

# Gillum Strategy Partners



V I E W P O I N T

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## **Business Turnaround**

**Turnaround Strategy & Execution for  
Private Equity Portfolio Companies**

## Financial Distress:

Private equity firms need a phasic approach to managing financially distressed companies beginning with an immediate short-term plan to manage cash loss.

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### Financial Distress

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With the US economy slowing down, spiraling commodity prices pushing costs to all-time highs and the lending and financial markets facing constant challenges, your portfolio companies might find it is becoming increasingly more difficult to remain profitable – some companies may even be faced with financial distress. No business can take economic stability for granted in this current environment, as once-stable companies now struggle to maintain profitability. For these reasons, it is important to understand what it takes to complete a successful turnaround.

When considering whether or not to take action when a company finds itself facing financial distress, the biggest mistake is often waiting. Failing to take any action soon enough, maintaining hope that the situation will improve on its own, dramatically increases a company's risk of irreparable damage. Acting quickly and making bold, yet calculated, decisions can often salvage even extremely challenging situations. Speed is the key for companies facing financial distress. The top priority in a successful turnaround is creating an immediate short-term action plan.

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### Turnaround Strategy

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Turnaround strategy is the process through which a company assesses its current business and determines what it would take to manage and stabilize an underperforming or distressed company. Unfortunately, current management often experiences

difficulty fully seeing what ails its company and therefore is unable to take swift, bold and necessary steps to implement changes needed in order to begin the turnaround process. With a third party's independent vantage point, the factors which are causing distress can be objectively identified, and the best course of action can be developed.

Gillum Strategy Partners (GSP) suggests a four step process for developing a turnaround strategy as outlined below.

### Step 1. Identify Key Drivers of Distress

The first step of the turnaround process is to correctly identify and assess the causes of distress. Proper identification of the key risks associated with the state of distress enables decision-makers to better understand and manage them.

There are many potential causes, both internal and external, which can result in a company finding itself in financial distress. Internal distress drivers include management issues, poor financial control, high cost structure, poor marketing, large projects, acquisitions, financial policy and lack of working capital. Examples of external distress drivers include changes in market demand, competition, adverse commodity prices, government policy, strikes and "bad luck."

Once these drivers are identified, the company can begin to look at what levers

can be utilized to address the situation.

## Step 2. Understand Key Levers to Address Distress and Cash Loss

Determining the causes of underperformance is important; determining how to manage and change the causes is crucial. An analysis needs to be performed to evaluate the best options to mitigate distress and cash loss. In the near term, the cash needs to be managed through the following tools: short-term cash flow forecasting, cash management system, centralization of cash management and cash rationing. Other short term goals may need to be established. A company might have several options at its disposal, such as trimming down operations, reducing costs or cutting inventory. Additionally, it might be able to divest specific assets, reduce headcount, or reformulate its go-to-market strategy.

## Step 3. Prioritize Potential Actions Based on Impact to Cash Flow and Speed of Execution

Once a list of potential options to improve performance is developed, a process to prioritize the list needs to be established. A prioritization framework must be instituted which examines each potential option and determines its impact to cash flow, the speed of execution, the likeliness of success and the resources required to execute. Emergency steps to stabilize cash flow and stop the bleeding must be undertaken, but not without first understanding the likely

impact of each step. not without first understanding the likely impact of each step.

## Step 4. Select and Pursue High Potential Actions

Once the actions have been properly prioritized based on the speed of execution and impact to cash flow, management must select the highest priority options which will most likely achieve its stated and necessary goals. A company should have a data-driven estimate of the impact that these actions will have, with timing as well, and select the right mix to quickly and effectively get itself in a position to achieve stability.

Senior management must be determined to execute these vital actions, while at the same time communicating and promoting the importance of these actions to their employees. It is important to take a highly structured approach, monitor progress on all actions, and measure and report status frequently to leaders within the company.

Distressed times might be unavoidable. However, a focused approach based on determining the key drivers and levers to mitigate distress, and then acting quickly and strategically can often lead to lessening the strain of distress and allow a company to stabilize itself and finally begin to pursue longer-term growth initiatives. Gillum Strategy Partners can bring structure, speed and objectivity to this process.

**Gillum Strategy Partners** (GSP) is a boutique strategic consulting firm, providing services to top tier clients in a broad base of industries, including technology, manufacturing and services. GSP's areas of expertise include go-to-market strategies, marketing effectiveness, channel and alliance management, growth strategies, sales productivity and operational improvement. We emphasize pragmatic solutions with measurable results and often work with our clients through implementation.

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