**Forell & Ypma Partnership:**

# „Born to run – really fast“

**Article by senior partner Alle Ypma on the topic of turnaround management, published in Beverage Manager, issue 9 / September 2011**

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MANAGEMENT

# Born to run – really fast

By Alle Ypma*

*Periods of economic downturn are the acid test for companies whether they are healthy and strong or not. Demand is falling, competition is increasing and profitability is declining. In other words the cash flow needed to finance working capital, to pay the wages or to service bank debts can be seriously affected. Severe financial problems may arise threatening the continuity of the business.*

However, the companies with a strong and healthy product portfolio, a solid financial structure with a limited exposure to the banks and a lean cost structure will ride out the storm and often grow even stronger after the economic recession. But also in the periods of economic prosperity there are companies which are not doing well. A loss making position, often over a period of several years, endangers the continuity of the company unless prompt corrective measures are taken. Sometimes there is not enough potential anymore to save it. ▶ 27

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## MANAGEMENT

01 Bankruptcy always has an enormous financial and social impact on a society, especially when it concerns a big corporation. The effects of the liquidation of the U.S. energy supplier Enron were dramatic. Employees lost their jobs, the pension schemes of investors in Enron shares were put in jeopardy and the reputation and credibility of control institutions were damaged. Therefore, trying to save a company in trouble is worth every effort.

Incompetent management is the most common cause of the problems. It is the management which has taken wrong strategic and operational decisions. It is the management which has not reacted in time to market and demand changes. It is the management which has overinvested in capacity due to over-optimistic sales projections and burdened the company with debts. Many Chief Executive Officers in general have unshakeable self-confidence, are charismatic and have strong personalities. They have fought a successful battle to the top. They are ambitious and want to lead a strong and successful company. These, of course, are positive characteristics to the benefit of the development of the company, its shareholders and its employees. However, there are examples of overzealous chief executives who took too great a risk to fulfil their dream and led their companies into serious financial problems. A real involvement of the supervisory boards is often missing and in many cases there is an insufficient functioning management control system to prevent the implementation of a too risky business strategy. Sometimes fraud comes into play to disguise the bursting of the bubble with all its consequences. That was the case with Enron where the management seriously manipulated the financial statements.

In times of corporate distress a turnaround manager may be called in to manage the derailed company and to turn it around into profit making company assuming there is enough potential to make the saving successful. Such managers need to be very experienced to lead companies through difficult times and have the ability to make the needed changes happen. They need to have the capability to oversee the situation fast, define practical and easy-to-implement priorities to stabilize the situation first and after that to implement the needed restructuring. Successful turnaround managers know how to communicate effectively with all stake holders of the business (e.g. to secure the finance with banks and/or shareholders, to keep the employees motivated in a period of great uncertainty, to convince the trade unions that painful measures have to be taken or to convince the suppliers and customers that the company remains a credible partner). They can cope with uncertainty and are able to improvise to achieve the desired results.

Each turnaround process is different and depends on the problems the company has and therefore the priorities are different. Stabilizing the situation fast is always the first priority. Time is of crucial importance. This means that measures have to be taken with an immediate effect to prevent further deterioration of the situation (e.g. to start a sales campaign to prevent further decline of sales or to secure liquidity by faster collection of the receivables or to secure a bank loan). At the same time a quick analysis of the situation has to be made identifying the cause(s) of the problems, the weaknesses which have to be overcome, the strengths of the company, the opportunities which have to be exploited and the risks the company is facing. A turnaround plan should be prepared with a clear statement of priorities and strategy, easily recognisable and implementable by the organization.

This plan should be presented to the supervisory board or the shareholders and should contain the change of (top) management, divestment of assets, improvement of turnover, cost reduction plans, investment plans, and a financial forecast including cash flow projections. It is important to make the management changes as fast as possible. Existing management is responsible for the problems that have arisen.

A successful turnaround can only be achieved with new top management. Most probably a new management at a lower level would also be required. Getting a new and capable management is not easy but compromising here would seriously endanger the turnaround process. People make or break the business. A redundancy plan with a fair social package should be negotiated with the trade unions and the works council. The social package should be fair so as to get the plan accepted by the trade unions and the works council. The process of restructuring is a period of turmoil and uncertainty. Clear and frequent communication between the management team and trade unions, works council and employees is required to keep the people motivated.

The signs of a sustainable improvement start to emerge after approximately two years. The company becomes profitable again. The employees will regain confidence in the company. After the drastic cost-cutting measures have been taken the emphasis has now to be put on value-enhancing capabilities of the business and improvement of management systems and procedures to make the organization more effective and efficient. In some cases the prospects of the company are too bleak so an exit strategy may have to be developed. Various options are possible e.g. liquidating the company or selling it to another company. Other options include asset-stripping, adopting a harvest strategy or maximising short term cash flow at the expense of the market position which will ultimately lead to a liquidation or the sale of assets. Having the loss of jobs, huge financial impact and social repercussions in mind it always makes sense to work towards the solutions which will put the company on track again. *(bmg)*

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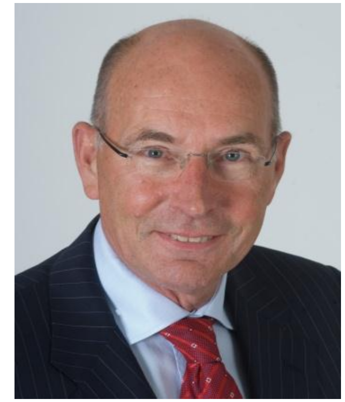
CV: http://www.forell-ypma.de/wp-content/uploads/downloads/2012/04/FYP_CV_AlleYpma_EN.pdf



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Forell & Ypma Partnership was established at the beginning of 2009 by two experienced top managers – Meik Forell and Alle Ypma. Forell & Ypma is a management consulting firm specialized in the fast-moving consumer goods industry and commerce – particularly the beverages industry. But even companies in other industries rely on Forell & Ypma when they have special issues. Our service range in the special fields of strategy and leadership, performance and cost optimization as well as mergers and acquisitions covers all situations, topics and phases.

In addition to integrated consultancy projects we offer coaching for middle and higher management.

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