REPRINTED FROM
THE JOURNAL OF CORPORATE RENEWAL

ANALYZING THE TURNAROUND

Operational Restructuring Paves Path to Profitability

BY RENEE FELLMAN, CTP, PRESIDENT, RENEE FELLMAN & ASSOCIATES

Restoring profitability isn't rocket science. To be profitable, a company's revenues must exceed its costs.

It is a simple formula, and the means to achieving it are well-known: Control cash. Adjust pricing. Renegotiate contracts. Pool purchasing. Reduce personnel expense. Consolidate unprofitable or poorly performing divisions. Shed unprofitable products and customers. Accelerate collection efforts. Restructure the balance sheet.

The challenge lies in the execution. Too often, turnarounds are carried out as if by rote. Management works toward financial goals without applying sufficient talent and attention to how those goals are achieved or what adverse consequences may result. The outcome is a Pyrrhic victory that provides short-term financial gain but cripples operations and alienates customers.

To create lasting change in a distressed business, turnaround efforts must go beyond goal-setting and include thorough operational restructuring which involves close examination and optimization of the people, processes, and procedures by which a company produces its goods or services.

Turnarounds that incorporate true operational restructuring can cut costs, increase revenues, boost productivity, and help to win and retain customers. Turnarounds that do not address operational issues may be doomed to failure. The past is littered with the remains of companies that did a superb job of setting financial targets without paying adequate attention to retooling the policies, procedures, and infrastructure necessary to achieve them.

This article describes three case studies spanning a 25-year time frame that illustrate what operational restructuring is and what it can accomplish. The article then identifies the three key ingredients essential to any successful restructuring of operations and two tools that can help in that effort. The case studies do not describe the full scope of the successful turnaround effort undertaken at each company. Instead, each highlights one aspect of the mission, describing the specific situation, the objective, the actions taken, and the results of the operational restructuring.

Case 1: Improving Personnel, Equipment Utilization

Situation: In the mid-1980s, a regional division of a nationwide trucking firm faced declining profits. It was obvious that the division's president had read the landmark business book *In Search of Excellence* by Thomas J. Peters and Robert H. Waterman Jr. Wandering through one company facility after another as he practiced "management by walking around," the president had such a strong "bias for action" that he was constantly initiating changes in processes and procedures without adequate consideration of the consequences of those changes — all in a desperate bid to stem the profit decline.

It wasn't working. Operations were in disarray. Drivers and trucks frequently sat idle. Freight was delivered late. In dispatching offices and on loading docks, tempers were frayed. Meanwhile, the division's monthly financial results continued to deteriorate. It was time for a different approach.

continued on page 2

OPERATIONAL RESTRUCTURING

continued from page 1

Objective: Reverse declining profits through operational improvements

Actions: The restructuring process began with an operational audit that revealed a startlingly simple scheduling problem. The division's practice was to print load assignments once a day, at 3:30 p.m. As a result, drivers and their trucks often sat idle after finishing their scheduled deliveries, until new load assignments were printed. The consultant simply asked, "Can we print the load assignments earlier and more frequently?" The answer was "yes," and the change was implemented.

Results:

- Operating margins improved by 30 percent because earlier and more frequent printing of load assignments reduced driver and vehicle downtime.
- Profits began trending up instead of down.
- Customer service improved because freight was being delivered earlier than was possible under the old system.

The operational solution to this company's problems was low-tech by today's standards, but it was effective. The lesson? Never underestimate the power of a simple solution.

Case 2: Reducing Freight Costs

Situation: In the mid-1990s, a company that operated multiple manufacturing and distribution operations throughout North American and was regulated by the U.S. Food & Drug Administration (FDA) was under intense pricing pressure caused by increased competition in its industry and demands from customers who had joined buying groups.

This pressure was compounded by the company's own operating problems. Despite having sound and appropriately documented processes and procedures, the company was plagued with product contamination problems, production errors, stock outs, and shipping errors. These issues translated into a growing flood of customer complaints that prompted an increasing reliance on costly emergency shipments and pushed the company's shipping costs well above the industry norm. Daily, the threat of losing major customers increased.

Adding to the company's woes, the FDA had noted deficiencies in the company's operations and was pushing for changes. Finally, although there was a job description for every position in the company, no one person in the organization was formally responsible for ensuring compliance with either FDA regulations or the company's well-documented processes and procedures.

Objective: As one small part of the recovery plan, reduce freight costs

Actions: The company undertook an operational restructuring in which it:

- Assigned one— and only one—person to be in charge of complying with FDA regulations and good manufacturing practices (GMP) in order to ensure compliance and eliminate product contamination.

> The past is littered with the remains of companies that did a superb job of setting financial targets without paying adequate attention to retooling the policies, procedures, and infrastructure necessary to achieve them.

- Redesigned warehouses for more efficient handling of goods.
- Redesigned, standardized, and enforced regular cycle counting of inventory.
- Bolstered customer service and warehouse supervision, which reduced shipping errors by improving order entry and picking accuracy.
- Replaced the vice president of distribution as well as the directors of quality assurance, inventory management, and customer service.
- Renegotiated transportation contracts.

Results:

- Freight costs plunged to 1.6 percent of revenues from 6.1 percent.
- Product contamination issues came to an abrupt halt.
- Headcount declined because fewer employees were needed to correct mistakes.
- Key customers decided to stay with the company.
- The company received its first-ever clean bill of health from the FDA.

