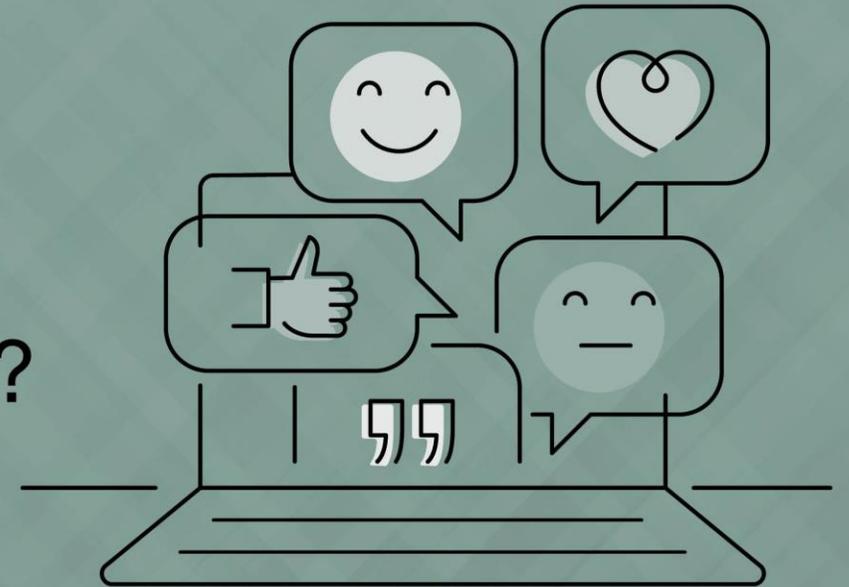


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# TURNAROUND DIAGNOSTICS

– Why is your company struggling?



We start at **13:00**

Facilitators: **Anders Kjellberg, Thomas Graugaard and Julian Velasquez**

*webinars*

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**TURNAROUND  
DIAGNOSTICS**  
– Why is your company struggling?



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**MANAGING  
TURNAROUNDS IN  
TIMES OF CRISIS**

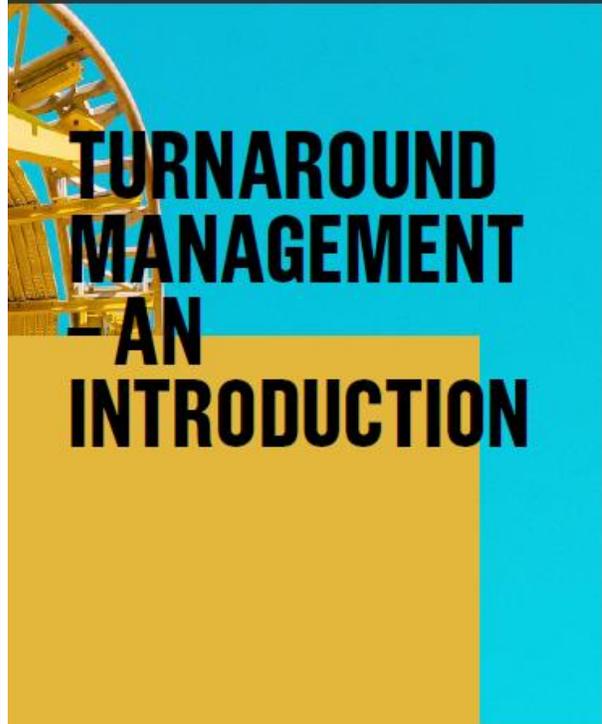


We start at 11:00  
Facilitators: Anders Kjellberg and Clara Lindsjö

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*article*

**TURNAROUND  
MANAGEMENT  
– AN  
INTRODUCTION**



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*video*

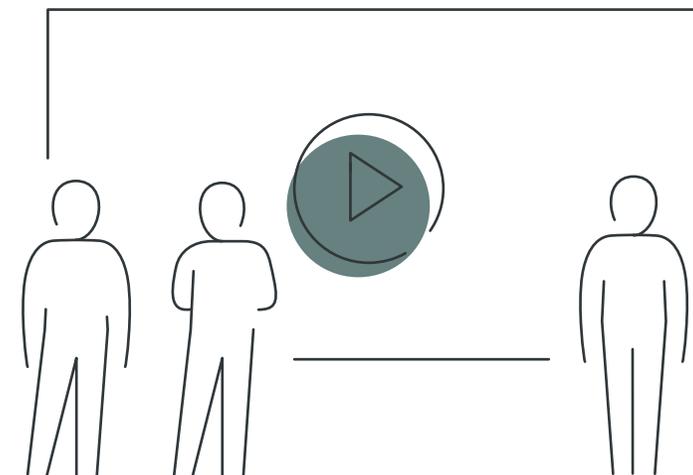
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# JULIAN VELASQUEZ



