TRANS CAPITAL
ASSOCIATES

THE eGUIDE TO

COMPANY TURNAROUND AND REFINANCE

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INTRODUCTION

CHAPTER ONE

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Do you think you may have some problems in your business?

Can you take action to solve these problems on your own?

Do you want to retain and develop the VALUE in your business?

If you answered yes to those three questions, this Guide is for you. Read on!

I have experienced Company Turnaround from many angles: as a business owner, where I have been lucky enough to have had both great successes and many scary times; as an advisor to others, where I have been able to empathise and draw on my own experience to find solutions; and as a director of a finance company seeking to safeguard its money.

This Guide is based on these experiences, and is written to help you stay in control and maximise the value of your business.

WHEN THINGS START TO GO WRONG...

You understand your business, you know how to make your product or provide your service and, to date, things have been going pretty well. Unfortunately, nobody teaches you what to do when things start to go wrong. The usual method is to react to each of the issues as they come at you, almost on a fire fighting basis. This inevitably has a detrimental impact on the rest of your business. In my experience, it pays dividends to be proactive as a business leader and not to become a victim of circumstance. In addition, it is the greatest business skill of all to recognise your own limitations and, where appropriate, take advice from others with first-hand experience of these situations, and NO hidden agenda.

If you take the right advice from the right people, you don't ever have to lose control.

As a businessman, this is always a massive concern of mine: moving into areas where I have limited knowledge and no trusting relationship with someone who can help. I always reconcile this by thinking to myself that it is not a matter of ability, just a matter of not having the requisite experience.

With the help of the internet, it is possible to accumulate large amounts of information on all subjects at little or no cost. But where is it coming from and is it relevant to you? This eGuide is designed to be a "one stop shop" for the kind of information you need, with expert and impartial advice for anyone with an underperforming business who is considering turnaround and/or refinancing options. I hope it will be a useful tool, that will help ease the sleepless nights, preserve value, and get your business back to where you want it to be.

If you would like to talk about any of the issues in this Guide, please email **john.thompson@transcapital.co.uk** or call **0800 844150** for a chat.

RECOGNISE THE WARNING SIGNS

I have come to realise that there is no absolute prescription for Company Turnaround. Every situation is different and management fads come and go (I won't be suggesting a Time and Motion study). However, in my experience, the broad headings below apply to most situations.

First you need to recognise the warning signs that your business is in trouble in a way that demands serious attention quickly.

Top ten warning signs of business problems

1. **Is your Sales pipeline suddenly looking very thin?** The Sales Manager has been assuring you for months that two or three big orders are just about to be placed. However at each meeting there is always another reason for further delays. These orders never actually appear or if they do they are for a much smaller quantity or at a much lower price! You need to be realistic here, and deal with the issue in a pragmatic way.

2. **Have you lost a key customer(s)?** Key customers don't get replaced overnight. Have you analysed why you lost the business? Could you have done something to retain the business?

3. **Has the relationship with your finance provider worsened?** Have you been asking for additional facilities or overpayments and been refused? Has the relationship suffered as a consequence?

4. **Are you spending more time dealing with supplier payment issues?** Is your working capital dwindling by the month? Are your debtor days extending?

5. **Are you behind with your VAT and/or PAYE?** An easy source of credit is to delay payments to HMRC. This can incur significant fines and even prosecutions.

6. **Is your finance provider doing more regular audits?** Does it seem like your finance provider is always with you doing yet another audit? Are they trying to reduce your facilities? Have they asked to carry out an Independent Business Review? Have you been transferred to the Intensive Care Unit?

7. **Is motivation with your staff low?** Are staff members suffering? Is the atmosphere strained? Bad news spreads very quickly if nothing is done to address it.

8. **Are you experiencing more customer complaints?** Poor staff morale and dwindling cash reserves often means that customer service starts to suffer.

9. **Are your competitors becoming more of a problem?** If your staff know there is a problem it is likely your competitors do as well? They will play on any weakness. For instance a product that is out of stock due to cash pressures may be just the opportunity a rival has been looking for.

10. **Have you got high levels of stock that nobody wants?** Are you finding that you have high levels of the wrong products in stock?

