Alex Wolf & Associates

Turnaround Management and Consulting
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INTRODUCTION

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This site describes business turnaround, corporate restructuring and other wealth recovery services of Alex Wolf & Associates LLC, often performed or directed by Alex Wolf himself.

This site is aimed primarily at owners, CEOs and board members of companies that are in serious difficulty. It will also interest investors contemplating the purchase of a distressed company and lenders who hold non-performing and under-secured loans.

It cannot be emphasized enough that restoring credibility and actual profit turnaround are key to achieving success in most wealth restoration cases, and practically in all difficult ones. For instance, creditors are more likely to agree to debt restructuring if they believe the debtor company will make profits necessary to repay the debts (wholly or in an acceptable part) in installments and / or that it will receive an investment with which it will pay its creditors. Even before overall debt restructuring is undertaken, vendors, lenders and taxation authorities will grant forbearances (initially often piecemeal) if they really buy into what the debtor tells them. To establish such trust written disclosure is often required. However, most operating business executives instinctively shy away from disclosing their company's weaknesses. What they do not realize is that frank bad news is a very effective tool for dealing with creditors, because at the foundation of a good restructuring plan is a meeting of minds of the debtor and its creditors concerning their alternatives.

Of course, these alternatives need to be presented properly and important nuances must be observed in the manner in which confidential information is disclosed and in laying out said alternatives, e.g. concerning the expected realization by creditors in the event of informal restructuring as compared with Chapter 11 or other legal reorganization mechanisms. In these matters restructuring expertise is essential.

Debt restructuring may be achieved informally (or for that matter under Chapter 11) by a skillful negotiation of one or more proposals that would – for instance – reduce the principal owed or payments previously fixed, and / or delay said payments, and / or modify or reduce creditors' security.

But holding off disappointed and irate creditors and getting them to restructure the debts is only part of the solution. All major ills that have gotten a company or a group of companies into trouble must still be cured – if the future is to be profitable. Usually, several such ills are present simultaneously. Some of these problems mask others, and therefore operating management is often aware of only some of these ills. Yet all key problems must be diagnosed quickly, and practical and credible cures must be applied, or at least devised, early on in a turnaround.

Moreover, some turnarounds and restructurings require an injection of cash by third-parties, and the rules that govern the obtaining of debt and equity investment are different for healthy and for distressed enterprises. In fact, the sources of their financing are often different. Today in the USA there is a whole industry dedicated to the financing of distressed and under-performing businesses. In recent years more money in this industry has been "chasing deals" than there are eligible debtors asking for funds. At the same time, most troubled companies that require funding fail to obtain it. This dichotomy is explained by the fact that for the most part, distressed companies do not know where to seek funds, investor firms do not know where to find the smaller distressed companies, and most of the latter fail to make the preparations that are required to make them attractive to investors. Notably, the work involved in making a distressed

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company attractive to investors, in most cases, requires both restructuring and turnaround expertise, including specialized research, planning and negotiation skills.

On reflection, it is not surprising that most companies who get into serious trouble and need a turnaround know very little about the above matters and about the nature of turnarounds in general. Sometimes, the problem is compounded by the egos of formerly successful business operators that further prevent them from taking the necessary steps, such as hiring a turnaround specialist. Furthermore, they do not realize how cooperative the business world can be towards a business operator, whose distressed company retains an enterprise value despite its bad financial statements. Of course, the pre-condition for obtaining such a Second Chance is the restoration of credibility, as already mentioned.

To assist interested parties, this site is also a comprehensive management presentation on the subject of turnarounds and corporate restructuring – including some projects performed or directed by Alex Wolf himself.

It should be noted that many cases described herein required a multi-disciplinary approach in order to solve concurrent and diverse business problems, including the following:

Case #3 : Discovered and eliminated ongoing theft of hundreds of thousands of dollars annually in a large machining house – through *"walk around management"*, material control and financial analysis; also changed job descriptions to prevent recurrence of similar problems.

Case #5 : Crisis management and cost reduction in a troubled industrial company: negotiated loan extensions from a difficult banker; rapidly increased productivity in a large machine shop (technical-management); obtained concessions from vendors and taxation authorities; and refinanced a loan of several million dollars.

Case #7 : Restored profitability and eliminated a financing problem for a distressed manufacturer of audio amplifiers – through strategic repositioning; also obtained concessions from taxation authorities.

Case #8 : Crisis management and revenue increase in a conglomerate of small companies: restructured under-secured bank debt, obtained forbearances from state taxation authorities; generated margin improvements and subordination (pending) of IRS tax liens due to withholding tax owed – the foregoing in a contracting and supply firm. Obtained forbearances from real estate lenders in an investment firm. Created marketing and financial resources through joint-ventures. Improved sales and profit margin in a conference center company (Case on-going).

Double-click on comment icons to open.

Alex Wolf & Associates guarantees the utmost in professionalism in all projects. Moreover, in some cases, generally on a hands-on basis, i.e. with our top people as your interim CEO or your CRO, we can accept overall responsibility for results. In addition, in certain cases, we agree to partly or wholly success-based fees - for further information see Section 2.

A table of contents is provided to help you navigate this site, but if you want a tutorial in corporate renewal, then go through our entire presentation in the reader / printer-friendly PDF format.

Sincerely,

Alex Wolf

Next Section : *2. Our Offer in a Nutshell and About Us*

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ANNEXES

2. MY OFFER IN A NUTSHELL AND ABOUT US

My name is Alex Wolf. I am the president of Alex Wolf & Associates LLC, and its main turnaround and restructuring specialist. I am a high-energy manager, with broad business experience and diplomas in engineering and MBA. Through the company Alex Wolf & Associates, I am offering hands-on turnaround and restructuring services to companies that are in decline, and / or in serious trouble, with a view to make them viable on a sustained basis.

I believe that all people are not equal when it comes to turning a money-losing business into a profitable one. After you read this presentation, you will know how I work and ‘where I am coming from', so to speak.

An Offer on Responsibility and Success Basis. Sometimes I agree, for the right party located in the USA to turn around a company, or a group of companies, on the basis of largely or entirely contingent fees, i.e. based on results - on success. In certain cases, the contract states that the entire professional fee earned by Alex Wolf & Associates will be paid solely from improvements in the client's cash-flow. Such arrangements require a certain initial analysis (at our cost), a detailed written contract and the client must demonstrate good faith by paying accommodation and travel expenses. In this manner I can offer to take responsibility for results, as I assist the client until desired results are attained. I can make this offer because I have confidence in my level of expertise.

I am interested primarily in helping companies that are in serious trouble – working directly for the owners or the board of directors. I also work for lenders, but not if they are indifferent to the closing of the borrower's company. I have a bias in favor of preserving or restoring the going concern whenever it is possible.

Many principles and techniques of corporate turnarounds and restructuring described here are also useful to enterprises that are underperforming without being distressed. However, the information on this site applies most directly to companies that are in dire straits, or are heading for them. Those situations are special, in that they typically require fundamental repositioning and/or restructuring and/or re-engineering (*the 3Rs*) of the company, because small improvements in those situations are not enough to create and sustain a fundamental upturn.

Next Section : *3. What Exactly Is a Corporate Turnaround?*

3. WHAT EXACTLY IS A CORPORATE TURNAROUND? How different is it from normal sound business practices?

Some turnaround specialists define corporate turnaround as *"a substantial and sustained positive change in the performance of a business"*. Corporate turnarounds are also often described as Back to Fundamentals and Back to Entrepreneurship — not one or the other, but both at the same time.

In theory, turnarounds should not be necessary, but in reality they are. In most companies turnaround actions commence only after the CEO or the board of directors accept two facts : *One,* that the company is in a real danger, that this is a real crisis, and *Two,* that the problem is huge and small incremental improvements will not solve it.

Once the CEO or the directors face the fact that the moment of truth has arrived, they empower someone (often on an interim management basis) to take steps necessary to save the company. Most of the time, the first task is to manage the crisis, and because of this, in recent years for many persons the expression **crisis management** has become synonymous with **turnaround management**. However, in most cases there is a lot more to turning the company around than overcoming the initial crisis.

It is often said that it takes entrepreneurs to start companies and that it takes professional managers to run established companies. Well, a turnaround requires both mentalities at the same time. The repeated finding of many studies in North America and Europe, is that in 80% of cases by the time the company is foundering and needs a turnaround, it has already moved far away from sound business practices and the spirit of entrepreneurship.

Rules for turning companies around. I wish I could tell you that our company, Alex Wolf & Associates, would do magic with your company, but in reality no magic is involved – there are proven rules for turning companies around. Most of this site is devoted to these rules and my experience in applying them.

The first broad rule is that no matter what else you do, you must pay close attention to customers. You must assure that they really receive good product, good-value, and responsive service; and in a turnaround this requires personal contact with customers by top management. Another broad rule concerns characteristics of people who succeed in turning companies around. The turnaround leader / manager has broad business knowledge (including knowledge of many industries), an ability to learn very fast, very disciplined thinking, very disciplined and timely action, and absolute integrity – the turnaround leader / manager must possess these attributes to an incomparably greater degree than is required of managers in non-turnaround situations.

Typically the turnaround leader / manager is an individualist. At the same time, my own turnaround experience has made realize that turnarounds are much more works of science than art. Turnarounds are primarily based on disciplined and systematic application of planning, controlling, organizing and motivating functions, taking many calculated risks, planning for contingencies, much independent creative thought, and steady hard work.

This means doing what has to be done – when it has to be done. It also means not playing favorites, and doing what has to be done – whether it is popular and pleasant or not. It means doing all of the essentials, and letting some other things go. Turnarounds are not big on formality, but big on real business discipline. Furthermore, in turnarounds, time is always of the essence.

