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Putting turnaround theory into practice

Each business is unique, so each intervention presents its own set of distinctive problems, solutions

Vincent Marino

OVER the past few editions, I have been writing what most people would consider the theory of business turnaround. I have tried to explain the importance of understanding this theory, and how essential it is to have a turnaround strategy for ailing businesses.

To put some of this theory into practice, over the next few issues I would like to relate some of my experiences with businesses that were in trouble, thereby trying to move the foundation of theory into reality.

As each business is unique so will each turnaround for each business present its own set of distinctive problems. Therefore, what works for one business will not necessarily work for another.

Recently I was involved with a restaurant. I was called in at a time when I should have walked away; its turnover had slumped to a record low of R12000 a month and it was on the verge of closing its doors. Rent was R5000, water and lights, other ancillary costs amounted to R3000, and staff wages totalled R6000 a month. As an estimate, I work on the premise that the rent, water and lights should be about 10% of turnover, so the total income for this restaurant should have been between R50000 and R80000 a month. Things looked really bleak.

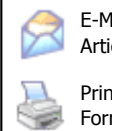
The restaurant was in a sporting complex which had indoor soccer, squash, a soccer and rugby field, a tennis court and two pubs. All the sporting events were well attended and membership was high while the pubs had a good clientele, day and night. At first glance, one could not understand why the restaurant was doing so badly. There was plenty of passing trade, the restaurant was well situated and yet people were not frequenting the establishment.

Also an agreement existed between the restaurant owner and pub owners that the pub owners would not sell any food of any kind, all the food had to come through the restaurant, an agreement which seemed to suit everybody. As I stood in the middle of the complex, I could not understand why the restaurant was not busy, what were the factors that were keeping the customers away. How were we to get the people into the restaurant?

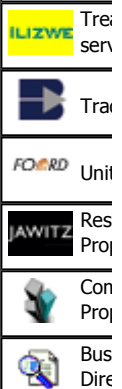
We needed to improve cash flow, but how were we going to do this. The restaurant suppliers are notorious for not offering credit — most work cash on delivery, especially if one is a small independent operator, it would be difficult to find new suppliers and set up a line of credit.

After spending a day with the owner and discussing various options as to what could be done to improve the business, I decided to do a little market research. I arrived the next morning at 11am and found the complex relatively dead, the pubs were about to open for business and the restaurant was to

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open at noon.

For the rest of the day very few people came into the complex, the pubs were relatively busy with reps and businesspeople. Things only started to liven up from about 4pm.

Looking around at the all the people, I asked about 50 a very simple question: "Why don't you use the restaurant facilities that are here?" And to my astonishment, nearly everyone answered the same: "We have not come here to eat, we come here to play sport." Or, "We have come here to drink."

Five people did not know about the restaurant. And there I believe lay the answer: the people in the complex were not the customers. The restaurant needed to build its own customer base and could not rely on the passing trade.

The next day the restaurant owner and I hastily put together an eight-point plan, and set up a meeting with the landlords to put our proposal forward:

- We needed a reprieve on the rent for six months — we were looking for six months rent-free;
- We needed to renegotiate the lease;
- We would create a new menu getting rid of high cost items, such as prawns and crayfish;
- The restaurant would be re-branded as a value per rand restaurant;
- The money from the rent would be used to advertise the restaurant;
- The restaurant owner would present the landlords with a progress report fortnightly; and
- New suppliers would be found who would offer credit — this proved difficult but did transpire.

Over the next three weeks, a full turnaround strategy was developed and put forward to the various stakeholders — the landlords, bank and suppliers who granted credit.

A turnaround strategy can only work if all the major stakeholders get involved.

I am glad to report, three months later the restaurant was turning over R40000, in the fourth month it did R46000 after which I withdrew to pursue my next turnaround.

One should always remember that the central theme to a turnaround is:

- Analyse the current situation — do it quick;
- Determine where the business need to be, what are the objectives and goals of the business;
- What resources are needed to achieve the objectives; and
- How to manage the change process.
- Marino is director, Business Renewal & Survival Strategies.

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