



Pathway Advisors LLC



GETTING IT DONE

Actionable Financial and Management Insights for Business Professionals

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Dear Gerry,

Necessarily, the first steps of a turnaround effort almost invariably involve finding ways to improve liquidity, keeping creditors in line, and making progress towards breakeven and then profitability. The fact, though, is that these efforts should be viewed as just the first of many. The development of a lasting solution for companies of any meaningful size and scope is far more complex.

In dozens of cases over the past several decades, I've been given the responsibility of guiding a company through their worst of times. This month I want to share the most significant observations I've developed about what's really needed to bring a troubled company all the way to a point where its true potential can be realized.

As always, I welcome your comments and questions.

*Best Wishes,
Gerry*

THE TRUTH ABOUT TURNAROUNDS



A number of years ago, a wealth manager who had referred one of their clients to Pathway called me to offer congratulations:

"Super job Gerry, you really pulled off a great turnaround! Frankly, I didn't think the problems could be overcome."

After pausing for a second, I had to make clear where we were:

*“Look, we got lucky. The industry hit a real uptick. Sure, we brought in new financing and reduced costs. **But we haven’t pulled off a real turnaround. All we’ve done so far is return the company back to its old normal.** It’s still under-capitalized and the organizational challenges it’s been confronting haven’t gone away. Bottom line, the company remains very vulnerable.”*

So, what happened next? In the short run, the owner wasn’t feeling the heat anymore. As a result, despite my encouragement, she chose to forego an effort to upgrade the myriad of substandard practices, processes, procedures, and personnel that had dragged the company down in the first place. Not surprisingly, to me, two years later I was back working with the company and things were worse than ever.

The fact is that when the wealth manager considered the situation, they made one of the most common of mistakes. Specifically, they viewed a return to stability and marginal profitability as a turnaround. The fact is that a *lasting* turnaround is comprised of four mutually dependent phases:

- Stabilization
- Building towards financial strength
- Building management and organizational capabilities (*The heart of a lasting turnaround*)
- Creating value

It’s also important to note that these phases are not sequential. Rather, they have to be worked on simultaneously with an emphasis on stabilizing at the outset and building value as time goes on.

The Four Phases

Stabilization

In the context of a turnaround, stabilization infers:

- Often a bank, as well as other financing sources on occasion, have modified their terms and conditions in a mutually realistic manner.
- The company has developed enough liquidity to satisfy, at least minimally, customer and vendor needs.
- The company may not, as yet, have turned profitable. At a minimum, however, it has established a clear path for getting there within a realistic timeframe.
- The company’s executives and staff are able to refocus significant time on doing their regular job rather than fighting fires.

Building Towards Financial Strength

- The company is on a path towards generating the cash needed to significantly increase liquidity and reduce leverage.
- The company is on a path towards being able to generate the financial resources needed to invest in the future.

- The company is on a path towards becoming increasingly attractive to outside sources of financing.

Building Management and Organizational Capabilities *(The heart of a lasting turnaround)*

A. Processes, procedures, practices, and personnel are upgraded, as needed, including:

1. Decision-making processes
2. Organizational practices
3. Planning practices
4. Reporting procedures
5. Discipline and accountability processes
6. Communications procedures
7. Execution practices

B. Committing to ongoing professional training from the top down. *(With a dedicated effort, the overall competence of an organization can be transformed into a true competitive advantage.)*

C. Fostering a corporate culture that aligns the goals of the company and the goals of the entire workforce.

Creating Value

The simple fact is that ultimately a turnaround must enhance stakeholder value and there are really only three avenues for doing so:

- The company's going business value is being built by consistently growing EBITDA
- The company's going business value is being built by developing goods and/or services that offer future returns which are not yet reflected by EBITDA
- The company's going business value is being built by growing EBITDA and by developing goods and/or services that offer future returns which are not yet reflected by EBITDA

It also quite possible that only the tangible asset value of a company has grown since the point in time when a dedicated turnaround effort was initiated. This isn't a "Turnaround" in the sense that the company's going business value hasn't been built. At the same time, in many circumstances, this may be the best result possible.

Final Comment

No doubt, winning the fight to regain financial stability is a very meaningful accomplishment. Nonetheless, it's just a partial victory. The **TRUTH** about turnarounds is that they can only be realized when a company's organization, financial structure, systems, processes, procedures, policies, and staff have been upgraded to a level where increasing successes are well within reach.

Coming In The Next Issue

THE EARLIEST WARNING SIGNS OF FINANCIAL TROUBLE

How To Identify Them and What To Do Next

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Pathway Advisors LLC is a specialized business advisory firm focused on helping our clients effectively resolve the most significant of profitability, cash flow, banking, operational, and organizational challenges. We have successfully worked with over 300 owner-driven and family-controlled companies over the past thirty years. Most particularly, we pride ourselves on our ability to analyze issues quickly, develop plans to solve them efficiently, and leverage our deep relationships in the financial and business communities to do so.



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