

Turnaround

PETER
CHARLES
LIMITED

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Delivering rapid results in difficult business situations.

THERE IS AN ALTERNATIVE, SO USE IT

WE LIVE IN THE AGE OF THE CONSUMER and we all expect to have a choice. Sometimes those choices can be pretty unpalatable but we still expect some sort of alternative. However when businesses struggle they seem to have few options. Often the only course of action is to appoint an insolvency practitioner and stand back and watch as he or she sells on your business at a vastly knocked down price. Or, perhaps even worse, the business is given the corporate kiss of death with the assets being split up and sold off like junk.

Don't get me wrong, businesses do have a natural life span and business closure is an inevitable part of a market economy. Yet for every business that should be shut there is another one that should be rescued. Saving a business needs a specialist with a distinct set of skills and experience. Being a turnaround specialist is quite distinct from being an insolvency practitioner, although it

is understandable how and why the two roles are confused.

The objective of the turnaround is to keep the business going. But the business can only be kept trading successfully in the long-term if there is genuine and significant change. What needs changing will vary every time. Maybe the finances need restructuring, perhaps the management has to be re-invigorated with new faces and fresh talent, or maybe there has to be a radical restructuring of the production process or the goods and services on offer.

Managers and owners who face problems could be forgiven for throwing in the towel and letting their business slip away. In that sense turnaround is not the easy option. It requires even more hard work and commitment. Even then it doesn't always work. But when it does, it is a fantastic result.



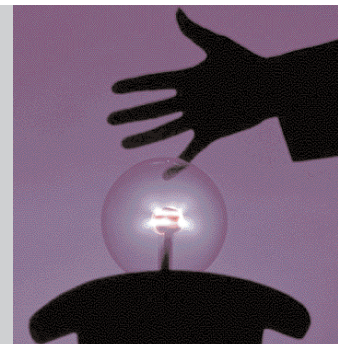
Peter Charles,
Managing Director, Peter Charles Ltd

Transforming a failing finance department in five months

A PAN-EUROPEAN DISTRIBUTOR, A WHOLLY owned subsidiary of a US-based manufacturing company, had been through two finance directors in quick succession. The client admits that both the accounts and the department were in a mess. Management accounts were being produced a month after the month end and, despite the long lead time, were wrong. The finance department, which had pan-European responsibilities, was in free-fall. For

example, the automated sales reports were adding up the sales from the various countries in the local currencies, rendering the total figure as totally meaningless. You try adding up pounds with lira and see if the answer makes any sense.

Peter went in with two main objectives: first he had to make an assessment of which finance staff were up to the job they were supposed to be



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Creating a shared service centre

HOW PETER CHARLES LTD TURNED STRATEGY INTO REALITY

Shared Service Centres (SSCs) are seen as one of the key ways forward for large and diverse corporations with geographically widespread and diverse business entities. Shared services is a form of internal outsourcing where a function – such as accounting – is standardised and re-engineered. SSCs allow business processes to be brought together in a single location which supports multiple business entities on a customer-supplier basis. While it might be relatively straightforward to make the strategic decision to create a SSC, actually creating one is a different matter. Peter Charles recently helped one large quoted company turn their SSC strategy into reality.

The diverse and successful retailer has a turnover of around £4 billion spread across four well-known brands. A strategic review agreed by the board, concluded that the divisions within the group should share a centralised finance function and logistical support. Peter's work was difficult enough in terms of the skills and experience required for the technical IT and finance tasks. However, the work also needed a high level of people skills. The project to relocate the finance department of one of the divisions from the West County to Milton Keynes had been started using the services of a leading global professional services firm. But the project had run aground and was going nowhere. When Peter and his team were called in, time was fast running out. The closure and relocation meant redundancies. In line with best HR management, the staff of the department to be closed had been advised of the move six months previously. But with the drift and delay there was a real risk that poor morale would reduce service levels. The FD responsible for setting up the SSC called in Peter to kick start things. The FD said: "Peter's goal was to move towards our objective. He was excellent at identifying the structure which was needed

to make the SSC happen and he could also work with our people to ensure the necessary change took place."