Turnaround Priorities, particularly in the crisis management stage and for considerable time afterwards, are also very different from priorities involved in operating a profitable business, for reasons which may be summarized as follows :

- Hemorrhaging must be stopped, i.e. positive cash flow must be restored and on-going losses must be stopped. Likewise, the decline of morale and good will, must be terminated – by putting an end to destructive rumors of future cuts, layoffs, discontinuation of product lines and closing of facilities.
- This stabilization must be achieved quickly – at a pace that the troubled company is not used to. Almost nothing can stand in the way of actions that are required to achieve these objectives. It is by reaching them that a troubled company gains some breathing room and time – to reposition, restructure and re-engineer itself (*the 3Rs*).
- The breathing room and time so gained is vital, and the turnaround manager (crisis manager) knows that this is a limited reprieve to be used wisely and that the momentum of changes must continue. The room for making expensive errors, and for tolerating non-performance is gone. Turnaround is the moment of truth.
- Not the largest profit but the shortest payback is king, until basic viability is restored. Projects with very short-term payback (days, weeks, a few months) are an absolute priority well past the crisis management stage and almost until the end of the turnaround.
- In addition, during the critical stages of a turnaround, there is no time for formal studies before certain drastic actions are taken and decisions guiding these actions must be based on a quick and penetrating analysis.

See *More about Priorities* in Annex IX, including *Case #4*.

In turnarounds, company owners authorize drastic, unpopular and unpleasant actions, such as laying off many employees (even some good ones) or closing of some facilities, because if things continue on their present course, owners will lose their equity and the loans they advanced to the company.

A drastic and rapid turnaround is a business revolution. Can it be anything less than that in a financial crisis when the company is hemorrhaging money, morale and good will? Can it be anything less than that, when owners' equity is disappearing and when there is no time to move at the usual evolutionary pace?

Should you undertake such actions – such big changes – in your business? It depends. The first rule in business is generally 'If it ain't broke, don't fix it'. If your company, or some business unit of it, for which you are contemplating changes, is not hemorrhaging, if *critical financial problems* and *other critical symptoms* are not present in your company or in the relevant business unit, then drastic and rapid turnaround actions are probably not required. But such steps definitely must be considered when the company or the relevant business unit is in serious trouble and when alternatives are not available or are not attractive.

While rapid and drastic repositioning and restructuring of the company, and rapid and drastic changes in the way the company operates and does business (re-engineering), will scare most people, such actions are a rational response to many emergency situations. For such actions are required to get the company out of the rut of the **Losing Track**.

The expression Losing Track is used to describe "a course and *modus operandi* that generates losses and will continue to generate losses, as long as it is continued". In effect, in 80% of the cases, corporations get on a Losing Track because of the inability or complacency of management. It is the inability and complacency of management that most often constitutes the rut.

But whatever is the reason for the company following a Losing Track, once the company is on that track, the choices are stark : face the reality and get out of that rut, or fail in due course.

Experience shows that operating on a Losing Track often involves following implicitly some strategy, which was once a conscious and justified choice, but which with passage of time is no longer explicit, and due to changes in conditions is no longer viable. The most common reasons for not recognizing that the company is on a Losing Track are the following :

a. the abandonment of habit to "manage by numbers" (cost-engineering, cost accounting and cost-benefit analysis),
b. lack of periodic rigorous comparison with broadly understood competition,
c. failure to actively seek improvements,
d. unwillingness to face reality.

In addition to moving the company off the Losing Track, a successful turnaround requires changing the corporate culture of the company to keep the company from sliding back on the Losing Track. For more details see *Turnaround Communications*.

The above-mentioned requirements of broad business knowledge (of many functions and many industries), very disciplined thinking, and absolute integrity, come into play from the outset – in formulating, and courageously asking tough questions that must be posed in order to determine if the company is merely experiencing some troubles or is on a Losing Track. Troubled companies are often stuck on the Losing Track until the right questions are asked.

When the company is really on the Losing Track, great changes are required, time is of the essence, and the real risk is an *opportunity cost*. Opportunity costs are not entered into accounting records, but are used in decision-making when comparing alternatives. Some people might say that for a sinking company, this opportunity cost does not even exist until the hemorrhaging is stopped.

Am I suggesting that if a company is in decline and bleeding, there is no risk in experimenting on it? Of course not. The very reason for taking turnaround actions is the founded belief by management in the potential for corporate recovery. But this potential must not be squandered. The point I am making is that when a company is foundering, bold actions are required, and the real issue is which actions to take.

> *My present message is aimed primarily at owners and board members of companies that are in real difficulty, on a Losing Track or close to it. In such situations, the danger involved in continuing on the existing course is so great that the real operative question is – not if – but what fundamental changes should be made.*

As a rule, if a foundering company is to survive, certain drastic changes, fundamental to a turnaround, have to be made, even though they will be regarded by part of the management and staff as rocking the boat. In fact, typically, after a rapid assessment of the situation, one of the first actions taken by the manager leading the turnaround of a distressed company, is to give the subordinate managers, at both senior and middle levels, a clear internal Turnaround Message, about the new direction and new rules for the company, and about new the pace of getting things done. For more information see *Turnaround Communications*.

Next Section : *4. Is Your Company a Candidate for a Real Turnaround?*

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4. IS YOUR COMPANY A CANDIDATE FOR REAL TURNAROUND?

If you own a company or sit on the board of a company, which used to be profitable and operated fairly smoothly, but in the recent past has exhibited the problems listed below, your company may be a candidate for a turnaround. I say "may be", because a turnaround as described here is not always the best option. Before you put your heart into it, you must also make sure that a turnaround is feasible (see *Section 5*).

Financial information is usually the most telling concerning the desirability of a turnaround. However, just having an ear to the ground can also alert you to the need for a turnaround. So ask yourself : Does your company show the following indications of trouble and decline?

Critical financial problems that indicate the need for turnaround :

(1) The company has been reporting large losses for some time and the hemorrhaging continues; (2) Paying suppliers is a problem; (3) Paying taxes and other "non-immediate" bills is a problem; (4) Important jobs generate a loss; (5) Lenders and suppliers are not giving the company the breathing room they used to, and they indicate that their confidence is shaken.

Usually one of these problems is a sufficient indication that drastic turnaround action is desirable.

Critical non-financial symptoms that indicate the need for turnaround :

(6) Good clients are leaving the company; (7) Clients complain their calls aren't being returned; (8) A number of employees are telling each other or management or clients or suppliers that they do not feel they are being led; (9) A number of good employees are leaving; (10) Management is no longer working as a team.

Usually two or more of such symptoms plus some confirmation through financial data are a sufficient indication that drastic turnaround action is desirable.

Other valid reasons for drastic changes (similar to turnaround):

Without any of above problems or symptoms being present, there may be other valid reasons why, as an owner or company director, you may realize that the company is in danger of failure unless the course is drastically reversed. An example would be when your company is profitable but is very dependent on a few large clients and there are good reasons to expect they will drastically reduce the business they give you.

But, as mentioned above, it is not enough that a turnaround is desirable. It must also be feasible.

Next Section: *5. The Turnaround Concept – When is a Turnaround feasible?*

5. THE TURNAROUND CONCEPT – WHEN IS A TURNAROUND FEASIBLE?

A corporate turnaround is feasible when both of the following requirements are satisfied :

a. circumstances and conditions are such that a turnaround is rationally expected to succeed, based on a viable Turnaround Concept, and

b. the turnaround is an attractive option compared to other strategic options available.

The turnaround plan, strategic in nature, addresses primarily the repositioning and the restructuring of the company. The plan is usually short because, as a rule, it has to be created quickly.

In addition to the strategic plan, a **Catalogue** of actions and projects that will be implemented as part of the turnaround process must be created and updated continuously. Typically, this Catalogue comprises further restructuring and re-engineering activities, actions and projects such as training of staff and management, preventive maintenance, error-proofing of various activities, including quality assurance, advertising, change in channels of distribution, sales promotions, and other procedures, which individually are often tactical in nature but collectively are of primary strategic importance.

Together, the strategic plan for the turnaround and the Catalogue of other turnaround actions / projects form the Turnaround Concept. This comprises the above briefly-mentioned *3 R's of Turnaround*, namely the repositioning, restructuring and re-engineering of the company. See cases and examples in *Annex II*.

Usually the turnaround leader must provide the core of the strategic plan himself / herself, but experience shows that when properly motivated, employees of various ranks can often provide very valuable ideas, particularly for the re-engineering of operations.

It should be noted that it takes broad business knowledge, penetrating analysis, experience, and a creative mind to generate a good turnaround plan. It takes these skills to know what is a viable and realistic plan, and to know what priorities to follow, in order to achieve a turnaround.

It should also be kept in mind that a turnaround is rarely easy, that it takes time *(though typically less time than it took to run the company down)* and that a turnaround is always hard work for management. Therefore, before a turnaround is undertaken other alternatives should be considered.

Typically, these alternatives are the sale of the company or some of its business units and / or an orderly liquidation (i.e. not at fire sale prices). Sometimes these alternatives are reasonably attractive, for instance if there is a "special buyer", to whom the troubled company or some of its assets, represent a greater economic value than to the general marketplace. See *Alternatives to Turnaround* in for more information.

In sum, when a company is in trouble, and there are no other attractive options, turnaround actions ought to be taken – if the prospects for turnaround are reasonable.

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A Realistic and Viable Plan. The prospects for turnaround are regarded as realistic and viable when there is viable / realistic plan for it.

