

The Turnaround Experience

Saving Troubled Companies

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The Turnaround Experience:: Saving Troubled Companies

Book by T.F. Schopflocher

The author received his B. Eng. degree in Mechanical Engineering from McGill University, and an MBA from the University of Western Ontario. He has had over thirty years experience in manufacturing, engineering and general management in a variety of high technology industries including aerospace, explosives, plastics, soap, food, glass, printing and textiles. He spent twenty-five years successfully directing turnaround situations, and has been the senior manager in single and multi-plant environments, responsible for sales, financial, technical, human resource, and manufacturing activities. He has had experience in the management of continuous flow and batch type chemical processes; perishable and consumer goods manufacture and distribution; machining and overhaul of components for military and aircraft applications; and high speed manufacturing processes for both consumer and industrial goods. The author has written several business plans for business start-ups.

About the Book

- The Turnaround Experience has been specifically aimed at would-be turnaround managers, presidents of financially troubled companies, and students of business administration who are interested in handling the inevitable business setbacks which occur in all businesses with almost predictable regularity. The book provides an overview of how to approach a business turnaround, and has been sprinkled with the author's related on-the-job experiences. When first published in Canada, the book was on the Montreal best-sellers list.

Other's doing the work!

- **Paul Simister's Business Development Advice**
- Helping Business Owners Who Are Stuck With Disappointing Marketing, To Get Unstuck And Attract, Convert & Keep More Customers – email paul@planco.co.uk:
 - <http://businessdevelopmentadvice.com/blog/the-turnaround-experience-by-thomas-f-schopflocher/>
 - <http://businessdevelopmentadvice.com/blog/a-great-business-education-for-business-owners-entrepreneurs/>
- Youtube
- Memoirs of a turnaround artist: McKinsey's Doug Yakola
- 12,795 views
- •Published on Mar 21, 2014
 - https://www.youtube.com/watch?v=KCp5Nq_hTkA

Part 1 Sizing Up the Situation-

Chapter 1 Spotting the need for a turnaround

- Like Human Businesses have a life-cycle
 - Natural or Premature Causes
 - Undercapitalization
 - Insufficient diversification
 - Poor Labor Relations
 - Competitiveness (demanding new marketplace)

