

# Turn your struggling business around

The survival rate of South African small, medium and micro enterprises (SMMEs) paints a bleak picture. Eighty percent fail in the first five years. Of the remaining 20%, 60% will fail within the next five years.

**T**his is according to business strategist Stefan Steyn, who says that if your business is floundering, you may need to implement a turnaround strategy before it is forced into liquidation. Steyn believes that the current trend

towards using a personal business coach is the best way to avoid becoming one of the statistics. Specialists in the field, coaches are more objective than owners and are often able to highlight critical areas that have been overlooked.

Steyn describes a struggling company as an overweight person who either needs to lose a few kilos, see a doctor – or, in severe cases – check into hospital. Here is his take on how entrepreneurs can best ensure the health of their business:

#### **Ensuring cash flow and improving performance**

Cash flow is central to a healthy business. Just as an overweight body slows down the flow of blood to the organs, so poor cash flow can throw a business into crisis. To determine how healthy a business is, information needs to be measured and interpreted.

If the company just needs to lose a couple of kilos – it is feeling good, but could look a bit better – look at the income statement. The information contained in this document will highlight opportunities to exercise more. Look at income statements over a minimum of a 12-month period, so that trends start to emerge. The trend analysis should be ratio driven – consider ratios between labour and sales, cost and sales, and the gross profit percentage.

Many small businesses do not prepare adequate financial statements – and companies who do not keep monthly financial statements should prepare themselves for a turnaround.

**“Using a business coach as part of a turnaround strategy can be likened to using a personal trainer to lose weight, tone up and become fit”**

– Stefan Steyn, business strategist

**Act before it is too late**

Many people recognise the symptoms once a business has reached a crisis phase, as they do not want to change something they are used to. The mindset of the proprietor – whether he believes the business is overweight or healthy – is central to the success of a turnaround.

**Crisis turnaround cases**

Drastic times call for drastic measures. For the company who needs to go to the doctor, pass the income statement stage and go straight to the balance sheet. Stabilising the organisation is priority number one. Start with current assets. If there is too much dead stock, sell it off – even if it is at half the price – to get cash in. Next, focus on debtors. Either outsource collections to a debt collector, or concentrate resources on collections. Part of the stabilisation process also involves negotiating payment terms with creditors so that they do not suck the blood out the body.

**The stabilised company**

Look at fixed assets and long-term liabilities. Assets that are not working can be sold off to bring in cash. For small businesses, dead assets – like an owner's BMW, for example – are often a big problem. Next, go to your long-term liabilities. If you have got bonded property, you could open up value by increasing the bond and releasing cash. If that does not work, turn to equity – shareholders need to put in money. This can be equated to going into surgery. It is often at this stage that owners change their perceptions about the business and the way it needs to be run.

**The business coach**

Using a business coach as part of a turnaround strategy can be likened to a person using a personal trainer to lose weight, tone up and become fit. The trainer will assess the situation and will set out a plan to achieve the goal. When it gets to the turnaround stage most proprietors do not realise that they need a personal trainer to see them through the entire process. A coach looks at things differently, and sees things the owner may not.

Small businesses in particular are often under-resourced in areas like people, skills, equipment and technology. At the turnaround stage, the entrepreneur is often unsure of himself and does not know where to start. If the business is under-resourced the coach will explain which areas should be outsourced or sub-contracted.

The coach will also know how to implement systems that create information. Information creates knowledge, and knowledge is used in the decision-making process. If you



do not have systems to draw on information the chances of making the right decisions are very slim.

**The owner's role**

While turnarounds are most successful when carried out by an independent outside party, the success of a turnaround is very much determined by a proprietor's own perception of what the business is like. Arrogant businessmen often take the credit when business is good, but will blame their partner, bookkeeper, or the country's labour laws when times are tough. This type of situation is almost impossible to fix. A balanced proprietor is thankful, humble, and understands which relationships are important. He realises that many factors contribute to energy being released within an organisation.

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**Keeping employees informed**

The crisis phase brings a sense of insecurity, and many people will be shifting blame. This often leads to infighting and the organisation losing sight of the end goal, and the downward spiral leaves everyone demotivated.

While some strategists say you should not disclose the situation to your employees, if the information does leak out it has a major negative effect on morale. It is better to explain exactly where the company is, how much money it needs to bring in, and why you think it has struggled. **S**