7 Key Steps To Move Your Company From Surviving to Thriving

Written by Kenneth H. Marks

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How does the board of directors or management team of a small or mid-sized business think about reversing a declining or distressed business? It is a common question given the turmoil in our financial and business markets. There are many good companies that find themselves with weak balance sheets, attempting to recover and reposition for the new reality in the markets and to take advantage of emerging opportunities. Where to start and how to change the momentum in your favor? It can be done!

In their book “Corporate Recovery: Managing Companies in Distress” Stuart Slatter David Lovett articulated the foundational areas and steps that have proven valuable in turning companies in the right direction. Couple these with solid cash management practices and you will have a road map for real progress. The core areas to address begin with gaining control of the cash and end with “fixing” the balance sheet. Management that tries to start at the end will likely find it very difficult without a credible, well vetted plan that is believable. So let’s walk through and discuss each of the areas (which can be viewed as steps) -

1. Crisis Stabilization - this is about addressing a deteriorating situation and taking control of cash flow and short term financing. This begins with fully understanding all cash sources and minimizing cash outflows until there is a recovery plan. If possible, short-term bridge funding sources are identified and pursued to fill the gaps.

2. Leadership - this step involves making sure you have the right talent in the right seats on the bus particularly at the top. If existing leadership expects to stay in place, they may need to re-prove themselves to their stakeholders to assure continued support.

3. Stakeholder Support - is all about communication with those involved in the business – internally and externally. Sometimes it is not easy, but you must communicate the progress and trials as they happen to keep stakeholders from being caught off-guard or being surprised.

4. Strategic Focus - this step deals with asset reduction and a focus on the core business. Part of rejuvenating a business is making the tough decision of where to focus and what resources to harness. It also means that you may have to sell off some non-core assets to generate cash.

5. Organizational Change - involves establishing new terms and conditions for employment and making structural changes to run with a smaller team. Once the strategic direction of the business is set, the team needs to be shaped to implement the plan. Laying-off teammates is never easy but a positive way to view this step is that it can re-energize the remaining team with confidence in a clearer and focused plan.

6. Critical Process Improvement - focuses on cost reductions, quality improvements and increasing revenues. The business got in trouble for a reason. This step involves taking a critical eye to the core business processes and indentifying opportunities to operate more efficiently while accelerating revenues. In a production environment this would be an ideal time to consider implementing lean manufacturing concepts; and for administrative and service operations, similar lean enterprise concepts may be of value.

7. Financial Restructuring - this step is what many of us think about when we hear restructuring. It involves the work-out of liabilities and making financial commitments to a level that the renewed organization can meet. It may mean raising capital or finding longer-term bridge sources of funding until the business can return to predicable profitability and positive cash flow. This step may also open the door for conversion of some liabilities to equity and renegotiating the terms of existing debt.

Let’s circle back to cash management, given its importance in the turnaround process. Here are the guiding concepts that have been battle tested and proven to work. Some of these are tough- medicine and not easy to implement, but all have the same critical objective in mind generate and preserve cash to assure the business has adequate resources to make it through the recovery process. In reality there are always exceptions, but they should be few -

1. No disbursing cash unless it directly relates to more cash generation (i.e. revenues).
2. Implement a weekly cash flow management routine so the team has visibility to cash in-flows and committed cash out-flows.
3. Prioritize cash payments to those that help move the company forward and that are part of the solution; others will have to wait.
4. Focus on critical sources of supply that enable revenue generation. Develop payment and financing plans to assure these suppliers have priority.
5. Communicate the truth with creditors and be positive. At first, share that you are creating a work-out plan so you can

have a realistic repayment schedule; and then periodically provide status - good and bad news.
6. Only sell to customers that pay quickly and dependably.
7. Aggressive collections of accounts receivables.
8. New money (i.e. bridge loans, stock sales, etc) goes to resources that generate revenue and to pay for go-forward activities, not to pay old debts.
9. Communicate the plan to all stakeholders and periodically provide status on progress and issues.

Most suppliers and creditors realize that a company in bankruptcy will have less to pay them, not more; but they won't support your recovery if you cannot convince them of a realistic go-forward plan. Part of this means sharing the truth and setting expectations and commitments that you can meet. In today's economy many companies are confronted with cash issues and strategic problems. Being proactive will likely increase your chances of recovery and positioning so that you can move from surviving to thriving.

Kenneth H. Marks is Managing Partner of High Rock Partners, providing growth-transition leadership, advisory and investment. He is the lead author of the Handbook of Financing Growth published by John Wiley Sons For more information, please visit www.HandbookofFinancingGrowth.com. You can reach him at khmarks@HighRockPartners.com.

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