Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

Prepare for the Worst With a Business Turnaround Strategy

Many businesses have a life cycle that, as life cycles tend to do, concludes with a period of decline and failure. Often, the demise of a company is driven by internal factors — such as weak financial oversight, lack of management consensus or one-person rule.

External factors typically contribute, as well. These may include disruptive competitors; local, national, or global economic changes; or a more restrictive regulatory environment.

But just because bad things happen, doesn't mean they have to happen to your company. To prepare for the worst, identify a business turnaround strategy that you can implement if a severe decline suddenly becomes imminent.

Warning Signs

When a company is drifting toward serious trouble, there are usually warning signs. Examples include:

- Serious deterioration in the accuracy or usage of financial measurements,
- Poor results of key performance indicators – including working capital to assets, sales and retained earnings to assets, and book value to debt,
- Adverse trends, such as lower margins, market share or working capital,
- Rapid increase in debt and employee turnover, and
- Drastic reduction in assessed business value.

Not every predicament that arises will threaten the very existence of your business. But when missteps and misfortune build up, the only thing that may save the company is a well-planned turnaround strategy.

5 Stages of a Turnaround

No two turnarounds are exactly alike, but they generally occur in five basic stages:

1. Rapid assessment of the decline by external advisors,
2. Re-evaluation of management and staffing,
3. Emergency intervention to stabilize the business,
4. Operational restoration to pursue or achieve profitability, *and*
5. Full recovery and growth.

Each of these stages calls for a detailed action plan. Identify the advisors or even a dedicated turnaround consultant who can help you assess the damage and execute immediate moves. Prepare for the possibility that you'll need to replace some managers and even lay off staff to reduce employment costs.

In the emergency intervention stage, a business does whatever is necessary to survive – including consolidating debt, closing locations and selling off assets. Next, restoring operations and pursuing profitability usually means scaling back to only those business segments that have achieved, or can achieve, decent gross margins.

Last, you'll need to establish a baseline of profitability that equates to full recovery. From there, you can choose reasonable growth strategies that will move the company forward without leading it over another cliff.

In Case of Emergency

If your business is doing fine, there's no need to create a minutely detailed turnaround plan. But, as part of your strategic planning efforts, it's still a good idea to outline a general turnaround strategy to keep on hand in case of emergency. Our firm can help you devise either strategy. We can also assist you in generating financial statements and monitoring key performance indicators that help enable you to avoid crises altogether.