As Programme Manager, Peter had control over the nature and direction of the work and complete responsibility to achieve the required result.

This approach meant Peter took control of tactics, goals, objectives, deliverables, planning, choice of software tools and hiring and firing – including standing down the big-five consultancy. Peter's involvement in the project lasted nearly 10 months and, at its height, he had a team of 30 people. Much of the ultimate success of the project can be put down to the fact that Peter and his team created detailed plans for a series of inter-linked projects – each headed by a qualified and experienced finance professional. The company's staff were re-enthused to help with ensuring the migration was a success by being clearly targeted on what was expected of them and being rewarded for early completion of their tasks. As a result of Peter's intervention, the programme to merge finance departments was successfully completed within the original timeframe. Perhaps equally importantly, the new SSC is providing the required service level and the required standard of financial control and risk management.

Commenting on Peter Charles and his team, the FD added: "It was a particularly successful programme. Our objectives were achieved ahead of time and to budget. In essence, nothing was dropped in the process of managing the change to an accounting system that supports a business with total sales of £4.5 billion. The most important element was the organisation design so that our people had a proper place to fit into. Peter and I worked closely on what was the most appropriate organisational structure."



Obstacles: the project had run aground and was going nowhere

A little-known lifeline

PETER WILLIAMS EXPLAINS HOW A NEW LAW COULD BOOST TURNAROUNDS

Few small and medium-sized companies (SMEs) are aware of a provision relating to Company Voluntary Arrangements (CVAs) in the new Insolvency Act. However, if a company in trouble took advantage of the new provision, it would offer more control over its destiny, effectively buying time, from creditors while a rescue plan could be put together.

The new Insolvency Act allows a troubled small company to apply for an automatic moratorium from their creditors for 28 days, a period that can then be extended with creditor consent. This major change allows smaller companies to restructure their balance sheets via a Company Voluntary Arrangement (CVA) but without all the administrative problems associated with an Administration Order.

This change to CVAs has not received a lot of publicity. But in the current difficult business climate, smaller companies in trouble should be aware of this as it could remove pressures from creditors, giving them breathing space and thinking time to put together a rescue plan.

The automatic moratorium will enable directors of small companies who intend to put forward a proposal for a CVA to obtain protection for their company and prevent action being taken by creditors effectively ring-fencing the company. No bank or holder of a fixed or floating charge can appoint an

administrative receiver.

CVAs were rarely used as the existing CVA procedure did not adequately protect companies against creditors while they try to put forward proposals to creditors. A further change from the current Administration Order process is that during the moratorium, the directors remain firmly in control of management and day-to-day issues rather than this being transferred to an insolvency practitioner as it previously did. Under the new procedure, an insolvency practitioner will need to be appointed – but to act as a nominee and to monitor the position.

The new provision only applies to businesses with less than 50 employees and turnover of less than £2.8 million or assets worth less than £1.4 million.

A well thought-out CVA has every chance of successfully enabling a company to sort itself out with the benefit of additional time and less stress/pressure. However it certainly presents some interesting challenges for lenders who will need to redraft their own loan documentation in response to this important change.

This new piece of legislation is just the first change in Insolvency Law this year, with further changes due and represents the biggest overhaul of Insolvency Law since 1986.

SEEING THE WOOD FOR THE TREES

THE LATEST ASSIGNMENT FOR PETER Charles Ltd is typical, in many ways, of the turnaround assignments we have seen over the last year or so. The management spend a lot of time poring over numbers and that is fine. But you need the right

sort of numbers and you need the numbers to be right. Like many managers we meet they have got themselves confused by the numbers. When we first arrived they were unable to see the wood for the trees.

Transforming a failing finance department in five months cont.

doing and this inevitably resulted in some churn within the finance department: secondly, he needed to implement a centralised Oracle system covering the operations in Italy, France, Germany, Spain and the UK. That meant closing down some outlying finance departments.

At the same time, Peter was working out the job specification and then recruiting a finance director (in effect to take over the work he had started) to take charge of the European business. Since his appointment, the FD that Peter sourced has been promoted, adding IT and human resources to his accounting and financial reporting responsibilities.

