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# Taking on the turnaround risk

A buyer of an unprofitable business must understand the inherent risks of a venture of this kind

Vincent Marino

IS IT worth buying a business that is in a mess? Is it worth the risk?

The thought of buying a struggling business may be tempting — there is always the possibility of getting it for next to nothing and turning it around to reap good profits. But there are huge risks involved and you need to ask some questions.

What do I stand to lose if I buy the business and am unable to turn it around? What problems could I encounter and how will I handle them?

Everywhere you look, you see areas that need attention that should be fixed immediately. As is always the case, you have limited resources. Where do you start?

Understanding the risks and the concept of turnarounds will be important in implementing a turnaround strategy.

Many businesspeople are successful at identifying and recognising a good business opportunity by taking a business that is struggling, is financially unsound, and turning it into a profitable undertaking.

The only way to successfully turn around an unprofitable business is to have the big picture. Spend some time in the "perfect world" where

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you have unlimited resources. With this vision, you can plan where you intend to be in one year. You will see how the parts fit together and how everything works. Back in the real world, you must deal with the lack of capital, income and assets. However, knowing the goal allows you to make lasting improvements everyday that gets you closer to achieving your goal.

A word of caution: entering the world of business this way, especially for first time buyers is both risky and dangerous. Banks, investors and investment institution will not be eager or over enthusiastic to lend you money. You may have to pay cash for the business, as the seller will more than likely want to “take the money and run”.

There are a few advantages of buying a financially mismanaged business. The purchase price may be low. The location and site of the business could be good. The business operations may also have been well managed by the owner. The business may have been undercapitalised or

the need for the product or service is becoming more acceptable to customers.

Some of the disadvantages of buying this type of business are that the product may be outdated, a novelty or a fad, with declining sales. Site location may be unsuitable, but it is too expensive to relocate. The business operations may be badly managed by the current owner. It may take longer to turn the business around than anticipated or the existing operating systems and equipment may be outdated.

As a buyer of an unprofitable business, you need to appreciate the inherent risks associated with this type of venture and the importance of implementing a turnaround strategy.

Turnarounds can be nasty, painful, soul-searching and the cause of constant headaches. A poorly thought out turnaround strategy can bring the business to its knees. Successful turnarounds stop the bleeding quickly.

Turnarounds are necessary when small incremental changes or improvements are not enough for business survival. These changes are short to medium-term in sufficient detail and require top-down action from the new owner. In other words, the new owner must take total control of the business and do whatever is necessary to turn it into a profitable enterprise. Decisive action is needed to halt the imminent threat of the business collapsing or going into bankruptcy.

Businesses that “fold” often do so because the owner was not willing to do what it takes in a turnaround.

There are a number of key points to look at when considering buying an unsuccessful business. Take 48 hours to redefine the business’s goals. Write these down and create a plan. Review and evaluate very quickly your business’s current state. This should take a few days only. A turnaround strategy is a wasted effort if you do not know where you are going.

Evaluate, assess and analysis the need to redesign the business. If your design is flawed no amount of tweaking will bring about improvements.

Look at your marketing plan and focus on your customers needs. Practice “creative swiping” — look inside and outside your industry for any competitive advantage.

Schedule formal planning meetings with your all your key stakeholders — inform them of what you are doing. Also determine if you need outside help. The business memorial parks are filled with businesses that were too proud to seek help.

Take emotions out of your business decisions. The successful turnaround does what is best for the business. Emotion-based decisions are often bad decisions.

Look carefully at your staffing needs. Do you need new people or do you have excess or non-productive employees — dismiss them as soon as possible, doing it humanely, quickly and legally.

Network with other organisation, join your chamber of commerce — stay informed of who is doing what, when, where, and for whom.

Make cash flow an integral part of the turnaround. Look carefully at accounts payables. Look at accounts receivables. Make a plan to get paid. If your accounts receivables plan is not working, improve it or change it. And look at expenses. Eliminate excessive and unnecessary expenses taking care not to cut expenses that bring value to the business and your customers.

Make certain your payroll is covered and don’t use taxes to pay accounts.

Tweak your turnaround plan as opportunities and problems change.

And finally, persevere. Turnarounds are one of the most difficult techniques to accomplish in any business.

The pain, difficulty and trouble of a turnaround can only be balanced by the incredible positive results a successful turnaround can bring.