SEVEN STEPS TO CREATING A TURNAROUND PLAN

Once you have recognised there is a problem, you can start putting in place your Turnaround plan. At a time when you probably feel you don't have time to think, it is vitally important that you make some space to start developing this framework. I have found that going into the office on a Saturday or Sunday morning works well. Invariably there will not be anyone around, the phone won't be ringing, and you can get on with your plans. The first and MOST important thing to do is:

1. Take control of your cash

You need to be certain that there is sufficient cashflow to get you through the first stage of your Turnaround intervention. It's no good putting a stunning plan into operation only to find that you have run out of money and one of your creditors has issued a winding up petition!

Is cash haemorrhaging unnecessarily from your business? Are you paying for goods and services you don't need? Are there non-essentials you can postpone without having an adverse effect?

To give yourself the comfort of being able to implement your Turnaround without this happening, produce a 12 week detailed cash flow forecast like the one in Appendix 1 and stick to it. In the first instance, put in all the essential payments that need to be made and don't be too optimistic with the income. Debtors can smell problems and suddenly payments have the uncanny habit of taking a little longer to come through, just when you need them most!

2. Gain the confidence of your finance provider

It makes things very difficult when this relationship takes a wrong turn, and the trust starts to ebb away, especially if your cashflow is dependent on them. In our experience, when there has been a breakdown of some kind, it is not always a lost cause and the situation can be retrieved. Remember, they want to keep all the clients they can that are not in danger of defaulting.

On the other hand, if you do need to move on, it is much better to do this in a structured way, where the exiting funder is happy to pass the baton on to the incoming finance partner within an agreed timeframe. If you have developed a viable turnaround plan, there should be every chance that a new finance provider can be put in place very quickly. To avoid the breakdown of this relationship, see Box 1: '10 things NOT to do to your finance provider'.

10 things NOT to do to your bank or invoice finance provider

1. Unexpectedly present payments that take you over your funding limit
2. Not respond to letters, emails or phone calls
3. Be abrupt or raise your voice on the phone or in a meeting
4. Delay providing management information
5. Bank cash that belongs to your invoice finance provider
6. Put invoices through before the product or service has been provided
7. Not advise your invoice finance provider of all credit notes
8. Divert business assets
9. Ask for additional credit whilst showing any form of desperation
10. Knowingly worsen their position when you know you have no chance of repaying them

SEVEN STEPS TO CREATING A TURNAROUND PLAN

CONTINUED

3. Consider the alternatives

There are likely to be options other than taking out further credit to improve your immediate financial position. Extending Trade Creditor payment times and taking longer to pay your PAYE and VAT are commonly used tools in this respect, invariably in the first instance on a non-agreed basis!

However, these extended payment terms can and should be formalised and agreed with both your Trade Creditors and HMRC. If you approach this in a structured way, it is far more likely you will get the result you were looking for:

- Produce a cash flow forecast (supported by a prudent P & L) to show what can realistically be paid.
- Develop an achievable plan to repay your creditors over a reasonable period of time. Put together a pack of information that supports proposal i.e. the Turnaround strategy, confirmed orders, pipeline, overhead reductions etc.
- Make contact with HMRC to start a dialogue and to put forward your proposals for a deferred payment plan, or a Time to Pay Agreement as they will call it. This is invariably better received through a professional third party who has verified the feasibility of your plan.
- Establish the situation with your landlord. Will they support the plan? This will depend on several issues, including the terms of your lease and the desirability of your property in the current market. If they won't support the plan you will need to look at other options as soon as possible.
- Seek to agree your informal payment plan with trade creditors by approaching them with the proposal. This is likely to achieve better results on a face to face basis where possible.
- Do your utmost to stick to your plan and remember we would all prefer to receive something rather than nothing.

Some other options to consider before you seek additional financing include debtor management, obsolete stock sales, sale and lease back agreements and non-core asset sales. Each of these can help improve liquidity without having to extend your commitment to the bank.

Debtor Management, in particular, is a very good option, and not only in Turnaround situations. It is simply good business practice and invariably a sure fire way of improving your cash flow. Box 2 has some great practical tips for how to improve the management of your Debtors.

