5 Signs Your Company's in Distress

Rescue your business with these tips from a certified turnaround professional.

BY RANDY MYERS • AUG 26, 2010

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After 25 years of rescuing distressed companies, certified turnaround professional Renee Fellman has seen it all. Companies with no business plan. Owners buying fancy cars in spite of crumbling cash flows. CEOs so focused on the top line that they couldn't see how badly runaway costs were hurting the bottom line.

Seeking to learn from the mistakes of others, we asked Fellman--the Portland, Ore.-based winner of the 1997 Turnaround of the Year Award from the Turnaround Management Association--to identify some of the most common gaffes she's seen over the course of 34 turnaround assignments.

1. Not understanding, or not accurately preparing, financial statements: No sports team would compete without a precise way of keeping score. But, incredibly, many troubled companies operate without having accurate financial statements that the owner fully understands, according to Fellman. In one case, the company controller didn't understand the difference between cost and accrual accounting. A more common mistake is carrying old inventory on the books at inflated values, masking the company's true financial health.

The lesson: Make sure your financial statements are current and accurate, or you risk flying blind. Fellman likes to see statements monthly, and no more than five days after month's end. "It's dangerous," she warns, "to wait any longer to find out that you just lost a ton of money."

2. Keeping money-losing customers: Some customers simply aren't worth having. They place too many demands on your time or negotiate prices that don't cover your costs. Yet failing companies desperate for revenue often hold on to them, miring themselves in a downward spiral of unprofitability.

The lesson: Get rid of them now. "Shedding money-losing customers," says Fellman, "can be critical to your survival."

says this is a common problem among failing companies that don't know how to calculate their costs or don't realize how important it is to do so. When that happens, the company can't know which products or services are boosting the bottom line and which are dragging it down--or where prices need to be raised or costs cut.

The lesson: Understanding your costs is imperative. If you don't, take a crash course in cost accounting or hire someone who can do it for you.

4. Not having an organizational chart with clearly assigned responsibilities: With no clear chain of command, organizations can flounder. Fellman recalls working with a company that was repeatedly cited for failure to comply with FDA regulations. It had an organizational chart, but when Fellman asked the director of governmental compliance and the director of quality assurance who was responsible for ensuring FDA compliance, neither answered. Fellman put one in charge, and in the FDA inspection following her departure, the company received its first clean bill of health.

The lesson: Companies can't perform optimally without a clear delineation of authority and responsibility. If you haven't spelled that out at your company, do it now.

are necessary to make sure it doesn't run out. "That may involve laying people off, but more often it means stopping unnecessary expenditures," Fellman says. Besides fancy cars, she's seen failing companies spending lavishly on trade show displays, on equipment they don't need, and on television advertising that's generating no measurable return.

The lesson: When a company is on the edge of disaster, cash is king. And, as the recent recession and credit crunch have shown, it's pretty important at other times, too. Review your expenses now and make sure you're not wasting precious resources.

The bottom line? With the economy still struggling to break the shackles of the last recession, this is no time to let business practices get sloppy. Follow Fellman's advice to make sure you don't become her next project.

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