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Turnaround Specialists Can Stave Off Financial Ruin

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: Turnaround Specialists Can Stave Off Financial Ruin

Annapolis, MD October 14 2008

American City Business Journals published an Article of Interest by John M. Collard, turnaround specialist and equity investor.

Turnaround Specialists Can Stave Off Financial Ruin

By John M. Collard

A company's financial problems often result from mismanagement. When existing management doesn't possess skills to deal with crisis, a turnaround specialist may be needed.

Most lending institutions send troubled credits to the "work out" department. Make no mistake, this is usually done to work the credit out of the bank. The specialist can add value by stabilizing a situation and bringing credibility, thereby making the credit more desirable to the next-tier lender with an appetite for more risk.

The management skills necessary to rescue a troubled company are dramatically different from those needed to manage operations and growth in a healthy company. In a healthy company, management focuses on long-term objectives, coaching, and team building. In a financially distressed company, time becomes the enemy. As problems compound and cash flow evaporates, it becomes critical to act quickly and decisively.

Existing management is often in denial. They tend to blame their situation on external

factors, rather than examining the way the company is managed. This is when the board should consider outside help to advise or run the company.

Turnaround specialists are either interim managers or consultants. Interim managers will replace the CEO and take the decision-making reins. Consultants advise management — possibly the same management that got the company into trouble in the first place.

The turnaround specialist must possess the skills to deal with a financially troubled company and have the ability to make the tough decisions needed during a recovery. Specialists are hired for their management ability; the ability to bring order out of chaos; the ability to marshal resources and maximize value from those diverse resources. If the company requires special expertise, then the specialist will attract that expertise. Remember, experience in dealing with crises and change may be more important than industry experience.

It is important that the turnaround professional be financially credible and honor commitments. The company, bank and other interested parties should be able to rely on the specialist to protect their interests while providing them with accurate information they need on a timely basis. When hiring a turnaround specialist, check references, determine what can realistically be accomplished, require engagement agreements, and hire an individual, not the firm. Personal chemistry with the managers is critical.

The specialist offers a new set of eyes, skills and understanding of troubled situations to independently evaluate the company's circumstances:
* Is the business viable?
* What is the purpose of the business?
* Should it be saved? Why? Are those reasons valid?
* Is there a core business that can be the source for the emerging business?
* Are there sufficient cash resources to fuel the recovery?
* Which existing managers are capable of leading parts of the company?

Remember, not all companies are salvageable. This fact-finding must occur as quickly as possible so that a realistic assessment of the current state of the company can be prepared. The specialist's first priority will be to manage cash flow, to stop the hemorrhage. Analyzing sales and profit centers, and asset utilization should indicate where the real problems, not the symptoms, are located.

Next, a business plan outlining and suggesting possible courses of action will be prepared. Once the course of action is chosen, implementation and monitoring can occur. The specialist should remain involved at least until the business is stabilized, and preferably until the transformation is complete.

A good turnaround specialist will develop a permanent management team within the company to preserve value, instead of hiring a large team of outsiders who, when they leave, take that value with them. The specialist should work himself out of a job to be most effective. This will leave the company with the ability to grow and prosper as a

stand alone going concern business.

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Reference:
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http://baltimore.bizjournals.com

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About Collard
John M. Collard, is Chairman of Annapolis, Maryland-based Strategic Management Partners, Inc. (410-263-9100, www.StrategicMgtPartners.com), a nationally recognized turnaround management firm specializing in interim executive leadership, asset recovery, corporate renewal governance, and investing in underperforming distressed troubled companies. He is Past Chairman of the Turnaround Management Association, a Certified Turnaround Professional, and brings 35 years senior operating leadership, $85M asset recovery, 40+ transactions worth $780M+, and $80M fund management expertise to run troubled companies, and advise company boards, litigators, institutional and private equity investors.

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