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Action plan needed to kickstart effective turnaround strategy

Vincent Marino

AN EXCELLENT company reputation and an impressive set of sales figures may disguise the ultimate fate of a company that is heading for trouble. Creative accounting makes the income statement and balance sheet look "healthy" but the signs of business decline are starting to show.

Frequently, it is the business's creditors who first happen to recognise the problem, whether they are "informal" creditors such as suppliers whose invoice payments are long overdue, or "formal" creditors such as banks and other lending institutions whose loan payments are not met and cheques are dishonoured.

A turnaround strategy needs an immediate and speedy action plan if the business is to recover and survive. Although the steps below are listed separately they are iterative and coordinated. Evaluating one phase provides data for the next.

Step 1: Evaluate/analyse the business. At this initial stage, owners need to ensure that the business is capable of being rescued. The main purpose of this evaluation is to establish:

Whether the business can survive in the short term while a turnaround strategy is formulated;

A realistic overview of the business from an operational and financial perspective;

Which options are available to the business, for example: turnaround, liquidate, sell, insolvency;

What mix of strategies and actions are needed for short-term survival;

How willing the stakeholders are in supporting the business, and how influential they are;

If the owner is willing to be part of the solution;

Whether the owner has the aptitude, skill and vision to implement turnaround;

How the business is perceived by the various stakeholders; and

How severe the crisis is and what stage has the crisis reached.

The outcome of this analysis will determine your course of action.

Step 2: Install management control. These should include developing a cash flow forecast, which is necessary in a crisis situation, centralising control of all outgoing and incoming cash. An expenditure control system should be put into operation immediately, with all payments verified and authorised by one

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person. Tight inventory controls should be introduced, focusing on high value generating products or services.



Step 3: Leadership appraisal and the business. The recovery of a business, effectively takes place through the existing management structure. Managers and key personnel must be evaluated to see if they are prepared to administer the changes and assist in the transformation of the business. Owners of small and medium enterprises (SME's) need to take on the responsibility to turn the business around themselves.

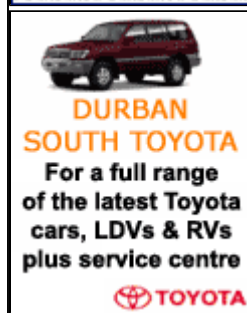


Step 4: Formulate a turnaround strategy; plan your business. In a recovery situation owners need a turnaround plan to guide and direct their business. The plan should show where you are, where you want to go, how you plan to get there and what resources you will need to achieve your objective. The purpose of the plan is two-fold; it can help secure finance and, secondly, it explains to you and to the stakeholders:

- What you are trying to do;
- Why you are trying to do it;
- When your anticipated turnaround will be achieved;
- How you intend to turn the business around; and
- Why you believe the turnaround of the business is viable.



The strategy is seen as short term and may revolve around the daily, weekly or monthly activities of the business. The development of the strategy should involve most if not all the key stakeholders.



Step 5: Implement the plan. Once the recovery plan has been formulated, a timeframe for the implementation of the turnaround strategy must be agreed to.

Implementation of a turnaround strategy for any SME will be affected by the availability of resource, attitude towards change, willingness to change and seriousness of the crisis.

Step 6: Motivation And Employees. Motivating employees to remain within a small working environment will be an uphill battle for most business owners, especially one in crisis. Employees are thinking of flight rather than "fight" and will the owner be able to pay me. It is important that employees know the extent of the crisis and are they prepared to take part in the transformation process.

Low staff productivity and low morale can cripple any business, so it is imperative that the people who stay behind to help rebuild the business are treated correctly.

Step 7: Install or improve budgetary systems. In a turnaround situation, a week-to-week or monthly budget is the simplest means of directing and controlling a business. The budget links the turnaround plan to the business — it is a means of tracing the flow of money into, through and out of the business. By comparing actual results with projections, the owner is able to evaluate the effectiveness of various business activities. Not using a budget is a common reason for cash-flow problems and subsequent business failures. Without a budget, owners could never be certain whether their business is being successful or achieving targets.

Step 8: Establish credibility and communicate with stakeholders. The role of communication is to reduce any uncertainty. Good communication takes place when people have the information they need to do their job effectively. The information flow should be:

- Transparent;
- Open and honest;
- Feedback — necessary part of maintaining good working relationship.

Step 9: Monitor, control; revise and change. Owners need to monitor the progress of the business against the original plan and fine-tune any areas to ensure that the turnaround plan and standards are adhered to. The plan requires constant monitoring and action taken when any difference or variation happen. This is achieved by:

- Setting standards;
- Measuring performance;
- Comparing performance; and
- Taking corrective action.
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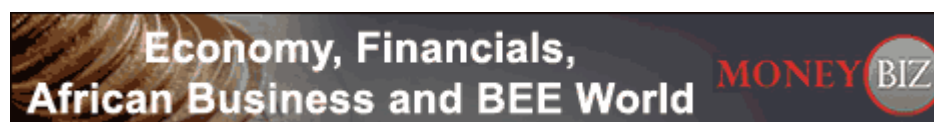
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