Revitalize Your Struggling or Stagnant Enterprise

SMALL BUSINESS TURNAROUND

THE SUMMARY IN BRIEF

If you manage or own a struggling small- or mid-size business, you know how hard it is to stay afloat and turn things around when the going gets tough. You are not alone. The risk for failing seems to be greater with every passing year. According to the Small Business Administration, business failures rose an incredible 16.6 percent from 1986 to 1996. And business bankruptcies rose 5.3 percent during 1996 alone.

Marc Kramer takes the process of turning around a small business and compares it to getting back in shape. You didn’t lose shape overnight; it took time. There were good things that you stopped doing, and bad habits that you started. Worse yet, you may have cultivated an all-knowing attitude that erroneously convinced you that you had everything under control.

This summary provides practical steps to help your company go from struggling and stagnant to growing and prosperous. The first step is to map out your strategy. This summary will show you how to:

✓ put together an updated business plan,
✓ create an operation and launch plan to put change into motion.

The next step is to implement your strategy. You’ll learn how to:

✓ get vendors and lenders to agree to reasonable repayment schedules,
✓ keep and recruit good employees during the turnaround,
✓ create an effective marketing and sales plan.

Finally, once you have begun the turnaround, this summary will show you how to:

✓ cut costs,
✓ boost sales,
✓ find the funding you need to move your business forward.

If you find yourself struggling to keep customers, make sales, pay vendors and business taxes, this summary will help you take action now to prepare for a better future.
Mapping Out Your Strategy

Your company didn’t get where it is overnight, and won’t recover instantly. It takes a lot of planning, hard work, and grit to make the enterprise a success story.

The worst thing you can do is hide. You must meet with key employees and advisors and let them know what is happening. Talk to your customers and vendors, too. They have probably been hearing rumors anyway, and since rumors are often exaggerated, they will be reassured to hear the correct information directly from the source. Vendors especially want to know what your plans are and how they will be paid. You will also need to contact tax authorities if you can’t meet your obligations. They will usually do all they can to work with you. The same goes for your bank if you are having trouble paying business loans on time.

Ten Keys to a Successful Turnaround

Your company has a greater chance of turning itself around if:

1. The top executive is strong, decisive, and communicative.
2. Business, marketing, sales, and operating plans have a narrow agreed-upon focus.
3. Managers are able to handle adversity and be willing to work long hours.
4. Employees are willing to make sacrifices and work more than 40 hours.
5. Board of directors and advisors are strong and experienced.
6. Vendors are flexible.
7. Bank loan officers believe in the company.
8. Quality is job one.
9. The marketplace needs the company’s products or services.
10. Management hires experienced counsel and accountants who understand the business and turnarounds.

How Do You Know You’re in Trouble?

Heed these warning signs:

- Decreasing sales despite a growing market.
- Customers leaving for reasons you control.
- Clients claim calls go unreturned.
- Projects are over budget.
- Expenses are up while profits are down.
- Employees doubt viability of the company.
- Employees say there’s no leadership.
- Staff arrives late and leaves early.
- Staff meetings are a thing of the past.
- Taxes go unpaid.
- Payments to vendors are late.

Write a Business Plan

The first step to turning around any enterprise is to map out a plan. Planning is essential to success. Therefore, you want to begin the turnaround by creating business, sales, marketing, and operations plans. Revise these plans annually. Those who get in the habit rarely fail. That’s because detailed planning lets everyone know where the company is and where it’s going. Planning builds confidence.

Start with an updated business plan. Many small business people think of business plans as something they need to draft to raise money. But a business plan can do much more than that. It can be used as a realistic view of the expectations and long-term objectives of your business, and can provide a framework within which the enterprise will operate. Business plans help management clarify, focus, and research the development and prospects of their business or project; provide a logical framework within which a business can develop and pursue business strategies over the next three to five

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years; serve as a basis for discussion with third parties; and offer a benchmark against which actual performance can be measured and reviewed. Lack of a business plan almost certainly dooms a business to failure.

The easiest way to start a business plan is to create a two- or three-page outline. From this start, you will create a plan that should be no longer than 25 pages. Of course, before you can begin an outline, you must be able to identify the current status, objectives, and strategies of your business. Those entities will be critically examined to probe existing and perceived strengths, weaknesses, threats, and opportunities.

