"Excerpt from a Turnaround Success Story"

-Recovering from the Loss of a Major Customer-

Fort Lauderdale, FL (Feb 20, 2018). As most of my readers know, I have been acquiring and, more recently, advising distressed and underperforming companies for over 20 years.

This story is about a $200 million privately-owned consumer products company that needed help recovering from the loss of a major customer representing over 40% of their total revenue (and profits).

History . . .

The Company had been wildly successful for nearly 30 years. They were the "go to" distributor for their product category, selling to North American big-box and regional retail chains including Target, Lowes, Home Depot and Ace/True Value Hardware. They were passionate, smart, entrepreneurial, driven to succeed and, until this dramatic turn of events, had built a business with over 250 close-knit employees and a dedicated supply network throughout Asia. They were a darling of the banking community.

As good as they were at growing their business, however, they lacked the skillset to deal with adversity. Even after losing a major account, they continued to run their business *as if nothing had changed*. They watched their business slip from profits and healthy cash flow to losses and negative cash flow.

Intuitively, they knew that something needed to be done but, as many business owners experience first-hand, were unable to make the hard, painful decisions necessary to get back on track.

They were also learning fast that when a company starts coming up short on their bank plan, lenders are quick to limit their exposure by reducing borrowing capacity. No longer able to pay bills on time, suppliers had shortened trade terms and were requiring cash deposits, which quickly led to deteriorating fulfillment rates and inventory imbalances, a deadly combination for its remaining retail accounts.

Not coincidentally, rumors started circulating and several key employees left out of concern for the company's (and their own) future.

By the time I met the owners, there had even been an initial exploratory round of discussions with bankruptcy attorneys. Without realizing it, the company was heading down a runway without enough speed and power to take off in time (see my article "Point A to Point B" describing the dangers posed of "*the Runway*").

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Laying the Groundwork . . .

My first inclination was to offer to buy the company, but the owners made it clear it wasn't for sale. Instead, they asked me to come on board to turn the company around *as if I was buying it for my own account*. There were, of course, some ground rules to be worked out, but I'm happy to report this turned out to be one of the most satisfying and enjoyable turnaround experiences, producing results beyond anyone's expectation.

What Happened Next . . .

Once the terms of the engagement were settled, I launched my "*10-Step Process to Turn Around Distressed and Underperforming Companies*" (10-Step Infographic), a methodology I've deployed and refined over 20+ years (you are invited to attend my free, 45-minute Introductory Webinar to learn more about this).

The 10-Step Process identified the *Top Five Critical Changes* that would deliver the biggest improvement to profitability and cash flow in the shortest time and at the lowest cost. What follows is the story behind how that process was applied to the Company's Product Development Team and the extraordinary results that followed.

The Product Development Team . . .

When I first arrived, the company had more than 45 people working in product development, from designers to engineers. Year in and year out, this team developed well over *100 new sku's* to introduce to their retail buyers. This had been the practice for as long as anyone could remember. It was a hard, complicated, laborious and often error-prone process.

The Interviews . . .

During the Interview Phase of the 10-Step Turnaround Process, I met one-on-one with nearly everyone in the product development department, gathering granular information about how the department operated.

I promised everyone *absolute confidentiality* and stressed that the more I heard about inefficiencies and things that *weren't* working, the more likely we would come up with ways to make the company run better. With these assurances, conversations flowed and I captured dozens and dozens of ideas on a huge whiteboard which we would later sift through and prioritize.

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Presentation to the Owners . . .

It came time to present my findings to the owners. When the meeting started, I told the owners I had four questions:

Question #1. Why were they developing over 100 new sku's each year? "*Because we never know what the buyer is going to pick, so the more we offer, the more likely they will find items to buy*," they said.

Question #2. How old are the product or category buyers you present to? "*They're young, typically between 26 and 32 years old*," they told me.

Question #3. How long have those product or category buyers had been in their current position? "*Oh, probably not more than 6-12 months. These retailers move them around pretty often*," they said.

Question #4. The fourth and most important question: "*Who knows better what should be on their store shelves, the 26-year-old who has been in that job for six months, or you and your team?*"

A lightbulb went off, because *the answer was obvious*. The owners now realized that they, not the retail buyers, were *the subject matter experts* for their products, and the buyers would be delighted to lean on their expertise to help maximize the productivity of their shelf space.

Making the Change . . .

We agreed that, initially, the owners would scale back new product development to 24 products a year (with the possibility of reducing it further at a later time). We determined the staff level needed to produce this lower volume and reduced the headcount by over half, from 46 to 18.

In addition to labor and benefit savings, there were many other direct and indirect cost savings resulting from the lower volume. We also brought vendors into the discussion early on (I travelled to Asia to personally meet and collaborate with the factory owners) who were delighted they would be manufacturing fewer items but with *much larger production runs* (not to mention the lower number of product molds they would need to produce, test and refine). The supply chain was simplified and inventory became easier to manage and forecast. Even the simple process of packaging and carton labeling became easier.

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Lather, Rinse, Repeat . . .

This 10-Step Turnaround Process was repeated across all departments, from marketing to sales to accounting, I.T., distribution and H.R. all delivering similar savings and efficiencies.

Success!

By the end of the six-month project, the company had returned to profitability and positive cash flow. Banks and vendors reopened credit lines and employees were once again excited and comfortable in their jobs.

A Learning Opportunity . . .

Whether underperforming or not, every company can benefit from retaining an experienced turnaround operator to boost performance at all levels. If your company is experiencing stress or facing declining trends in sales, margins, profitability or cash flow, *don't procrastinate*. Find out what an experienced turnaround operator can do while you still have time.

References & Links

Click Here to sign up for the next 10-Step Turnaround Process Webinar

Click Here to schedule a confidential phone call or to learn more about how we can help

Click Here to send an email to the author

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Point A to Point B
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Silos and Other Corporate Threats
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SYNERGY enterprises llc
Acquiring and advising distressed and underperforming companies for over 20 years
Gary Nacht, Principal www.synergyllc.net (561) 264-2570