4. If you do need more finance, give yourself options

As we all know, the worst position to be in is to appear desperate; and the best position is to have funders competing to provide your business with cash. There are a number of finance providers who are specialists in supporting viable turnaround plans and it is highly feasible to create some competition here. In addition there are now many forms of alternative finance available in the market place. In fact, this burgeoning industry was given significant support in the 2012 Breedon Report on business funding, with the government pledging £100m to support the sector.

In particularly difficult situations, there are a number of specialist businesses that will fund a buyout of your existing finance provider as part of a strategy to facilitate an overall re-finance.

If you do need more finance, and you don't have the personal resources to fill the gap, it makes sense to take advice from a specialist in this field as soon as possible.

SEVEN STEPS TO CREATING A TURNAROUND PLAN

CONTINUED

6 ways to improve your Debtor management

1. Make sure the basics on your invoices – address, bank details, invoice amount, etc - are 100% accurate.
2. Are any discounts clearly shown? For example if there is a 5% discount for payment in 30 days rather than 60, make sure the customer knows it!
3. Are your invoices going out on time and with the correct documentation? The sooner your customer receives the invoice the sooner you will get paid!
4. Don't give any reason not to pay on time. Build a relationship with the person or people who can help you get paid quicker.
5. Make sure your credit control function is fully supported by everyone else in the business.
6. Give your credit control team a target to pull in each month, and make sure this fits with your cash flow forecast. If appropriate, pay a bonus based on achievement of this.

5. Reduce your costs

There is never a better time to look at the component parts of your business and potentially reduce costs that don't form a key part of your market proposition. Are you paying for resources that you don't need for your market proposition? Or are you paying for a capability that means you can add another product or service to your existing offer without increasing your costs?

You may choose to conduct this piece of research by simply going through your latest management accounts and deleting or reducing anything you deem not necessary in the current situation.

If you want a more scientific approach, you could conduct a resource audit to give you a greater insight into all the costs you have developed in the business, how they work together to produce your product/service, and why they give you a competitive advantage.

I really like the framework developed by RM Grant following his work and articles on the **Resource Based Theory of Competitive Advantage**, an example of which I have included in on page 07. It looks at the relationship between resources, capabilities, competitive advantage and strategy. It also seeks to identify 'resource gaps' which need to be filled and any resources which need replenishing, augmenting or upgrading.

This methodology illustrates that the value of a resource is not simply a calculation of its financial value, if this can be calculated. More importantly, the value includes the resource's contribution to achieving a Competitive Advantage for the company.

SEVEN STEPS TO CREATING A TURNAROUND PLAN

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Framework for analysing resources and capabilities and competitive advantage (Grant, 2002)

This is an example of a Resource Audit for Trans Capital Associates. For your own analysis, simply start with your Resources (Tangible, Intangible and Human) in the boxes at the bottom of the page and then consider how these have linked together into the Organisational Capabilities that combine to create your unique offering in the market.

This analysis is vitally important when developing your Turnaround Strategy as it will show you if you are paying for more Resources than you need to create your Capabilities. It will also identify potential Resource Gaps that may mean your product/service is not performing in today's market place.

The other advantage of completing this piece of analysis is that it may show you have Capabilities that are not used in the provision of your product or service! As previously mentioned this does give you the opportunity to cut costs if it is something you are specifically paying for.

On the other hand, and particularly if this is a secondary capability of an individual that is on the payroll to provide his or her main skill, there is an opportunity to develop a new offering. This could either create a new income stream or possibly add value to your existing offering, meaning greater customer retention and more new business?

