

TURNAROUNDS EXPLAINED

John M. Collard - Strategic Management Partners, Inc.

John M. Collard is the Chairman of Annapolis, Maryland-based Strategic Management Partners, Inc., a turnaround management firm specializing in asset and investment recovery, outside director corporate renewal governance, investing in and rebuilding underperforming troubled companies, and interim turnaround management. He is a Certified Turnaround Professional (CTP), Certified International Turnaround Manager (CITM), who brings over 35 years senior operating leadership, \$85M+ asset and investment recovery, 45+ M&A transactions worth \$1.2B, and \$80M fund management expertise to advise companies. He is Past Chairman of the Turnaround Management Association (TMA), Past Chairman of Association of Interim Executives, Senior Fellow at the Turnaround Management Society, serves on public and private boards of directors, and advises companies, and private equity investors. He's enshrined in the Turnaround Management, Restructuring, Distressed Investing Industry Hall of Fame, and frequently writes articles on turnarounds and outside director leadership.

We speak with him on all things turnarounds.

Finance Monthly



FEATURED



Q What is the most important step to turnaround success?

Obtain leadership guidance early. Turnarounds and the Zone of Insolvency are fraught with risk. Businesses fail because of mismanagement – sometimes it is denial, sometimes negligence, but it always results in loss. There is a different set of skills required.

I recommend hiring outside independent directors and advisors to help shape the process. You need these guys ... to increase cash flow, provide valuable guidance, contacts, and credibility. Install a board with transition and turnaround experience in value-building situations.

Companies committed to going through significant business change (turnaround, transition, generational ownership transfer, entering new markets), anticipating a major liquidity event, need guidance.

Outside directors often increase cash flow and business growth. According to a Forbes/Lodestone Global survey; 97% of companies reporting increased revenues and EBITDA, since adding a board with outside directors. They bring a new set of skills and ideas to produce benefits, while you maintain control. They provide an external source of accountability, and add credibility. When it comes time for a liquidity seeking event, outside directors send the message that you are an organization with leadership, guidance, stability.

Create a culture and structure that will withstand third party accountability to add value to the business. Start thinking as a rebuilt and growing company and prepare for a potential future life as a public company or increased scrutiny of investors.

Q What should you expect during the turnaround?

The process goes through five stages: changing management focus (leadership), analyzing situation and developing plans (viability), emergency action (crisis control), restructuring business (change), and return to normality (going concern). It is key to coordinate the functions and focus of the company to complement each other.

Q Can you detail the key steps that are involved when turnaround services are required?

You need clear thinking to quickly determine what is wrong, develop strategies that no one else has tried before, and implement plans to restructure the company. The problems are rarely obvious. Instead, there are often two or three underlying systemic ills that must be fixed. You can't focus on the symptoms, but must find the real causes.

There is a process for guiding an entity through corporate renewal. It involves using a transferable set of skills to revitalize the property and restore it to a sale-

worthy state. Then, you sell the entity and realize returns.

Bring Leadership. Change Management Focus. – In times of crisis and transition, who can handle the crisis management role? This is a predicament. If there is a qualified leader within the company, then delegate the job of 'turnaround' to that person, and provide proper support. If there is not a qualified leader in the company – and there often isn't – don't hesitate to go outside the company to locate a professional for this job.

The leader must get directly involved in making decisions to achieve the ultimate goal — turnaround and sale at increased valuation. They must be held accountable for performance and timely results. Most importantly, they must get things moving. On the revenue/sales side, look at where and how revenue is generated and keep it coming. On the throughput/production side, get the product or service out the door. How else can you bill for it?

To complete the turn, hire a marquee manager to lead the enduring team. This permanent team adds to value equation.

Set Strategy -- An effective strategy is key to implementing change. You must establish a new vision, distill this direction into concrete goals and objectives, and create a guide for all stakeholders to follow. Rebuilding momentum is critical to success.

