

Survival consulting

By Greg Charleston

Years ago when friends and new acquaintances would ask me what I do for a living, I would explain, "I am a turnaround consultant." More often than not, I would get a puzzled response. To further clarify, I would usually expound by saying, "I work with companies that borrow too much money and cannot pay it back." This elaboration would usually evoke a better understanding of my profession. These days when I say that I am a turnaround consultant, most people give me a knowing look and say, "Wow, you must be busy! Are you turning anything around?"

A turnaround consultant is a specialist who works in an environment of financial distress. We are hired by companies directly but usually at the strong recommendation of a bank, attorney or outside investor. We almost always focus initially on cash and liquidity. We immediately assess how much cash our client has today, how much it will have next week and how much it will have next month. The answer is often surprising to our client. I have lost track of how many times, after days of intense analysis, I have had to explain to my client, "You do not have enough cash to cover the payroll next week."

We work with our clients to develop a liquidity bridge to provide time to develop a short-term plan to fix the immediate crisis. This liquidity bridge often involves difficult decisions about prioritizing payments, cutting costs, seeking



GREG CHARLESTON

is a managing director at Conway MacKenzie, Inc. He draws on more than 19 years of experience in turnaround consulting, financial crisis management, mergers and acquisitions, and business valuation to perform financial, cost and profitability analysis for middle-market businesses. He has worked with clients in various industries, including transportation, aviation, publishing, retail, distribution, construction and automotive.

expedited payments from customers and seeking short-term assistance from a lender. Frequently, a lender will provide the liquidity bridge to provide a small window of time knowing that the turn-

around consultant will deliver a plan for the lender to evaluate during that period.

Once the immediate liquidity crisis has been averted, we can begin to work with our clients on the root cause(s) of the liquidity problem. This is an intense analytical puzzle that must be solved quickly. The core problems often come down to such issues as operating inefficiencies, customer pricing problems, dramatic material cost increases, debt increases to fund acquisitions, and a host of other potential issues.

The most difficult problems to solve have come together recently in the form of a Bermuda Triangle of doom that includes (1) a dramatic drop off in revenue due to the macroeconomic environment; (2) a lack of available credit to bridge a company through a difficult period; and (3) a drought of equity investment that reduces or eliminates the likelihood a company can be reorganized or sold. More frequently, because of the issues above, the turnaround alternatives for a business have been shrinking. Liquidations, or "wind downs" as we often call them, are becoming more and more common.

In today's economic environment, many of my peers believe that my profession should be called "survival consulting" rather than turnaround consulting. When revenue is dropping precipitously (as it has been in the automotive, homebuilding and print media industries), it is extremely difficult to

reduce costs at an equivalent rate. Pile on the lack of credit and new investment and these situations can quickly become catastrophic. Surviving this kind of death spiral is only achieved by those that can react quickly and claw and scratch to survive.

Recently, I have often started my introductory meeting with a client by opening, "Are you prepared to do what it takes to survive through the next 12 months?" This is an attention-grabber. However, I have found that if a dire sense of urgency is not instilled from the very start, the chance of survival is greatly diminished. In a revenue freefall scenario, the cost cuts must be deep — usually much deeper than it may seem at first. To get ahead of the revenue decline, the company must assume the revenue will continue to deteriorate over a prolonged period. If the cuts are not deep enough in the first round, it often becomes impossible to catch up.

Please keep in mind that my recent experience has been in the industries that have been most negatively affected by the macroeconomic environment. However, these lessons can also be applied to businesses that are struggling but are not experiencing quite the dramatic death spiral that I have painted above. I would encourage business managers to sound the alarm and take a war-like attitude toward surviving this economic cycle. Do not postpone decisions because they are too painful. Cash is absolutely precious in this environment, and every effort to manage every dime should be aggressively pursued.

Don't hesitate to seek help from customers, vendors, employees or even the federal government.

In the current economic environment, simply surviving can become a huge competitive advantage. Take the RV industry for example. The casualties in the RV industry are piling up and carnage is widespread. However, the RV manufacturers and dealers that can find ways to survive will benefit from a greatly diminished level of competition and opportunity for profit on the other end.

Survival is the "light at the end of the tunnel." Survival is your competitive advantage. It is likely that this is the most difficult economic time that any of us has experienced in our lifetimes. Therefore, I encourage the entrepreneurs, the corporate managers, members of boards of directors and others that have what it takes to change your mindset and suit up for battle. Treat it like a war and prepare yourself mentally to do what it takes to survive.

OUR SERVICE LINES

- Turnaround Management Consulting
- Bankruptcy/Fiduciary Services
- Operations Consulting
- Interim Executive Management
- Performance Improvement
- Low-Cost Country Sourcing
- Due Diligence Services
- Litigation Support & Expert Testimony
- Forensic Accounting & Fraud Investigations
- Business Valuations
- Economic Damage Claim Quantification
- Bankruptcy & Insolvency Matters
- Investment Banking Services
- Debt Restructuring
- Mergers & Acquisitions
- Capital-Raising Services



7000 Central Parkway, NE | Suite 1325 | Atlanta, GA 30328

770.394.9905 | 770.394.9907 FAX

www.c-m-d.com

ATLANTA | CHICAGO | DALLAS | DAYTON | DETROIT | FRANKFURT
HOUSTON | LONDON | NEW YORK | SHANGHAI