



## GUIDE TO A RAPID RESPONSE PLAN TO TURNAROUND SUCCESS »»

In the current economic climate, it is imperative that a business that is struggling develops a rapid response plan in order for it to survive. This article sets out the steps businesses must take during a turnaround period.

The appointment of a recovery manager is the first step to demonstrate serious change is underway. The role is part project manager, tasked with delivering certain measurable improvements based on the relevant and measurable key performance indicators (KPI's), and part CFO, COO or CRO (Chief Recovery Officer), with a dedicated focus on specific turnaround actions which enable existing management to concentrate on business as usual.

Recovery managers increasingly need expertise in areas such as technology, change management, supply chain and logistics as well as finance and strategy.

The plan needs to combine short-term objectives of improved administration and internal controls, with the longer term goal of making more fundamental changes perhaps in the area of IT or developing a more commercially focused organisational culture.

In a turnaround situation a pragmatic approach is absolutely key. When sufficient information is available to form the basis of the decision (in our experience usually somewhere round the 80% level), the decision should be made. The endorsement and support of the main board is an essential prerequisite for a successful turnaround and you will only get that support if the board accepts three key facts:

- i. The company is in real danger
- ii. The problem is enormous and tinkering with the problems is not enough
- iii. Doing nothing is not an option.

“Re-financing businesses out of trouble is not an option, so now is the time to fix them properly: the early reformers are more likely to survive.”

Chief Executive Christine Elliott , Institute for Turnaround

# The challenges of a business turnaround compared to 'business-as-usual'

The foundation of a successful turnaround will be to quickly pinpoint the crunch areas and the underlying causes using a three phase approach to correct or stabilise, without adversely affecting those parts that are performing well.

## Phase 1

### Financial and operational diagnosis

Critical to identifying and prioritising where the turnaround focus should be is a high level diagnosis to better understand how an organisation has been performing by a number of different criteria. Comparison of profitability and balance sheet management against its industry peer group in financial and operating terms and how its processes and procedures compare against best practice, is essential. This will typically take four to eight weeks and in many cases will be undertaken while phase 2 of the recovery project is underway.

## Phase 2

### Working capital stability

Fundamental to the speed of success of the turnaround is to ensure that the assets of the organisation, particularly cash and inventory, are tightly controlled to ensure that these do not leak out of the organisation especially if access to debt finance is limited. Often a detailed understanding of the controls in place for both chasing debtors and also banking cheques, as well as how the organisation pays its suppliers, will provide an insight as to what steps can be taken to stabilise the organisation's cash position. The need to closely manage treasury, bank financing, accounts payable and receivable and inventory is critical as 'cash is king'. However, saving a business is more than liquidating assets to raise cash but also making significant changes in how the business operates so that going forward it manages the different working capital elements more efficiently.

### Communication strategy

The most important objective is to recover the trust and credibility of the organisation and management amongst stakeholders, with the goal being to obtain the cooperation and support of the target audiences. A key challenge is to help them understand that although the process is likely to be difficult, it is fair and not penalising or victimising any one stakeholder group over another.

For example the sudden departure of a key manager can create a leadership vacuum. However, it can present the opportunity to start repositioning that department as perhaps being more customer-focused and demonstrate to the rest of the business transparency of controls and processes.

### Maximising profit

Probably one of the most distinctive aspects of a turnaround engagement is of both taking and being seen to take action quickly. This will often be based on poor quality or out of date information with a corresponding high level of risk involved. However, the turnaround manager will have to take decisive action quickly as every passing day will make the situation more critical.

As Far East Asian businesses continue to dominate traditional manufacturing sectors in Europe and North America, management boards in this sector will be required (quickly) to know what products and customer segments are most profitable and the necessary corrective action on those that are least profitable. This could involve using technology to develop portfolio management tools which would enable a management team to understand the financial performance of products and customers so that scenarios can be modelled to understand and ultimately take steps to improve profitability.

### Management information

The necessity of turnaround provides the opportunity to question whether the information collected historically is still valid and relevant given the demise of the business. Often the information being reported remains unchanged over a long period of time, with management not able to see 'the wood for the trees'. For example, a US multinational that required a turnaround team was typically spending six to eight weeks preparing the monthly management pack, which was in excess of a hundred pages long. 'Paralysis of analysis' will almost certainly have contributed to the management problems of inertia or not being able to determine the key issues and how best to address them.

### Stabilisation of business for the future

From experience 12 to 18 months after the initial appointment, the organisation will have been stabilised. This can be measured by various criteria although as a rule of thumb, a minimum of two consecutive quarters of improved financial results of normal operations, an improved balance sheet and a stronger management team would all indicate a successful stabilisation.

## Phase 3

### Handover to permanent management team

Business process improvements and refocused KPI's, along with a likely change in the culture of the organisation, can only be built on for the future with a strong permanent management team, potentially recruiting from outside the business.

## Conclusion

Turning around an organisation in terminal decline is neither straightforward nor without pain. Our experience has revealed that the successful turnaround focuses on two distinct sets of objectives, stabilising the existing business to win breathing space and laying the foundations for a new strategy that will secure its prosperity in the future.

## Next steps

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