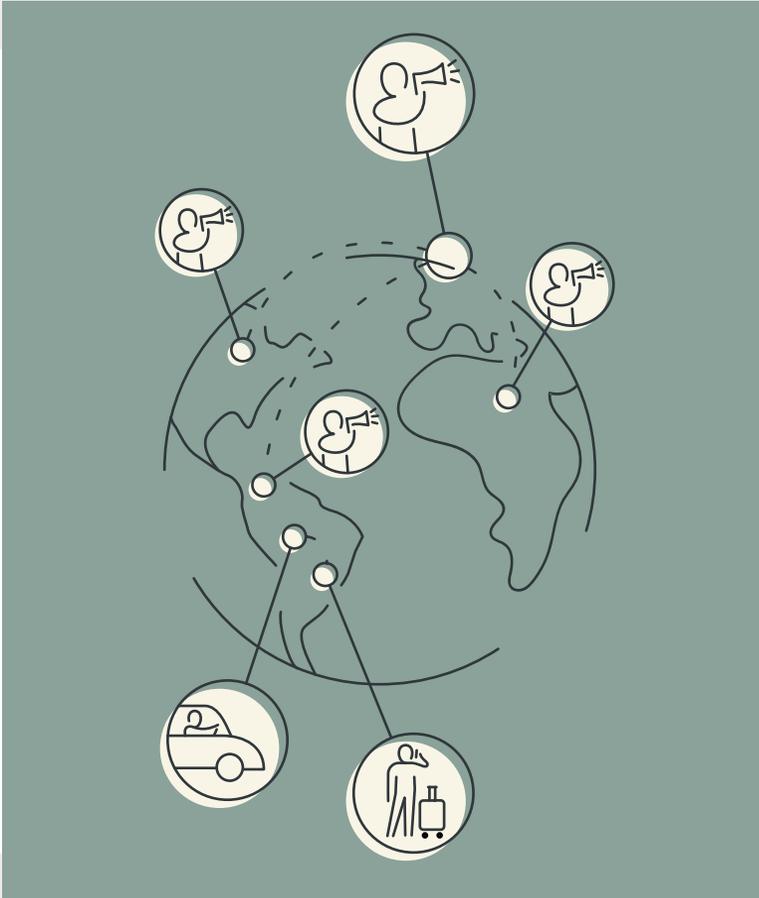
Implement Consulting Group  
Senior Consultant  
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Passionate about co-creating,  
co-designing and supporting  
new ways of highly profitable  
operational businesses



Please feel free to contact me at  
[juve@implement.eu](mailto:juve@implement.eu)



# HELLO! WHO'S HERE?

**Write in the chat:**

1. Your name
2. Your company
3. Your current city

**CHAT**



# PLEASE POST YOUR QUESTIONS IN THE Q&A

## Write in the Q&A:

- Please write your questions as we go through the material
- We will try to answer them at the end of this session

**Q&A**

# AGENDA

▶ **1.** Recap – what is a turnaround?

---

▶ **2.** Turnaround tool kit

---

▶ **3.** Diagnostics

---

▶ **4.** Diagnostics cases

---

▶ **5.** Q&A

---

▶ **6.** Goodbye (13:30)

*let's keep  
it interactive*

---

**We will use**

- Poll
- Q&A



# A TURNAROUND

has specific business development characteristics

## THE SITUATIONAL BUSINESS DEVELOPMENT FRAMEWORK

FINANCIAL HEALTH ↑

*conceptual framework*

Strong

*Next generation*

Passable  
but room for  
improvement

*Full potential*

Declining,  
critical and  
non-sustainable

**TURNAROUND**

Financial distress/  
beyond hope

*Restructuring/  
bankruptcy*

Immediate

Short term

Medium term

Long term

TIME/CONSTRAINTS →



# THE TRIGGERS

of a turnaround can be internal or external

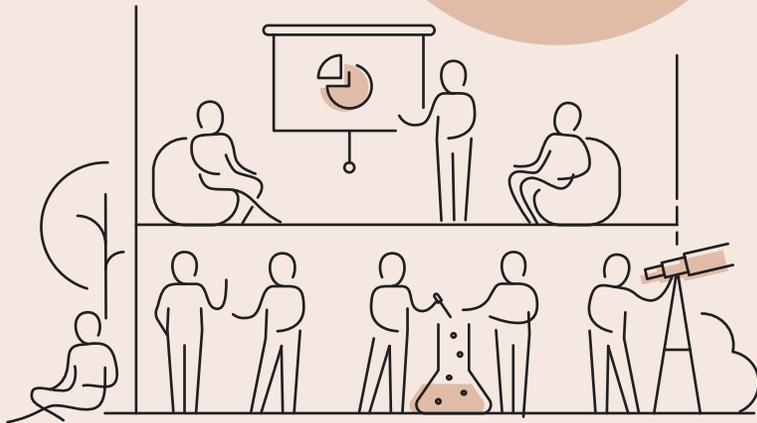
## Examples

- Management issues
- Poor financial control
- High cost structure
- Poor marketing
- Project size too big
- Acquisitions
- Financial policy

## internal factors

**70%**

Typically, 70% of turnarounds are caused by internal factors



## Examples

- Changes in market demand
- Tough competition
- Adverse commodity prices
- Government policy
- Strikes
- Pandemics or crises

