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The benefit of hindsight: how to learn from past events

Find the right recovery strategy for your company's operating environment

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WITH the benefit of hindsight, it is always easy to criticise or pass judgment of an event after it has happened, but what are the lessons that can be learned from past events?

While I was in the employ of a company, I had the benefit of seeing this company, that had been in existence for more than 30 years, slowly erode away until the bulk of the company was laid to rest in the business memorial park.

This company was the largest in its sector; it had more than 200 company-owned stores and over 80 franchise stores.

It had a well-established brand name among its mainly black consumers accounting for 70%-80% of its turnover, servicing 250000 customers a month, and was the largest shoe repair and key cutting operation in SA.

The company operation was divided into company stores, carpet cleaning and franchising. Carpet cleaning and franchising were the only profitable centres in the organisation, although they were not considered as independent business units but rather as contributors to total turnover of the organisation.

During its 30-year life-cycle the company went through various management changes, and when new investors finally took over the running of the business, they suspended all franchising activities within the company, with the exception of field support to the franchisees.

The new owners established that the company was running at a R350000 loss a month mainly due to underperforming company stores and shrinkage within these stores.

The core service/product business of the company was the repairing of shoes; while the auxiliary services provided by the organisation were dry cleaning, key cutting, shoe care products and carpet cleaning.

The new owners purchased the company for its visible site locations and high customer count, with a vision of moving the company into the information technology field.

The core product of the organisation would change from shoe repair to providing pay phone, faxing services and supplying of pre-paid phone cards.

Other services that were envisaged for the future were video phoning/conferencing, booking of cinema, airline and theatre tickets, online insurance, cellphones and accessories and internet facilities.

Turnaround strategy teaches us:

☐That a viable core product/service is absolutely essential, if a business is to sustain itself and that without a workable core product/service a turnaround is very difficult, if not an impracticable undertaking;

☐Businesses need to stick to those products of the business that will provide a positive cash flow and eliminate those that do not;

☐If the business has a viable product, and this is the product that generates 80% of the business' income, do not go looking for new markets when you are in a turnaround, stay close to your niche market, concentrate on that market;

☐Eliminate the problem — what must be done with underperforming stores and how can stock shrinkages be reduced and trimmed down to acceptable levels;

☐To identify the company's capabilities and resources;

☐Assess strengths and weaknesses and identify opportunities for better utilisation of resources; and

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

Using an Ansoff Matrix (see diagram) we can analyse whether the company followed the correct strategies for the environment it was operating in. Its market position could be summarised as: consolidation — present markets, present products with low risk; the risk factors are low for the organisation; it knows its markets, customers and competitors; and the service it offers is well received by its customers.

The markets it wants to enter can be summarised as: diversification — new markets, new products/services and high risks. The company would move from a market it knows and understands to an industry that is alien to them. According to the Ansoff Matrix, the risk factor to introduce new products/services into a market would be high.

The Ansoff Matrix indicates that the company is in a consolidation position; they know their markets, and well received by their customers; while offering the organisation as a low risk to its investor.

In contrast, by entering a new market (diversification) they are exposing themselves to financial risk, intense competition, operational risk and uncertainty in the ability of their human resources capabilities to handle the change within the organisation. In a turnaround situation diversifying into an entirety new market with new products/services may not be the way forward.

The present resources and capabilities of the company indicate that they are not following the right recovery strategy given the nature of the organisation and the environment they are operating in.

This article is intended to be used as a basis for discussion and reflection rather than to illustrate the effective or ineffective handling of a particular situation.

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