

Turnarounds

Concept Summary

There are times in which market conditions or management decisions create situations which are unsustainable and without a rapid and effective “turnaround” a company’s destiny is that of liquidation. These are situations that Crescendo Partners has faced and we are well equipped to enact the transformation programme required to rapidly turn losses into sustainable profits.

The outcome of a turnarounds is by no means certain; there are ways to reduce uncertainty and increase the probability of success. Our approach leverages on the lessons learnt from numerous turnarounds as well as interviews with executives that have led successful transformations across a variety of sectors.

Background

Whilst turnarounds are inherently complex, characterized by high degree of internal and external uncertainties, there are a series of principles which are consistently applied in successful turnarounds.

These principles can in turn be grouped into two clear times horizons:

- Quick wins, where a sense control is achieved and a first set of profit improvement initiatives is implemented
- Direction change initiatives, which are implemented in the mid-term and relate to more sustainable improvements in the competitive position and structural profitability of a company

Quick wins

Whilst a turnaround programme should not be confused with a knee jerk reaction and series of random events, moving quickly is essential. Quick wins are important not only for the impact they have on profits (at times limited) but also because they signal to the organization the beginning of real change.

Quick wins might include:

1. A major organizational decision to show the (often new) executive team is in control; a major appointment, a group of consultants. It needs to be an event of high visibility and signal of change.
2. Involvement in the thinking of a large set of stakeholders, and if possible, reassurance of continuity where it can be given. For example, often better to preserve and protect the salesforce.
3. A rapid cost reduction programme on indirects, the classic budget slashing, travel bans type of stuff. Plus a head count reduction especially in support functions even more if across companies.
4. Finding a small growth idea (launch a new product, new marketing initiative), especially if supported by key customer or consumer groups.

Mid-term initiatives are often connected to an in depth review of the market, its drivers and the competitive position of the company, including for example:

- A. Manufacturing and supply chain review
- B. Sales strategy, sometimes requiring a company to learn again about its market and true competitive position.
- C. Relentless focus on cash and payback period for any new initiative
- D. Application of M&A&D initiatives to accelerate and fund the turnaround programme.

Typically, a turnaround programme is initiated or accepted only once a lot of “business as usual” initiatives have been tried. Hence, by its very definition it is a disruptive process. It may or may not lead to an “optimal” position: opportunities might be foregone. However, a correctly executed turnaround increases certainty and probability of survival.

As a final notion, Crescendo Partners would recommend that any turnaround programme includes (both in the short and mid-term) two key elements:

- Adherence to the truth (abandonment of incorrectly established wisdoms in favour of market facts)
- Respect for the difficulty of the situation and perseverance in the identification and pursuit of improvement opportunities