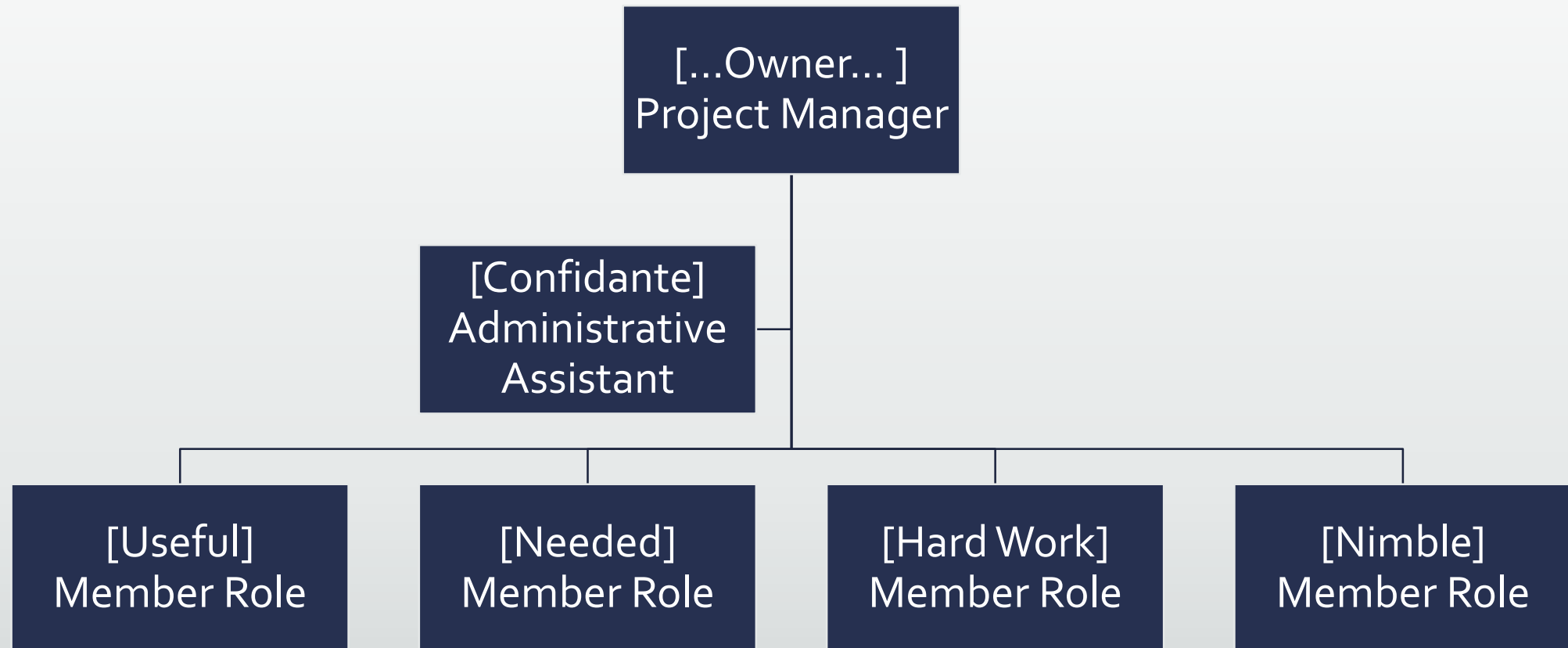
Poor Management = Often the Scapegoat

- Identify elements that are key to the success of the project, such as:
 - Satisfied clients or stakeholders
 - Met project objectives
 - Completed within budget
 - Delivered on time

Chapter 1 Cont.'

- Obsolescence
- Internal
 - Scrap rate
 - Purchasing
 - Theft / Embezzlement(s)
- External
 - Accounts Receivables
 - Customers (Slow in Paying)
 - Higher Financing Cost
 - Drop in Sales Volume
 - Aggressive Competitor
 - The inevitable Economic Downturn

Organization Roles and Responsibilities



Spotting the need for a turnaround

- Small, Medium or Large
- Over staffed well staffed or under staffed
 - May lack the ability to detect problems
 - Leading to the fine print “Accelerated Angry Creditors”
- So... The Turnaround Professional
 - Hired Gun
 - The Ax Man/Woman
 - Unpopular person
 - A necessary Evil Authority to Effect (positive) Change
 - 50/50; .500; 1/2 ; not a permanent position
 - Too ruthless / reactionary
 - Unfeeling/unsuited for long term employment 1 to 3 years

Turnaround of 11 large businesses

- What products or services will your project deliver? inevitable business setbacks and experience so that you never forget...
- Top Companies
- <https://brownandjoseph.com/blog/11-turnaround-success-stories/>
- Steve Job Stanford Speech

Chapter 2 – Warning Signs



People

Equipment

Locations

Outside Services

Manufacturing

Sales



Cash Flow Analysis, Timely Accurate Info & Over-Communicate (on steroids)



Chapter 2 – Cont.'

- Day to Day Managers or CFO/Head Accountant
 - Warn the business or too busy!
- Health or ill-health
- Constant Monitoring
 - Financial Health (Vitals)
 - Operational Health (Vitals)
- Catch what is lurking around the corner
 - “or else”



Warning Signs

- Sales Volumes
- Accounts Receivables
- Cash Flow Forecast
- Labor per Unit Output
- Inventory Turns
- Bank Indebtedness
- Cash Flow Forecasts