## external factors

### Survival of the fittest

Weak companies will be hit harder by external factors





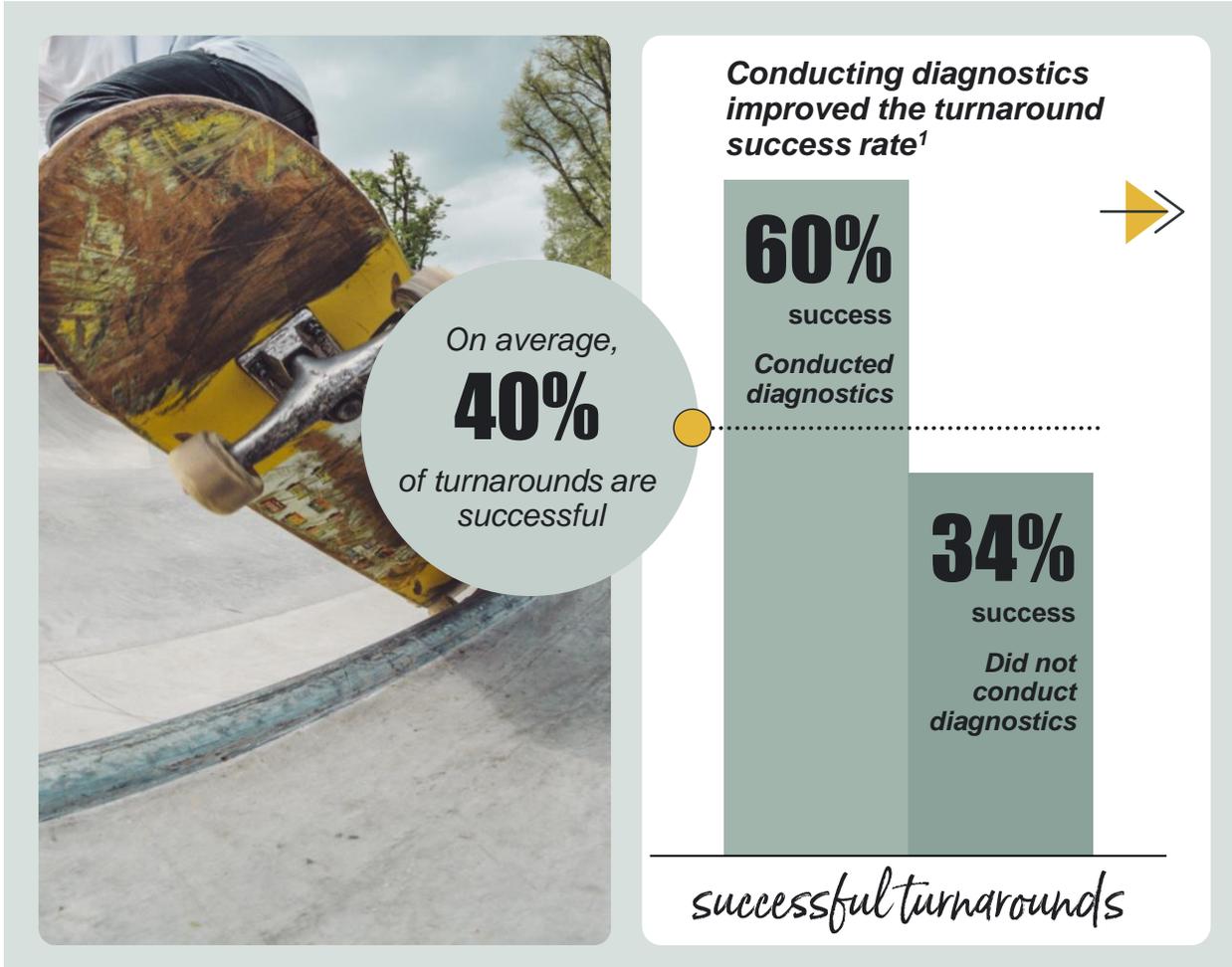
Only

40%

of all turnarounds  
are successful

# SUCCESS REQUIREMENTS

for a turnaround in a constrained environment



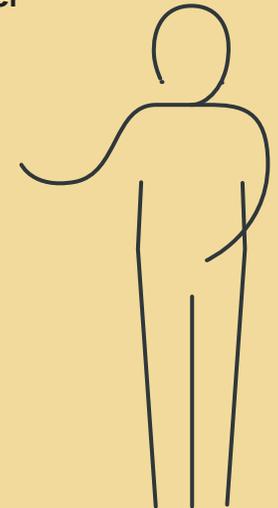
There are **3** success requirements:

1. Fact-based understanding of the situation, also called “diagnostics”
2. Prioritised realistic value creation plan
3. Right turnaround leadership, team and performance management



“Most ailing organizations have developed a **functional blindness to their own defects**. They are not suffering because they cannot solve their problems but because they **cannot see their problems.**”

**John W. Gardner**



1) McKinsey global survey on recovery and transformation from 2013 with responses from 1,527 executives representing the full range of regions, industries, company sizes, tenures and functional specialties.

