



# CAVENDISH

## Strategies for turning around a troubled business



Suppose your manufacturing business finds itself awash in red ink from continuing losses and plagued by sinking employee morale. What steps should you consider to succeed with a turnaround in both profits and morale?

When the company is in trouble, resist the temptation to bring in outside equity capital unless you are willing to let someone new take over the reins of the business. Sources of rescue capital will demand to make the rules and run the show.

Your business will be much stronger if you can do it yourself, which usually means bringing in additional personal capital.

First things first. Analyze what is causing your cash haemorrhaging and fix it fast. Focus on short-term cash stabilization and long-term cash annuities. To accomplish this, your restoration strategies should have two immediate points of focus: (1) to reduce expenses, and (2) to increase sales, followed by a third longer-term focus to lean-down the business.

Expense reduction must be implemented immediately. To reduce expenses, possible tactics may include stretching out payables, pulling in receivables, renegotiating contracts, offering discounts for advance payments, eliminating unnecessary expenses and perks, farming out certain activities for cost savings, reducing staff to a lean configuration (more on this later), freezing salaries, and eliminating bonuses not tied to overall performance.

However, expense reduction alone will not solve the problem. It may stop the bleeding, but the patient is still anaemic. What is also needed is a transfusion of additional sales.

Evaluate and modify your sales strategy. A business with an ailing cash balance should pursue two avenues: (1) opportunities that optimize short-term cash flow, and (2) high-margin opportunities for the long term.

To meet immediate needs, pursue larger rather than smaller orders, with near-term rather than far-term prospective closure, that provide some upfront cash inflow. Secure contracts with major down payments, rather than contracts requiring you to buy-in with your own cash. Even if profit margins are smaller, you will have urgently needed cash, and employee morale will improve as workers will see production and sales volume increasing.

Then turn your attention to large potential customers that will require longer-term efforts to close (probably with some customizing or private-labelling required) but which will result in higher margins for several years.

Finally, as company growth resumes and profitability seems looming, start focusing on leaning down the company structure. Minimize the layers of management. Restructure the company in a manner that will maximize your returns. Outsource activities wherever practical. Eliminate positions to do little to contribute to the bottom line — this does not mean letting good people go, but rather trying to find more productive positions for them within the business.

A focus on lean thinking is a focus on eliminating waste in everything: sales, production, operations, administration, processes and paperwork. In a lean environment, "waste" is defined as any step in your company processes that your customer would not be willing to pay for.

Strive to pare down your business to a core of employees (both management and hourly) who are committed to the success of the company. If a few devoted workers have clear deficiencies, train them before considering laying them off. When you finally have a dedicated, driven core of key people left, institute a strong stock option plan to reward them.

Throughout all these steps, you must also do two critical things: 1. Instil and reinforce a passionate commitment to customer service within every employee, because satisfied customers keep coming back. Remember to fix all problems to the customers' satisfaction. 2. Demonstrate a fervent loyalty to your employees, and ensure this attitude permeates throughout all management ranks. You want to do all you can to ensure employee satisfaction, because your experienced, dedicated employees are your most important resource.

Follow these steps and you should have a strong chance of returning to strong profitability with a staff of loyal committed employees.

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### **About the Author Colin Thompson**

Colin is a former successful Managing Director of Transactional/Print Manufacturing Plants, Print Management/Workflow Solutions companies and other organisations, former Group Chairman of the Academy for Chief Executives and Non-Executive Director, helping companies raise their `bottom-line` and `increase cash flow`. Plus, helping individuals to be successful in business and life in general. Author of several publications, research reports, guides, business and educational models on CD-ROM/Software/PDF and over 400 articles published on business and educational subjects worldwide. Plus, International Speaker and Visiting University Professor.

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