Parts of the Plan

Every business plan will include an explanation of the firm’s vision, mission, objectives, values, sales, marketing, and hiring strategies, competition, and income and expense projections.

The vision statement is a snapshot of the business three or more years into the future. It describes the company’s physical appearance, size, and activities. Remember to keep the statement grounded and accessible. Venture capitalists often have their secretaries scan business plans. If your vision statement isn’t clear enough for a secretary to understand, it will never see the light of day.

The mission statement explains what the business is trying to accomplish. When crafting the mission and objectives, management must ask:

✓ What are the central purposes and activities of the business?
✓ What are its major objectives, key strategies, and prime goals?

For example, a food company concentrating on food for diabetics might state its mission as “To be the leading kidney food company in the United States.”

The next step is to identify the objectives and goals that will help the company achieve its mission. The objectives and goals state what the business needs to achieve in the short and long term. Objectives are centered around financial and market share goals. In most cases, financial goals are more meaningful than market share, unless you are in a niche business. The strategies outline the path the company will use to achieve its objectives and goals.

The most difficult sections to write are likely to be the marketing and sales sections. Be sure your financial projections are in line with industry norms. Overestimate the time or cost required for product development, market entry, external support, and raising capital. A good rule of thumb is to halve sales projections and double the cost and time required to get there.

A Business Plan: Step-by-Step

Here is the step-by-step process for putting together a business plan:

Draft an Executive Summary: (1-2 pages) Introduce the entire plan, and explain who wrote it, when, and why. Be sure to provide contact information and highlight the most important points you make. The executive summary

Sample Mission and Objectives Statement

The mission of the company is to provide quality prepared microwaveable foods to individuals with kidney problems so they are freed from the task of preparing their own food. HF will offer a variety of entrees to meet their special nutritional requirements and in so doing, make meal planning easier, more convenient, and less stressful. HF’s plan is to develop unique entrees and related foods focused on kidney nutrition and to market these products both domestically and abroad.

Short-Term Objectives: 1997-1999

• To raise $1 million to finance initial product acquisition and marketing costs.
• To recruit quality management to build a world-class food company.
• To develop quality microwaveable shelf-stable entrees.
• To set up distribution channels and perform sample marketing.
• To attain name recognition in the kidney community via targeted marketing efforts and dissemination of educational information.
• To reach $20 million in sales.

Long-Term Objectives: 2000-2003

• To expand penetration into international markets with help of overseas distributors.
• To expand the product line to include side dishes, desserts, and snacks.
• To develop other forms of recurring revenue such as additional product lines targeted to other niche markets.
• To reach long-term revenue goals of $52 million within five years.
encapsulates everything into one place. Many investors don’t read anything but the executive summary on the first go-around. If it doesn’t make the cut, the plan goes in the trash. Make sure the executive summary shines.

**State Your Mission and Objectives:** (1-2 pages) The mission statement tells the reader what the business is trying to accomplish. Every employee should be able to articulate the same mission if asked. It is followed by the objectives the company wants to accomplish.

**Describe the Company History:** (1-2 pages) Summarize the company’s achievements and performance and introduce the shareholders or principals. It is a snapshot of where the company has been and where it is now.

**Describe the Company’s Product/Services:** (1-2 pages) Describe what makes your products or services special.

**Profile the Target Market:** (1-3 pages) Address the size, segment, trends, and potential customer profiles. A lot of the information you need on the target market is available through research. Try industry publications, research departments, college professors, and trade associations. Valuable data can also be found on the Internet.

**Describe the Competition:** (1-2 pages) Include both primary and secondary competitors, and comment on their strengths and weaknesses.

**Describe Your Marketing Strategies and Sales Plans:** (2-3 pages) Tell the reader how you will market your product or services to customers. Predict how sales will go in your main market. Describe how you will differentiate yourself from the competitors.

**Describe R&D Efforts and Technology:** (1 page) If your company is engaged in any research and development or owns patents it will use, describe these. Explain how you will improve or develop products and what resources you will need.