No matter what are the accumulated losses, the on-going losses, or the loss of clientele or valuable employees, no matter how large are the problems of the company, no matter what are the headaches and the disappointments – it is not too late to cure the situation as long as there exists a realistic, well thought-out expectation for success.

In particular there must be a realistic, well thought-out expectation that if management takes certain actions, the following will happen :

a. certain tangible positive results will be attained by the company; and in particular there is a realistic expectation that measurable improvements will be made in productivity or sales or profitability fairly quickly;

b. parties whose support is essential to the success of the company, will provide that support – such as lenders, important suppliers, key employees, unions, customers, existing and / or prospective shareholders and other investors, and possibly some branches of government;

c. with that support, and other rationally-expected events, operating and financial viability will be restored.

A realistic plan for *Co-opting Support* of these parties constitutes an essential element of any viable Turnaround Concept.

My experience (see **Case #1**) is that when management is creative and flexible, and works to obtain cooperation of third parties on a basis that is attractive to both sides of the transaction, many intelligent new arrangements are possible with practically all parties : with lenders, with minor suppliers, different ones with key suppliers, with shareholders, with unions and even with governments. It should be remembered that it is generally easier to obtain such support in stages, that perseverance and success breed respect, sympathy and support, and that having the support of some parties makes the support of the others easier to obtain. Such arrangements contribute enormously to the turnaround process.

Next Section : ***6. When is a Turnaround Complete?***

6. WHEN IS A TURNAROUND COMPLETE?

When the company is successfully repositioned, restructured and re-engineered, its viability is restored on a sustained basis. At that point the turnaround is complete.

In my opinion, in a non-seasonal business, the requirement of viability on a sustained basis requires at least two sequential quarters of attractive financial results from regular operations plus a reasonable balance sheet and a new solid management.

The new management has to be solid enough that the errors and omissions that led the company into trouble are not likely to be repeated while this team is in charge. Not all turnaround specialists include the formation of management that succeeds them as part of their package of turnaround services. I do, because I feel that even if financial results are positive, a sustained basis is not necessarily achieved until the successor management team had successfully taken over responsibilities from the turnaround team.

For this reason, my services include the formation of the successor management team. Furthermore, I would work with these people for some months after the company has returned to viable operation in order to make sure the new team is on the right track.

This new team may include the most valuable human resources amongst your present staff but after the turnaround they will operate in a very different way from how things were done when the company got into trouble. The new team will continue the questioning, evaluating, and energetic attitude of the turnaround team. See the next Section for more information on management requirements for the turnaround.

Next Section : ***7. What Type of Management is Needed for a Turnaround?***

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7. WHAT TYPE OF MANAGEMENT IS NEEDED FOR A TURNAROUND?

Turnaround is a moment of truth.

Clearly, a turnaround requires not only different priorities and methods, but also different attitudes, aptitudes and skills than those that are required to run a stable and profitable business.

Attitudes required. As mentioned previously, a real corporate turnaround is a business revolution, one without real bloodshed, but a revolution nevertheless. And as any successful revolution, a corporate turnaround requires leadership with a habit of rigorous thinking and penetrating analysis, a keen eye for opportunities, courage and sustained willingness to fight for one's cause, and other attitudes and aptitudes detailed below – including a Can-Do spirit that is both visionary and pragmatic at the same time (See *Attitudes That Turn Things Around* for more information).

One Early Objective. Obviously, these attitudes and aptitudes are in short supply in companies that are in distress, and an early objective of a turnaround is to instill in the employees and in outside parties a *founded belief* that the company will succeed.

Higher Management Standards. But more than these attitudes and aptitudes are needed. Turnarounds require also a greater technical management knowledge, broader experience, higher energy, better interviewing and research skills, more questioning minds and better negotiating skills, than business-as-usual (custodial type) management.

A successful turnaround requires a leader who sees opportunity where others do not, who is able to make decisions quickly based on penetrating evaluation (calling for particularly strong analysis and interviewing skills), a leader who is not afraid to innovate, who, in a crisis situation, has the drive to put in 70 – 80 hours of work a week and sometimes more—for a long stretch of time. It is worth repeating that a turnaround leader is prepared not only to work for the company, but to fight for it.

Turnaround Environment. These qualifications are essential, because typically, in a turnaround you have to make certain cuts, a *corporate surgery*, to keep the rest of the body corporate alive, and you also have to reposition, restructure and re-engineer the company – and you have to do this in a very tough environment, and in particular :

> *"with all kinds of negative forces working against you in an environment of shortages, shortages of money, shortages of products, shortages of cooperation, shortages of everything."* (F.Grasanti, Turnaround Specialist)

Clearly, this is an environment that most managers are totally unfamiliar with. In most cases, this is the reason for calling upon a specialist to solve the problem. If the above list (in section 4) of *critical financial problems* and *other critical symptoms* describes your company's situation, if your company is in danger of failing or is otherwise in serious trouble, if you want to achieve a corporate recovery, and if you feel that your present management does not have the necessary skills, attitude, drive and know-how, then you should consider hiring outside turnaround services.

Next Section : ***8. What Is the Nature of Professional Turnaround Services and What Fees are Charged?***

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8. WHAT IS THE NATURE OF PROFESSIONAL TURNAROUND SERVICES AND WHAT FEES ARE CHARGED ?

Many troubled companies fail because they lack management resources that are required to perform a business turnaround. Some of these companies fail because they are not aware of the requirements of the job, others because they cannot afford professional turnaround services. Yes, it often costs $600,000 to $1,000,000 per annum, or even more, to retain a qualified full-time (and hands-on) turnaround manager for a small to medium size corporation.

There are turnaround specialists available from specialized consulting firms who will perform some turnaround services for fees that, in a year, total much less than these amounts, but these are part time and /or temporary services. Indeed, they have to be at hourly rates of hundreds of dollars. These services usually focus on preparation of the strategic plan and initial crisis management, and sometimes include corporate surgery.

Without belittling the importance of this work in any way, it should be noted that it forms only a part of the turnaround process that is required to generate *"a substantial and sustained positive change in the performance of a business"*. This practical definition of turnaround signifies that the company must not only be saved in the short run, but must also be repositioned, restructured and re-engineered for the future – so that its operation becomes really worthwhile for its owners for years to come.

Obviously, the firms which provide the limited services of initial planning and crisis management – even if they also provide follow-up advice – cannot take responsibility for a sustained recovery.

This responsibility can only be taken on a hands-on basis, and on the basis of keeping this responsibility until a sustained recovery is demonstrated. This is precisely the service that Alex Wolf & Associates is offering.

Next Section : ***9. More about Turnaround Services of Alex Wolf & Associates***

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9. MORE ABOUT TURNAROUND SERVICES OF ALEX WOLF & ASSOCIATES

If Alex Wolf & Associates becomes convinced that your company has good prospects for recovery, I would be willing to take responsibility for achieving the turnaround. I say, "take responsibility" because we would do this work hands-on until the results are demonstrated.

Moreover, if the client and Alex Wolf & Associates can agree on an action plan and a fair results-based fee, we would do this work without your company having to spend large sums on turnaround fees before results are obtained. For the right company, Alex Wolf & Associates would accept to turn it around on the basis of an 80% results-based fee, or even a higher contingent percentage, depending on circumstances.

Naturally, we would accept to work on that basis only if we have good reasons to believe that my efforts for the client company will be successful. Therefore, I need to investigate the situation for myself. And yes, we expect to earn very good compensation when I achieve the results. Therefore, your company cannot be very small. And yes, we will need a written contract, to protect our investment in your company.

Furthermore, to manage the risk, in cases of contingent fees, we generally proceed in two phases :

Phase I - Assessment (possibly with no fees charged).

Phase II - Turnaround services on a responsibility basis.

Phase I - Assessment. Before Alex Wolf & Associates takes on any turnaround assignment, we have to assure ourselves that the turnaround would work, that the odds for success are really good. This is particularly important when we accept a primarily results-based fee. In situations where the client desires such a fee basis, I will take up to two weeks of my time, at our expense – no fees charged – to assess the client company and its potential for turnaround. (See *More About Phase I* for further information).

Phase II - Turnaround Services on Responsibility Basis. Unless agreed otherwise, our subsequent turnaround services would comprise the following complete package of turnaround services :

a. preparation of the Turnaround Concept, comprising the strategic plan and the Catalogue of other turnaround actions / projects,

b. implementation of the Turnaround Concept, including crisis management, corporate surgery, and the repositioning, restructuring and re-engineering of the company, to make it viable on a sustained basis,

c. forming the successor management team, and working with it for some months after the company has returned to viable operation, to make sure the company stays on the right track.

How much repositioning, restructuring and re-engineering is offered? I believe that the only way to make a company viable on a sustained basis is to ascertain that it is in a generally profitable market (general economic fluctuations apart), and to bring all key activities of the company, including its management system and its reporting / information system, up to par with the practices of well-run companies. That means additional *benchmarking* and improvements going beyond basic recovery. More work, yes. However, working this way, no weak links should remain. This work is included in our complete package of services.

How long will the turnaround take? Once the danger is past, viability is reestablished and the successor team is in charge, you will not need me anymore. I will then move on to my next turnaround project. How long would I work for you? It depends, but probably in the order of 1 to 2 years, which is how long it typically takes for a turnaround to be completed. However, the intensity (work hours) of our intervention often falls off considerably once the crisis management stage is passed.

(See *More About Phase II* for further information).

The Background of Alex Wolf. As you know, my name is Alex Wolf. I am an engineer and MBA. I was born in 1950 in Poland of a German family – I speak English, Polish, German, and French. I came to North America as a very young man just before I entered university. I have worked professionally in several countries. I earned my electrical engineering and MBA degrees at McGill University in Montreal. My experience is extremely broad and diverse.

