



## **Effectively Executing a Financial and Operational Turnaround**

# Effectively Managing a Turnaround

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- 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

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## 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

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## 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

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**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**

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**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

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**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**

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**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

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**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

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**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:**

Action Item	Start Date	Completion Date
Identify issues/retention strategies for 2008 clients moving into 2009	12/20/2008	12/31/2008
Develop and implement retention strategy	1/15/09	1/31/09
Assign executive contact for any issue accounts/recover program	12/20/2008	12/31/2008
Implement 2009 training program (weekly for 30 days)	1/2/2009	1/31/2009
Monthly tracking and reporting or results	Monthly	Monthly
Analyze 2007/2008 client attrition	12/1/2008	12/5/2008
Meet w/account teams to understand client issues (lost clients)	12/8/2008	Monthly
Implement new client transition plan	12/10/2008	12/20/2008
Implement new hiring criteria and training program for 2009	12/5/2008	12/20/2008

## Step 9: Make Sure You Have Time to Execute

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### 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

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## 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

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- 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**

Strategic Priority	SA Owner	Goal: Short	Action Item	Start Date	Completion Date	Goal Own	Goal
		\$2MM in whales	Implement new client transition plan	12/10/2008	12/20/2008	ID	Gen
		\$2MM in whales	Finalize sales demo site	12/5/2008	DONE	KL	Gen
		\$2MM in whales	Finalize marketing plan	12/5/2008	12/20/2008	KL	Gen
		\$2MM in whales	Identify 2009 targets/client segmentation	12/15/2008	12/31/2008	KL	Gen
		\$2MM in whales	Establish key contacts/opportunities for contact for each target	12/15/2008	12/31/2008	KL	Gen
		\$2MM in whales	Rework new client pitch (productization/SS)- unique selling pitch	12/15/2008	12/31/2008	KL	Gen
		\$2MM in whales	Schedule initial rd of meetings	1/2/2009	1/15/2009	KL	Gen
		\$2MM in whales	Monthly tracking/progress reports	Monthly	Monthly	KL	Gen
		\$3MM in FS - Sample	Implement new client transition plan	12/10/2008	12/20/2008	ID	Gen
		\$3MM in FS - Sample	Sample specific client pitch/deck	12/10/2008	12/20/2008	JB	Gen
		\$3MM in FS - Sample	Identify 2009 targets/contacts/approach strategy	12/15/2008	12/20/2008	JB	Gen
		\$3MM in FS - Sample	Close GMI deal	12/1/2008	12/31/2008	JB	Gen
		\$3MM in FS - Sample	Schedule initial round of mtgs	1/2/2009	1/15/2009	JB	Gen
		\$3MM in FS - Sample	Monthly tracking/progress reports	Monthly	Monthly	JB	Gen
		Budget and financial reporting system	Determine departmental accounting and accountability	12/8/2009	12/10/2008	CL	Bud
		Budget and financial reporting system	Meet with each department head to discuss budget	12/8/2009	12/10/2008	CL	Bud
		Budget and financial reporting system	Determine customer based reporting metrics	12/8/2009	12/10/2008	CL	Bud
		Budget and financial reporting system	Finalize and distribute 2009 budget	12/1/2009	1/15/2009	CL	Bud
		Budget and financial reporting system	Develop monthly accrual process	1/15/2009	1/31/2009	CL	Bud
		Budget and financial reporting system	Determine pace of sales and budgeting assumptions, i.e., staffing	12/8/2009	12/10/2008	CL	Bud
		Budget and financial reporting system	Determine sales and reporting reporting metrics	12/8/2009	DONE	KL	Bud
		Builder to Market	Sales Plan	12/4/2008	1/15/2009	JB	Bulk
		Builder to Market	Beta Release	12/4/2008	12/11/2008	JP	Bulk
		Builder to Market	Beta Client Orientations	12/11/2008	12/12/2008	JP	Bulk
		Builder to Market	Internal Testing	12/11/2008	1/15/2009	JP	Bulk
		Builder to Market	Internal Training and Support Plan	12/11/2008	1/15/2009	JP	Bulk
		Builder to Market	Beta & Internal Feedback	12/11/2008	1/15/2009	JP	Bulk
		Builder to Market	Go-No-Go Meeting	12/4/2008	1/21/2009	JP	Bulk
		Builder to Market	Release to target clients	12/4/2008	2/15/2009	JP	Bulk
		Builder to Market	Executive Development Demo	12/4/2008	Weekly	JP	Bulk

