FIXING AN UNDERPERFORMING COMPANY

nextLevel
BUILDING ENTERPRISE VALUE

Your company has a solid strategy but is underperforming — why?

Performance issues may be due to problems in manufacturing, sales, operations or all of these areas, but what are the underlying causes, how do you correct them, and which should you attack first? After defining the root causes, the CEO needs to ensure the proper leadership, skills, and processes are in place to deliver results.

In this edition of *Executive Issues & Insights*, we explore key insights drawn from the extensive C-suite and Board experiences of the NextLevel team on how to fix an underperforming company.

NextLevel Case Study

Food processing company stabilizes operations, raises cash, and increases sales

A food processing and consumer packaged-goods company was growing rapidly but experiencing negative cash flow and violating loan covenants. This triggered the company's lender to place the company in its workout group. One obvious cause was significant delays in the buildout of a new manufacturing facility, needed because the company struggled to fulfill sales orders using existing facilities. The company had also taken on significant new debt, and this financing imposed restrictions that were too tight at its current stage of growth.

The bank pushed the company to engage a NextLevel partner to lead a more rapid transition to the new facility, move cash flow to positive, and support the company's efforts to obtain bridge financing and raise additional capital. Company management then expanded the engagement scope to include leading daily operational meetings and providing overall executive guidance for key business decisions.

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NextLevel Insights

Drill down to root causes

A top-performing company has to execute across the entire spectrum of the organization, so defining the causes of underperformance can require careful analysis. For example, negative cash flow can be caused by a problem in any (or all) of the areas of sales, costs, or collections, but each of these areas can have its own set of possible root issues. Dig until you find the actual source(s) of the performance issues.

Benchmark yourself against your industry

If analytical data is available, benchmarking your company against successful companies in the same space can help identify areas that are functioning as expected and those that aren't. Through careful selection, choose benchmarks that you can then use to create a meaningful set of target metrics to measure overall success. Your position vis-à-vis competitors may also reveal your ability to attract financing as well as deploy certain tactics such as adjusting prices.

Assess leadership and other skills

Does your company have the management strength and leadership to address underperformance issues? Often entrepreneur-led companies have a leadership team with the skills to start and grow the business to a certain level, but not to sustain that growth. Assess key leaders and contributors for missing skills that are needed to address current issues. Where you find gaps, consider adding temporary resources, but also ask whether you need new permanent employees with the skills needed to meet intermediate and long-term goals.

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FIXING AN UNDERPERFORMING COMPANY *(continued)*

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The NextLevel partner investigated the performance of each business channel and key drivers for the cash burn. He soon discovered the reasons for the facility delay and formulated a new transition plan. His investigation of other reasons for the fulfillment problems led him to design a new product-distribution model. This also allowed him to establish new metrics for production, customer daily/weekly fill rates, and back order performance. Daily operational meetings enabled him to hold key managers accountable for the targets.

Within two months, the company stabilized and had significantly enhanced enterprise value due to improved performance, including a 40% increase in fill rates to 90% performance overall. This helped increase sales by 30%. The new distribution model improved customer service and demand planning, generating $1.2 million in annualized savings. Cash flow quickly became positive and a new operational plan reflected improved annualized cash flow by $6 million over a 24-month period. This improved performance strengthened the company's hand as it successfully closed on bridge financing and an equity investment soon thereafter.

"QUICK FIXES FOR UNDERPERFORMANCE SELDOM WORK."

Provided the basic strategy is sound, it's more about being thoughtful regarding root causes and holding employees accountable.

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Address alignment issues

When employees do not feel they are part of a team working toward the same goal, a company can develop silos. This can inhibit communication and collaboration between functions and foster resource hoarding, leading to underperformance. Senior leaders and the Board need to agree on the critical factors needed for strategy execution, and these need to be reinforced throughout to create company-wide alignment. Performance, especially in these key areas, needs to be supported by incentive compensation.

Develop a new thorough financial projection

Revamp your financial projection with appropriate detail as to revenues, costs, and cash flow. Incorporate and support new assumptions based on your assessment of the problems and potential solutions, and update the projection as needed for new conditions. Make sure there are appropriate line items, particularly in cash projections, so you can hold people accountable in key areas. The CEO and/or CFO should validate the basic format and process. This will enable a common language and focus when discussing performance.

Use metrics to hold people accountable

Once the problem is defined and the solutions to root problems are identified, the CEO will identify which initiatives get priority based on resources and urgency. Then implement a formal process to fix the issues. The process should use the new financial projection as a template and include responsibilities, deliverables, and deadlines, all reviewed in regular meetings with senior staff to discuss progress against target metrics.

KEYS TO FIXING AN UNDERPERFORMING COMPANY

- **Your root cause analysis:** Have you drilled down to find the sources?
- **Your benchmarking:** Have you used appropriate metrics to reveal what's working and what isn't?
- **Your leadership:** Have you assessed whether you have the right skill sets available?
- **Your alignment:** Are senior leaders aligned with the real needs of the business and reinforcing that throughout the company?
- **Your financial projection:** Have you incorporated new assumptions based on the problem assessment?
- **Your execution process:** Are you holding your team accountable?

More Information

To learn more about how NextLevel can help you fix an underperforming company, call us at (800) 833-NEXT or email info@nlbev.com.

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