In my business & engineering careers, at various times, I sold products to retail stores, products and systems to industry, and infrastructure maintenance services to utilities. I also did merchandising, direct mail, production control, sales management, shop floor management, project management, R & D management, pre--production management, and financial management. Before that I did cost engineering, design engineering, industrial engineering, and project engineering. All that experience was very useful to my subsequent management functions in general management and in consulting, including business planning, and negotiations with investors and bankers. In many instances I can simply say *"I have been through this, and I learned that strategy "x" and program "y" will work in your case."* In other instances, in effect, I tell our clients *"I propose to take such and such steps to learn how to solve this problem."*

I have more than 28 years of business experience since obtaining my MBA, including turnarounds. Since late 1970s, I have consulted for various companies and I have run companies. My experience in technical and non-technical industries allows me to be equally comfortable finding solutions to company problems on the shop-floor and in financial analysis.

In my experience, senior management that really understands its business, relies equally on operating feedback and financial reports. And this is precisely what I would do for you, in order to recognize the strengths and weaknesses of the situation, to develop the *Turnaround Concept*, to set the correct priorities, and to implement the turnaround.

Some of my turnaround projects, and projects related to turnarounds, and other case examples are mentioned on this site under the following numbers : *#1*, *#2*, *#3*, *#4*, *#5*, *#6*, *#7*.

Unique Benefits of this Offer. I have returned full time to the business community after an absence of several years, during which I was active only part time. Alex Wolf & Associates is presently offering my knowledge, experience and energy to our new clients on a very attractive basis. We actually are offering a possibility of predominantly results-based fees (contingent fees), to selected clients in the USA.

A troubled company is usually surrounded by skeptics and nay-sayers. My willingness as an independent, experienced, high-energy manager, to invest serious time for a year or two, for a predominantly results-based fee, would be a very strong vote of confidence for such a company.

I am confident that various stakeholders will want to know why Alex Wolf is willing to invest so much time in the foundering company. They will be curious to know what potential I see and why we believe in that company. We will use this opportunity to sell your prospects for turnaround, and to co-opt the vital support you need. If Alex Wolf & Associates becomes convinced that the your company's prospects for recovery are good, and if we decide to let our fortunes ride with your company, then on that basis, supported by data and analysis, we should be able to instill confidence in your lenders, your suppliers, your employees, your customers, and your board of directors.

If you have a problem that may be solved by a business turnaround or corporate restructuring, call me personally (Alex Wolf). We do not charge for initial consultations. Our complete coordinates are on the *contact page* of this web site. In an emergency, I can generally be reached on weekends too.

If you call concerning an actual business situation, I will need to ask you some questions about financial and operating statistics of your company, about your products, facilities, markets, competition and…your management resources. We will treat all information supplied in strict confidence.

In fact, before you tell us anything confidential, we will fax you our *Confirmation of Confidentiality*, signed by myself. It will confirm that we will hold all your confidential information in trust for you, use it for your benefit only, and only after we have a written contract with you.

I invite you now to read the annexes that follow. They include examples and short case studies —some of my cases.

Sincerely,

Alex Wolf

Next : ***Annex I - Alternatives to Turnaround***

ANNEX I : ALTERNATIVES TO TURNAROUND

Typically, these alternatives are the sale of the company, or some of its business units and / or an orderly liquidation, i.e. not at fire sale prices. Yes, sometimes it is possible to sell at good prices, business units or other major assets of a troubled company. And sometimes there exists what is called a *"special buyer",* one willing to pay an above-market price for the whole enterprise because to him it represents a greater economic value than to others. The special buyer may be a competitor, or some corporation interested in vertical or horizontal integration.

Generally, in the context of a sale of a troubled or distressed company, or sale of its business units or other assets, or in case of an orderly liquidation of such company, buyers will not put a valuation on the company or its assets that would apply to a profitable enterprise. Although, there are exceptions to this rule. In any event, I am not talking here of fire sale prices. I am talking about a graceful exit, which is sometimes available as an alternative to undertaking the hard work and the challenges of corporate turnaround. Consider this example : a company is losing money, owners are near retirement age, the next generation has little interest in the business, a turnaround is iffy (possible but problematic, including the fact that the owners have yet to find an appropriate manager to lead the turnaround), and all the while an orderly liquidation would generate substantial net proceeds. In such a situation, realizing these proceeds may well be the smart thing to do.

Next : ***Annex II - The 3 R's of Turnaround***

ANNEX II : THE 3 R's of TURNAROUND

In many places on this site I refer to repositioning, restructuring and re-engineering strategies and programs that are normally required to achieve a sustained turnaround.

Repositioning of the company generally refers to a strategic shift in its position in the marketplace. The following experience illustrates this.

Case #7 – Repositioning to Restore Profitability and to Solve Financing Problem. One of my customers was a supplier of various types of audio amplifiers, from consumer amplifiers to specialty units for industry. Because of the company's small size, despite the advanced and high quality nature of all its designs, the company was unable to make money while supplying a wide range of clientele. Moreover, the financing of production was a nightmare, when the profit margin on consumer models was small and the stores wanted drop-shipments from stock. My solution was to reposition the company, namely to offer only high-end specialty amplifiers, which often included some custom design work, which industrial clients agreed to pay for (based on milestones achieved) . While total sales of the company dropped, profit appeared almost immediately, and at the same time financing ceased to be a problem.

I use the term **Restructuring** only to denote changes in the organizational structure of the company. It should be noted that the expression "restructuring" is used loosely by the press to describe all types of major changes in the company, and sometimes to describe such changes together with the turnaround itself. This could cause confusion, and to avoid it and use the term meaningfully, I use the term "restructuring" only in the above sense.

Re-engineering of the business process, to which the press sometimes refers as the re-design of the company, is a term I use to denote mainly changes in the business process of the company, its *modus operandi*, i.e. the changes in the way things are done, and these are often the most challenging and fundamental. Because business process re-engineering sometimes starts with the analysis of the mission of the company, in some cases elements of re-engineering are identical with repositioning, but re-engineering can go much further.

Though the business re-engineering literature which I read does not directly say it, my own experience in design engineering tells me that business re-engineering uses the same interactive, iterative relationships as the process of designing and developing a complex equipment, and often results in changes to the equipment itself.

Case #2 – Re-engineering to Reduce Operating Expenses. Some twenty-five years ago Chrysler was on the verge of a collapse. It was then that Lee Iacocca became its president and was charged with the turnaround. One of the things he did early on, was to look at the costs of shipping Chrysler automobiles to distribution centers by rail. In essence, the rail companies charged for distance traveled and the number of rail cars used. Everyone knew that, but It took Lee Iacocca to ask how many Chrysler automobiles typically fit on a rail car. The answer he obtained led to him to realize that by shortening these automobiles by 3 or 4 inches, he could save Chrysler several hundreds millions of dollars a year, and he did just that. This was business re-engineering before even the term was invented. This work resulted also in technical re-engineering of the automobiles. It shouldn't surprise us that Iacocca's original training was as an engineer.

Although repositioning, restructuring and re-engineering are distinct, they are also related, and one often involves another. Example : moving the quality control function from the Engineering to the Production department would be both restructuring and re-engineering, while changes to the quality control methods alone would fall under re-engineering. Re-engineering may also lead to a change of the very mission of the company – as happened in the above case of my client who produced amplifiers, simply because of the repositioning.

Combined, the 3 R's of Turnaround – repositioning, restructuring and re-engineering, cover most of the changes one could imagine in a business.

Next : ***Annex III - Turnaround Communications***

ANNEX III : TURNAROUND COMMUNICATIONS

People see through empty propaganda, and baloney will not solve corporate problems, but communications always matter, including in turnarounds. In this Annex I am addressing mainly internal turnaround communications. The principles governing external turnaround communications are very similar. The objectives, in both cases, are to prevent / end harmful rumors, to increase or to regain the target audiences' confidence in the company's ability to survive and prosper and in the ability of management to lead the company to safety and prosperity. The ultimate objective is to obtain the cooperation and support of the target audiences.

The first – and always the core – objective, is to gain strong credibility for the company and its management. For obvious reasons, usually the credibility of management is restored first. As everything else in a turnaround, this has to be done in a special *turnaround environment*.

Mutual trust and respect between the employees and top management can go a long way in helping to solve the company's problems. By the time the company is in serious trouble, this trust and respect are generally in short supply. That in itself is a reason to bring in new management blood. But in my opinion, not a sufficient reason. For one, responsible management is not a popularity contest. Labor peace bought at a price of excessive concessions has nothing to do with a climate of genuine trust and respect. Having said that, it is also true, that the sooner this climate of trust is established between the turnaround management and the rest of the employees, the better the prospects are for the turnaround.

The content and manner of internal turnaround communications, particularly in the early phases, should be approved by the owner or the board of directors.

An Important Early Message. One function of Turnaround Communications is to foster a climate of cooperation. And here, as everyone else, the turnaround leader has only one chance to make a good first impression. The best way to start this process, I find, is for the turnaround leader (after a rapid assessment of the situation) to give the subordinate managers, at both senior and lower levels, the following internal turnaround message to be also transmitted in words and deeds down the ranks. This message should be given verbally to as many persons as possible, in addition to issuing a written memo.

This message informs all managers and all staff that from that from this moment on, a different and more practical standard of performance is expected, because the company is in a decline that must be reversed. This message says that some of the old company ways will be kept, and that in addition many new ways must be found in order to save the company and to make it prosper, and that everyone is invited to contribute ideas. It goes on to say – ideally, with facts that the audience will recognize – that new ways are already being implemented because the first responsibility of top management is to prevent the closing of the company. This message tells the audience – again ideally, with facts that they will recognize – that top management's overall priority is to rebuild the company, and that this work will start (or better, has started) even before the hemorrhaging is stopped.