COMPETITIVE ADVANTAGE → STRATEGY → RESOURCE GAPS

ORGANISATIONAL CAPABILITIES

- Ability to provide clients with Strategic Reviews within 48 hours
- Ability to provide business critical support at short notice to businesses in difficult situations
- Company Turnaround specialists
- Able to introduce clients to providers of finance at director level where appropriate
- Ability to source funding for 'difficult' situations that could not normally be funded in the market
- Extensive knowledge and contacts in Invoice Finance industry
- Corporate Finance expertise
- Ability to produce online Company Turnaround and Refinance resources

RESOURCES

TANGIBLE

Financial
- Positive net worth
- Continuing income stream from existing client base
- Long term client contracts
- Access to finance

Physical
- Office equipment

INTANGIBLE

Technology
- Website with Turnaround resources

Reputation
- Trustworthy
- Diligent
- Good customer care

Culture
- Open environment
- Learning organisation
- Mutual respect

HUMAN

Specialised skills and knowledge
- 20 years hands on Company Turnaround experience
- Corporate Finance expertise
- Invoice Finance specialists
- Business strategy expertise
- Specialist Market Insight expertise

Communication and interactive abilities
- Ability to build client trust over the telephone
- Extensive network of general business contacts

Motivation
- High levels of motivation

SEVEN STEPS TO CREATING A TURNAROUND PLAN

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6. Review your position in the market

Having the best product, giving the best service and selling at the best price won't necessarily create a profitable business. Establish where you want to be, and base your strategy and communications around this. It will become a self-fulfilling prophecy, for example:

A. Rolls Royce = quality

B. Asda = value for money

C. BT = ?

Skoda is a great example of a brand that has re-positioned itself from being the butt of many jokes in the 1970's to the reliable, value for money, proposition it is today.

When planning your turnaround, it is a good time to re-evaluate this positioning and to ask yourself the following:

1. What do my customers want?
   Is it Quality, Service, Price or a combination?
2. What do my potential customers want?
   Look at it from their perspective.
3. What are we providing?
   Ask your customers.
4. What does your staff think you are providing?
   Ask them.
5. What does your Brand say you are providing?
   Ask someone NOT involved with the business and/or ask a user of a competitor's product or service.
6. What do you make money at providing?
   Ask your accountant.
7. What do you have the Resources and Capabilities to provide?
   See step 5 – Resource Audit. .
8. What should you be providing to create a sustainable future for the business?
   See the next section.

SEVEN STEPS TO CREATING A TURNAROUND PLAN

CONTINUED

7. Consider the external factors that affect your business model

The world is changing by the day. Technology moves ever faster, with global communication meaning that individuals (Fred Goodwin), businesses (BP, G4S, Facebook) and even governments (Arab Spring) can rise and fall in the blink of an eye.

Following on from the previous section, are you providing what the market wants, or has your proposition become stale? You need to be very honest with yourself and look at it from the customer's perspective. Ask your staff, and then ask your customers. Everyone will appreciate the chance to give their opinion and feel they have a stake in developing the product or service you provide.

It is worth taking time to analyse this before you complete your Turnaround Plan and you may find it useful to consider the following five factors as to how each of them affects your offering now and in the future:

- **Sociological factors:** For example, teenagers have moved from buying their music and games in shops such as HMV and Game, to buying and playing online.
- **Technological factors:** The Internet and online search engines have led to most of us searching for information and then potentially buying products online. The comparison sites have led to a dramatic downturn in the traditional car insurance market for High Street Insurance brokers.
- **Economic factors:** At the end of 2011, the UK fell back into recession just 3 years after the events of 2007/8 when we experienced the biggest financial meltdown since the 1930s. With growth difficult to come by and problems in Europe, America and China, the future remains uncertain. As a result Banks are being ultra cautious with their lending. Finance is available, but only for credible business plans backed by credible people.
- **Environmental factors:** Whilst environmental issues have taken a bit of a back seat due to the financial crisis, there are still examples of how this can adversely affect businesses, just ask providers of plastic bags to supermarkets.
- **Political factors:** Since the start of the financial crisis, 10 governments have fallen in Europe alone. The Coalition government in the UK is under intense pressure to keep Public sector costs down and to create growth. As a consequence, providers of maintenance services to Social Housing have found that turnover and margins have been reduced. Ironically providers of agency nurses to the NHS have seen an increased demand due to employee reductions.

DEVELOPING A SUSTAINABLE TURNAROUND STRATEGY

Now that you've finished the analysis, you can get to work!

