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When it is broke, how do you fix it?

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WHAT is wrong with my business? Where did it go wrong? My profits are declining and costs are increasing. My customers are moving to my competitors. How do I turn my business around? What are the problems and how will I handle them?

These are questions frequently asked when a business is haemorrhaging. Even with the best planning, there is always the likelihood that a business will go through difficult times and may even fail. Long-term business success does not come with a certificate of assurance.

There is any number of reasons why a business can find itself with declining profits, negative cash flow, shrinking customer base and on a continual downwards spiral.

Some of the reasons given for business decline are economic recession, political uncertainty, high inflation, strong currency, weak currency, bad customer service, bad management, incorrect pricing structure, insufficient communication between the various stakeholders and technological innovative advances by competitors. In many cases, these reasons have some justification.

Turnaround strategies are intended to stop and avert the losses of a business. The objectives of a turnaround are for the owner or manager to intervene early in the cycle of a company's decline, thereby providing greater opportunity for turnaround and company survival, without resorting to formal insolvency procedures. The rationale behind a company turnaround is not necessarily to "save" the company and return it to its earlier state of profitability but to save the company from insolvency, protect the interest of creditors, shareholders and employees and support government's initiative to save jobs.

A turnaround situation may also exist in businesses without a cash crisis. These businesses are often in a stagnant or mature market where the assets of the business are under-utilised and the business is run by an ineffective management team lacking the ability, skill or desire to perform effectively.

A turnaround strategy can be described as an efficient plan of action that is implemented for businesses whose cash flow and overall business performance points to business failure in the near future.

Rescuing a business generally necessitates the sale of the business to a new owner, whereas turning the company

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around effectively requires the reorganisation of the company.

This would include a combination of internal cost reduction and asset reduction coupled with tight management control. Company turnarounds often, but not always, hold on to the existing ownership and/or management.

The success of any business, be it recovering, planning for growth, mergers and acquisitions or divestment, needs a reliable, rational, useful and suitable strategy for it to succeed and survive. The central theme of a turnaround strategy is to:

☐ Bridge the gap between where the business is, by determining what the present state of the business is. What are the major causes, dangers, risks and exposures to the business?

☐ Establish where the business needs to be and what the objectives and goals of the business are. Where are the main or key opportunities for the business? and

☐ How do we get the business to where we want it to be? What resources are needed to achieve the objectives and how do we manage the change process? What are the resources and capabilities and how best can we utilise them?

☐ What are the most important trade-offs that we are prepared to make in order to reach its long-term objective, within an acceptable time scale, at an acceptable cost and at an acceptable level of risk?

A turnaround strategy is about implementing goals and objectives that are straightforward, broken up into small manageable functions, while the implementation of the goals are managed with passion and are continuously monitored.

Attempts to manage a turnaround strategy without a structured framework can result in four unsatisfactory outcomes:

☐ Nothing happens — the business will either divest or face insolvency;

☐ A cosmetic change is introduced, but the underlying problems remain unchanged;

☐ Change not monitored reverts to what it was before; and

☐ An unforeseen negative turn of events outweigh the benefits

Although it is always unpleasant, and distressing to have your business go bad, it is important to understand that there are many steps that can be taken to limit losses, especially if tackled promptly.

Finally, owners must never take for granted that there is only one right answer or strategy to their particular problem.

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