Ideally, the first turnaround message should also mention certain spending, budgeting and operating practices that are no longer accepted, and should mention certain new controls that from now, on will be applied. The announcement of these new directives should encompass, as appropriate, diverse activities related to work on the road, on the telephone, at the office, and on the shop floor.

Obviously such specific messages require planning and preparation. If it is not possible to issue such specific messages immediately when the turnaround leader takes office, it should be done very soon after that, within 2 weeks if possible, because the normal effect of such communications is to arrest negative rumors – by demonstrating to all staff the purpose of actions taken. Nobody likes to tighten their belt or to increase their workload for the same pay, but people respond much better to such requests if they feel that the burden is shared by others fairly, if they feel their input will be valued, and if they respect top management.

Case #6 – Co-opting Support Through Fairness. During World War I, Bernard Baruch, the "czar" of the US wartime economy, obtained cooperation of the labor unions, then led by the famous Samuel Gompers, primarily by demonstrating real fairness. The war effort called for sacrifices. In this context, in a meeting of industry and union leaders, presided by Baruch, some industrialists demanded that the workers be drafted for the duration of the war for work in war plants and related primary industries, such as mines an steel plants, without a right to strike or change jobs. *"Fine"*, said Baruch, *"we will also draft the capital – for the duration of the war you will work without a profit"*. His statement convinced Gompers and other union leaders that Baruch could be trusted, and they became receptive to his requests.

It is a fact of life that in distressed companies employees are frequently mistrustful and suspicious of management's motives and its competence. In this situation, the inclusion of specific new directives in early internal turnaround communications, demonstrates to employees that top management is doing its homework, that it really means business, and most importantly, that this time it is for real and not another false start.

The communication of such facts and their acceptance by the staff serve to rebuild confidence and make employees receptive to the challenges of turnaround.

Communicating the Cuts. As a rule, early internal turnaround communications must also address significant cuts that almost always have to be made in turnarounds. This includes shorter work hours, temporary plant closings, layoffs and permanent reduction of staff, that have to be made to stop the hemorrhaging. These cuts are announced frankly, and are carried out as fairly and humanely as possible, including outplacement assistance, but such cuts as a rule must be made because the survival of the company must come first. These cuts are made for economic reasons, and may be termed "no-fault cuts", as far as performance of affected employees is concerned. The manner of communicating these cuts depends on whether they are made directly or through sale of certain business units.

In addition, internal turnaround communications must convey the sense that everyone has to pull up their socks and that sleepers and non-performers will have to go. At the same time, a clear message of a turnaround must be that people who really contribute will be rapidly promoted.

Internal turnaround communications convince employees that top management considers their questions as teamwork, that it considers those questions as a mark of initiative, that top management believes that the company will be rebuilt by teamwork, and that because of the turnaround, major opportunities are created for capable employees.

Internal turnaround communications also inform employees that top management recognizes they have the right to know what is expected of them in the changed environment, that new procedures will tell them that, but if they are not sure, they should ask. These communications form an integral part of the management effort to instill disciplined thinking and disciplined and timely action throughout the ranks, and to foster initiative and a sense of purpose amongst all staff. Therefore these communications must cultivate a climate in which employees accept that improvements will always continue.

In this context, internal communications must convey the sense that from now on, complacency is out, that old ways – no matter how long established – have to be justified on cost-benefit basis, just like new ways. The message is that this rule applies throughout the company in all activities, i.e. in selling, buying, budgeting, production, promotion and in other operating activities, including support services. The message is also that sustained prosperity of the company requires a continuous process improvement.

Some people do not feel comfortable in an environment characterized by frequent changes. Some resist even *continuous process improvement* – simply because they do not like change. In extreme cases, even the fairest treatment and the most open communications about changes that are being implemented will not calm those persons, and they will want to leave. And in those cases, by leaving they will be doing themselves and the company a favor.

At the same time it is essential that turnaround communications prevent misunderstandings with valuable employees about the nature of changes – in order to obtain their best cooperation and to prevent them from leaving.

For this reasons, as well as for productivity and financial reasons, internal turnaround communications must also convey the sense that practical suggestions are expected from everyone, particularly from management and supervisory staff.

A full text and / or a summary of most internal turnaround messages of a general nature, which are addressed by the turnaround leader to managers of all ranks, should also be given to non-management employees. In fact, I feel that no matter how busy the turnaround leader is, in small or medium size companies, he or she should give employees an opportunity to contact him or her directly.

I had developed special forms to help employees of all ranks, particularly non-management and supervisory staff, to crystallize their ideas and suggestions which they may wish to offer to top management. And if a worker takes the trouble to put his ideas down for the company, I certainly make myself available to discuss his or her ideas.

With managers of all levels I take a different approach. I simply ask each of them to write down briefly what he or she would do as a president of this company to bring about the turnaround and in general. In the past, I usually invited managers to make such proposals in one-on-one meetings, but having recently read the article by David N. James in Harvard Business Review of March 2002, I will use group meetings for that purpose. If the existing senior managers have good ideas for turning the company around, well that's truly wonderful. Their ideas will be incorporated into the *Turnaround Concept*. But if top or senior managers have little to offer when the company is fighting for its life, that in itself is also valuable information. Moreover such solicitations of ideas are very useful in discovering hidden talents, particularly within the lower and middle management ranks. Once discovered, these talents are put to use in the turnaround process.

Constructive input from managers and the rest of the staff constitutes the other part of internal turnaround communications. Except in situations involving very militant unions which hold back cooperation by employees, the quality and the quantity of such bottom-up input is in itself indicative of the progress of a turnaround.

The best way to prevent a company from sliding back onto the **Losing Track** is to transform its corporate culture from complacent to inquisitive, evaluating and energetic, and internal communications can play an important role in achieving this. In particular, it is very useful to repeat the above energizing themes in various internal communications, whenever an opportunity presents itself to support these themes with new facts and especially with new achievements.

Internal Communications Versus New Blood. While in theory, nothing prevents existing top management from soliciting ideas from the rest of the staff, experience shows that in distressed corporations, people generally do not open up to old leaders.

Next : ***Annex IV - Co-opting Support***

ANNEX IV : CO-OPTING SUPPORT

A realistic plan for co-opting the support of lenders, important suppliers, important employees, the unions, the customers, existing or prospective shareholders and other investors, and possibly some branches of government, constitutes an essential element of any viable Turnaround Concept.

This co-opting of support is closely related with the issue of turnaround communications. Communications with employees are discussed in the previous Annex. The present Annex focuses on communications with external stakeholders mentioned above.

By the time a company realizes that it is in serious trouble, chances are that many expectations, which management previously expressed to lenders, existing or prospective shareholders and potential investors have not been realized. Chances are that these parties are skeptical about the company's ability to predict and achieve results. Further support of these providers of capital is usually dependent on the company's ability to re-establish its credibility by demonstrating tangible improvements, in terms of profit, productivity, cost and / or sales, and sometimes through intelligent controls.

In such situations, I found it very useful to report, as much as is possible, to banker and other providers of capital, operating improvements in areas such as shop-floor productivity, in both physical terms and in terms of their impact on profitability and cash-flow.

Usually, it is easier to obtain the support of third parties in stages – as concerns the support of individual parties, and of the support of the entire group. Intelligent priorities have to be set concerning the plan and the sequence for co-opting support.

Support of third parties may be obtained through ‘incremental win-win arrangements'.

Case #1 – **A 10% Win-Win Arrangement.** Consider this situation, which I encountered in more than one troubled company. The company can obtain profitable jobs from certain customers, but is stuck because its Bank credit is at the limit, and to run these jobs the company needs deliveries from suppliers, who demand full payment of large arrears before they would deliver again on open account. Meeting these demands is almost impossible. Moreover, it would put the company in an even worse cash crunch. If this were your company should you forego these profitable orders, or should you run to the Bank to pledge your house in support of what would probably be a small increase in your loan? Are these the only solutions? Is it a *Catch-22* situation?

Not really. My experience in those cases was that when the situation of the troubled company was properly explained to the suppliers, practically all of them agreed to ship small orders on the basis of COD plus 10% of value of these orders towards the balance in arrears. As the 3M company used to say :

> *"We paid a little, manufactured a little, sold a little, reordered a little, and repeated this cycle as often as possible."*

We made money on these orders, and they grew. The suppliers cooperated, because the above proposal (which I made) was good for them – they were making money on our new orders without extending further credit, and furthermore, the arrangement also enabled them to recover the amounts in arrears. Before long their confidence in the company rose.

My experience is that when management is creative and flexible, and works to obtain cooperation of third parties on a basis that is attractive to both sides of the transaction, many intelligent new arrangements are possible : with lenders, with minor suppliers, different ones with key suppliers, with shareholders, with unions and even with governments. All these arrangements contribute to the turnaround.

Sometimes though, the cooperation of creditors and other parties (such as new lenders and unions) to cooperate is not manifest until the company is placed under the protection of bankruptcy laws. There may also be other reasons that make a corporate reorganization feasible only when combined with such a filing. See the next Annex for more information on reorganization under protection of bankruptcy laws.

Next : ***Annex V - When to Re-organize Under Protection of Bankruptcy Laws***

ANNEX V : WHEN TO RE-ORGANIZE UNDER PROTECTION OF BANKRUPTCY LAWS

The word bankruptcy used in relation to business is much misunderstood by the general public. Seeking protection from creditors for the purpose of gaining a respite to reorganize the company's affairs under the US Bankruptcy Code (or bankruptcy and insolvency legislation of other jurisdictions), is very different from declaring final bankruptcy, throwing in the towel and ceasing operations. In recent times many companies, including multi-billion dollar corporations, have sought the protection of Chapter 11, and eventually emerged from bankruptcy proceedings as viable enterprises.