# THE TURNAROUND TOOL KIT

A structured approach to increasing the likelihood of success

## TURNAROUND LEADERSHIP

A massive short-term performance improvement in a constrained situation

### DIAGNOSTICS

A fact-based understanding of the internal and external situation and root cause triggers followed by a realistic assessment of the value creation potential

**Net working capital:** Extend payables, collect receivables, reduce inventory

**Costs:** Right-size organisation, reduce external spend, reduce supply chain costs

**Commercial:** Price optimisation, prune complexity, improve commercial effectiveness

**Financing:** Manage assets, renegotiate with debtors, secure extra financing

**KEY  
VALUE  
CREATION  
LEVERS**

**STABLE  
PLATFORM**

## PLAN

Target

Plan

Implement

Control

# DIAGNOSTICS GIVE YOU *clarity* ON WHAT TO TARGET

! *You can't fix a problem until you acknowledge that you have a problem and understand what the problem is.*

! *If you fix the symptoms, not the root cause, the problem will reappear.*

! *The journey starts from where you stand.*



# SEEING THE SYMPTOMS



## **YELLOW flags to look out for**

1. Increasing management turnover
2. Actual performance vs. budgeted expectations
3. Lenders tightening borrowing lines
4. Increasing net working capital
5. Increasing quality problems:  
Increasing customer returns and  
postponement of major repairs
6. Production problems
7. Creative accounting practices and significant  
one-time adjustments
8. Market changes:  
Significant market downturn and/or new  
aggressive and successful competitors

# POLL

Which of the yellow flags do you consider to be the most serious?



## **YELLOW flags to look out for**

1. Increasing management turnover
2. Actual performance vs. budgeted expectations
3. Lenders tightening borrowing lines
4. Increasing net working capital
5. Increasing quality problems: Increasing customer returns and postponement of major repairs
6. Production problems
7. Creative accounting practices and significant one-time adjustments
8. Market changes: Significant market downturn and/or new aggressive and successful competitors



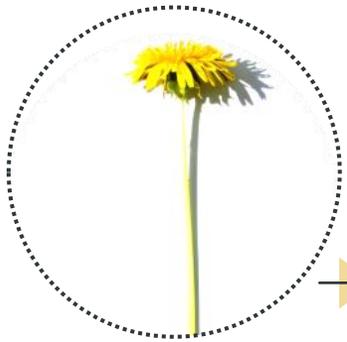
# FINDING THE ROOT CAUSE

Asking “why” until you reach the true root cause

The yellow flag symptom !

The “5 WHYS” is a simple analysis technique – often overlooked – that moves past symptoms by asking “why” until you reach the true root cause of an issue

Root cause



Sales growth was booming, however, had a sudden sharp slowdown

Repeat business slowed down dramatically

Customer quality complaints are up

Assembly errors

New assembly team training and quality feedback loop missing

Low management awareness of quality fluctuations – historically, this was not an issue, so taken for granted

