



# "IF I'M **CURT** WITH YOU IT'S BECAUSE **TIME** IS A FACTOR..."

YOUR BUSINESS DOESN'T HAVE TO BE IN TROUBLE TO BENEFIT FROM THE DISCIPLINES OF THE **TURNAROUND** EXPERTS. SO WHEN ONE FD SAID WE COULD PICK UP SOME GOOD IDEAS FROM QUENTIN TARANTINO'S VERY OWN "MR FIXIT" IN *PULP FICTION*, WE JUST HAD TO TEST THE HYPOTHESIS...

BY RICHARD YOUNG

"I'm Winston Wolf, I solve problems... may I come in?" For those of you not familiar with Quentin Tarantino's film *Pulp Fiction*, a brief explanation. Our two (anti-) heroes, Jules and Vincent, have accidentally killed a passenger in their car in broad daylight. It's a mess. So they hide the car in the garage of a friend, Jimmie. But he's not happy. His wife, Bonnie, is due home from work within the hour. If the bloodied car isn't gone by then, they're all in trouble.

OK, so that's a tad more extreme than most business situations you're apt to find yourself in. But, as turnaround FD Ed Watkinson explains, the tactics used to clear up Jules and Vincent's mess are applicable to both companies in dire need of assistance *and* those which need to simply buck up their ideas. In short? Get a grip on the facts, act fast, co-operate with the people around you, know where you're heading – and never lose your sense of humour along the way.

Jules and Vincent are lucky. Their gang boss, Marsellus Wallace, knows exactly who to call to fix the situation. "Chill out," he says, "and wait for The Wolf, who should be coming directly."

"Marsellus is the chairman of the board in this analogy, although he might equally be a major shareholder or an adviser," says Watkinson. "Mr Wolf is the turnaround expert." So how does Wolf manage "the Bonnie situation"?

## GET THE FACTS

We first see "The Wolf" taking a call from Marsellus. "Significantly we meet him in evaluation mode – taking notes," says Watkinson. "He wants to understand the situation and get to grips with the factors that *have* to be addressed immediately. It's the first thing a turnaround professional has to do."

George Moore, founder member of the Society of Turnaround Professionals, agrees. And he's got one particular factor in mind when he's first called in. "I get a fix on the cash," he says. "Initially, you need to know there's enough cash-flow to make it to next week, then the next payroll. But what you're after is a realistic and well-researched cash-flow forecast 13 weeks out."

He reckons that *every* business should perform this kind of rolling cash forecast as a matter of course. It's by far the best way of highlighting

which issues you're going to have to fix and by when. "It'll pick up sudden increases in sales and costs. It's pretty straightforward to work in the payments side – the salaries, taxes, leases and supplier invoices. All you have to do then is estimate the collections you're sure about and you'll see straight away what you've got to do in terms of sales and improved collections."

You've also got to assess the attitudes and abilities of management and other staff – quickly. And, Moore says, "You need to know there's a strong market message, that the bank is on board, and perhaps that the suppliers can be negotiated with."

## ACT FAST

Back to our story. Mr Wolf signs off to Marsellus: "It's about 30 minutes away. I'll be there in ten." Sure enough, he arrives at Jimmie's house "nine minutes and 37 seconds later". "Let's get down to brass tacks, gentlemen. If I was informed correctly, the clock is ticking. That give use forty minutes to get outta Dodge, which, if you do what I say, when I say it, should be plenty."

"Wolf is decisive, he takes charge," says



**"MR WOLF ISN'T SQUEAMISH. HE'S SEEN THINGS JUST AS BAD, AND PROBABLY WORSE. WHEN YOU GO INTO A TURNAROUND SITUATION, YOU ALSO HAVE TO BE PREPARED FOR ANYTHING"** Ed Watkinson, finance and transformation practitioner

Watkinson. "He's focused and very conscious of time. But because he's organised and experienced, he can also make the time to understand the details of the situation." The great thing about being FD, of course, is that you have a holistic view of the business. In the same way that Mr Wolf quickly evaluates the personnel involved, the car, the mess, the location and the potential exits, you ought to be able to get the information on exactly where and how your business is under-performing so you can plot solutions.

