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THE TEN-STEP APPROACH TO LEADING A SUCCESSFUL TURNAROUND

At 24 I took on the position of chief financial officer of a borderline-bankrupt lumber and building materials retailer. Quickly, I ended up managing all the day-to-day operations of this struggling four-store building supplier. It was here that I learned how to:

- Maximize the use of cash and buy time to give a business a chance to survive.
- Revitalize company culture, boost energy levels, and build a team to drive a successful turnaround.
- Identify intelligent risk opportunities that a team could translate into positive cash flow, revenue growth, and profits.

In addition to turning the business around, I successfully negotiated the purchase of a larger competitor out of a contentious bankruptcy proceeding using no existing working capital. I then successfully merged the two businesses and profitably grew sales ten-fold over the next six years. Now, that's what I call a turnaround.

With time, I have sharpened these skills, developing the following ten-step turnaround approach that has helped me save countless troubled operations and leverage growth opportunities.

1. Assess the situation and alert all key players

Whether you're transferred in or brought in as a new hire or consultant, as a clear-headed, independent leader you're in a unique position to a) analyze the situation, b) identify the causes of the problems, and c) make the tough decisions that haven't been made, but desperately need to be made.

However you arrive at the situation, you will most likely find a team that is confused, standoffish, scared, and likely filled with anger and distrust. It's up to you to turn things around, and to start you'll need to overview

the situation and notify all stakeholders that it's time to take swift and serious action.

2. Take control of cash and spending

Cash is the lifeblood of any business, so you will need to meet with the CFO immediately and quickly assess the company's cash position. Some questions you might want to ask include:

- How much cash is there?
- Who has spending authority?
- What's the burn or spend rate?
- Is more cash going out than coming in? If so, how much can the company spend before it's too late?
- Are there proper controls and procedures to approve and spend money?

What reporting and cash flow projections are in place to enable management to properly manage cash?

You need to walk away from this meeting comfortable that there isn't an imminent crisis, and that you have the proper reporting, controls and procedures in place for you to control cash and avoid costly surprises. If you don't feel comfortable with what you discover, you need to make cash and the preservation of cash your top priority.

3. Establish a clear line of communication

It's crucial that you meet with your executive team, and then with the entire organization as a team, preferably in person, on day one. If you have associates located far from company headquarters, travel to their locations (e.g. distribution centers, regional offices). If your time or resources are limited, conduct a conference call/town hall meeting. Whatever you do or wherever you go, make sure that you address the entire team.

Introduce yourself, first to the team as a whole and then individually. The idea is to start a conversation and begin to build trusting relationships. Tell the team what you do and don't know about the situation. Listen, and let them talk; it may be the first time anyone has taken their concerns seriously. When they ask questions, it's okay not to have all the answers; you are new at the position, after all.

Take in all of their questions and concerns. Be honest and answer the best you can. Tell them that you will follow up with answers you don't know that day. Have someone take notes for you during the meeting. And make sure that you actually follow up with the answers to all their questions within a reasonable time either during or after the meeting. When you do follow up, make sure your answers reach the entire team.

Finally (and this is critical), establish a regular and reliable timetable and mode of communication moving forward, so that everyone knows that you will keep them updated on the situation and that they won't be left in the dark. While some updates may involve emails or reports, they work best when they are personal and frequent. Once you have started the conversation, it's crucial that you continue to build bridges and strengthen your relationship with the entire team.

4. Address immediate issues to stabilize the business, and boost morale and energy levels

Ask the team what issues or roadblocks exist to successfully conducting business today. Your immediate goal is to identify key issues that have been left unresolved and are directly impacting the day-to-day operations of the business or cash flow.

Some examples of potential problems a struggling business might be facing include:

- Vendors that won't ship.
- Utilities or critical services with shutoff or cancellation dates.
- Truckers that won't pick up or deliver orders.
- Vacancies in key positions with significant workloads left unaddressed.
- Customers holding payment because of issues left unresolved.
- Legal commitments not being maintained, exposing the business to severe legal action and/or penalties.
- Trust taxes left unpaid, exposing the company and officers to substantial interest and penalties or worse.
- Basic decisions left unresolved – a management team frozen in fear.

Raise these concerns with the team. Most are looking for help and direction, and many of these types of issues can be resolved quickly

through communication, especially when the entire team is engaged in the discussion. Left unresolved, these issues drain positive energy and can be a major contributor to negative morale, not to mention the impact they can have on customers and the business overall.

By taking the lead and fixing these pertinent issues quickly, you will not only help the business but show empathy for what the team is living through on a daily basis. This will help you build your relationship with employees and establish a new tone and energy level within the business, all critical components to a successful turnaround. Your actions (or lack thereof) set the tone and energy level for the entire business.

5. Gather information about the business from top to bottom

You should be gathering intelligence from the moment you have your first conversation with the team, continuing through every meeting and one-on-one interview you have going forward.

Engage with the total organization: from top management all the way down to the front lines. Listen to what people say. In all of my experience with turnarounds, I have found that the people on the front lines often have a clearer understanding of the problems a business is facing, but it's possible that no one has listened to them before or invited them to be part of the solution. Discounting the perspectives from the front line is a symptom of managerial dysfunction.