*why*

#1

#2

#3

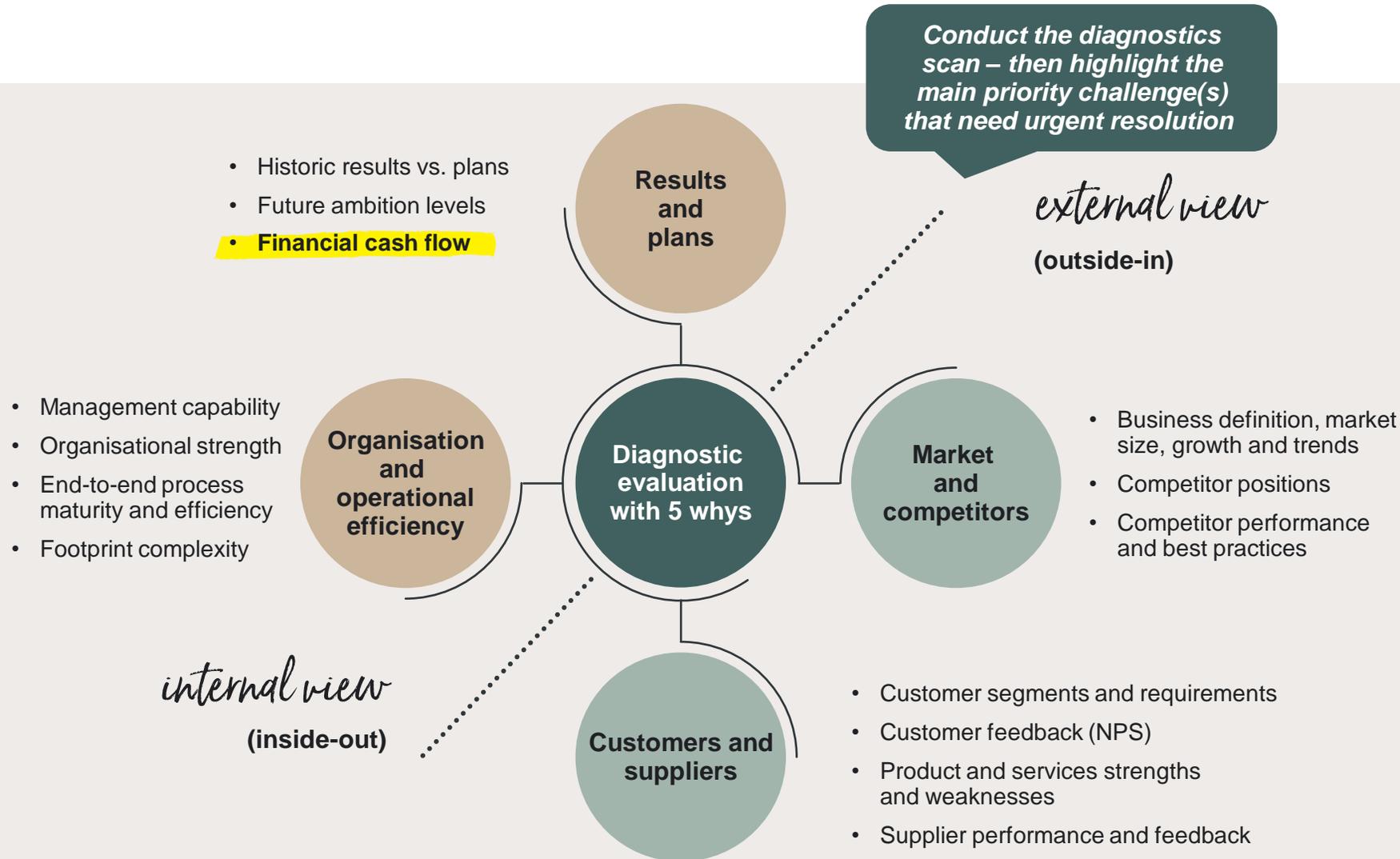
#4

#5



# TURNAROUND DIAGNOSTICS LENSES

Many things that can go wrong – important to conduct both an external and internal diagnostics



# HIGH-LEVEL DIAGNOSTICS QUESTION GUIDE

Key questions to ask within each diagnostic area – not exhaustive

Conduct the diagnostics scan – then highlight the main priority challenge(s) that need urgent resolution

example

## Market and competitors

## external view

## Customers and suppliers

Diagnostic evaluation: if an issue, then ask where, who, what and 5 whys

## Results and plans

## internal view

## Organisation and operational efficiency

### Market

- Are all target markets profitable?
- Is the competitive position in your markets strong enough?
- Is the market business outlook a challenge? High, likely, low and worst-case scenarios
- Are sales worse than market growth?
- Are there any disruptive trends and drivers?

### Competitors

- Are there competitors who are stronger/larger than you in target markets?
- Are competitors outperforming you in terms of sales growth?
- Are competitors more profitable?
- What are the main areas where competitors outperform? E.g. price, quality, services...

### Customers

- How is the company performing vs. customers' key purchasing criteria? Is there a delivery gap vs. expectations?
- Is key customers' spend and budget declining or shifting to other demand?
- Are key customers financially strong?
- How likely are customers to recommend you on an NPS scale from 1 to 10?
- Is the level of repeat business low?
- Is customer churn high?

### Suppliers

- Are suppliers struggling to supply on time and with the expected quality?
- Is the supplier feedback loop effective in securing ongoing improvements?
- Do you have the most competitive suppliers?

### Results

- Are results not meeting budget expectations?
- Are growth and profitability lower than market and competitor developments?
- How healthy is the net working capital (NWC) and cash flow situation?
- Do your capital expenditure requirements have a solid payback?
- Are cash holdings / generation sufficient to fund current and future needs?

### Plans

- Are the main priorities and goals clear?
- Are your plans aligned with your strategy, market outlook and desired goals?
- Are plans aligned with market development opportunities and competitive advantages?
- Are improvement opportunities within sales, profitability and NWC being prioritised and delivering the expected results?

### Organisation

- Does the management team have the needed capabilities and capacity?
- Is the organisation effective in making the right decisions?
- Are incentives aligned with desired goals?

### Operational efficiency

- How mature and efficient are key processes throughout the company?
- Are the main types of waste (time, scrap etc.) in the value stream minimised?
- Is the product/service delivery capability in line with customer expectations?
- What are the critical quality issues, and are proper quality processes in place?
- Are key operational management systems effective?
- How are the inventory management systems working?
- Are low value/repeat tasks automated?

