5 Steps To Improving Your Financial Performance

by **ROB STEINBERG**

WITH the onset of the real estate recession and significant changes in the dynamics of the nursery market, growers have faced severe financial difficulties. Fifteen percent of nursery, greenhouse and floriculture crop production companies in the United States have recently filed for bankruptcy or ended up liquidating. Companies that continue to operate have struggled with cash flow, fought with funding sources and worried they may not have sufficient liquidity to satisfy customer needs.

In view of these challenges, this article offers five steps to take to improve the performance for financially-strapped growers.

Step 1: Get Some Breathing Room With Your Lender

When companies get short on cash, it results in them tripping financial performance covenants with their lenders that typically need to be maintained and exceeded to be in compliance with lending requirements. When financial covenants are broken, lenders worry whether or not the company will be able to support its debt levels and become far more intrusive, pressuring the company for voluminous documentation on the financial performance and prospects of the company. This pressure often results in the company becoming less communicative or becoming combative with the lender.

Such approaches are rarely useful, as the lending documents provide the lender with lopsided powers to shut the company down, collect accounts receivables, sell off collateral and, in some instances, offset any deficiency between receipts from liquidating assets and the debt (and debt enforcement costs) by collecting on a guarantee of the owner.

Even though lenders have the power to shut down a financially-strapped nursery, they are often reticent to use these powers because of the difficulty of being made whole (i.e. collecting the full amount of the debt), particularly in an industry with primarily perishable inventory. At the same time, approaching your lender in a combative manner or "going radio silent" won't lead to the desired outcome either.

The best way to get some breathing room with your lender is to retain an outside "turnaround" professional who can restore credibility with the lender. When a business moves into financial stress, lenders and equity sponsors will begin to question all aspects of the business from the validity of the numbers to the viability of the business plan. The funding sources will, of course, be reluctant to throw good money after bad.

An independent turnaround professional (who has credibility in the lending community) can vouch that the numbers provided are valid and that the business plan is solid (or help revise it to make it compelling to the funding sources). The turnaround professional will give the company a fighting chance to get back on its feet.

Step 2: Get Your Arms Around The Cash

Once a turnaround professional is identified and retained, the next step is to determine the true cash position and cash needs of the business. Obviously, when a company is financially strapped, the last thing that would seem to make sense is to hire an expensive outside professional. A turnaround manager will, however, analyze cash needs of the company for a small upfront fee and then assist the owners in developing a financial plan with funding sources that will not only pay for operational needs, but also for the turnaround manager to affect the desired turnaround.

The turnaround professional will work with the company to develop a cash flow, which will show on a weekly basis the cash needs and projected cash position of the company. Embedded in the initial cash flow will be "low-hanging fruit" changes in operations, which can enhance cash flow so the funding sources see that change is afoot. Because the company is working hand-in-hand with an experienced professional whom the lenders trust and who will track projected and actual results on a weekly basis, the lender may begin to have renewed confidence in the company and its prospects.

Step 3:
Make Sure You Can Develop A Robust Business/Change Plan

After cash needs are analyzed and additional funding is achieved, the next step is to develop a business plan with buy-in from all constituencies of the company (i.e. employees, owners and lenders). It is a well-known principle in the turnaround industry that the person who is responsible for operating the business and meeting daily customer demands rarely has the time to develop and drive changes in the organization that will enable it to find innovative operational methods and processes to improve the overall success of the business.

In addition, it is counter to human nature for a person who has done a task and sold goods in a certain manner for years to easily accept doing those tasks and selling those goods in a fundamentally different way. Even if a method is not working, it is much easier to continue using it with minor adjustments than to make the radical changes that may be necessary to succeed in this very challenging business environment.

An effective turnaround professional will help lead the development of the new business plan and work collaboratively with ownership, management and employees throughout the business to capture and incorporate their collective wisdom in the plan.

There are three keys to develop an effective business plan:

1. Turnaround professionals must be humble. Even if they have worked many turnaround plans for nurseries, every nursery is unique, and the turnaround professional must work as a co-pilot with owners and senior managers, and get ideas, advice and comments from employees who do the day-to-day work.