However, as GE Capital, a well known *ABL* lender to distressed companies notes, bankruptcy is a complex and often emotional subject.

Actually, GE Capital and other specialized lenders provide capital (usually in the form secured asset financing, i.e. ABL) to companies that obtained the protection of Chapter 11. This is often referred to as *DIP* financing. Liens associated with this type of financing rank higher on new assets then pre-existing loans.

The reasons why a corporation may seek to reorganize its affairs under the protection of bankruptcy laws are many, but they generally may be summarized as follows :

- the company is continuously losing money, and is expected to continue to lose money because of large contracts that compel unreasonably high expenses (e.g. leases), or that compel unreasonably low revenues (e.g. long-term supply contracts); these contracts may have been very reasonable when they were made – this is not the point; I use the word "unreasonably" in the sense that these contracts are unsupportable in present and foreseeable market conditions,
- the company has other unsupportable long-term obligations because of litigation, environmental claims or the like,
- the company has serious liquidity problems because of lack of cash or its inability to refinance long-term debt obligations on acceptable terms.

Needless to say, a bankruptcy filing under Chapter 11 may not be necessary if an amicable restructuring arrangement can be reached with key parties, particularly old and new lenders, and we often negotiate such arrangements. In so called workouts, we may – without resorting to bankruptcy – arrange new financing that is a DIP financing in all but name.

Actually, an amicable Chapter 11 filing is also possible under a *"prepackaged bankruptcy"*, whereby the troubled company, its old and new lenders, and suppliers agree to the proposal for restructuring the company's obligations in advance. When required we arrange new financing and negotiate a deal that is palatable to all old and new stakeholders.

Next : *Annex VI - Attitudes That Turn Things Around*

ANNEX VI : ATTITUDES THAT TURN THINGS AROUND

As mentioned previously, a corporate turnaround means drastic changes; it is a business revolution. And as any successful revolution, corporate turnaround requires strong leadership with a disciplined and analytical mind, a keen eye for opportunities, courage and sustained willingness to fight for one's cause. A corporate turnaround also requires the following attitudes and related personal habits on the part of the turnaround leader :

- a habit of rigorous thinking,
- an ability to see to the big picture as well as the essential details,
- an ability to perform a penetrating analysis,
- an ability to deal with many new situations as they arise,
- an ability to make new rules and to improve or change them quickly based on feedback,
- a willingness to consider suggestions from all sources (see solicitation of ideas from managers and other staff under *Turnaround Communications*.)
- a willingness to promote and reward employees based entirely on merit,
- a great deal of initiative, creativity and drive,
- an overall Can-Do spirit,
- great intellectual honesty (successful turnarounds are truly the opposite of fool's paradise), and the courage of one's convictions;

These attitudes and habits, combined with *management standards/skills of a higher order* should generate a *viable and realistic plan*. Turnaround leaders who possess these attitudes, habits, and skills have the best chance to turn troubled companies around.

Next : *Annex VII - Corporate Surgery*

ANNEX VII : CORPORATE SURGERY

In life threatening medical conditions, rational people often accept the need for radical surgery. It is no different in business, when the life of the company is in danger. In fact, in an early stage of a turnaround, a tough surgery must usually be performed on the company in order to arrest the decline, and more particularly for the following reasons :

- to stop the hemorrhaging – to establish a break-even cash-flow, and break-even profitability,
- to stabilize the situation internally – to end rumors of closings and layoffs.
- to stabilize the situation externally – to end rumors about plant closings of facilities and discontinuation of product lines.

A further benefit of these actions is to free up management attention for the tasks of running the business and rebuilding the company.

The surgery, once complete, normally has the effect of reassuring remaining staff and of reducing desertions by key employees; in general, it helps to focus the minds of everyone on work.

A timely and clear notice of the nature of the corporate surgery also reassures existing customers that they can rely on the company to continue providing them with products and services, which they buy. This helps to retain existing customers and reduces the reluctance of prospective new customers to give business to the company.

Naturally, the surgery is coordinated with *Turnaround Communications*, both internal and external, including letters to customers, lenders, press releases and so on.

Means of Corporate Surgery. The surgery is carried out by means such as the following :

- sale of non-core capital assets, both business units and physical assets,
- dropping unprofitable product lines,
- dropping customers who are chronically very slow or delinquent in their payments, and who will not change their ways,
- raising prices to profitable levels, even though this may alienate some customers,
- subcontracting some of the work, instead of doing it in house (in one of my cases, the analysis led to the opposite conclusion),
- sale of inventory or receivables at a discount to realize cash,
- closing some outlets or facilities, to conserve cash, and / or because their functions can be performed more efficiently by other means,
- automating some of the work,
- layoffs of non-essential staff in areas other than the above,
- termination of employment of non-productive employees in all areas.

Corporate surgery must be based on penetrating analysis and conscious distinction between core and non-core activities. Certainly, permanent cuts should not be made without having at least an outline of the strategic plan for repositioning and restructuring the company, nor without a realistic idea of workloads that people can cope with, nor without a reasonable idea of certain productivity improvements that will be made through foreseeable re-engineering of the business process.

Thumbs down to "across-the-board cuts". It follows from the above, that I am opposed to the use of cuts of "x" percent across-the-board, as a method of reducing costs in crisis situations, which some businesses copied – it seems – from the government. Most of the time, such cuts mean that the people ordering them, do not know what the various budgets should really be in relation to revenues and workloads. The staff, particularly lower level supervisors, recognize this rather quickly; and it does not increase their respect for the leadership – irrespective of the fact that they themselves may have withheld information on workloads from senior management. Consider how unfair and damaging to production and morale are cuts of a fixed percentage when applied to both to an overworked and an overstaffed department. Even more fundamentally, responsible management is not about spreading the pain, but about wise allocation of resources.

Lastly, it should be kept in mind that, except in most extreme circumstances, corporate surgery should not affect services that the core clientele likes and needs.

Next : ***Annex VIII - More about Phase I of Our Services***

ANNEX VIII : MORE ABOUT PHASE I OF OUR SERVICES

The purpose of this assessment is a quick diagnosis of the client company and its potential for turnaround. Amongst others, I need to find out how the company and its management had been performing in relation to the following :

a. in terms of profitability and the management of the balance sheet,

b. as compared with its industry, in financial and operating terms,

c. as compared with sound business practices, in policy and operating terms,

d. in relation to existing opportunities.

I need to analyze the above to find out if there are significant "productivity reserves" that can be tapped to make the company viable again. I have to make it as certain as I am able to, that the potential for turnaround of your company is real, and that the risks involved are manageable.

Alex Wolf & Associates would undertake such a diagnosis without charging fees for it, only if we feel there is a good prospect for contracting subsequent turnaround services.

This diagnosis will determine the strengths and weaknesses of the company (including its management and information systems) with a view to perform a turnaround. In particular, we need to determine the key risks in accomplishing the turnaround, and key potentials for turnaround – in relation to financial, marketing, production, and all other key operating factors.

I would spend 10 to 14 days on this work, much of it on your premises, visiting your facilities, reviewing the work flow of key departments and the management process in your company. I would need to speak with your key executives and some of your other staff, including foremen and supervisors, some of your customers, some of your suppliers and some of your lenders, your inside and outside accountants, and I would need to speak repeatedly with the owner or a representative of the board of directors.

The protocol for all these discussions will be agreed upon before my assessment visit. Also before this visit, I will review the documentation you will send to me, including financial reports, both historical (10 years) and recent interim reports. Of course, confidentiality is guaranteed.

Upon completion of my assessment, I will present my findings and conclusions concerning the feasibility of turnaround. This will be done either at the end of my fact-finding visit, or if some additional research is required, on a return trip shortly later.

If the company desires to engage the turnaround services of Alex Wolf & Associates on the basis of predominantly results-based fees, the assessment can be at no charge, but the company will pay all out-of-pocket expenses, i.e. travel, hotel, communication and other related expenses.

If subsequent to our assessment, we accept to turn your company around on the basis of a predominantly results-based fee, I will work for you for several months before we could bill the first part of our fee. After that I will work again for several months before we could bill the next part of our results-based fee. And so on, for a year or two, working the long hours that are necessary to achieve a turnaround. Compared to that investment, our investment in the assessment of Phase I is minor. Still, it will be 10 or 14 days of my work, plus travel time, and we would agree to perform this work without charge only if we feel that the client's intentions are serious.

It is in our mutual interest that my assessment in Phase I be as factual and as correct as possible. Your cooperation, therefore, will be vital and a plan for my visit should be agreed upon beforehand.

Next : ***Annex IX - More about Phase II***

awolf@alex-wolf.com Tel: (302) 351-6200

ANNEX IX : MORE ABOUT PHASE II – TURNING YOUR COMPANY AROUND

When the key causes of the company's problems are internal (in 80% of the cases, you will recall) rarely then is poor performance limited to one or two functional areas of the company. As a rule, it is a complacent or sleepy management attitude, and obsolete and inadequate management practices that prevail throughout a troubled company. If the problems are less widely spread, so much the better. In business units operated autonomously, there is a tendency to have a different corporate culture, and these units may not share management problems of the rest of the corporation. In any event, once the diagnosis is made I have my work cut out for me.