"Are you talking about helping a company just survive, are you looking for a quick exit or is it a wind-up situation?" asks Moore. "You need to understand what's possible quickly if you're going to take appropriate decisions. Set your immediate tactical destination, then milestones on the way there – and hit them. You should have a clear idea of what you're going to achieve every week."

Fast decision-making isn't only the preserve of the crisis manager. Not taking action as a business drifts is a major reason for a turnaround crisis emerging in the first place. Ashley Martin is FD of Rok Property Solutions, which has seen an 800 per cent increase in market cap since 2000, after years of stagnation – evidence of how the turnaround disciplines can help any company. "To facilitate growth, we needed to decentralise command and control and allow managers, who understand their local conditions and opportunities, to make quick decisions," Martin says. "That still has to happen within the company-wide strategy. We think of it as empowerment within a gilded cage."

#### **PEOPLE MANAGEMENT**

Vincent acknowledges that the turnaround guy knows what he's doing. But as a professional himself (albeit a hit-man, not a financial controller)

he bristles at Mr Wolf's instructions. "Get this straight, Buster," says Wolf. "I'm not here to say 'please'. I'm here to tell you what to do. And if self-preservation is an instinct you possess, you better do it and do it quick."

"You always have to look at the management," says Moore. "Are they set in their ways? Is that one of the reasons the company is in trouble in the first place? You have to be cold and ruthless about it." That parallel is apt for companies not yet in "crisis" mode. A business can easily stagnate – management and staff get complacent about customers, financing arrangements or risk management – and that *will* create problems in the event of a downturn or new competition emerging.

"If there's any chance at all that a business can trade its way out of trouble, if it's got good products in a reasonable market, then you have to spend money to hire good people," Moore says. "Often I'll bring in salespeople on good salaries because it's only those sort of people who can start generating the cash."

Mr Wolf's final encouragement to Vincent to get on with the "turnaround" goes as follows: "If I'm curt with you, it's because time is a factor. And if my help's not appreciated, lotsa luck gentlemen." "The FD in a turnaround has to be firm," says Moore. "And he or she has to be prepared to quit."

#### **COMMUNICATION**

Wolf makes his views clear and is economical with his instructions. But he's also polite, open and works hard to win over Jimmie – let's use the beleaguered home-owner as a proxy for staff and finance providers. "You do have to keep the workforce informed," says Moore. "Rumours can be very destructive, but it's likely that the employees will already know the state of the company in any case. So the only thing you ought to hold back is commercially sensitive information."

## **WHY WE PICKED MR WOLF**

**Ed Watkinson's** clearly a Tarantino fan. But his choice of Winston Wolf as the archetypal turnaround manager is well thought out. "For a start, this guy is well connected," he says. "He's an associate of 'Mr Big' Marsellus Wallace and he knows where to turn for other services – such as Monster Joe, the disposal expert. He has their confidence on a professional level, but he's also a good networker."

"Although he's very methodical, not a moment is wasted. And he's not squeamish. He's seen things just as bad – and probably much worse – before. When you go into a turnaround situation, you have to be prepared for anything. Mind you, none of what he does is really that difficult. It's exactly what those involved – like most management teams in a turnaround situation – know in their heart of hearts needs to be done. It's just that his unflustered confidence gives him authority. Vincent and Jules know they wouldn't have made it without Winston Wolf as the catalyst. He's also polite, he has a sense of humour and, like the best turnaround professionals, he parts on good terms with everyone."

And, of course, he's a freelancer – the interim management market thrives on turnarounds. "Rapid market changes and internal conflict often mean that management miss the warning signs," says James Wheeler, CEO of interim agency Ashton Penney. "But we're also seeing the emergence of the chief restructuring officer, the CRO, and the rise of specialist restructuring boutiques. It's a maturing industry."



But if Jimmie's your staff or bank, then Bonnie (who must never learn of the goings-on in her home) stands for your customers. It's imperative that you maintain face with them. Only they can generate cash to improve your situation, and if they think you're in trouble, they may desert you. "Your worst enemy is the trade press," says Moore. "They're always looking for 'bad news' stories. And much-needed restructuring can be presented in a negative light, even if it's intended to vastly improve the company's fortunes. If customers read those stories, it can be hugely disruptive."