# FIVE CASES OF DIAGNOSTICS



## Equipment manufacturer

- Global logistics equipment manufacturer conducting installation
- Suffered profit leakage in the installation business

## Supply chain turnaround

- Declining profitability at specific business area
- Strengthening of their European supply chain

## Specialised engineering

- Niche market consultancy with strong position
- Attractiveness of the traditional core business was eroding

## Construction material manufacturer

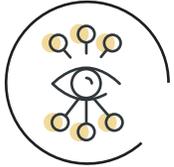
- Too high fixed costs
- Improved sourcing practices
- Also included organisational right-sizing and Lean processes

## Infrastructure subcontractor

- Experienced growth but with decreased profitability
- Pricing issues, pricing governance
- Was able to increase EBIT through renegotiated contracts and new ways of working

# CASE A

How to stop profit leak in the installation business of a global logistics equipment manufacturer



## SITUATION

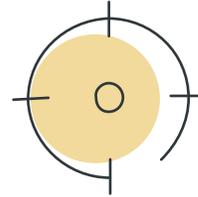
- **Sales units struggling** to turn equipment installation business profitable
- **Gross margin** for the units projects business **very low**:

**2% to -47%**



## DIAGNOSTICS

1. Price did not account for non-standard (most things were)
2. Late stage re-engineering—delay, standstill in operations
3. Engineering had not verified quote
4. Quote converted to order based on preliminary estimate by sales
5. Engineering had not answered fast enough in the past



## SOLUTION

1. Improve **project portfolio management** in engineering
2. Clearly defined **stage-gate quote-to-order process**
3. **Improve communication** and build **collaboration culture** between engineering and sales
4. **Tools, CRM, training and coaching**

# CASE B

## Strengthening the end-to-end supply chain for a construction equipment manufacturer – A transformation journey



### Results and plans

#### DIAGNOSTICS

- Sales flat despite market booming
- Product delivery was not competitive
- Improving supply chain maturity and competitiveness represented a very **big upside** – however, this also represented a **significant transformation**

### Market and competitors

- .....
- 50% increase of inventory

### Customers and suppliers

- 26% employee turnover
- .....
- Plan adherence at only 10%, adding even more to the backlog – snowball effect
  - Underforecast at 20%
- .....

### Organisation and operational efficiency

- Only 17% on-time delivery to customers
- +21 quality issues per product
- Supplier on-time delivery only at a level of 61%

#### SOLUTION

**Key challenge:** Quickly improve the end-to-end maturity level for the supply chain of this construction equipment manufacturer

**Key steps and methodology:**



**THREE** workstreams to achieve targets:



**Improving the S&OP process:**  
Real decision-making – executive S&OP installed, including a statistical forecasting tool



**Strengthening performance of the two main factories:** Standardised way of planning



**Optimising finish and installation processes for customers:** Increased customer focus from sales to delivery

#### RESULTS

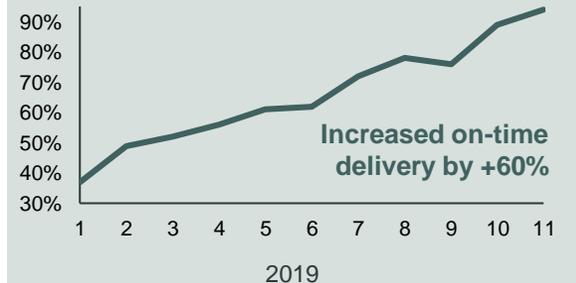
After 12 months, the new operating model has supported in realising:

- Daily output **+19%**
- Productivity **+21%**
- Lead time for customers **-14%**

The new S&OP processes supplied policies, rules and prioritisation guidelines for tactical and operational decisions, realising:

- On-time delivery **+60%**
- Inventory value **-31%**

**OTD to customer**  
in %



# CASE C

The traditional core business attractiveness is eroding  
– need to evolve/strengthen new value-added services t



## DIAGNOSTICS

### Results and plans

- Revenue dropped in the last two years

.....

- Overall market expected to continue to grow

### Market and competitors

- Company targeting CAPEX business – and not strong in follow-on operational services
- Competitive environment getting tougher with higher cost awareness in core CAPEX services

.....

### Customers and suppliers

- Impressive client list but lumpy business sales and high customer acquisition costs
- Customers appreciate quality and technical capabilities but don't want to pay the price

.....

### Organisation and operational efficiency

- High technical capabilities and competences, however, low maturity with respect to communication and innovation capabilities
- Challenges with customer centricity and building long-term customer relationships
- High variability in customer satisfaction

## SOLUTION

**Key challenge:**  
The traditional core business attractiveness is eroding  
– need to evolve/strengthen new value-added services

**FOUR** must-win battle categories:



### New offerings:

Develop offerings to target higher value-added demand in operational services



### Partnerships:

Pursue partnerships to strengthen operational service business



### Organisation:

Align organisation to the new service business needs



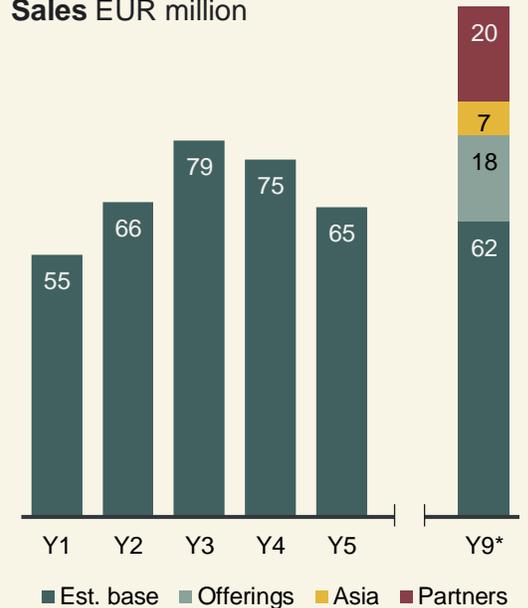
### Commercial:

Strengthen commercial and innovation development capabilities

## RESULTS

+48% increase in new sales

Sales EUR million



# CASE D

The company needed to improve margins to “get back to black”



## Results and plans

### DIAGNOSTICS

- **Multi-year turnaround** with many years of cutting costs already performed
- Fixed cost ratios remain high
- Low visibility of costs
- .....
- The market is growing, however, the product is **commoditising**, and the company is facing constant price pressure
- .....
- Company seen as a **quality supplier**, however, not able to capture sufficient price premium
- Most costs related to **raw materials** (plastics and metal), which are passed on to customers
- Low level of value-added conversion, meaning that **fixed costs need to be very lean**
- .....
- Very **complex organisation** with many layers and low span of control and sub-sized operations (e.g. 18 customer service centres)
- Low planning and customer prioritisation maturity

## Market and competitors

## Customers and suppliers

## Organisation and operational efficiency

### SOLUTION/APPROACH

#### Key challenge:

- Short-term need to reduce fixed costs to return to profitability and buy time to develop more value-added services

#### Key steps and cost savings methodology:

Diagnose

Design and quick hits

Change plan

## FOUR

related workstreams:



**Lean process redesign:** improving the planning process and better operational management



**Sales force efficiency:** A more agile sales workforce with focus on profitable customers



**Organisational right-sizing:** Improved organisational setup with optimal spans and layers of control



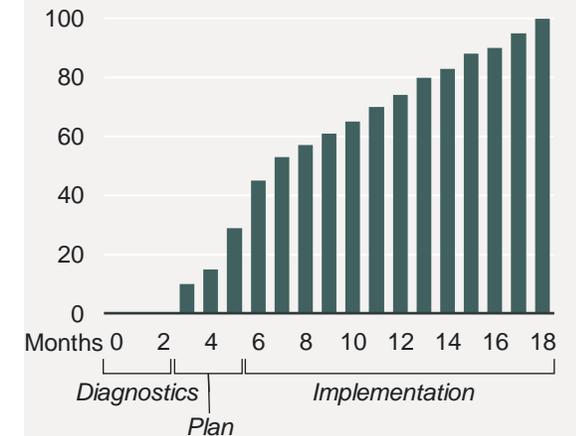
**Sourcing cost reduction:** Sustainably lowering costs in direct as well as indirect categories

### RESULTS

Fixed costs **reduced by 10%**, 45% implemented within 6 months and the rest within 18 months

Platform to develop the company for future profitable growth was secured

#### Fixed cost savings realisation over time (%)



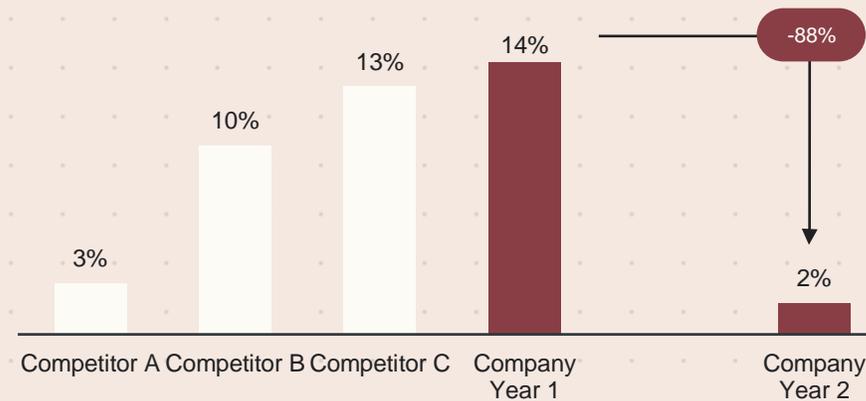
# CASE E

## INCREASING EBIT THROUGH PRICE GOVERNANCE FOR INFRASTRUCTURE SUBCONTRACTOR

### Situation and approach

- Company experiencing a **period of rapid growth** and to meet demand increasingly used subcontractors.
- However, simultaneously, there was a **significant drop in profitability** without understanding the underlying cause
- The diagnostics revealed a **mismatch on pricing and delivery agreements** between customer and sub-contractor contracts
- An easy-to-use **price governance** tool was set up to simplify sales and pricing processes and avoid unprofitable projects