It's easy to concentrate on developing more sales and ignoring other parts of the business. Having a robust top line with a good pipeline is of course vitally important. But in our experience great companies take a broader view, with all functions ranking equally. Marketing, HR, Operations, Credit control and IT all have valuable roles to play, and all contribute to not only the financial performance in the short term, but the sustainability and growth of the business in the longer term.

A typical Turnaround strategy may look like this:

1. **Make sure that you have a clear grasp of the financials.** If you have decided more funding was needed make sure this is available. If this is a problem speak to someone who can help.

   Your 12 week cash flow forecast will tell you the following:

- The sales you expect to realistically make
- The income you expect to receive either direct from debtors or from your invoice finance facility
- Your new monthly overhead including cuts you have decided to make
- Essential payments that if not paid will stop the business trading (e.g., wages)
- When other funds need to be introduced into the business

2. **Reduce costs where you can.** For example:

- The closure of a satellite office
- A reduction in working hours
- A reduction in salaries
- A reduction in headcount
- A reduction in your cost of sales
- A reduction in corporate entertainment
- Or whatever you feel is appropriate in the circumstances........

3. **Make sure you have the right people in the right jobs** and that, where appropriate, you have the right advisors by your side so you stay in control.

4. **Change your market proposition** to one that you believe is sustainable in the current external environment. Use the External analysis, the Positioning analysis and your Resources and Capabilities analysis.

5. **Do deals with creditors** where needed. Use your turnaround plan as evidence that you are taking action to avoid having to take any 'drastic steps'.

6. Make sure your **provider of finance is onside.**

MAKE SURE EVERYONE IS PULLING TOGETHER

A turnaround situation is an extremely stressful and often very lonely time. But it's vital to remember that you're not doing it alone. Your employees will be very aware of problems in the business and a lack of information can cause undue concern, stress and a destabilisation of the business, just when you need everyone to pull together.

The culture of the business is everything here. Remember it is your people who are often the face of the business. If they believe there is a problem and they are not sure what you are doing about it, this will be communicated to your customers. Naturally employees talk to each other, and if no-one knows what is going on, morale will plummet.

One positive result of a turnaround is that the situation can often prove a catalyst to develop a culture where everyone works together to get through, and to develop a revitalised business that has real value. Here are 5 steps to help make it happen:

1. Communicate your plan to the workforce in as much detail as is commercially possible, and explain everyone's part in it.
2. Make the turnaround of the business a real mission that everyone buys into. Make it you against the World, battling for survival.
3. Make it worth it for your people as well as the Shareholders! Whatever the incentive is it needs to be something more than being able to keep their jobs if the turnaround is successful. It could include additional holiday entitlement, a special bonus, a promotion, a directorship, share options, shares in the business, or shares in a new business. Whatever works for you and your people.
4. Make sure that you do all the easy things better than you did them before. For example:
   - Customer care
   - Product and service quality
   - Returning messages
   - Doing what you have said you are going to do
5. Lead by example. Roll your sleeves up and get stuck in. Remember EVERYTHING gets driven from the top!

CONCLUSION

As the owner/manager of a small to medium sized business, you have a lot on your plate in today's financial environment. It is easy to try to ignore some of the issues facing you in the hope that things will pick up soon. But the sooner you face the problems, the sooner you can deal with them, and the sooner you will be able continue to grow and develop your more sustainable business.

There is no shame in asking for advice, only in ignoring the situation.

ABOUT US

Trans Capital Associates is a financial and strategic consultancy aimed at providing solutions for SME owner/managers in distressed or underperforming businesses.

With 25 years experience of owning, operating and advising businesses through economic and strategic difficulties, Trans Capital prides itself on being a resource for business owners who need an independent and impartial advisor on the best ways to preserve and create value, while staying in control of their business.

Whether you are looking for finance solutions, alternative financing, turnaround options or strategic advice, we have a proven track record of success. We have direct links with senior decision makers throughout the whole asset based lending community and a close network of key turnaround equity providers as well as access to a wide range of high net worth individuals seeking strategic investments.

Call us on **0800 644 1050** if you would like to discuss any of the points raised in this guide. Or you can email us in **info@transcapital.co.uk**.

If you would like to see if you qualify for a free Strategy Assessment of your business, **please click here**.