FAST-TRACKING YOUR COMPANY BACK TO THE BLACK

The 30-Day Corporate Turnaround Blueprint

By Ralph Gotto

John Malone once said “Synergies are something that the CEO basically has to force to happen, because organizations are, generally, like bodies in motion that tend to stay in motion. It's very hard to get big organizations to change. And it takes really a very powerful mandate to force things to happen.”

The first days as a turnaround expert can be very daunting and nerve-racking. However, the climb to the top is easy when you have a corporate blueprint to use as your rope – or it can be a long fall without one. Use the following tried-and-true outline to construct your sturdy rope and use it to successfully reach the summit.

Taking the Leap

The first approach to tackling such a task is to consider the state of affairs within the new or existing organization. Is the organization in need of new product development, increased sales, market share; or just fine-tuning?

Using a 30-day blueprint, these new leaders will find improved manufacturing efficiency, increased sales, captured market share and greater overall efficiency. Naturally, depending upon the type of business, adjustments to the initial assessment may need to be made. For companies facing a complete turnaround, urgency becomes more important as the bleeding of money must be immediately stopped and meetings with bankers and vendors must be entered into the equation.

In addition, it is critical for all companies, large or small, to have a Board of Directors or a group of Advisors. Three-fourths of these directors should be from outside the company and have diverse background disciplines. Very small companies can get by with a Business Coach as an advisor. Communications with the coach can be made via phone or email, thus saving the small business time and valuable cash resources.

Prior to your first day in office, consult the Board of Directors to determine their expectations of a CEO’s first 30 days. Then, based on the following timeline and blueprint, present them with a revised strategy.

The Assessment

Take an imaginary widget-manufacturing company, for example.

This company manufactures Premium, Platinum and Standard versions of their product in three different plants located on the East Coast, West Coast and in the Southwest, with the corporate office housed at the Southwest facility. The Premium widget sells for $1,000 to the large-company market; the Platinum widget sells for $500 to the middle market; and the Standard widget sells for $100 as a commodity.

Consider the following assessment for this hypothetical company.

- Gross margin (selling price less manufacturing cost) is 50 percent on each product line

• Cost of Sales and Marketing (S&M) is 14 percent

• Cost of Research and Development (R&D) is 13 percent

• General and Administrative (G&A) cost is 13 percent

This leaves the company with a 10 percent pretax profit margin (50 percent less S&M, R&D and G&A).

Collecting Data

Week One, Day 1: Staff Meetings

Meet with the staff and outline your initial 30-day plans based on your role as established by the Board of Directors. Then, reveal your plans to streamline the company's manufacturing process, boost sales, and grab market share. Remind the staff that your initial 30-day blueprint is based on board opinion, and you may change this based on your findings over the next month.

Don't hesitate to ask the staff for their input.

Such questions to present them would include: What problems do they see that may be causing manufacturing inefficiency and lack of sales growth? How do they see your products stacking up against the competition?

Day 2: Employee Meetings

Meet with all employees and similarly outline to them the initial strategies that were given to you by the Board. Since there are three plants, plan to include the other two plants via conference, notifying them of your preparations to visit within the month.

Because the employees are the individuals who are closest to the work problems and who normally have the solutions, mention that you will be asking the employees for their perspectives. It is critical to develop a positive rapport with the employees; they need to feel comfortable in presenting solutions to current and future problems throughout the company.

Day 3: Finance Department Meetings

First, meet with the Finance department to discuss the cash flow, net profits, and capital investment (CAPEX) levels needed. Also, check on assets, days of receivables, days of inventory and days of payables. (Receivables and inventory, less payables, equal the cash conversion cycle). Then, verify the fixed assets and depreciation throw-off to determine if there is any impairment of assets, such as goodwill, that may need to be written off.

Next, assess the level of liabilities such as accounts payables days, debt levels, debt capacity, debt maturity dates, debt amounts and debt-to-equity levels. Check the equity levels and capacity for any stock buybacks or dividends.

Then, have the Chief Financial Officer construct a Cost Chain, or a profit and loss statement (P&L) constructed in the order of the business cycle. The cycle begins with R&D and S&M. These departments bring in the orders, therefore driving the procurement of parts, which builds inventory to ship to the customers who receive company invoices and from whom the company collects money to restart the cycle again.

