Beane Associates, Inc.

Beane Associates News October 2009

A bimonthly collection of news and advice for stakeholders of financially and operationally challenged businesses

Welcome...

While the economic experts continue to debate when the national (and international) turnaround will occur, this edition of our newsletter will open a discussion of turnarounds on a more intimate level — the way it occurs within a single business.

Our main article in this edition focuses on the internal aspects of a turnaround, how we work with management and employees of a troubled business to get the company back on track. In our next two newsletters, we'll discuss the external issues, working with banks, suppliers and customers, and how we continue to assist businesses after our work on-site is complete.

For additional information on us, visit **www.beaneassociates.com**

Sincerely,
Tom Beane, *President CMC CIRA*

Two New Directors Named

Veteran executives George M. Rutz and Jeffrey L. Thommes have been named directors of Beane Associates, Inc.

"George and Jeff have the broad management experience, with companies large and small, needed to provide expert insight into the operations and needs of the troubled businesses that we serve," said Thomas J. Beane, president of Beane Associates, Inc.

Rutz is a Certified Public Accountant who has held diverse management positions over the past 25 years. He served as senior vice president for TFH Publications Inc. from 2001 to 2008, following 10 years as CFO, director and owner of TPI Inc., an international metal fabrication business. From 1980 to 1991, he was general manager, controller and director of internal audit at International Paper Corp. He began his career as a manager with KPMG, a Big Four accounting firm. Rutz earned his bachelor's and master's degrees at Rutgers University.

Thommes, of Wilmington, an engineer by training, developed his management skills while working in a variety of roles for the DuPont Co. and General Electric. He served as vice president and general manager for Kidde Fyrnetics and as vice president for sales and marketing at Smartmail, LLC, before founding PrecisionCure, LLC, which provides software automated technical service support for the radiation curing/specialty coatings industry. He is currently a member of the PrecisionCure board of directors. Early in 2009, he spent four months as temporary executive vice president of American Fibers and Yarns Inc., successfully guiding the distressed textile business through bankruptcy reorganization. He is a graduate of Villanova University and studied management and business at Oxford.

Managing the Turnaround – Rebuilding Credibility By Millard D. Brown

No matter what its product line or primary service, nothing is more is more important to a business than its credibility. Without it, the business is destined to fail.

As turnaround professionals, we get our calls when companies fall on hard times. Whether it's poor management, changing markets, new competition, other external forces or some combination of these factors that's bringing the business down, a return to stability — and profitability — must start with the restoration of management's credibility.

To make that happen, the turnaround consultant must exercise more than just financial skills; people skills count too.

When we enter an engagement, quite often we're not popular with the managers we've come to help. Typically, we're on the job because the company's lender or other advisors have told management they've got to hire somebody to come in to help them straighten out. So, management sees our presence as a symbol of its own shortcomings. Often, our first challenge is to convince management that we're on their side.

At Beane Associates Inc., we manage turnarounds through a process that usually lasts about six months, or as many as nine months for larger businesses. (*See box on back page.*) We start by meeting with the top management, usually the president or CEO and the CFO, to get their assessment of the problems, and then with other key managers — all the while completing a template filled with the standard questions we must ask as we wrap our arms around the problem. When we meet with management, I always pose this question: "Since you have to work with us, what do you want to get out of this process? What's the best thing we can do for you?"

Achieving that objective requires a firm hand cloaked in a velvet glove. We're on the job because the company is experiencing difficulties more serious than it's ever faced before. We must build a working relationship with management, showing them what they'll have to do to regain credibility with their stakeholders. This is often a very difficult task.

Soon after we arrive on an engagement, we have to let rank-and-file workers know that we're on board. Usually, we accomplish this in a "town meeting" setting. We want to reassure all personnel that we're working to put the company on a solid footing and to enlist their support as we move forward. If there are any interim changes in management, we want them to know who's in charge.

Note the item on our list: "Tour, tour, tour." We want to examine every last nook and cranny of the business — to talk to the accounting clerks, the people in shipping and receiving, the folks on the sales floor or the assembly line. In many cases, we receive valuable insights as to why the business is in trouble from workers on the front lines who seldom have contact with top management.

Whether we're meeting with the CEO or the shipping clerk, we're gathering important information about the business — not only how it runs but also which of the managers have the best balance of talent and dedication to help the company regain its standing.

Once we've got a good idea of how the company is being run, we start preparing the financials. First come cash-flow statements – first for four weeks and then a 13-week version. We also create a weekly reporting system, and a flash report system that helps us ensure that everything is staying on track. After that comes a short-term recovery plan, with a one-year *pro forma* financial statement, and, later, a long-term plan, with a three and five year *pro forma*.

Besides assessing the company's operations and developing a workable system for financial reporting, we're taking a close look at top management, as well as personnel up and down the line. We also rank all the other managers on a 4-point scale: a "1" is someone who must be retained; a "4" is someone who must be dismissed. These evaluations help us set up a turnaround team — a new corps of managers to guide the business through its crisis.

Managing the Turnaround (continued on back page)

Managing the Turnaround (continued)

All this internal work leads up to a management-lender meeting, which usually occurs 30 to 45 days after our arrival. The session is crucial, because here's when we find out the potential for success and support of the turnaround plan. In addition to securing the lender's cooperation, a positive meeting will help restore managements credibility with its lender and other creditors.