Benefits of Outside Directors

Action/Skill	Benefit
Independent Perspective, Unbiased Advice	Challenge Management, Sounding Board for CEO, Objective, Mediate Conflicts
Strategic Thinking & Planning	Turnaround Management, New Directions, Transitions, Incentive-Based Compensation
Experience & Objectivity, New Knowledge, Turnaround Expertise	Been There, Done That, Oversee Performance & Risk, Accountability, Credibility, Interim Management
Contacts, Networks	Investors, Lenders, Resources, Partners, Customers, Suppliers
Capital Infusion	Raise Money, Restructure, Guide Offering Process, Finders of Capital
Transactions	Prepare Company For Sale, Locate Interested Parties, Negotiate a Deal

Focus on a new perspective of what is going on and fix it. Question:

- Is the business viable? Turnable?
- What is the purpose of the business?
- Should it be saved? Why? Are these reasons valid?
- Is there a core business that can be the foundation for the emerging business?
- Are there sufficient cash resources to fuel the recovery?
- Are there existing managers capable of leading parts of the company?

Remember, not all companies are salvageable.

Identify effective turnaround strategies. Operational strategies include increasing revenue, reducing costs, selling and re-deploying assets, and establishing competitive repositioning. Strategic initiatives include adopting sound corporate and business strategies and tactics and setting specific goals and objectives that align with ultimate stakeholder goals. Too often, goals are misaligned with the ultimate direction and lead to confusion, wasted time, false starts, and employees sent in the wrong direction.

Build a Quality Management Team --

The value of a company increases sharply with a strong, permanent, credible team who can demonstrate their ability to produce consistent sales, profit and cash-flow results. Establish continuity in the organization to allow everyone to expect orderly change and opportunity.

Capitalize on available under-utilized human capital — those remaining middle managers. Chances are they are dedicated to the company and its success. Guide them to their next level, and they will take the company the next big step.

Acquire New Business/Sales -- There are only two ways to increase sales: 1) sell new products to existing customers, and 2) sell existing products to new customers. Most under-performers have forgotten, or never had, the basics of marketing and promotion. Clearly promote what your products and services can do for your customer to satisfy their needs; differentiate why your product stands apart from the competition.

Become market driven, adapt to changing conditions and improve your competitive position. Deliver only what customers are willing to pay for.

Establish a Sound Capital Structure -- Create reasons for investors to invest and for buyers to buy. A sound strategy with a viable marketplace, efficient delivery and

production vehicles, high probability of future cash flows — coupled with a cohesive marketing-oriented management team — will entice the investment community. Securing new capital becomes much easier when investors see high probability of return and a viable exit strategy.

As important to infusing cash for working capital needs, is to make certain cash won't be diverted into past sins. Establish relationships with creditors so they will work with the new management team — give them upside when the turn is complete. Consider a “creditor’s committee” approach to keep them plugged in and participating. Pre-packaged bankruptcies are also available to ensure cooperation. You can always purchase assets out of bankruptcy to ensure a clean structure, a strategy being utilized more often as buy-out funds get more comfortable with the process.

Implement Processes -- Use systems and processes to drive the business and control the day-to-day environment, which allows management to run the critical elements of the company. Many managers waste time on tasks where results would be essentially the same, managed or not. Focus on the important things — controlling cash and costs, increasing sales and enhancing value creation. Manage these.

Processes define guidelines and expectations — watch for the benefits derived from communicating what is expected. This will reestablish delegation of authority and expectation to those who can turn the events of the company. When results are recurring, this stimulates value.

Nurture Resources -- Leverage all re-

sources —people/facilities/advisors — to complete the turnaround. Set up an incentive structure that pays only when they accomplish the goals set forth in your long-term strategy. A robust incentive structure shares the risk; if successful all will gain. If not, you're not subsidizing poor performance. Incentives should be based on performance that will take a company beyond its sale. After all, they are a key asset your buyer is looking for.

Q What's your final word of advice?

Do not expect miracles overnight. A turnaround can take years of hard work to achieve. Outside advisors are a catalyst to speed and direct the process, and increase probability of success and returns. Owners must make hard decisions and commitment to enabling the process to take place. Ultimately, the success of a turnaround rests upon the shoulders of a business' most valuable assets; owners, advisors, leaders, creditors, lenders, its management and employees, all dedicated to turning around the company – get buy-in. Good luck.



John M. Collard

Strategic Management Partners, Inc.

Annapolis, Maryland USA

Tel: (410) 263-9100

Web: www.StrategicMgtPartners.com

Email: John@StrategicMgtPartners.com