The Cost Chain is imperative for CEOs to see where the money is being spent and where a company can improve efficiency. That includes cost of product, shipping, carrying costs, interest, overhead and G&A. In other words, the cost chain comprises everything spent to produce market and sell the product, and collect the money.

Day 4: Touring Headquarters

Take a tour of the main plant to observe the manufacturing process, talk to the people on the line and decipher what bottlenecks they are experiencing, and obtain feedback regarding potential solutions. Likewise, meet with the night shift. Buy them dinner (don't forget the importance of establishing a positive rapport), and discuss the problems they are encountering and potential solutions.

Questions to remember:

- Where is the plant regarding JIT (Just In Time Inventory)?

- Do they have any quality control measures in place?

Day 5: Client Meetings

Meet with three local clients, one for each of the company's products, to gain an entirely different viewpoint from that of the engineers.

From client meetings, you should determine a user perspective, ease of use, and technical accomplishments. Find out what they like about the products and what they can suggest for improvements. Perhaps one of them would like to become a Beta tester for improved products. It is important to be available to them in order to communicate any concerns they may have.

Day 6: First Week's Assessment

Assimilate all the data gathered. How does any of this input change or enhance the initial strategy? How do the products compare to the competition's? Use the information gathered to lay out the plan for Week Two.

Week Two, Day 8: East Coast Plant Visit

Similarly to Week One at headquarters, meet with the employees of the second plant and again relay the initial strategy. Determine the bottlenecks and discuss possible solutions.

Day 9: Plant Manager Meetings

Tour the Manufacturing, Purchasing, Shipping, Receiving, Finance and Human Resource departments. Gather plant manager input regarding streamlining the departments in the plant.

Day 10: East Coast Client Meetings

As with Week One at headquarters, meet with three local clients, one for each of your products. Discuss your product and determine if the clients offer suggestions for enhancement. Again, perhaps one of them would be willing to be a Beta tester for your improved products. Find out how they compare your product to competitors.'

Day 11: West Coast Plant Visit

Meet with the employees of the third shift and relay the initial strategy. Similarly, discuss difficulties and obtain their input for solutions.

Day 12: West Coast Client Meetings

As stated previously, it is important to gather information from local clientele to determine product improvements.

Cost Chain Outline

A Cost Chain is the cycle a company experiences in producing their particular product. All the factors below make up the Cost Chain and need to be assessed in order to achieve maximum impact and streamlining. It is the basis of sustained improvement.

When constructing your Cost Chain, be sure to consider each of the following factors:

- Research and Development Expense
- Product Development Expense
- Marketing Expense
- Advertising Expense
- Sales Expense
- Sales Discounts
- Cost to Manufacture
    - Purchasing cost
    - Receiving Expense
    - Storage Cost
    - Material Handling Expense
    - Material Product Cost
    - Manufacturing Labor Cost
    - Manufacturing Supervision
    - Depreciation
    - Facility cost
    - Warehousing Cost
    - Inventory Levels
    - Quality Control Cost
    - Engineering Change Orders (ECN's) (A large number of ECN's typically signal that the design was done without input from the manufacturing group.)
    - Shipping Cost
    - Manufacturing Other Overhead Cost
    - Added Capital Equipment Costs needed (CAPEX)
- Finance Department
- HR Department
- General & Administrative Costs (Executive cost)
- Interest Expense
- Collection Department Cost
- Days it take to collect Receivables

Being first or second in cost and quality is critical to sales growth, market share gain and sustained viability.

For instance, there are three groups of competitors in the marketplace. Group A, the leader, is top in cost and quality. Group B, the follower, is average; and Group C, the laggard, ranks lowest in cost and quality.

	Group A	Group B	Group C
Revenue	100	90	80
Cost to Manufacture	40	45	50
Gross Margin	60	45	30
S&M, R&D, G&A	40	40	40
Net Profit Before Taxes	20	5	-10

As is displayed in the model, Group A has a 12 percent competitive cost advantage over Group B and 25 percent over Group C. This is not unusual. Because Group A is also the leader in quality, they can demand a premium price. Most companies will not switch to Group B for less than 10-15 percent in price cuts. Group C will need to cut prices 20-30 percent to attract market share. The next model reveals that even with the price cuts, efforts are futile unless the groups become first or second in cost, with quality to back it up.