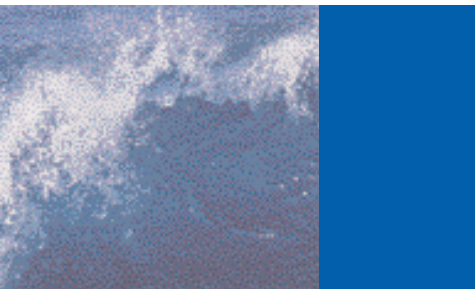
The systems are now world-class. For instance, comprehensive daily sales figures for the previous day covering the whole of the European operation are now produced 20 minutes after the start of the new working day. As a result the relationship with the US parent company finance department has been transformed. Sales were increasing by the time the project was completed. While not trying to claim all the credit, by the time the assignment was finished the client could be confident that the sales force was being supplied with accurate data. The client said: “Peter is cool under pressure. He has excellent people skills providing leadership at a difficult time without being over authoritarian. He prioritised the work and he got on and did it. He refreshed the finance department, got it up and running and to this day it is a great success.”

“Peter provided leadership without being authoritarian.”

We’ve worked with them to take a hard look at their business. Together we worked out the key numbers they needed. And once they had done that they were able to start to see a path leading them forward to secure the future of their business.

In the trough of an economic wave

PETER CHARLES LOOKS AT THE WORK OF A RUSSIAN ECONOMIST WHO MAY HAVE SOMETHING TO TELL US ABOUT OUR CURRENT ECONOMIC SITUATION.



K-wave: long wave cycles of boom and bust, ranging between 50-60 years

The Kondratieff long wave cycle (K-wave) was originally used to explain long wave economic cycles. Its originator Nickolai Kondratieff was a Russian economist (1892-1938) in Stalin's Agricultural Academy and Business Research Institute ("Long Waves in Economic Life" – originally published in German in 1926). Kondratieff's major premise was that capitalist economies displayed long wave cycles of boom and bust ranging between 50-60 years in duration. Kondratieff's study covered the period 1789 to 1926 and was centered on prices and interest rates.

Whether Kondratieff has a point is open to dispute. He identified four distinct phases the economy goes through: initially there is a period of inflationary growth followed by stagflation, then deflationary growth and finally depression. Some characteristics are as follows:

Inflationary growth (expansion): stable to slow rising prices; low commodity prices; low and stable interest rates; rising stock prices. The period might also be characterised by strong and growing corporate profits and technological innovations.

Stagflation (recession): rising prices; rising commodity prices; rising interest rates; stagnant to falling stock prices; stagnant profits; rising debt. This period usually sees a major war that contributes to the commodity and price inflation, and to the rising debt and misdirects business resources.

Deflationary growth (plateau): stable to falling prices; falling commodity prices; falling interest rates; sharply rising stock prices; profit growth but probably not as good as in the inflationary growth phase; sharply rising debt; possible period of considerable technological

innovation; excess debt contributes to speculative bubbles.

Depression (depression): falling prices; rising commodity prices (particularly gold); stable interest rates; falling stock prices; falling profits; debt collapse. As the stock market collapses numerous scandals will emerge. A major war occurs that helps contribute to the end of the depression phase and the start of the new expansion period.

A key question for us is whether the Kondratieff wave is valid for the post WW2 economy, given the fiscal and monetary tools of a modern economy. Some argue that the trough of the K-wave has already passed. Their count is from the stock market trough of the Great Depression in 1932. Add the average 54-year K-wave period and we are in the spring expansion of the new K-wave.

Most analysts take the last K-wave to have made its final trough in 1949 when interest rates and prices bottomed. The effects of the Great Depression were softened by WW2 and it was in the 1950s that the world firmly started to shake off the two long decades of depression and war. The K-wave has followed quite true to form, with the solid growth and low inflation of the 1950s and 1960s followed by the commodity/price inflation and recession driven 1970s. Commodity prices peaked in 1980.

Following the steep secondary recession of the early 1980s, the markets embarked into the Autumn K-wave plateau. We had stock market and real estate bubbles, a collapse in commodity prices, a collapse in interest rates and low inflation. But we also had a huge build up in debt that allowed us to buy our way out of the recessions of the early 1980s and early 1990s.

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