

## FOCUS ON BANKING &amp; TURNAROUND MANAGEMENT

# Driving value in a turnaround: Have end game in mind

By TOM HEWLETT

Special for Lehigh Valley Business

Is your company facing a turnaround?

Does it need a financial recovery after performing poorly for an extended time?



Hewlett

To effect a turnaround, a company must acknowledge and identify its problems, consider changes in management and develop and implement a problem-solving strategy, according to Investopedia.

What should you focus on to reverse the fortunes of your business and build the value of your company?

Start with the end in mind. Every business will have an exit event, either one you planned or one you didn't.

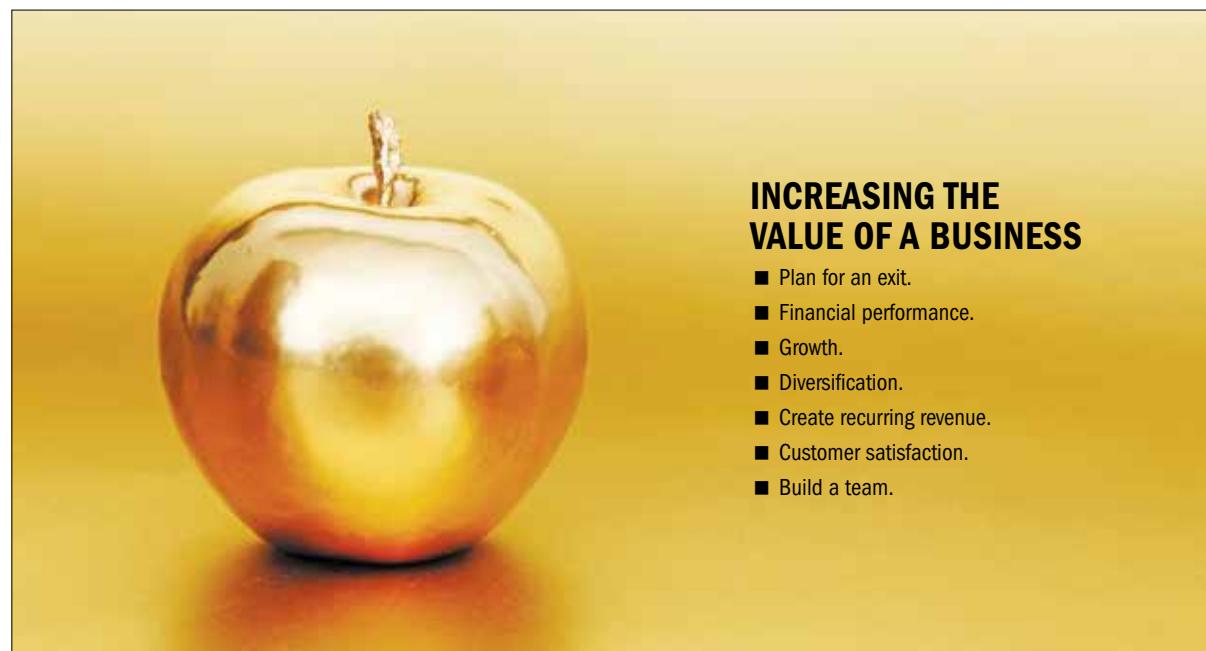
Once you acknowledge this, your mindset naturally will tend toward value creation.

Financial performance is a key driver of value, and the first order of business is to "right" the financial ship.

Focus on improving cash flow.

Can payables be stretched while receivables are shortened? Can you flip your cash flow cycle by collecting payment upfront?

Margins must be improved, but how? Can your suppliers provide better pricing?



ILLUSTRATION/YELLOW 2J

## INCREASING THE VALUE OF A BUSINESS

- Plan for an exit.
- Financial performance.
- Growth.
- Diversification.
- Create recurring revenue.
- Customer satisfaction.
- Build a team.

## TRUE PERFORMANCE

On a more mundane note, implementing sound financial reporting systems will provide the tools needed to effectively manage your business.

Consider getting "prepared" or "audited" financial statements as opposed to simple tax return preparation.