In every one-on-one, ask employees to share all reports, either internally or externally generated, that reveal detailed information about how the business is performing. Ask them to walk you through each report so that you gain a clear picture of what information is available in the business, how it flows within the business and how it is used to manage the business. Asked to be copied on reports that you determine are critical to the operation of the business and/or would keep you informed as to how the business is truly operating. This will help you become familiar with the business quickly and gain a better understanding of what reports are available to you and the team in executing and tracking the success of your turnaround.

By talking with as many people as you can and by checking and verifying information with multiple sources, you will soon learn who is on top of their job, who you can trust, and whether what employees tell you is likely factual or not. Remember, it's not just you sizing them up; they are sizing you up, too. Until they feel comfortable with you and can trust you, they likely won't tell you everything or you won't be given all the reports.

Assume this up front and verify as much as you can with as many people and sources as you can until you figure out who's who on the team.

6. Diagnose the situation and start to formulate a long-term turnaround strategy

When you get to know the team, study their reports, and meet with customers and vendors, you will start to form a clearer picture of what challenges exist within the company, what issues need to be addressed, the path to follow, and the people capable of helping you lead the charge.

Sometimes the answer is staring you right in the face. Sometimes it's buried in the culture of the organization, past leadership deficiencies or a tepid energy level. Sometimes its strategic miscalculation, or poor or lazy tactical execution. Most of the time, it's all the above.

More often than not, the people are the major factor in driving a turnaround. Identifying the key players on the team and empowering them to do what they do best could be just what the company needs to stay afloat. You've got the perfect entry to wipe the slate clean, set expectations and hold people accountable for performance. If you've got the right people and you properly support them in their efforts, remove roadblocks, and create a culture of communication, fairness, impartiality and urgency, then a turnaround is more likely to occur. If you don't have the right people, then, next to cash management, finding them is a top priority.

7. Build buy-in above and below along the way

While you are engaging the board or stakeholders of the business with what you are finding, and building consensus around potential solutions, by this point you will have likely also identified and built a working relationship with your direct reports and the entire team.

Ask them to participate in your process of analysis and authorship of the turnaround strategy. Once the plan is greenlit, you will need the team's help to execute it. As part of the process, address their concerns, talk through alternative solutions, and reach resolutions.

In the end, you have to make a decision and lead. After all, business isn't a democracy. But you can do this more effectively if you have given everyone a voice and an opportunity to have input and in the end, hear why you made the decisions you have made.

8. Formalize a goal-oriented plan

By now you understand the key issues and opportunities that, if addressed, would have the greatest impact on the current state of the business. The team has done the necessary research and due diligence to understand the resources required, level of effort, execution timeline of each initiative, and the payback period. Focusing on the opportunities and issues that have the greatest impact to the business, that fit within your constraints on cash and resources, and have the best probability of success, you should identify no more than five-to-seven pivotal initiatives for the company to rally around and execute. These should be initiatives that, if successful, would radically change the trajectory of the business. However, they should be limited to the point where the team can actually focus and most likely achieve success.

Additionally, through this process you should separately identify and address opportunities and issues that are simple, low investment, low-risk opportunities for the business. These may be managed and executed separately from the five-to-seven bigger pivotal initiatives you are building your turnaround plan around, but they may be equally as important.

9. Energize your team

The most critical component in any turnaround is communication. It starts on the day you enter the business and should be a hallmark of your management style throughout the process. Consistent updates are critical to the team, and they help to build and reinforce trust and quash the rumor mill.

To encourage full participation and create a sense of urgency, infuse your position with the power of your personal energy. Assign responsibilities and ownership. Set due dates. Direct your team to work together as one, moving forward unified, in the same direction, to reach common business and personal goals. This requires a kickoff, agreed-upon metrics and reports, consistent updates on progress and performance, and a clear understanding of how to conduct communication and reporting.

Celebrate wins! It lifts the team and helps to propel momentum for the remaining challenges. Turnarounds are tough. Taking time to recognize progress and successes brings the team together and makes everyone

feel good, not only about what has been done, but what still remains to be completed.

As the leader, it is your obligation to support the turnaround and everyone involved, to resolve issues in a timely manner, and to update the team as a whole. You may be driving a lot of change, but people will best absorb that change and support it if they understand what's driving it and the end-game.

Keep in mind, if you are not communicating, others may be stepping in to fill the void. And most likely, they won't know what's happening or why, or be managing their own personal agenda, which could seriously impact the success of your turnaround efforts.

10. Follow through until you're in the clear

Turnarounds are a 24/7 undertaking, so you have to be a full-time leader. This is where some of the best-laid plans or even the most capable people fail—their analysis and strategy are solid, but leadership assigns the work and moves on without personally following up on the execution.

Don't be fooled into thinking that just because you've met with the team, informed them of your plans, and reviewed their reports, that they now have full command of the turnaround effort and you can focus on something else. Follow through with the plan's execution and keep monitoring benchmarks until you reach your goal. Stay engaged with the front lines and the rest of the team. You can't lead a turnaround from a distance; you must continue to be engaged with all levels of the business, minding the details and monitoring the situation closely. In a turnaround, you typically only have one chance to get it right. Manage that way.

If your company needs a turnaround, I'd love to talk with you. Please send an email or call me directly —

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