As discussed in Section 3 above under *turnaround priorities*, in situations calling for a drastic turnaround, usually my first and foremost concern is to stop the hemorrhaging. What I do in this regard follows standard turnaround principles, which are detailed on this site. The essence of this part of my turnaround effort is to quickly bring the costs in line with revenues and to quickly bring the cash outflow in line with the inflow – by reducing expenses, postponing payments, increasing sales, divestment of assets, and accelerating collections. See more details under *Corporate Surgery*. At the same time, I act to stop the hemorrhaging of good will and morale by these and related actions, including through *turnaround communications*.

As mentioned in Section 9 above, under *Background of Alex Wolf*, in many instances my experience allows me to see almost immediately that certain practices / activities in an enterprise are substandard compared to what's done in other companies. In other cases, I do research to find the guidance and the relevant benchmark.

Better Chances for Turnarounds Today. Fortunately, because of the Internet, nowadays, business research typically takes only a fraction of time it used to take only 10 years ago. Because of that, today many troubled companies can put together their recovery plan much faster than in the past. This may mean weeks or even months of additional breathing room for a troubled company that needs to be reorganized, compared to a company in a similar situation years ago. This and the greater awareness of the advantages of Chapter 11 reorganization techniques constitute some of the general improvements in the business environment in favor of turnarounds.

The factor that continues to limit the number of turnarounds is the availability of qualified management. There are only a few thousand professional turnaround managers in the US. That, of course, is by far not enough for the number of companies that are in trouble. In addition, because of the high demand for turnaround services, most turnaround professionals perform primarily the initial phases of crisis management and repositioning. Thereafter they move on to other assignments, typically leaving the company to complete most of the restructuring, and all or most of the re-engineering by itself. That is to say, typically they move on before the client attains *sustained viability.*

However, turnarounds depend on the quality of management probably more than any other business endeavor. My own disciplined and comprehensive approach follows all the requirements outlined above, particularly in *Section 7* and *Annex VI*. Below, I comment further on these requirements and give further examples from my experience.

More About Turnaround Priorities and Methods. Needless to say, not all parts of a company can be re-structured or re-engineered at the same time, or at the same speed. As your turnaround leader I will set detailed function-by-function priorities for restructuring and re-engineering your corporation. I will set these priorities following the general *turnaround priorities* listed in Section 3 above, which are *normative*. These detailed functional priorities form part of the *Turnaround Concept* for the client corporation.

The client's and his industry's financial and operating data often point me directly to these functional priorities. The sequencing of these priorities can also make a big difference to the survival of the company and the speed with which it recovers its financial health, as the following case illustrates.

Case #4 – Optimal Sequence of Turnaround Actions. This case concerns a corporate client who succeeded in a turnaround with my assistance but escaped all publicity of its troubles and to this day wishes those past troubles to remain confidential. Therefore, I have to disguise his identity, and can only say the corporation is in the service industry in Canada. The client's income statement combined with data from the other players in his industry told me that the expenses of my client's Activity A amounted to 8% of his total expenses and could be reduced by a half within roughly 3 months, while the expenses of his Activity B amounted to 50% of his total expenses and could likely be reduced by 20% within roughly 4 months. Because of limited management resources, we could improve only one of these activities at a time. I chose to reorganize Activity B first, even though it was already far more efficient. I simply calculated that this strategy promised to improve the profit picture 2.5 times more than the alternative strategy (savings of 0.2 x 50% = 10% of total expense, compared with 0.5 x 8% = 4%). The extra saving generated by this strategy was 6% of total monthly expenses during the time period until Activity A could also be improved (3 months). In that particular case this benefit amounted to over $300,000, and this money was used to finance other improvement projects.

I apply this type of reasoning to the ordering of all major priorities within the *Turnaround Concept*, including priorities of actions and projects listed in the *Catalogue*.

More about Attitudes and When to Eat Crow. The turnaround leader must be assertive, of course, but must also be able to put the interest of the company ahead of his/her ego. Actually, often at the beginning he/she has to eat crow because of real and perceived sins of his predecessors, particularly in dealings with bankers and other creditors.

It is surprising how often the management of troubled companies tell lenders that the sources of all company problems no longer exist and / or are mainly external. But this is not the way to regain lenders' confidence, when lenders previously cautioned management not to do certain things, or when lenders are aware that financial ratios of the company are well below the company's peers. Notably professional lenders receive periodic reports on financial performance of various industries, and may know better than management of a troubled company how that company stacks against its peers.

Case #5 – Crisis Management : Refinancing and Cost Reduction. Some years ago, after a pause of several years I was re-called by a former client, an industrial, 300-employee company for whom I consulted in 1980s. Actually, it was their new president (a man who inherited the shares and decided to run the company himself) who called me, having learned that I solved some problems for that company in the past. He said that since I already knew the company and its industry, perhaps I could have a quick look around and suggest improvements in production and other internal operations. We made an arrangement and I decided to start my assignment the next day. Before that, I asked for the financial statements to assist me in my work, and he told me I will get them later. I was not concerned, because I knew that the company was almost always profitable since its creation in the fifties, and there was no sign this would be a turnaround situation.

The next morning I began to observe the work on the shop floor. A few hours later, I was called to the president's office. He showed me a letter from the Bank, which he received that morning, requesting repayment of the loans, totaling over $6,500,000 within 30 days, and saying nothing more than that. The president asked for my suggestions. I said that the company will have to negotiate with the existing Bank and other lenders to refinance the loan. I added that we needed to prepare for this, and asked again for the financial statements. He was reluctant to provide them, but told me secretly that the company was in trouble.

I already knew this. That morning on the shop floor I noticed that the fluid (oil) used to cool the cutting tools on several lathes was dirty, and I asked the lead hand if my observation was right. He confirmed it and added that the foreman told them there was no money for new oil. The foreman confirmed this and he and I discussed ways to improve the filtration and recycling of this oil, compared to the cost of new oil. However, I realized that this was a bad sign – well beyond immediate shop floor problems. I informed the president of this, and suggested that my priority be changed to dealing with the banks. He gladly accepted, but was still reluctant to provide me with the financial statements, which I now urgently requested. He said these statements made the company look worse than it is in the reality. I did not want to debate the quality of the financial statements in a vacuum when I was receiving all the signals that this was an insolvency or pre-insolvency situation. My answer was that I will either receive the financial statements that afternoon or will terminate the assignment. I was given the statements and was provided with all other information that I requested and which was available.

Within a few days I had an outline of the whole situation, which was as follows. The company was profitable less than 3 years prior. Then rather suddenly, it experienced very large losses for those 3 years. This coincided with the periods of absence and illnesses of some former managers, including the late president. In those 3 years revenues dropped significantly while expenses stayed almost the same as before. In the present year, during some months the losses continued, in others not – I did not yet know why.

All or most of the equity was wiped out. The company appeared to have retained a certain net worth in production machinery and the building, but this was uncertain, because the recession in the industry at the time made the market values of these assets also very uncertain. Furthermore, a rapid divestment of these assets at reasonable prices was impossible. Most of the former senior managers who had good track record were gone. There was no replacement to speak of, including the new president, who did not know this technical industry, did not have a technical background and had limited management experience, except in sales. The company still had a good, though increasingly dissatisfied, clientele with whom the new president had some contact. The key big clients provided the company with long-term contracts, but practices on the shop floor had badly deteriorated, and efficiency was so low that on the average, prices did not cover variable costs.

Given time and a little cash I was certain that the efficiency could be improved. Actually, being familiar with the industry, I was able to quickly estimate financial benefits of some operating improvements that I thought could be made. Unfortunately, they did not add up to a picture of a break-even operation. In other words, the recovery was very uncertain. There was no Turnarounds Concept, as yet.

My overall short-term objectives were to reduce the hemorrhaging and to gain enough time to prepare the Turnaround Concept.

However, in these circumstances, I just did not see how another lender would want to replace the present Bank. I could also see why the existing bankers would want their loans to be repaid at that particular time. Lastly, I learned that the personal relationship between the Bank manager and the new president was very bad, and that the bad relationship started still while the late president was in office.

I saw my first task as obtaining an extension of the delay to repay the loans, and here I thought I could turn the bad relationship between the management and the Bank to the company's advantage. With a letter authorizing me to negotiate with the Bank, I phoned the Bank manager for an appointment. He immediately asked if I would bring the check for the $6,500,000 to the meeting. When I said no, he said that in that case he saw little point in meeting with me.

But by saying this he gave me an opening, because I then asked him directly, if he believed the company could make the payment now. Fortunately, his reply was honest, he said no. So I asked him if it wasn't a fact that he knew why I wanted to see him. He said yes, and added that he had very bad experience with that account (my client). He told me that his agreeing to meet with me was purely a courtesy. I told him that I knew he had a bad experience with the company lately, and that this was exactly what I wanted to talk to him about.

When I arrived at the Bank, the Bank manager had the bank's lawyer with him and made a point of that. This did not impress or concern me, because the lawyer could not squeeze blood out of a stone either. In fact, I saw the lawyer's presence as an opportunity to convince another representative of the Bank to give us a reprieve.

Although I called for the meeting, in actual fact the Bank manager quickly took over. He told me that he saw six other representatives of the company during the past 3 years, and that I was just wasting his time. I asked him to inform me in detail how he felt about the company, its management and the way the latter dealt with the Bank. Surely, I said, he was not afraid to tell me that. He opened up and the picture he painted was very ugly. However, I only opposed, and at that very briefly, a few obvious errors he made, namely when he jumped to totally unjustified conclusions. Most of the time, I simply listened. I also asked for certain explanations. When he seemed to end, I asked if he was finished. I had to ask this a few times, because he was only pausing, and he continued enumerating his grievances and worse. He talked about lack of control over expenses, false accounting, dishonesty, navel gazing, lack of competent management, broken promises, and so on – unfortunately, with plenty of examples backed by documents from the Bank's files. When he finally finished, I asked the banks' lawyer if he had anything to add. He did, and the picture they painted now got even worse. Their message, their words and their tone were very hostile, even ugly. However, it did not seem to me that they knew anything about the company's potential for recovery. On the other hand, our weakness (mentioned above), was that I was not sure either if it was realistic to expect a return to profitability. But the Bank did not know that, and I still had some time to figure it out.