**Describe Operational and Manufacturing Plans:** (2-3 pages) Explain how the company plans to improve distribution, service, and manufacturing.

**Identify Managers:** (1-2 pages) Identify the management team you plan to use. Be sure to highlight their experience in your industry or their specialty.

**Disclose Funding Needs:** (1 page) Summarize the company’s financial needs, identify sources for funding, and offer projections for their return on investment. Once you come this far in your business plan, you will have a clear understanding of how much money you need and be able to decide how much ownership you are willing to give up in exchange for funding. Include an exit plan if selling or going public is a goal.

**Provide Financial Position and Projections:** (2-3 pages) Use simple tables to present key financial projections, such as profit and loss, cash flow, balance sheets, and key ratios. Be sure the figures are accurate and believable.

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**Write the Operation and Launch Plan**

Once you have a solid business plan in place, you need to concentrate on creating the operation and launch plan. A solid launch plan is the second most important document your company will prepare as it reinvents itself. The plan will include product descriptions, show how the products will be created and developed, show exactly how they will be marketed, how much it will cost and what the pricing will be, and who will be involved.

If this sounds a lot like a business plan, it is. An operation and launch plan takes the business plan and expands it. The details are filled in. For example, if part of your company’s turnaround includes creating a web presence, the business plan would list web development as one of the strategic goals. The operation plan would detail the technology the company will use to develop the web site, specify its layout and content, and detail how the site will be advertised to its intended market. The plan would also detail how the site will make money, and how much. Pricing for everything from subscription fees to advertising rates also belongs in the operation plan.

The launch section of the plan specifies what will

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**Lack of Plan Dooms Antique Mall**

Entreprenuers are famous for believing they can make it happen with the sheer force of their will. They think business and marketing plan are for sissies. And some pay dearly for that arrogance. Consider the case of a successful, charismatic promoter. When he met someone who told him an antiques center would be great in his part of the state, the promoter jumped on the idea. Because he personally loved antiques, he found the idea attractive. He then built a $250,000 center and opened the doors for business without ever having investigated the antique business, who his competitors were, or whether it was a money-making proposition. Had he investigated the business, he would have known that antique businesses cluster together like fast food restaurants along a highway rather than congregate in a mall. His lack of planning sent him straight into bankruptcy.
Implementing Your Strategy

Once you have decided to turn your company around, chosen someone to lead that effort, and drafted business, operation, and launch plans, then you are ready to implement your strategy. As you begin to implement your plan, you will need to accomplish three things. First, you must rebuild morale as well as attract and retain employees. Next, you must build sales through creative marketing. And finally, you must learn to hold the line on expenses and negotiable debt.

Manage the People Issues

If your company is going to turn around, it’s essential that employee morale be rebuilt. When things look bleak, workers aren’t naturally motivated to work harder and longer for fewer rewards. They may feel as if they have already made enough sacrifices. They start coming in late and leaving early. They steer friends and acquaintances away from joining the company. With time, energy, and commitment, these negative attitudes can be transformed.

Recruiting for a turnaround is often difficult. You must pick the right type of person, someone who thrives on pressure and looks at a turnaround as an opportunity to shine. They have to be mentally tough, able to withstand long hours and sleepless nights, and be full of energy.

Some other characteristics to look for are the ability to work in a team environment and to be flexible enough to work without structure. Good candidates also don’t mind losing free time and can work on multiple tasks simultaneously. Finding employees suited for a turnaround is difficult but not impossible. Good sources of referrals include current employees, friends, business associates, trade associations, members of the board of directors or advisory board, and other professional contacts like attorneys and accountants.

A struggling company must also work hard to retain its good employees. Do what you can to create a pleasant work environment. Use small perks like free food when employees work late. Scout out free seminars and inexpensive books to help workers develop professionally. Let employees play with new technologies by asking vendors for demonstrations. Give employees extra time off with pay if long hours are taking a toll. Consider giving stock options in lieu of raises, and promise profit sharing when the tide has turned. And don’t hesitate to dole out bonuses for a job well done.

