

Traits of Troubled Companies

By Mike Hulser

Companies that aren't doing well have a number of things in common. If these points describe your business, make some changes—while there's still time.

There are certain characteristics that run fairly consistently through the vast majority of turnaround situations that I have worked on over the years. Here is a list of things to avoid if you want to keep your company out of trouble. The key point is to run your business well, paying attention to management basics so that, hopefully, your company won't ever get anywhere near the need for a turnaround. The commonalities are:

Poor or No Financial Plan (Budget)

Quite often I find a product plan or an advertising plan but no financial plan, which is the most important plan of all by far. The financial plan is the “roadmap” of what the business is striving to accomplish financially. The power of the financial plan is in the management team's wrestling with two key questions:

- What are the results we are trying to achieve?
- What resources do we need to “get it done”?

The financial plan must be built by the management team, not by the company accountant or controller. Ownership is critical. You want a set of numbers that the management team is striving to make come true.

Inadequate Monthly Financial Reporting

I have seen various versions of this:

- No monthly financial statements at all
- Monthly financial statements published two months late
- Top of the head, sketchy, inaccurate information only
- No comparison to the plan or to prior periods
- No analysis or review
- All of the above.

If the game is serious, then reporting the score accurately, comprehensively, and on time is critically important. The financial statements are the scoreboard. For my clients, the following are the standards for the monthly financial statements:

- Published absolutely no later than the 15th of the following month. Strive for the fifth or sixth workday.
- Actual results—P&L, balance sheet, and cash flow at a minimum—compared to the plan and prior periods.
- Supporting exhibits may include:
 - Receivables and payables agings
 - Inventory composition and turnover
 - Headcount tracking by department.
- Impactful analytical commentary focused on problems and opportunities as seen in the numbers.

Owners/Managers Don't Know Their Numbers

In a turnaround situation, the second question for the assembled management team at the first meeting is, “So tell me, how are we doing?” Unfortunately, all too often the silence is deafening, and that's a problem. The management team should always be able to, with specific facts and numbers, explain the current state of performance of the company. At a minimum, the management team should be able to factually address:

- Cash position and flow
- Orders and sales, including past due orders
- Margins and productivity
- Quality and delivery performance
- Headcount and open positions
- Customer service issues
- Personnel issues
- Key supplier issues

- Inventory composition and turnover
- Receivables collections
- Payables aging
- Status of key initiatives.

Cash Not Treated “Dearly”

Cash is the lifeblood of any business. If the business runs out of cash, it dies, pure and simple. We recommend the use of a forward-looking rolling 13-week cash flow forecast to manage your cash. Inflows minus hard costs (defined as personnel, occupancy, debt, and taxes) are what you have available to distribute to suppliers. You can't distribute what you don't have.

Like it or not, all suppliers can't be treated equally, particularly in tough times. Suppliers that are most critical to your ability to generate sales get first dibs. Less important suppliers may have to wait a bit to get paid.

Heavy Focus on Revenue

Revenue is one of the most important things in any business. But it is not the only game in town. Expense is just as important. So is cash flow. Within the realm of revenue, the quality of the revenue is vitally important:

- How much margin is in the revenue?
- What is the quality and delivery risk in the revenue?
- What is the collections risk in the revenue?
- What inventory or equipment investment is required to enjoy the revenue?

Revenue is a means to an end, not the end. It should be a means to the ends of profit and cash flow.

Too Much Emphasis on How to Account for Things

A management team is in trouble when the members continually ask, “Can we capitalize that (so it won't hit our profits—and bonuses—so hard)?” A management team that is focused on cash flow asks, “Can we legitimately expense this and drive a tax savings?”

If a proposed expenditure can't be justified by the payback it provides, regardless of how it is accounted for, don't spend it.

These are clear indicators that the management team doesn't fully appreciate that they are in the money business. Focusing on the money and the things that directly lead to profits and positive cash flow is what management should be doing on a daily basis.

Other “earmarks” of a poorly managed business include the following:

Time Treated as Abundant

There is little to no sense of urgency. Things, even important initiatives, drag on forever. A good rule is, if it is important, can we get it done today?

Poor or No Management Process

There is little or no use of key operating metrics. There is no formal structure for reviewing the state of the business on a regular (at least weekly is recommended) basis, identifying problems and opportunities and assigning resources to take appropriate action.

Weak Decision Processes

Often totally dominated by the owner or top manager. The rest of the management team is not expected to be part of “the brain” but simply extra sets of hands. Decisions are not necessarily based on facts or data and are often revisited and re-discussed.

Key Staff Poorly Developed

Delegation is basically impossible because the management team hasn't been truly given authority and responsibility. They are fearful of acting decisively, concerned that they will be second-guessed.

Weak Human Resource Processes

There is often no organization chart or clear definition of authority and responsibilities. Job descriptions are either nonexistent or grossly out of date. There is no results-focused evaluation process. Wage and salary administration is not based on results achieved or added value provided but rather on longevity or likability.

Low Mutual Expectations

Expectations are universally low, often with the explanation “We are not a Fortune 500 company. We can't demand that level of performance of our people.”

I strongly believe a couple of things:

- High expectations don't guarantee high performance, but they do enhance the chances of it.
- Low expectations guarantee low performance.

The adage “A rising tide raises all boats” is not true. It does not raise “leaky” boats. Troubled companies are not caused by economic climate, government policy, etc. They are caused by a general lack of attention to management basics. In good times troubled companies might be able to stay afloat. In tough times, they quickly get into serious trouble.

Well-run companies do okay in tough times and thrive in good times because they are driving their desired results. You generally won't find many of the above issues in these companies. This is where you want your company to be. ■

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