Effectively Executing a Financial and Operational Turnaround
Effectively Managing a Turnaround

I. Understand the Situation
II. Understand What You can Impact and What you Cannot
III. Determine Your Options
IV. Define your Overriding Objective
V. Define Your Strategic Pillars
VI. Prioritize those Strategic Pillars
VII. Develop an Action Plan
VIII. Assign Responsibility for the Plan and Constituent Parts
IX. Make Sure You Have the Time and Resources to Execute the Plan
X. Communicate the Plan (Internally and Externally)
XI. Rally the Troops
XII. Implement the Plan
XIII. Maintain Timely Reporting and Accountability
XIV. Celebrate Successes
Step 1: Understand The Situation

What is causing the need for the turnaround?

a) Operational Inefficiency
b) Ineffective Leadership
c) Poor Decisions
d) Inferior Products or Services
e) Changing Market or Competitive Dynamics
f) Inappropriate Market Positioning
g) External Macroeconomic Factors
h) Inability to remain price competitive
i) Loss of Key Staff Member(s)
j) Lack (or Loss) of Financing
k) Loss of a Key Customer or Supplier
l) Other
Step 2: Understand What You Can Impact

Things You can Impact

a) Resolving Operational Issues  
b) Reducing Expenses  
c) Increasing Revenue  
d) Making Better Decisions  
e) Improving Deficient Products or Services  
f) Enhancing Market Positioning  
g) Replacing Lost Staff Members  
h) Enhancing Employee Retention and Motivation  
i) Replacing Lost or Inadequate Financing  
j) Replacing a Key Customer or Supplier  
k) Adapting to Economic or Market Change

Things You Cannot

a) The Weather  
b) The Economy  
c) Taxes!  
d) The Competition
Step 3: Determine Your Options

Typically there are multiple approaches to resolving an issue.

For example, if you are running out of cash, you could:

a) Find ways to cut expenses
b) Find ways to increase revenue or margins
c) Change your payment terms to collect money up front
d) Sell fixed-price one year contracts with payment up front
e) Raise additional equity
f) Expand your credit facility
g) Extend out payments to suppliers
h) Sell off non-core assets
i) License technology, distribution, or other rights to non-core markets
j) Identify a strategic partner who provides cash, product, distribution, R & D, etc.
Step 4: Define Your Overriding Objective

Generally, your Overriding Objective will be one of four Goals:

1) Survive
2) Maintain
3) Grow
4) Sell

In order to effectively manage a turnaround, everyone must agree what the Company’s Overriding Objective is.

Once this goal is known, decisions about what to do become markedly easier and more focused.

Most turnarounds will evolve through at least the first 3 phases.
Step 5: Define Your Key Strategic Pillars

These might include:

a) Financial strength  
b) Increased revenue  
c) Increased gross margin  
d) Reduced expenses  
e) Talented and motivated team  
f) Loyal and enthusiastic customers  
g) Innovative products  
h) Supportive stakeholders  
i) Maximize shareholder value

In order to maintain a manageable number of issues, we recommend limiting yourself to your top 5 priorities
Step 6: Prioritize Those Strategic Pillars

It is critical to get buy-in to how these Pillars rank in terms of importance relative to the Overriding Objective

For example, in order to advance your “Loyal and Enthusiastic Customers” Pillar, you could cut prices or expand the size of your customer service team…

But those changes may be in conflict with your “Financial Strength” Pillar…

So, it is critical to place these into their proper priority and make sure that the entire team buys into that priority
Prioritize Those Strategic Pillars - Example

For example, one recent client defined their Strategic Priorities as follows:

1. Financial Strength
2. Loyal and Satisfied Customers
3. Talented and Motivated Employees
4. Innovative Products and Services
5. Maximizing Shareholder Value
Step 7: Develop Specific Goals For Each Pillar

For each Strategic Pillar, establish 5 near term goals that you will commit to accomplish. For example:

**Revenue Growth**

1. Generate $4mm in revenue from new product introductions in 2009
2. Reduce Client churn rate to 5% during 2009
3. Bring on 50 new Clients with average annual revenue of $50,000 in 2009
4. Don’t lose ANY of our top 20 Clients during 2009
5. Increase average revenue per account by 10% over prior year
Step 8: Develop Action Plan and Assign Responsibility

**Strategic Pillar:** Revenue Growth

**Goal:** Reduce Client churn rate to 5% during 2009

**Goal Owner:** Kathy

**Action Plan:**

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<tr>
<th>Action Item</th>
<th>Start Date</th>
<th>Completion Date</th>
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<tbody>
<tr>
<td>Identify issues/retention strategies for 2008 clients moving into 2009</td>
<td>12/20/2008</td>
<td>12/31/2008</td>
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<tr>
<td>Develop and implement retention strategy</td>
<td>1/15/09</td>
<td>1/31/09</td>
</tr>
<tr>
<td>Assign executive contact for any issue accounts/recover program</td>
<td>12/20/2008</td>
<td>12/31/2008</td>
</tr>
<tr>
<td>Implement 2009 training program (weekly for 30 days)</td>
<td>1/2/2009</td>
<td>1/31/2009</td>
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<tr>
<td>Monthly tracking and reporting or results</td>
<td>Monthly</td>
<td>Monthly</td>
</tr>
<tr>
<td>Meet w/account teams to understand client issues (lost clients)</td>
<td>12/8/2008</td>
<td>Monthly</td>
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<tr>
<td>Implement new client transition plan</td>
<td>12/10/2008</td>
<td>12/20/2008</td>
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<tr>
<td>Implement new hiring criteria and training program for 2009</td>
<td>12/5/2008</td>
<td>12/20/2008</td>
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</table>
Step 9: Make Sure You Have Time to Execute