Taking Action – 4 checks

- Taking Action when heading for trouble
 - Good Operational and Financial Information
 - Timely and Accurate
 - To begin to chart a Realistic Course of Action (RCA)
 - Extend Payables (Bills)
 - Incentive your Accounts Receivable form others
 - Limit / Reduce / or NO Unnecessary Expenditures
 - Sorry not pet program
 - Over Communicate with the Banker(s)
 - Limit reduce or abort catastrophic consequences
- Remember options but “Don’t want to run your business” Seasoned vs. younger manager



Chapter 3 – Providing the Initial Shot of A dren a lin



- Forget the Turquois and the Hair

Turtle and the Jack Rabbit

- A race between the Turnaround Specialist and the Bank Manager that can “Plug the Plug”

Risk Management Plan – Collect Outstanding A/R \$\$\$

Risk	Probability	Impact	Owner	Mitigation Plan
Budget cuts may reduce staff, affecting project scope and schedule	Medium	High	Project Manager	See appendix for a phased implementation plan
Expend Payables (Bills)	30	60	90	120
Over Communicate	With	Everyone	Suppliers	Banks
Bankruptcy	Chapter	7	11	13
Collect everything	Sell Unused Assets	Curt	Annoy	Incentive 3%-10% PM

Quality Management and Performance Measures

- Control Outgoing Requisitions (multi signatures)
- Control Outgoing Checks (more multi signatures)
- Do Not Extend Credit
- Sell off Unused Inventories
- Forestall Interest Payments (interest only for a short time)
- A potential goldmine (Dispose of Assets)
- Layoff Personnel (very hard but 10% to save 90% feels better)
- “Good judgement and Common Sense must prevail”

Chapter 4 – Comparing the Past to the Present

- Optimize Profitability
- 1m vs. 500k
- 20m vs. 30m

- Financials
 - As a % of Year over Year “Percentage of Net Sales”
 - To find the issues
 - To clearly compare

Chapter 4 Cont.'

- Since cost Levels are the business of the Turnaround Specialist
 - 1) Was there a change in the Accounting
 - Lumped accounts
 - 2) Coding of Accounts
 - Misapplied
 - 3) Product Consistency
 - Changes overtime
- Clear for Comparison!

Chapter 4 Cont.'

- Troubled Company??? YES
- Cost Cutting of Expenses!!! For Sure...
 - Where?
 - How!
 - And by how much!@#?
- Current and cost of the past!!!
 - Intentions
 - Control and not under our control
- Don't get to involved

Chapter 4 Cont.'

- Answer where to cut...
- Sales Drop thus reduce Budgeted Expenses
 - How to quickly react
 - Make saving part of making money (pay yourself first)
 - Major growth and internal asset creation
- Fresh Look
 - Not to involved
 - Subletting
 - Let them go...

Chapter 4 Cont.'

- Renting Talent
- Everyone is truly not replaceable
- Bare bones yet let them the company breathe (balance)

Chapter 10 – Obtaining the Much-Needed Cash

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- Infusion of working capital
 - A few avenues to search, but
- Clear Vision
- Competent, Proven, Credible and trustworthy Management Team
 - Execute the Strategic Plan

Vision and Strategy

- 3- 5 years from now
 - Achievements
 - Goals
 - Vision into reality

- Execute
 - Implement
 - Action
 - Just make it happen (everyday)

Vision

- Niche
- New Market (more from existing market)
- Strengths
 - New Equipment
 - New ideas/innovation
- Acquisition
 - Non-compete
 - Related non-compete
- Creating the Future (day by day)

Strategy

- Structure
- Sales and marketing
- Capital or Equipment Financing
- New improved debt structure
- Fill the technology gap
- Drop or Add product or service (better margin or more relevant)
- Best or Unique
- Price, Differentiation and/or Focus

The Management Team

- Inside or
- Outside talent
- What about Family does it matters

- Competent Team..

- Once in Place where to turn....

Finding Financing...

