

A century old and out of cash - firm saved by 7-step plan

by James E. Rudnicki

“John” was the fourth president of a family owned business that had just celebrated its 100th anniversary. Better yet, his son had recently rejoined the company, along with the first member of the sixth generation – an infant grandson.

It was almost enough to make him forget what bad shape his manufacturing business was in.

Sales of \$25 million had produced another year of \$1 million-plus losses. Cash was tight and the relationship between the company and its bank was quickly deteriorating. Further, customer backorders were growing (while sales continued to decline), employee morale was lousy and key suppliers were starting to get nervous.

John knew things needed to change—and fast. Fortunately, by applying the following seven-step formula, John’s business survived its immediate crisis and then revitalized itself.

- **Step one: Get control of the cash.**

John’s vice president of finance had been paying the creditors who screamed the loudest. Instead, we helped him and the rest of the management team to prepare a week by week cash flow projection for the next three months. Sales and collections were forecast conservatively. Payroll (including taxes), utilities and key suppliers were given top payment priority. Other creditors were fit in as cash allowed and told realistically what they could expect.

- **Step two: Determine the break-even point.**

No one knew what the company’s sales had to be to cover all expenses or “break even” each month on a cash basis. We were able to calculate this number by determining which expenses varied with the sales level and which remained more or less constant regardless of volume. The sales break-even point turned out to be almost \$400,000 higher than the current monthly sales level.

- **Step three: Listen for the solution.**

For the business to survive it needed to quickly reduce expenses and increase sales. John was shocked by the good suggestions that came out of his workforce. As in many other companies, he had never really listened to anyone outside of a few senior managers. This process also had a very positive effect on morale.

- **Step four: Stop the worst bleeding.**

John’s grandfather had helped several key employees start a competing business many years before. (He apparently agreed to do this after they complained that younger family members were being promoted over them.) That company had outperformed John’s business in several parts of the market. Significant cash was being spent trying to catch up. After several long discussions, John agreed to stop those activities at least until the overall business was in better shape.

- **Step five: Look for “free” cash.**

After 100 years the company had a lot of slow moving inventory. John agreed to dispose of much of that inventory at a financial statement loss since it freed up valuable cash (and made inventory control easier). He also eliminated several discretionary expenditures and reversed a previously misguided attempt to increase sales by easing up on receivable collection efforts.

- **Step six: Find the positives.**

Not everything was wrong with John’s company. Among other things he still had a good name in the industry, certain core products, a loyal customer base and a nucleus of good employees. It was more than enough to rebuild the company around.



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- **Step seven: Develop the plan.**

John had done some planning in the past but it was always quickly forgotten. By setting specific goals and building off of the six previous steps John was able to develop a short, but specific turnaround plan that was communicated to his workforce, implemented and regularly reevaluated.



There’s obviously no guarantee that John’s company will last another 100 years—or that his grandson will some day be its president. However, after watching John survive his crisis and then revitalize the family business, I wouldn’t bet against it.

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