2. Buy-in must be obtained from all constituencies of the company. Everyone, including lenders and equity sponsors, need to believe in the plan and all must be committed to executing it.

3. Clear goals (or metrics) must be set so everyone knows whether the plan is being achieved or not. If it isn't being achieved, changes can be made so the plan requirements are met.

Step 4:
The Business Plan Must Address Key Drivers of Success

The business plan must evaluate how to improve the success of the selling effort and how to reduce costs. However, the underlying basis for all these improvements is the business being able to know in "real time" what is happening.

One of the common characteristics of

distressed businesses is that management and owners do not know the financial impact of their decisions and actions soon enough. This delayed visibility into financial results of decisions can ultimately lead to failure of the business. Accordingly, the business plan must address, as an initial matter, the technological and reporting shortcomings in the business so everyone knows what is working and what is not.

The next phase in business planning is to address revenue drivers. A thorough evaluation must be made of how goods are sold; how salespeople and account managers are motivated; and how results are tracked and publicized. Do you have the right person on the right account? Are you maximizing use of your sales personnel? Does everyone in your company know who is effective and ineffective as a salesperson? How are you tracking results of your revenue-producing personnel?

Savings can usually be obtained through evaluating costs of materials. Key areas to check include:

1. Contracts with vendors. Can you get a better deal through concentrating purchases with fewer vendors or otherwise reduce or extend payment terms? Are vendors willing to explore new ways of working together and share risk?

2. Supply chain and logistics. Have we optimized our inbound and outbound logistics and stock rotation programs? Have we explored in-sourcing and outsourcing opportunities? Is there a bigger opportunity for recycling and reuse programs?

3. Product changes and product mix. Are we selling the right products to the right customers? Can we afford to keep every customer we have? Can product size or packaging be changed to save money?

Qualified turnaround professionals are experts in cost reduction and process improvement. They will look for obvious savings opportunities like transportation costs. They won't stop there, though.

All areas of the business will be thoroughly analyzed to identify inefficiencies and waste to allow more profit dollars to fall to the bottom line. Transportation costs can typically be reduced through improved routing and cubing of trucks, and negotiating new contracts with carriers. With exorbitant gas prices, focusing on transportation costs is an absolute must.

Clearly, shrinkage can have a huge impact on operating results. The production-planning process must be tied to the selling effort and results, but frequently it is not. So, is the company producing and selling plants that are less likely to result in shrinkage? What is the process used to coordinate the sales plan with the production plan? How do you effectively identify what plants to grow and when? Is shrinkage trending down and, if not, why?

Step 5:
Communication Is Critical

When trust has been broken, which is almost always the case when a company is in financial distress, over-communication is required. An effective turnaround professional will work with management to develop a periodic communication plan that brings clarity and visibility to business performance as a result of plan implementation. Company leadership must make it a priority to frequently update all employees on success to quash their fears and keep them focused on achieving improved business results.

Development of the business plan cannot be performed in isolation, and results from execution of the plan must be readily available to constituencies of the company beyond senior management. Transparency and explanation of variances has a far higher success rate then "hiding the ball" on bad results.

Takeaways

Operating a business in a distress situation requires a completely different set of skills than operating a growing business or a stable business. When you can barely meet payroll, vendors are threatening to bolt and employees are uneasy. Past experience in these types of situations is invaluable. In addition, it is essential to understand legal options, contractual approaches, "low-hanging" fruit adjustments and optimal communication methods to navigate through the land mine of issues that will confront you.

When a company finds itself on the precipice, the stress on management is overwhelming. It cannot be emphasized enough that it is rarely optimal to try to do it alone to "save money." A distressed company can increase its chances of success many fold by hiring the right turnaround consultant to help create a credible business plan, communicate with funding sources as to the success of implementation, and bring all the constituencies of the company – employees, management, owners and lenders – together so the company is able to survive and prosper. **GG**

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