- Rich Business Families
- Investment Fund
- Banks
- Pension Fund
- Venture/Turnaround Funds

Selling the company or the note

- Quiet Convincing way
- Direct Invasive Questions
- No rhyme of reason
- Hidden Agenda (rules no rules that warn)
- Chart out the new few years

The Business Plan – Well written Successful or Failure

- Executive Summary
- History
- Background
- The Market
- The Competition
- The Recovery Plan
- The Management
- Financial Opportunity

Chapter 11 – Financing the Company

- Equity Financing
 - Part owners
 - Control
 - Buy back deal
- 35-50% 1. 2 and 5 years
- Valuing the company
 - Multiplier
 - 3-4
 - 5
 - 8+

Financing the Company

- Venture Capital
 - 80% Control
- Debt to Equity
 - For interest
 - Miss no payments
 - 3 to 1 bad
 - 2 to 1 caution
 - 1.5 to 1 or 1 to 1
 - Prime rate plus 2.5%

Financing the Company

- Small Business Loans
- SBA Loan Program
- Collateral
- Young vs. Older

- Short-term borrowing
- More than needed



Chapter 12 – The Last Resort

- Financing NO
- Equity NO
- Debt Structure NO
- Creditors Closing in
 - Calls
 - No way out
- Bankruptcy
 - Voluntary
 - Involuntary

Chapter 12 – The Last Resort

- Bankruptcy
 - Voluntary
 - Involuntary
- Very Risk Way to Turnaround and Save the Company
 - No other way as per the board
 - Creditors (will hate the wait)
- No COD
 - Canada
 - C-36
 - USA
 - Chapter 11

Chapter 12 – The Last Resort

- Chapter 11
 - Hard but maybe doable
- File a petition with the Clerk of the Bankruptcy Court
- 20 days notice sent to all
 - Creditors
 - SEC
 - IRS
 - US Attorney
- 30 days list all Creditor (secured and unsecured list of all equity holders up-to-date financials and complete list of assets)

Chapter 12 – The Last Resort

- Chapter 11 cont'....
 - Creditors can appeal
- 120 days to do a work out plan
 - How
 - Sell sell sell
 - Fair plan
- Negotiating
 - “Cram Down”
 - Force liquidation of assets
 - Tax get to go first

Chapter 12 – The Last Resort

- Taxes 100%
- Loans (100% accepted 0% refused)
- Creditors (100% accepted 0% refused)
 - A fair deal
 - Dismiss or liquidate

Chapter 12 – The Last Resort Pitfalls

- Governments do not capitulate easily – no less than 100 cents on the dollar
- Dealing with banks is easier – NOT necessarily more successful
 - Loan manager – higher management
 - Banks are low-risk lenders/ Avoid high risk situations
 - Legal departments

Proposal to Creditors - Process

Typical- 25 to 35 cents on the dollar

1 year or more – typical repayment schedule

The Fallout

- Bankruptcy laws – myriad of rules
- Laws constantly being amended
- Voluntary bankruptcy – causes loss of public confidence in the company
 - Weakens relationship with creditors

bankruptcy - last resort/ only after all other avenues have been exhausted

A Final Word

- Turnaround not for everyone
- ---Exhausting and time consuming, thankless, frustrating, not always successful

- ON THE OTHER HAND: if there is **SUCCESS**
- ---Exhilarating and satisfying..
- ---Saving the company...
- ---Saving employee jobs....

Acknowledgements:

Author “dedicated to his sons, who will choose any thing other than business”

Appendix I, II and III (1, 2 and 3)

- 11 large business turnarounds
- UK Consultant
- YouTube
- The turnaround experience: Saving troubled companies
- 317 page turnaround Chrysler
<http://courseweb.stthomas.edu/fmzimmerman/books/Turnaround%20Experience%2012%20G.pdf>
- Strategic Mgt. Partners <http://www.strategicmgtpartners.com/ebook.pdf>
- DYA: define your acronyms! (RCA) Realistic Course of Action