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Handling Layoffs

On the other hand, turning the company around may mean laying off workers. If your new business plan includes downsizing the company’s endeavors, obviously people will have to be reduced. While it can be very hard on management to have to fire people, sometimes it has to be done. It helps if you can offer severance payments or at least assistance with the job hunt. Be sure to offer references and don’t contest eligibility for unemployment. There is no need to make enemies out of former employees.

Once layoffs are a fact, the surviving employees may be angry or worried that they are next. If you don’t want a mass exodus, you must explain the situation. Have a departmental or companywide meeting. Be reassuring. Explain that the layoffs are part of the company turnaround plan, and that their contributions are essential to the success of the plan. ■

Write a Marketing and Sales Plan

One of the quickest ways to get a company out of trouble is with a strong sales and marketing plan. Since you already should have a business plan in place, you already have experience writing plans. A sales and marketing plan has a similar layout.

Start with an executive summary and mission statement. Use the business plan format.

Follow with a competitive advantage section. This section is crucial. It should explain what clear advantage your company has over the competition. Competitive advantages can range from better technology, quicker service and better quality service to wider coverage area, more experienced staff, or cheaper price. Once you articulate your competitive advantage, your employees will be able to answer a crucial customer question; “Why should I buy from you and not someone else?”

The next part is the objectives section. These objectives should be developed by the management team. They should represent realistic sales goals, not numbers pulled out of a hat. They should also include recruiting and visibility goals.

Outline sales strategies. This is a road map of how you will achieve the sales goals. It should be developed by the head of sales, and should be based on the most successful sales techniques used in the industry and by the company.

Benchmark your strategies against the best in the industry and you will improve your sales. Be very specific. For example, say “We will send a one-page letter to each prospect and follow up within 10 days with a phone call,” and not “We will do a mass mailing.”

Outline how you will market your services. Identify good sources of new business by asking current customers, vendors, trade associations, and professionals for referrals and outline how you will reach those prospects. Other ideas include developing a newsletter and holding seminars.

Identify your target market. Your target market is those who need your service or product, can afford it, and are within an area you can service. Don’t waste time on others.

Outline your retention plan. Keeping current customers is crucial. Be sure to set contact goals for current customers and ask them how you are doing and what you could improve.

Describe your personnel program. How will you select and retain workers? What skills do they need and what duties will they perform?

Describe the competition. You need to keep tabs on the competition. Keep a file on each one, and fill it with press releases, news stories, and marketing material. Identify their strengths and weaknesses.

Outline launch plan. This should be very specific, perhaps month-by-month or week-by-week.

Make financial projections. If you have completed the previous sections, you should be able to estimate expenses and income. Bear in mind that “it’s better to underestimate and over perform than overestimate and underperform.” ■

Rebuilding Employee Confidence

Here are some tips to build employee confidence in themselves and the company:

• Hold a meeting to single out successes, demonstrating to everyone that successful people abound.
• Admit past mistakes and discuss how everyone will have a part in fixing them.
• Meet with every employee and get his or her input.
• Post client compliments and sales successes.
• Compliment workers in front of clients.
• Promote from within.
• Let go of employees who aren’t team players.
• Acknowledge implemented suggestions.
• Encourage risk and reward innovation.
Develop a Budget and Negotiate Debt

There are three reasons why companies get into financial trouble. First, they are under funded. Second, they spend money unnecessarily. Third, they can’t sell enough products or services to make up for the lack of funds.

If you are turning a company around, you must cut or reduce expenses. By taking a close look at what is being spent, you will find many creative ways to reduce costs. For example, cancel redundant magazine subscriptions, shop for new telephone services, buy instead of leasing equipment, analyze insurance costs, keep only crucial memberships, advertise effectively, avoid charitable contributions, buy office supplies on sale, and avoid first class travel.

Working with Creditors

Any company trying to turn itself around probably has creditors demanding immediate payment. If they know your company is having trouble, they may fear the worst. The reality is that if they force the company into bankruptcy, no one will get more than pennies on the dollar. Therefore, most vendors will be happy to work something out. The key is to approach them directly and honestly and not make any promises you can’t keep.