# Develop a Financial Dashboard

**COMPANY NAME** Month Period Ending: **January-09**  
**Monthly Financial Dashboard Review** (\$ Thousands)

	January-09					YTD					2009E				
	Actual	Budget	Variance	PY	Change	Actual	Budget	Variance	PY	Change	Forecast	Plan	Variance	PY	Change
Revenue	1,000	1,200	(200)	800	200	1,000	1,200	(200)	800	200	1,000	1,200	(200)	800	200
Gross Profit	500	550	(50)	400	100	500	550	(50)	400	100	500	550	(50)	400	100
Margin	50.0%	45.8%	4.2%	50.0%	0.0%	50.0%	45.8%	4.2%	50.0%	0.0%	50.0%	45.8%	4.2%	50.0%	0.0%
Operating Expenses	300	300	-	300	-	300	300	-	300	-	300	300	-	300	-
% of Revenue	30.0%	25.0%	5.0%	37.5%	-7.5%	30.0%	25.0%	5.0%	37.5%	-7.5%	30.0%	25.0%	5.0%	37.5%	-7.5%
EBITDA	200	250	(50)	100	100	200	250	(50)	100	100	200	250	(50)	100	100
Margin	20.0%	20.8%	-0.8%	12.5%	7.5%	20.0%	20.8%	-0.8%	12.5%	7.5%	20.0%	20.8%	-0.8%	12.5%	7.5%
Net Income	100	150	(50)	50	50	100	150	(50)	50	50	100	150	(50)	50	50
Margin	10.0%	12.5%	-2.5%	6.3%	3.8%	10.0%	12.5%	-2.5%	6.3%	3.8%	10.0%	12.5%	-2.5%	6.3%	3.8%

Financial Metrics	Existing	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Revenue															
Gross Profit															
Operating Expenses															
EBITDA															
Cash and Equivalents															
Quick Ratio		1.0		1.0											
Available Credit Facility															
Total Debt															
Capital Expenditures															
AR DSO		0		0											
Days Payable		0		0											
<b>Covenants</b>															
Net Equity	1,000														
Fixed Charge Coverage	1.5x														
Minimum EBITDA	1,400														
Total Debt / EBITDA	2.0x														

Variance Report

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

Financial Account	Variance	Key Driver of Variance
1. Revenue		
2.		
3.		
4.		
5.		
6.		
7.		
8.		

Red Flags that management is addressing:

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Forecasts / Expectations

Do you expect the balance of the year figures to be **BETTER / WORSE / IN LINE** versus your prior expectations for:

	(focus drops chosen in error)	Why?	
1. Available Cash			
2. Revenue			
3. Gross Profit			
4. EBITDA			

# Track Progress on Key Metrics

Company: COMPANY NAME

Closing Date: 1/31/2009

## Key Metric: Proposed (000's)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year-End Target
2005	803	532	855	674	812	1484	1567	1317	654	758	781	523	9,000
2006	769	424	939	643	960	821	761	1223	931	991	971	742	10,000
2007	1075	1521	2146	1065	1220	1209	1063	1730	1923	1567	1238	1165	16,000
2008	1588	1316	1686	1567	1776	1690							25,000
2009													

## Key Metric: Sold (000's)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year-End Target
2005	181	157	154	452	413	351	522	383	446	462	333	518	4,000
2006	630	299	492	364	433	386	459	463	358	473	479	513	5,000
2007	383	461	707	556	612	661	716	946	708	818	558	1018	8,000
2008	650	637	504	729	738	584							9,500
2009													

## Key Metric: Invoiced (000's)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year-End Target
2005	148	214	266	223	295	363	264	429	426	476	466	466	4,000
2006	437	465	362	347	436	630	342	479	399	423	512	347	5,000
2007	380	468	360	561	631	648	559	821	762	694	671	679	7,200
2008	549	701	622	720	587	699							9,000
2009													

## Key Metric: Received (000's)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year-End Target
2005	261	77	235	315	181	179	305	363	311	453	377	267	3,500
2006	706	372	376	411	427	363	500	454	262	690	375	390	5,500
2007	577	303	403	478	469	615	650	649	744	626	655	682	7,000
2008	804	480	488	702	697	755							9,500
2009													

# Step 14: Celebrate Successes

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**Effecting a turnaround is a painful and arduous task - even when it is going well...**

- Layoffs
- Payouts
- 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

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## **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 or 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...

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- **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 from 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**



## **Restructuring and Turnaround Management Services**