	Group A	Group B	Group C
Revenue	100	90	80
Cost to Manufacture	40	45	50
Gross Margin	60	45	30
S&M, R&D, G&A	40	40	40
Net Profit Before Taxes	20	5	-10

As you can see, being in Group B or C results in a going-out-of-business curve. Many executives want to increase sales and grab market share, but first they must become number one or two in Cost and Quality in order to have staying power in the marketplace.

Again, determine if one of these clients would be willing to serve as a Beta tester.

Day 13: West Coast Plant Manager Meetings

As with the East Coast meetings, tour the entire facility, including the Manufacturing, Purchasing, Shipping, Receiving, Finance and Human Resource departments. Discuss solutions for streamlining these areas.

Reviewing the Facts

Day 14: Data Assessment

Assimilate all the data gathered.

How does it change or enhance the initial strategy? How do the products compare to those of the competition? On this day, outline staff responsibilities and lay out the plan for the third week.

Week Three, Day 15: Staff Meeting

Review your initial strategy and discuss changes. Has any input altered your original plans? Get input from your direct reports. Does their input differ from what you got from visiting the other plants and employees? Determine why information received varies from your earlier strategy. In most cases there will be divergence.

In this meeting, reiterate the initial strategy and discuss reasons for change. (Remember, improving manufacturing efficiency and improving sales and market share was the initial strategy.) Determine if there is any urgency based on the financial results.

After gathering data and input from all three manufacturing plants, perhaps it is discovered that urgent changes are needed in manufacturing because the data reveals that the Widget Company is second in quality and third in cost. Because cost and quality drive sales and market share, a change in manufacturing will improve other areas of the company. *See sidebar on page 24 for more information about cost and quality.*

Staff Development

Days 16-18: Individual Direct Report Meetings

Schedule meetings with each direct report to determine their abilities to grow and improve the company. Study their resumes and performance reviews. (Keep in mind that performance reviews can be glowing if management is weak and unwilling to face confrontation.)

Some questions to consider when conducting direct report meetings:

- Can they do the job, or are they in over their head?
- Will they be loyal, or looking to leave?
- Can they take on additional tasks?
- Do they have the skill set and experience?
- Can they become a backup to the CEO?

Evaluate their capabilities based on your past experiences, and then decide if outside help is needed.

Day 19: Review Direct Reports

Decide which direct reports have the skill set, experience and loyalty to create the changes needed and which direct reports will be let go. Assuming the Vice President of Human Resources is staying with the company, work together with this individual to decide on what new talent will be needed.

Day 20: Week Four Preparations

Review all input and strategy changes. Prepare a plan for Week Four based on this information.

Day 21: Staff Changes

On a private, individual basis, reveal to direct reports your decision regarding their positions. Begin the hiring process on this day. If there are people you are familiar with or have worked with in the past, this is a good time to bring them in. Review the Cost Chain. Perhaps layoffs are needed. If so, determine what benefits and/or retraining they will receive.

Finally, will these changes meet the results expected from the revised strategy?

Day 23: Review Results of Re-organization

Review with Finance and HR the results of the re-organization. Assess the financial impact for the current and following years, as well as the impact on the Cost Chain. Although the actions taken to strengthen the company may have had a negative influence initially, they may produce positive results in the following year.

Day 24: Reveal Re-organization Plans to Staff

In a staff meeting, show the assessment results and go over the Cost Chain. Discuss the re-organization plan in detail and what responsibilities that each of the staff will have.

Day 25: Company Announcement

Announce the re-organization plans to the entire company. Again, reveal the assessment results and the Cost Chain. Explain the benefits of becoming first or second in both cost and quality. Increasing the ranks of both cost and quality sustains growth and market share gain.

Go over plans for benefits and/or retraining for employees who are experiencing layoffs. Be sure to mention that such changes will make the company stronger and provide more growth opportunity for each employee.

Day 26: Assessment Meetings and Employee Reactions

Meet with staff and discuss company reaction. Tour main plant and talk to employees and answer any questions they have. Experience first-hand the employees' true reaction to the re-organization. Many times, employees are in favor of the change, already knowing that the company was not meeting its potential.

Day 27: Review and Revise

Review the previous 26 days and firm up the revised strategy. Make plans for a fast start on the re-organization for the following week.

Day 29 and 30: Follow-up

Follow-up on any changes made, and assess ongoing operations and results for any further changes. **N**

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