Work with each creditor and come to an agreement, and then keep it. Keep vendors informed of your situation. Remember that most banks would rather reorganize the debt and take small payments over time than have to take over the business. Working out payment schedules is to everyone’s advantage. Companies should remember that even a bankruptcy reorganization could wreak havoc with a business. Once a bankruptcy petition is filed, the company loses control of its business.

Preparing for the Future

Once your company has begun its turnaround, it’s time to prepare for a successful future. Preparing for the future includes finding new ways to build sales and obtaining funding to allow your enterprise to keep growing. Acquiring outside advisory board members is also recommended.

Use the Internet to Cut Costs and Boost Sales

The Internet is probably the best and most cost effective medium to promote a company’s products and generate new sales.

Although large multinational companies may spend hundreds of thousands of dollars developing an Internet presence, small companies can get on the Internet for much less. An outside developer can do the job for $25,000, or off-the-shelf software can get the job done for considerably less. Shop carefully before you sign a contract or make a purchase.

As with any other endeavor, you need to have a plan in place before you go online. Check out what the competition is doing, and prepare a launch plan. What will your site offer? Will it be an online catalog with ordering potential? Will it deliver your newsletter? Will it be used to provide answers to commonly asked questions? Remember that you may have to advertise to get people
to your site. One easy way is to begin using your web address in direct mail pieces, on stationary, and in print advertisements.

Find New Sources of Financing

To continue on the path to recovery, your company may need to boost its cash flow. Finding additional sources of financing will play a crucial role in growth. Many businesses fail when they aren’t able to achieve enough cash flow to sustain rapid growth. But there is hope. Finding financing is possible if you know where to look. Consider these possibilities.

**Banks.** Conventional bank financing requires collateral in the form of cash, property, or business contracts. Bank financing can be inexpensive, and doesn’t typically require giving up equity in the company. The disadvantage is that most owners have to personally guarantee loans. If the company fails, they are personally on the hook.

**Investor Angels.** Angels are wealthy individuals who like to invest in new or troubled companies with potential. They want an equity stake.

**Venture Capital.** Venture capital firms are in the business of funding promising new companies. They typically want a large equity stake as well as the ability to control management.

**Public Funding.** The Small Business Administration has loan guarantees available for firms turned down by banks for conventional loans. Some states have similar loan and grant programs available.

**Vendor Funding.** Vendors sometimes accept stock in a company in lieu of payment for goods or services.

**Factoring.** Factors loan money using a company’s accounts receivable as collateral. Typically, factors will lend 70-80 percent of the value of the accounts receivable at a rate of 3 percent per month. This is a good short-term method, but the rate for long-term borrowing is high.

**Venture Leasing.** Venture lease companies specialize in funding leases for companies with impaired credit, and take a stake in the firm as part payment.

**Conventional Public Offering.** This is commonly known as going public, and involves offering stock to the general public. Hire experts in public offerings if you go this route.

**Internet Public Offering.** This cuts the intermediaries out when going public. Again, hire experts.

**Small Companies Offering Registration.** This form of going public is done on a small scale at the state level. Most states require that no more than $1 million be raised per year.

**Public Shell.** A private firm can purchase controlling shares in a public company with few assets and become in effect a public company. The owners of the public shell invest in the business much like a venture capitalist.

**Venture Consultants.** Venture consultants raise money for companies for a fee.

Keep Moving Forward

Once you complete a successful turnaround, it is imperative that you don’t fall back into the old habits that got you in trouble in the first place. Try these suggestions to help you stay in shape:

**Never skip a weekly staff meeting.** Keep those lines of communication open.

**Hold semiannual strategic planning sessions.** Re-evaluate and revise your strategy when needed.

**Update the company business plan.** Review and rewrite sections regularly.

**Hold monthly company meetings.** Always ask for input from your employees.

**Evaluate management.** Remove or add people if the current team isn’t getting the job done.

**Keep a close eye on the cash.** Constantly re-evaluate expense items such as telephone, insurance, and maintenance.

**Stay in contact with customers.** Call customers every six to eight weeks to be sure they are happy.

**Hold semimonthly board meetings.** Management and the board should meet every other month.

**Continuously educate.** Circulate articles and bring in speakers to help everyone grow professionally.

**Hand out awards.** Remember to single out people who are making a contribution.