Suppliers, on the other hand, will know something's up if payments are delayed. "You have to watch the credit insurers, too," says Moore. "If suppliers are used to full cover and that gets downgraded, their terms will change and they could panic. They need to feel informed and that they can influence the situation. Then they'll usually be open to helping you trade out of your problem."

## RISK MANAGEMENT

If you're expecting other managers and staff to go the extra mile, you can't afford to be half-hearted. And that means getting stuck in, taking risks.

In *Pulp Fiction*, Mr Wolf doesn't ask the others to do something he won't do himself. Once the car's been cleaned up, Wolf drives the "tainted" vehicle himself. "He wants to remain in control and continue building confidence," Watkinson says. "For my part, I always take charge of negotiations with high-profile creditors – particularly the Revenue. I wouldn't expect less experienced people to do this in a turnaround. But I always take a client finance person along with me so they'll be happier in dealing with other creditors afterwards."

It's not just personal risk. At Rok, the growth

## MOORE'S LAWS ON TURNAROUNDS

**George Moore** is a turnaround veteran. But you don't have to be in trouble to make use of his advice.

"In a turnaround, there are usually one or two big issues causing the problems, and you can address them quite quickly," he says. "Just remember that if you think your business is well run, it's trickier. It's not one or two big things that are easy to spot – you have to start looking at lots of little things."

- **Negotiate with suppliers.** Will they accept cash up front for new orders and an orderly, but gradual, pay-down of accumulated debt? That can keep you trading and help cash-flow.
- Analyse your optimum **return on capital.** If your cost of borrowing is high, for example, see if you can settle debts early and instead of paying interest, use the cash flow to secure early payment discounts from suppliers.
- **Beware invoice discounting.** It's relatively expensive and you can run into problems if sales dip. So you need to understand your business cycle really well. Borrowing against physical assets is smarter.
- **Consolidate debt** into a long-term bank loan and arrange a suitable overdraft for day-to-day fluctuations. Shareholders will see more value when you gradually chip away at the bulk of the debt.
- **Look for disaggregation opportunities.** Often businesses own assets that have become taken for granted, but which may be valuable under the right structure. For example, you could sell property to a company commonly owned by the shareholders, then lease it back. That ring-fences the value for the owners. (You'll have to sell the idea to the bank, of course.)
- **Disaggregation 2: sweat your assets.** Let's say you have a manufacturing facility working eight shifts a week. Why not spin it out as a new business and find outside customers for the other shifts?
- **Work to a strategy.** Every company needs one, but it shouldn't be complicated. Write a five-year strategy on one sheet of paper, then stick to it – everything else is just tactics.

George Moore can be found at [www.resolutioninc.biz](http://www.resolutioninc.biz)

turnaround has been predicated on good risk management. "The construction industry runs on fine margins, so the best way to maximise returns is stick to low-risk work," says Martin. "We don't hunt out 'trophy' projects." Just because a situation is tight, in other words, there's no need to gamble.

## HAVE WE WON YET?

Winston Wolf delivers the tainted car to Monster Joe at the yard. Jules and Vincent are rescued, Jimmie's house is clean and Bonnie none the wiser. It's a clear-cut win. But the same is rarely true in business.

In a crisis turnaround, of course, there are some fairly well-defined finish-lines: wind-ups, fire-sales, trade sales or, better yet, refinancing and trading your way out of trouble. But if you think about turnarounds as "survival-stability-strategy", it's possible to define success in a more healthy patient.

"We re-evaluate our three-year strategy every year," says Martin. "For example, we started out acquiring under-performing businesses. But now we're happier to pay for companies that are performing well, providing they fit our low-risk approach and we can ensure they share our service-oriented style. And we're always looking at how we exploit the changes in the industry. That keeps the challenge going."

Look at it this way: although we escaped a recession at the start of the decade, we've also not had a boom in the past two years. Most of you have maintained a policy of tight cost control, even as the economy has grown. Which means that although you're probably not in trouble, the decisiveness, speed of action, need for information and assertive diplomacy that you'll find in most turnaround situations are still important parts of everyday decision-making. And if you really *do* get into trouble? Well, there's always Winston Wolf.

## WHERE NEXT...

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