Quickly get to a point where you have at least 6 months’ cash in the bank

– Measured by cash on hand / monthly cash burn rate at bottom of monthly cash cycle

This can be done by:

– Reducing expenses
– Increasing revenue or gross margin
– Cutting R&D and capital expenditures
– Raising outside capital
– Establishing or increasing a line of credit
– Selling off non-core assets or divisions
– Selling licenses, territory rights, or other rights for an up front payment
– Changing your customer payment terms

And maintain this threshold of cash to provide sufficient “runway” for your company to have time to gain sufficient speed to “take off”

– If cash dips below this level, immediately make changes to return to your 6 months’ minimum cash baseline
Step 10: Communicate The Plan (Internally and Externally)

A good plan, poorly communicated, will fail

Components of an effective communication plan:

a) Recognize the emotions and concerns of the audience
b) Be honest, yet optimistic
c) Acknowledge challenges / shortcomings of the past
d) Directly speak to what you are doing to address those challenges
e) Let them know what their role in the process is
f) Let them know the implications of success, and the costs of failure
g) Let them know “what’s in it for them”
h) Inspire them with your confidence and vision
i) Be consistent and follow through
j) Make sure your actions are consistent with your words
k) Listen

Marketing: “Presenting the facts in their most favorable light”
Step 11: Rally The Troops

At this point, you have:

1. Assessed the Problem
2. Defined Your Overriding Objective
3. Established Your 5 Key Strategic Pillars
4. Prioritized These Strategic Pillars
5. Identified 5 Key Goals Within Each Strategic Pillar
6. Developed an Action Plan
7. Made Sure That You Have Enough Cash (Time) to Execute Your Plan
8. Assigned Roles and Accountability for Executing the Plan
9. Communicated the Plan Internally and Externally

Now, it’s all about execution!

And Execution is Dependent on Talented, Trained and Motivated Employees….

…and Leadership
Step 12: Implement the Plan

- The plan is in place
- The team has bought in
- People understand what is at stake
- They understand what their role is
- They know what their key milestones are
- They have committed to their deadlines
- They have the necessary (or available) resources
- All team members know what each other is focused on
- They know how they will be expected to report on progress

Now it’s time to get to work…
Step 13: Maintain Timely Reporting and Accountability

- Develop a flexible tracking system that allows you to track the status of all action items
  - This should be sorted by: 1) Strategic Pillar, 2) Task Owner, and 3) Due Date
- Meet with team frequently to review status of all Action items; rank items as “green,” “yellow” or “red”
- Make sure everyone knows that any “red” items should be brought to your attention in advance of the status meeting
Develop a Financial Dashboard

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<tr>
<th>Financial Progress</th>
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<tr>
<td><strong>Revenue</strong></td>
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<td>1,250</td>
<td>(200)</td>
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<td><strong>Cost of Goods</strong></td>
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<td>550</td>
<td>(50)</td>
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<tr>
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<td><strong>Net Income</strong></td>
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**Financial Metrics**

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**Explanation of Key Variances vs. Budget for this Period and YTD:**

**Revenue**

1. **Revenue**
2. **Gross Profit**
3. **Operating Income**
4. **Net Income**

**Reconciliation of Management's Operating Information:**

1. Revenue
2. Gross Profit
3. Operating Income
4. Net Income

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### Key Metric: Proposed (000's)

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<tr>
<th>Year-End Target</th>
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### Key Metric: Sold (000's)

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Step 14: Celebrate Successes

Effecting a turnaround is a painful and arduous task - even when it is going well…
- Layoffs
- Paycuts
- Extra Work
- Reduced Benefits
- Limited Resources

It is critical to Celebrate your Successes at every opportunity:
- This applies to customers, vendors, investors and lenders as well as employees
- Reinforce the Company’s long-term objective
- Remind them why the objective is worth the effort and sacrifice
- Help them see the solution (and not just the daunting pieces that don’t seem to fit)
- Celebrate new customer (or contract) wins
- Celebrate the accomplish of every milestone
- Celebrate progress on key performance metrics
- Praise team members who accomplish their tasks ahead of schedule
- Remind team members what is in it for them
You’re Not on Your Own

There is a reason that turnaround professionals are often referred to as “Turnaround Artists”
- The Process is 2 parts art to 1 part science
- There is no substitute for experience and prior success

Turnarounds can be difficult, but not impossible, for existing management to execute on their own:
- Management relationships often cloud objective judgment
- Certain projects, departments or people are considered “sacred cows”
- It is difficult emotionally to make certain very hard decisions
- They are too close to the issues to see them objectively
- They are fatigued from working so hard for so long
- People may be intimidated to speak completely, honestly and candidly
- They do not have the benefit of having gone through this process many times before

For these reasons, and more, most effective Turnarounds involve an outside resource
- Full-time Restructuring Officer of Interim CEO to run the process and implement change
- Consultant to actively interact with team and coach existing leadership team through the process
- On-line “self-help” tools with periodic expert coaching and advice

DCA Partners can help you through the process no matter which path you choose
In Conclusion…

• By Following DCA’s Focused Management approach to effecting change within your organization, you will:

  – Energize your organization by “selling” your vision
  – Instill confidence in your team due to your control of the situation
  – Motivate your team as they understand what is “in it for them”
  – Mitigate fear and uncertainty by ensuring the Company’s viability
  – Engender loyalty and support form all stakeholders due to your honesty and proactive communication
  – Ensure you do not run out of cash prior to being able to execute your plan
  – Get your finite resources laser focused on the Company’s most important objectives
  – Hold your team members accountable to meeting the timelines they committed to
  – Maintain visibility over all key financial and operational metrics
  – Have real-time tools to monitor your progress, allowing you to celebrate your success

  – **Succeed**