At the very least, make sure your internal accounting systems are current.

Work with your internal or external accounting adviser to create a report that shows the true economic perfor-

mance of your business.

## SALES FORCE MOTIVATION

Chances are that if your business is in a turnaround situation, growth has been at best flat and most likely declining.

If growth is declining, so is value – and value is driven by growth.

Can you sell another product or service to existing customers? Would your business work in another geographic area? Do

you have a sales force? Is it productive?

Remember, it is difficult to motivate a sales force of one; most salespeople need competition to thrive.

## DIVERSIFY

Diversification of customers, suppliers and even employees is key to value creation. Buyers are wary of businesses with a high percentage of sales to a few customers.

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# WHAT'S YOUR NEXT MOVE?

When it's your business,  
*it's always about  
what's next.*

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### TURNAROUND

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Likewise, having only one key supplier leaves you vulnerable.

And relying on one or a very few key people – that includes you – makes your company less attractive to a buyer, and therefore less valuable.

#### RECURRING REVENUE

Can you create recurring revenue streams in your business?

A company with a recurring base of revenues will have a higher value than a similar company with nonrecurring revenues but the same cash flow.

Your first instinct may be along the line of, "Oh, that wouldn't work in my business."

Ignore that instinct and really give this some thought. You'll be surprised.

#### SATISFACTION OF CUSTOMERS

Fundamental to creating a recurring revenue stream and value creation is customer satisfaction. Without customer satisfaction, you will not achieve recurring revenue or create value or stay in business.

According to Fred Reichheld, author of "The Ultimate Question," the answer to one simple question is a very, very high predictor of customer satisfaction: "On a scale of 0 to 10, how likely are you to refer our company to a friend or colleague?"

Reichheld has created the "net promoter score" based on the answer to this

question, a tool that very large strategic buyers use as a screening mechanism for acquisition candidates.

#### ABOUT THE TEAM, NOT YOU

Finally, you must build a team.

Doing so makes the business less about you and is attractive to buyers – meaning a business run by a solid team is more valuable than a business run by a one-person "Mr. or Ms. Incredible."

Consider an employee bonus plan with short- and long-term incentives, but not stock options.

Focus on problem prevention instead of problem solving.

Take a vacation. Does the business continue to run smoothly?

#### WHAT WILL IT TAKE TO SELL?

Manage your turnaround with the goal of selling your business to a buyer in the future.

What will it want? What will it value?

This focus will drive value creation in your company and assure that your turnaround is successful.

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### BUY

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making capital improvements, renting may be best.

Every property differs in terms of capital needs, but improvements not traditionally included in common-area maintenance costs might include a new roof, exterior and heating/electrical systems.

#### ■ POTENTIAL TAX SAVINGS

Distinct from renting, the money used to buy your business' property is deductible. Put simply, you can recover your cash outlay gradually through yearly deductions.

For example, if you finance the purchase of your property, you would be eligible for deductions on interest paid.

Also, consider the potential for savings simply because of details such as years in operation and measures of your business' profitability. If you choose the purchase route, these factors potentially can cut your tax bill.

The decision to buy or rent real estate for your business may seem daunting – especially when viewed through the lens of cost-effectiveness. Though differences in cost are a vital point in the grand scheme of your decision, don't let them rule your decision.

Whether you own a well-established community business or a new, budding

venture, arming yourself with the specifics of commercial property ownership will lead to decisions that improve your bottom line.

#### ■ INTEREST PROJECTIONS

If you are on the fence about buying property, now might be the time to jump if you are interest-rate conscience. It is expected that the Fed will increase the prime rate two or three more times this year. Already the rate increased from 4.25 to 4.5 percent during the first quarter.

It will be prudent to keep an eye on the Fed this year, as that percentage can make a significant difference in monthly payments.

If you know you will buy, it may be better to move sooner rather than later if it works in your budget.

If you are working through the decision of renting or buying, take time to meet and review with a number of qualified commercial lenders to find the best fit.

The right lender will be a trusted financial partner to your business, so you should feel secure in the relationship and confident in its experience and knowledge.

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