants collaborate closely with a struggling business's management to measure current cash-flow operations across a wide range of critical metrics, including cash-conversion efficiency, days of working capital, revenue-forecast accuracy, the employee happiness and effectiveness quotient, sales and customer service, return on capital employed, and other points.

"Positive cash flow is the vital blood of every business," Gotto states. "You have to start with the evaluation of the company's financials to understand the level of distress and pressures from various competitors and creditors to move the company in one direction or another. Many times, businesses that are struggling are not adapting well to the competition," Gotto said.

BUSINESS FAILURE: THE COMMON THREAD

"Basically, the common thread in the success or failure of almost any business surrounds cost and quality. If you've got a top-quality product or service, then many times you can actually increase your prices by 10 percent over the competition. The problem is, many businesses don't put their emphasis on quality. They attempt to charge a lower price than their competition in an attempt to gain market share without much regard to the quality of their products or services, so they're setting themselves up to struggle financially at some point when that strategy doesn't work any longer," Gotto adds.

According to Gotto, it's crucial to totally understand the business's cash position. "I need to be able to evaluate their cost structure. Then I begin taking a close look at a number of different ways to improve their bottom line. For example, one way of improving the balance sheet is to hasten the time it takes to receive outstanding receivables. Rather than businesses having to wait 60 to 90 days for their money, we have strategies that can be implemented almost immediately to shorten that time to as little as seven to ten days."

Unfortunately, some businesses wait too long to address their failure and come dangerously close to running out of cash. Some businesses are forced to go out of business because time has run out and there is no more cash flow. This situation often occurs because company owners or managers are in denial about their problems until the eleventh hour—and by then it's too late. This problem is compounded by business lenders that sometimes enable businesses to remain poorly run by extending loan maturities to avoid losses.

STRUGGLING BUSINESSES' SELF-HELP TO-DO LIST

Gotto notes that while his firm has successfully handled turnarounds on a scale ranging from large Fortune 500 companies to small mom-and-pop shops, not all struggling small businesses can afford the services of a turn-around consultant. In this situation, he recommends that financially stressed companies take the following approach:

"First, you have to make an honest evaluation of your business by doing a very detailed profit and loss (P&L) analysis and balance-sheet analysis. For every line item in the P&L, attempt to truthfully determine the root cause operating on each item that is either positively or negatively impacting your bottom line. For example, if sales are down, compare it to a time when the business was profitable and then attempt to determine what has changed.

"Second, look at your business-administration costs and evaluate the quality of your employees. What has changed and why? Has your business hired individuals who are less productive than in the past? Sometimes poisonous employees can flat-out ruin a business. They can lower morale, create tension, drive away customers and repeat business—and essentially send a once-successful business down a path to failure.

"Third, if your business has receivables, it's crucial to enable your business to be paid within a matter of days, not weeks or months. In many cases, this can improve a dire cash-flow situation almost overnight, bringing in those vital dollars that your business needs to weather the storm.

"Fourth, getting accounts payable in order is essential to turning around a small business with cash-flow problems. In fact, in a healthy business, payables should be equal to the amount of inventory on hand. There are far too many risks and ways of depleting cash flow associated with holding on to too much inventory."

Gotto says if a business can honestly evaluate itself in this fashion, the leadership will typically find at least three or four major issues that are causing the problems. From there, Gotto says, it's crucial to rank the problems largest to smallest, then begin to fix the biggest issue before moving to the next one, and so on. However, he also notes that if certain smaller problems are quicker fixes than a larger issue, it may be more important to address those smaller issues while also creating a plan to attack and solve the larger problems. **N**

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