Case 3: Improving On-Time Deliveries

Situation: In 2006, a commercial printing company found itself operating in a rapidly consolidating industry in which on-time deliveries were critical to many of its customers. The company, however, was able to meet its delivery deadlines only 50 percent of the time and was being inundated with customer complaints. Sales team members were angry, too. They lacked confidence in the company's ability to meet its commitments to customers and were afraid to make such commitments.

Objective: Prevent the loss of customers and sales personnel by improving on-time deliveries

Actions: The turnaround team examined every step in the company's order-to-delivery cycle, from the time a customer initiated a request until the moment the company delivered the job to the customer. As part of this process, the company began to measure and monitor:

- The speed and degree to which complete information was provided to the prepress department, which converted customer files into proofs for customer approval and later into plates for the printing presses.
- Turnaround times for getting proofs from prepress to customer service and from customers back to the company.
- The percentage of good plates being delivered from the prepress department to production and the time it took to get them there.
- The percentage of good printing jobs produced by production.
- The percentage of on-time deliveries.

The company then modified its software to gather, compile, and display these metrics, both electronically and on paper, for easy access by appropriate personnel. During department and company-wide meetings, management presented the results to employees and reviewed the company's progress toward meeting its goals.

As reports on these metrics came in, it quickly became apparent that the company's woeful on-time delivery record was not related to production problems. Instead, it was a consequence of failing to obtain adequate information at the time orders were accepted and to define clear expectations with customers. Based on these findings, management changed both personnel and processes.

Results:

- On-time deliveries skyrocketed to 98 percent from 50 percent.
- Completeness of information to prepress improved to 99 percent from 84 percent.
- Proof approval turnaround time shrank to 1.7 days from four days.
- Critical customers continued to do business with the company.
- Both revenues and profitability increased.

continued on page 3

continued from page 2

The Three Keys to Operational Restructuring

These case studies illustrate how operational improvements can reduce costs, speed processes, and improve customer service and retention, but what does it take to design, implement, and maintain such improvements? The three critical factors common to all successful operational restructurings are:

1. Company ownership that is willing to accept needed changes

2. Managers who possess the right skill set

3. Implementation of a sound management control system

All turnaround professionals know that getting buy-in from ownership is one of the most difficult pieces of any turnaround, but finding operationally skilled turnaround managers can be equally challenging. In the same way that some people are gifted intellectually, artistically, or athletically, some are gifted operationally. They possess the ability to see, almost immediately and in surprising detail, how a company's people, processes, practices, and procedures can be altered to make the company operate in a more cost-effective and customer-centric manner.

Finding a manager who can trim expenses or improve a specific process is not terribly difficult. Finding an operationally gifted manager who can quickly envision and produce dramatic, enterprise-wide improvements can be. Companies that lack someone with that skill set recruit from outside. Whether hiring an employee or consultant, they look for an experienced hands-on manager who can document strong operational results in situations in which he or she personally led the restructuring efforts.

Designing and implementing a carefully conceived management control system can also be challenging but is critical to the long-term success of an operational restructuring. An effective management control system begins with written strategic and operational plans. It goes beyond financial and accounting controls and includes components such as organizational charts and job descriptions with no "operational" holes, results-based hiring, methods for measuring appropriate activities and results, clear accountability, and feedback and reward systems that encourage employees to act in the best interests of the company.

In the same way that some people are gifted intellectually, artistically, or athletically, some are gifted operationally.

Technology's Role

Advances in technology have led to the development of sophisticated tools that can help companies restructure their operations.

Confidential customer surveys, distributed and consolidated electronically, can uncover issues that either tie customers to a company or turn them away from it. Too often, companies place too much emphasis on customer relationship *management* (CRM) and too little emphasis on determining what customers actually want, need, and expect. Confidential, well-crafted surveys can help to fill that void.

Confidential employee surveys, also available for electronic distribution and consolidation, can provide important insights from employees about a company's strengths and weaknesses, people, and processes. Often, employee feedback yields specific ideas for immediate, substantial cost savings that people at the corporate level have overlooked or simply cannot see.

Successful turnaround professionals know "the consultant's secret:" The customers and employees will tell you what is needed. Electronic surveys, used in conjunction with appropriate analytic software, can help companies tap those sources in a timely and cost-efficient manner.

Long-lasting Results

Although financial restructuring is essential to turnaround efforts, effective operational restructuring can spell the difference between the success and failure of those efforts. In each of the case studies described, costs declined and customer satisfaction improved as a result of changes companies made to their operations.

All three companies achieved long-lasting profitability because they had boards of directors willing to support the needed changes, leaders who were operationally talented, and management control systems that could ensure the continued application of the lessons learned during the restructuring process. CR

Renee Fellman, CTP, winner of a 1997 TMA Turnaround of the Year Award, has been Interim CEO for 19 companies nationwide. She specializes in restoring profitability through operational improvements and keeping companies out of Chapter 11. Fellman's industry experience includes construction, health care, manufacturing, medical devices, packaging, printing, professional services, retailing, technology, transportation, and wholesale distribution.

Renee Fellman, CTP
Renee Fellman & Associates
3570 SW River Parkway
Suite 1313
Portland, OR 97239

O: 503.223.6300
C: 971.235.5100

renee@reneefellman.com
www.reneefellman.com