Improve Your Turnaround's Forecast - Executing for Long-Term Success

by Peter C. King, VR Business Sales/Mergers & Acquisitions, CEO President

Most businesses implement strategies to maintain their viability within their industry. Occasionally, they need special techniques to reshape or revitalize their business. If your company is experiencing a period of decline, consider reexamining your strategies to find areas you can improve and turn the business around.

Getting to the Core

If you're a potential buyer of a troubled company, you must examine it closely for hidden values, such as untried territories or poor leadership. Then decide if these opportunities mitigate acquisition risks and potentially provide enough financial benefits.

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It's essential to understand the company's core business - specifically, its profit drivers and roadblocks. Without a clear understanding of this, you may misread the company's financial statements, misjudge its financial condition and, ultimately, devise an ineffective course of rehabilitative action.

Due Diligence Matters

While due diligence is an important part of any acquisition, it's probably the most critical stage in a turnaround deal.

Buyers should use a professional business intermediary who will take the time necessary to perform due diligence, request the supporting documentation needed and perform personal audits that cross-check reported and actual data. At this stage, it is important that the source of the company's distress (such as maturing products or overwhelming debt) is pinpointed to determine what, if any, corrective measures can be taken. You also need to determine if the business harbors significant liabilities, such as pending legal judgments, product claims or dissatisfied customers.

This is the time to find hidden flaws. But due diligence may also unearth potential sources of value, such as tax breaks or proprietary technologies. Benchmarking the company's performance with its industry peers' can help reveal where opportunity lies.

Hit the Ground Running

Generally, the first post-transaction step is for new owners to determine what products drive revenue growth and which costs hinder profitability. This may be the time to divest the business of unprofitable products, services, subsidiaries, divisions or real estate. Staff cuts may further be in order. Make sure you keep key players. They may be expensive, but as long as they are pulling their weight and have good relationships, they have value when retooling.

Implementing a longer-term cash-management plan and forecast based on receipts and disbursements are also critical. Owners can manage each line item of the company's weekly or daily receipts and disbursements in accordance with:

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- Profit and loss projections,
- Changes in working capital, and
- Major debt and capital expenditures.

With a strong cash-management plan and a thorough evaluation of accounting controls and procedures, buyers should be able to identify lost revenue opportunities, such as unbilled services. This plan can also help buyers determine where they might be able to cut costs.

Mapping the Future

Buyers should ensure that accounting and reporting systems are producing the data necessary to run effective management reports. If these systems don't accurately capture all company transactions and list all assets and liabilities, company leaders will be unable to fully pursue opportunities or respond to potential problems.

One troubled manufacturing company, for example, wasn't tracking future purchase commitments. When the new owner took charge, it prepared and circulated among managers a comprehensive commitment and contingency report that helped senior management renegotiate the terms of the customer agreements.

Because the task may seem overwhelming, it's easy for new owners to focus only on the business's day-to-day operations. But a strategic plan that maps the path toward revenue growth and improved cash flow is necessary. Buyers may find, for example, that the company's best revenue-producing assets aren't reaching customers and that their potential could be realized with a more sophisticated marketing campaign or bigger sales staff. Macro- and micro-level planning is equally important.

Return to Profitability

Only a small window of opportunity is available to realize a turnaround's potential. To take full advantage of it, buyers must get up to speed on the acquisition's products, departments, delivery systems, staff and overall operating systems as soon as feasible.

Insurance specialists can also be used in a risk-management role, evaluating company insurance coverage and claims. Auditors may be useful for interviewing accounting personnel and financial statements to verify their accuracy. Finally, private investigators can research the backgrounds of key executives for possible fraudulent activity and misrepresentations.