Once we're on track, we can move ahead with a new sense of purpose, executing the plan we've developed, helping the new management team establish itself, and making sure our new system of financial controls is working.

In working with management, by now we will have shown them that whatever they had been doing for years wasn't working well enough. So, we need to develop a strategic business plan that will likely include significant changes, including tighter financial controls and leaner, more efficient methods of production and delivery of services.

We will also help the business create an advisory board, a team of outside experts from various disciplines that can support management and the board of directors by providing independent advice, especially in those areas where the current management team has relatively less expertise.

Having a plan for the future — and the will to follow through on it — will help management convince its creditors that it's headed in the right direction. Assembling an advisory board to help with strategic direction and problem resolution will demonstrate additional commitment to making the right decisions. Both will help the company restore its credibility.

With its credibility restored, the business is poised to move ahead once more—to stabilize and return to profitability.

(Next: Managing the Turnaround — Creditors and Customers)

To read more, go to:
http://www.beaneassociates.com/newsletters.asp

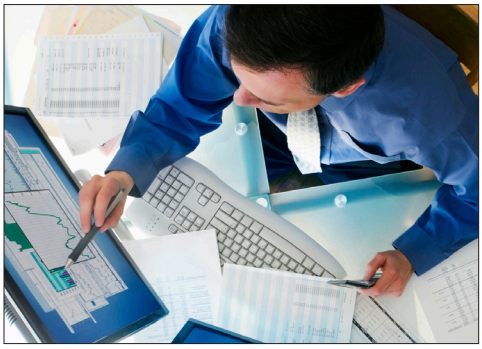
The Turnaround Program

First:
- Interview management
- Tour, Tour, Tour
- Choose internal turnaround manager and team
- Classify management: rank everyone 1, 2, 3 or 4

Next:
- Develop and implement 13-week true cash flow
- Develop and implement daily flash report
- Develop and implement weekly reporting discipline
- Creditor meeting within 30-45 days
- Develop short-term plan with one-year pro forma
- Execute, execute, execute

Finally:
- Develop long-term plan with three- and five-year pro forma
- Reassess management
- Implement advisory board
- Exit

News Briefs



Turnaround Pros Expect Turnaround in 2010

About 80 percent of turnaround professionals surveyed in the latest Turnaround Management Association poll set a 2010 date for an economic upswing even as sporadic signs of a rebound have appeared.

Nearly a third of respondents see recovery sometime in the latter half of 2010 and just over 20 percent expect a turnaround sometime in the first six months. About 20 percent expect recovery delayed until 2011. Of those that expect it to take place in the first half of 2010, opinion was equally split at 14 percent each as to whether the recovery would start in the first or second quarter.

Even in 2010, respondents forecast trouble for businesses that loaded up on debt and now find credit coffers shut tight, with 65 percent expecting corporate default rates and workouts to peak then.

Companies are cutting back on spending, but not enough to compensate for lower sales.

Respondents were split on whether a recent surge of almost 40 percent in the Dow Jones Industrial Average from its springtime lows influenced a bump in economic indicators such as housing and easier financing for healthy companies. Nearly 50 percent saw a correlation and an equal proportion did not.

Only 13 percent think business is recovering, but less than five percent observe sales returning to normal. Roughly 10 percent think lending is easing for troubled companies.

"The new bankruptcy law has made it harder to reorganize mid-market companies in this period of tight credit. More companies are likely to be liquidated than reorganized than ever before," said William Hass, chairman and CEO of Teamwork Technologies in Northbrook, Illinois.

How to Emerge Strong from the Recession

Businesses are finding out in this recession that what's worked before isn't necessarily going to work in the future. To stay strong, companies will need to quickly adjust to smaller consumer budgets, higher taxes, globalization, tighter credit and a new breed of empowered customers.

Here are six tips from executive coaching organization, Vistage International, to help businesses adjust and remain competitive in this new economic landscape.

Take advantage of the stimulus plan. The federal government's stimulus plan has numerous tax deductions, credits and incentives that benefit businesses. By qualifying as an approved government supplier or vendor, you can take advantage of the federal dollars.

Pursue innovation. There's one essential post-financial-crisis action that all businesses need to undertake: Add more value to your offering. To figure out where to add value, tap the brain trust of both your customers and your employees.

Understand your customer better. To figure out what your customers want, spend time with them and listen to what they have to say. You'll deepen your relationship and get ideas for new products.

Strengthen your value proposition. If you don't have a simple sentence to describe your business, then you need one. Just fill in the blanks in this sentence: "I specialize in working with (who?) helping them (to do what?). Don't get too technical or too general, just make it clear and easy to understand.

Use tactical advertising and marketing. Negotiate discounted ad rates and then use analytics to track the results — do more of what works and less of what doesn't. When your competitors stop marketing and advertising, step up your campaign and take their customers.

Build your social media presence. Social media is here to stay and your business needs to be on board. You can use sites like Facebook and Twitter to drive traffic to your Web site or you can use them (or a blog) to build a place where your industry or audience connects with your brand. When people connect with you in positive ways, they spread the word. Create brand evangelists and your company will be better for it.

To learn more about Vistage International visit:
http://www.vistage.com

About Beane Associates, Inc.

Founded in 1984, Beane Associates, Inc. continues to build an impressive track record in helping private and publicly owned companies improve operational effectiveness and profitability during a time of financial challenge. The company has offices in Wilmington, DE, and Atlanta, GA.

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