The message I gave them at the time had surprised both the Bank manager and the bank's lawyer. For I told them, that I thought they probably were right about everything except dishonesty on the part of the company. I said that in fact, I knew they were right about many things and I named some of them. However in the process of eating this crow, I was also partly (though very slowly) disarming them, and of course, I mentioned some improvements that I thought could be made. I added that my work was just starting.

At the time of that meeting the company had 22 days left of the 30-day notice given by the Bank. I told my interlocutors that I did not think the company could refinance the loan within 22 days, and that an extension was needed in the mutual interest of the parties. The Bank manager icily said the Bank would have to see a real improvement before they would consider an extension and that we had 3 weeks to accomplish that, but that also meant that the door was not closed.

Eventually, working long hours on several fronts, we lowered productions costs, amongst others, by quality assurance, improving shop floor practices, reorganizing the purchasing and subletting a part of the premises. Step-by-step, we reduced costs and simultaneously, we obtained from the Bank several extensions of its notice to repay loans. To support our requests, we presented weekly financial statements, showing improvements and reports of efficiency improvements on certain jobs.

We used the time we gained to reorganize the company. Eventually, in that serious recession of early 1990s, we managed to refinance only about a half of that loan, because the Bank pressured us relentlessly and forced us to refinance before the company was fully turned around. However, what we did at the time was enough to get the Bank off our back, and thereby to save the company.

My dealings with that Bank were part and parcel of the crisis management phase that is common in turnarounds. Also characteristic of effective crisis management in dealing with lenders was my factual acknowledgment to these bankers that promises made to them were broken, and that they had good reason to be upset. Beyond that factual acknowledgment I ate a great deal of crow on behalf of the company, using the opportunity to dissipate the bankers' frustrations and their anger, and to describe some measures that were being taken to prevent poor performance in the future.

In that particular case, as in some other such negotiations I conducted, things went close to the brink a few times. That particular Bank manager would never grant the extensions of the loans until the last day of his previous 30 day notice. Moreover, he made a habit of reminding us that 10 days were left until the deadline and that another reprieve was not certain. I felt this was abusive, but I kept my counsel on that. At the right time I used it to the company's advantage.

I acted as soon as the company's financial health had clearly improved. Our monthly financial statements showed that we had drastically reduced the losses and that we continued to reduce them. But the attitude of the Bank manager did not change. So we sent copies of those financial statements also to the Bank's vice-president. And I wrote them that in these circumstances the Bank's relentless pressure compelled me to point out that the Bank would collect less in case of bankruptcy than it would, if it allowed further the improvements to realized. After my letter the head office put a good word on our behalf. The next extension was 90 days, and during that time we refinanced the loans. The new lender we found was small, but knew our industry well, and was willing to lend the company up to $3,000,000, provided we could refinance the balance of the old loan package ($3,500,000). To induce our old Bank to cooperate, I suggested to the new lender to make us an offer valid for only 10 days, and to state explicitly that it was conditional on our old Bank or another lender financing the balance of the loans. The lender agreed. In these circumstances the old Bank extended a $3,500,000 loan. Thereby, the whole $6,500,000 was refinanced.

Versatility and Innovation. In most cases, the manager taking responsibility for a turnaround must be very versatile. One must combine analytical skills, often associated with staff / advisory functions, with a drive to innovate in a very practical way that characterizes good operating executives. In most cases, to turn an ailing company into a money-maker, one must innovate in the full business sense of the word – innovate through equipment, through policies, procedures and contracts, innovate through new organizational structure, through new sales strategies, through new markets and new products, and innovate in every other viable way. One also must be willing to reverse policies that once made every sense.

Accordingly, when the company is in trouble, I question every significant policy : What are the objectives of this policy? Does this policy presently make sense? How can it be improved? Which part of it can be improved quickly? How? In the above case, the innovation consisted primarily in establishing proper machine shop practices, in areas such as such as tool management, machine set-ups, quality assurance, job scheduling, and in the related training of workers.

If there are character traits that distinguish turnaround leaders from other people, then surely these ever-questioning and innovating, i.e. nonconformist and individualistic attitudes, rank high in this regard.

The Centralize – Decentralize Model. In a company which needs turnaround as a matter of its survival – typically a company that was mismanaged or non-managed *(the latter actually is more common)* – it is almost always necessary at first to centralize decision making in purchasing, budgeting, and certain other policy areas. But as new policies and new values behind these policies take hold in the company, and as new leaders emerge, it makes a lot of sense to delegate more, to empower the new leaders, in effect to decentralize.

Such flexibility of means and key policies, depending on circumstances, is also a trait necessary for effective turnaround work.

Combining the Old with the New. To locate "hidden productivity reserves", to turn a troubled business into a viable one, turnaround leaders often use a combination of old and new techniques and methods – both to analyze the situation and to re-engineer the business. We use such "old fashioned" but proven techniques as industrial engineering (notably plant layout analysis and material control), and cost-accounting on equal footing with "more modern" techniques such as customer satisfaction surveys, review of management process, promotional videos and marketing through the Internet. In fact, very often these "hidden productivity reserves" become apparent only through a combination of various techniques.

Case #3 – **Combining Various Techniques.** The following case from my experience combined "walk around management", material control and a bit of financial analysis. The result was a startling finding of large and completely unnecessary loss of profit. Re-occurrence was prevented through changes in job descriptions of managers (re-engineering).

This is what happened. Many years ago, I was consulting in financial and policy matters to a large machining house, which at the time had around 250 employees and was profitable. I was not a turnaround situation. In that company, every few days scrap dealers would pick up bins with shavings, cuttings and other metal scrap from lathes, screw machines and other metal working equipment. I learned this by "walk around management", asking questions about contents of bins I saw on the shop floor and in the shipping area. The materials included free machining brass, aluminum and stainless steel, and were quite valuable, even as scrap. I compared the amounts the company received from scrap dealers with percentages of scrap-to-material revenue published by an industry association, and I was surprised to learn that my client's percentage was less than a third of industry average. I asked the chief engineer for explanation. He told me the discrepancy was due to a different nature of jobs run by this company as compared to typical jobs in the industry, and also suggested that the figure from industry association could be wrong. I realized that he was only guessing, and that large amounts were at stake.

The overall issue was this : was the company receiving fair compensation for its scrap? It was well worth my time to investigate, because the potential was profit of several hundred thousands of dollars per year. At the core was the average percentage of material removed from feeding stock on big jobs. The chief engineer guessed that their shop removed on the average probably 50% – 65% of the feedstock material. I checked further. First, I confirmed with the industry association that their figures were unlikely to be a misprint. Their scrap-to-material percentages varied from year to year but within a range that was always far removed from my client's figures. There was no way to test the vice-president's hypothesis that the company's jobs were different. Nor was there a need to test it. Instead, with a technician, whom I borrowed from the chief engineer (who thought this was a waste of time), we reviewed the records of some of the big jobs the company was running, and which accounted for about a half of the company's revenue. Our calculations from production drawings showed that on these jobs, around 85% of material was removed on each good part. The total scrap on these jobs would be higher, because scrap from end pieces, and bad parts had to be added.

You probably had guessed it by now. My investigation revealed that several scrap dealers, working with several employees of the company, were systematically stealing the company's scrap worth hundreds of thousands of dollars, year after year. In some years, a third of the profits were lost this way.

The chief engineer was innocent, as was the controller, as was the buyer, except that neither one set up any controls to prevent this large theft. The head shipper did not set up the controls either. He did not need them, he was part of the scam.

Upon some further analysis, I found that the implementation of relevant controls was not a part of anyone's job description. The controller had the title but not the responsibility for controlling. His main duties were to supervise bookkeeping, to produce interim and annual financial statements and some administrative work. If he had only put in place a cost accountant with a mandate to review costs and efficiencies... – but he did not. The chief engineer was not responsible for material control, as was apparent from his rather detailed job description. The VP manufacturing perhaps was responsible, but certainly not explicitly. And on top of these things, the owner-president often intervened in such matters, giving other managers the sense he took over responsibility for certain things on shop floor, whereas he did not feel that he did. He felt he was just helping out. He also did cost accounting himself, when he had time for it, which was not often.

As a result of my discovery, some controls were put in place, including some changes to job descriptions. Upon reflection, I realized that the root cause of the problem, which over the years cost the company millions of dollars in lost profit through the theft of valuable scrap, was an absence of proper management design, particularly, the absence of a real controlling function. The long duration of the scrap metal scam was further assisted by the absence of a *benchmarking* process in the company. Actually, until I did this, no one compared the company's performance with statistics from the industry association.

However, at the time, my assignment for this client was limited, and did not include the re-design of the whole management system. Several years later, in a more difficult market, this company required a drastic turnaround, but that is another story.

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CONTACT

If you have a problem that may be solved by a business turnaround or corporate restructuring, call me personally (Alex Wolf). We do not charge for initial consultations.

Actually, before you tell us anything confidential, we will fax you our *Confirmation of Confidentiality,* signed by myself. It will confirm that we will hold all your confidential information in trust for you, use it for your benefit only, and only after we have a written contract with you.

If you call concerning an actual business situation, we will need to ask you questions about your company's financial and operating data, about your products, facilities, markets, competition and management. Please have this information available.

Sincerely,

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