

Case study

Business recovery and insolvency

For many reasons businesses do not always grow and succeed as anticipated.

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Turnaround services success

Michael Owen, Partner, BDO Kendalls

Highlights

BDO has worked on many successful business turnarounds. One in particular, a large manufacturing company based in Melbourne, is referred to in this case study to demonstrate the importance of early action and seeking expert advice to assist the process.

The Challenge

For many reasons businesses do not always grow and succeed as anticipated. For some, the challenges can prove to be too great. When this happens, recognising these challenges and seeking help early places the business in a better position to return to a sustainable operation.

How we helped

The business in question was nearing the completion of outlaying a substantial capital investment. The quantum of this investment had exceeded expectations, causing income generated from the investment to be delayed. This caused cash flow shortages within the business. Some funding had been provided by the business's bankers but the bank was not willing to advance additional funds. At this point the directors realised the business was in a precarious position and sought external expert assistance.

In order to determine the most appropriate strategy to be implemented by the business to address its problems, an initial review was undertaken in a very short timeframe and reported to the business' directors. This quick assessment identified that the business was in a much worse predicament than first thought.

The implementation of improved reporting and turnaround strategy gave comfort to the business' bank..

With this position in mind, an assessment against the six requirements for a possible business turnaround were assessed. The six requirements are identified by ADVICE:

Appropriate Management

A new general manager was appointed to take control and direct the business. Two of the company's directors voluntarily resigned.

Detailed Financial Information

A monitoring system was installed to enable the company's up-to-date position to be known and acted on. This included a rolling daily cash flow forecast and regular debtor and creditor reviews.

Viable Business

The business had historically been profitable but had fallen into losses in the prior two years. The business was critically analysed and loss making activities eliminated and resources redirected to profitable divisions.

Investment/Funding

The implementation of improved reporting and turnaround strategy gave comfort to the business' bank, enabling facilities to continue. Better attention and processes designed to reduce required stock levels and expedite debtor recoveries immediately assisted cash flow for the business.

Creditors/Customers Co-operation

Once the company's problems had been identified and a turnaround strategy determined, creditors and customers were included to inform them and seek support and commitment to the process which was obtained allowing the process to continue.

Expert Advice

The management lacked the experience to deal with the company's problems at a time of financial difficulty. It sought expert advice to identify and devise a turnaround strategy and provide the support necessary to effectively implement it. This occurred over a period of about five months.

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Client thought

Whilst many actions implemented during this process are undertaken by management of the company, it is often the impartial objectivity of an independent expert that allows those actions to be identified and provide the foresight and credibility. This could mean the difference between a successful turnaround of the business or an unsuccessful result.

For the future

As noted above, assistance was provided to the company for about five months. The business was then marketed and a sale of the company achieved. This included the identification of an overseas purchaser and subsequent sale of the business operations.

The sale value was substantially enhanced as a result of the turnaround process having been adopted, resulting in the owners achieving their desired financial outcomes from the sale.

Our experience indicates that if the above six requirements can be put in place, then a business turnaround is possible.

For more information

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