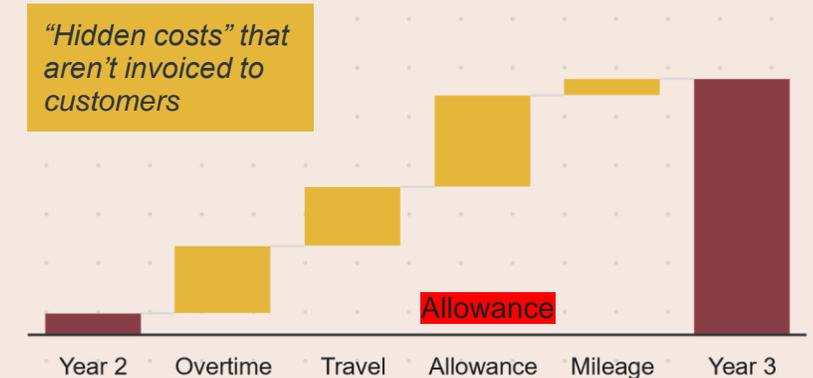
EBITDA for company compared to competitors (%)



### Impact

- Updated prices and customer **contracts/agreements**
- Implemented a **culture** to only accept projects above the agreed upon threshold
- A **governance** structure with defined checkpoints to update pricing and discounts based on project parameters
- EBITDA increased by ~8 percentage points

Company EBITDA improvement bridge



**CASH IS THE  
RULING MONARCH**



# FORWARD-LOOKING CASH FLOW

Remember that it's important to know cash in and cash out on the road ahead

## FOUR SIMPLE QUESTIONS THAT NEED TO BE ADDRESSED

1. How much cash do I have and will I have going forward?
2. How much cash will I need?
3. When will I need it?
4. Where (and when) will I get it?

**Example:** COVID-19 and the resulting financial crisis represent a **demand shock** that requires immediate action to preserve cash flow and cash availability

# DIAGNOSTICS: POTENTIAL EXTERNAL DEMAND SHOCK

## SCENARIO DEMAND PROJECTIONS April to Dec 2020

Assumptions  
6-month **demand shock** Apr-Sep  
Q4 recovery 10% up from demand shock

**SCENARIOS** Demand shock in % vs. historical levels

**BEST**



-20

**LIKELY**



-30

**WORST**



-50

## CASH IMPLICATION WITHOUT ACTIONS

- Cash flows severely hit
- In worst case, no cash left in December

**Cash flow** Full year in MEUR  
**Cash availability** End of year in MEUR

-55



60



-75



40



-115



2



## SHORT-TERM CASH MITIGATING ACTIONS

### 11 actions to conserve cash short term

1. Postpone/stop dividends
2. Postpone/stop bonuses
3. Postpone/stop salary reviews
4. Enact temporary layoffs
5. Postpone training
6. Reduce consultant costs
7. Reduce non-critical OPEX
8. Reduce non-critical CAPEX (including IT)
9. Hiring freeze
10. Negotiate rental terms
11. Increase credit facilities

## CASH IMPLICATIONS WITH MITIGATING ACTIONS

- Cash flow hit but manageable
- Healthy cash situation to fund recovery

**Cash flow** Full year in MEUR  
**Cash availability** End of year in MEUR

25



>100



-5



>100



-35



80



# IS IT WORTH IT?

Should we really do a turnaround?

## Evaluating viability:



1

Is the underlying industry a **stable growth industry**?



2

Is the company **brand strong**?



3

Are the **customers positive and loyal**?



4

Does the company have good **capabilities** and talent?



5

Does the company have **competitive products** and product pipeline?



6

Is the **required financing** of the future cash flow projection available?



7

Are **improvement opportunities** doable, and will they be enough?



8

Do the **future cash flow scenarios** look reasonable?



9

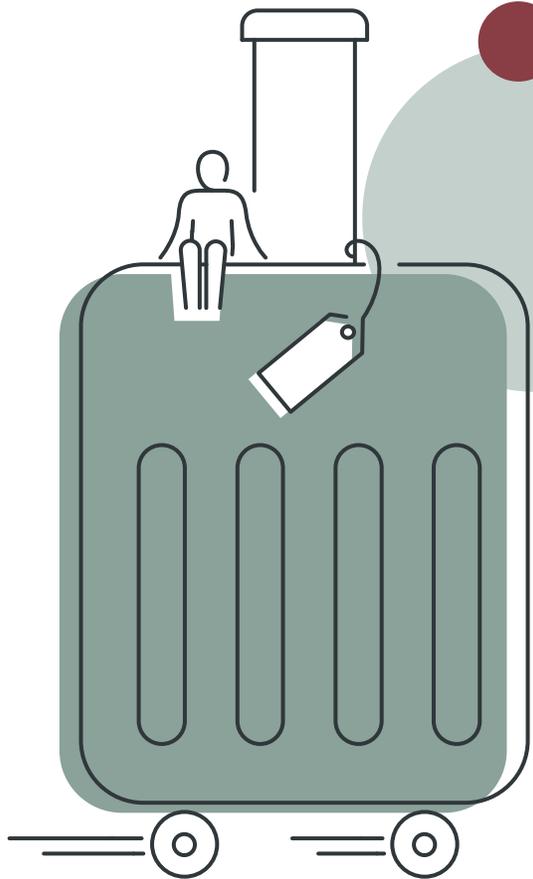
Are **key stakeholders** committed?

*None of these factors alone can imply a firm conclusion of the viability of a turnaround, however, they help support the case. So, what are the signs that one should say “no”?*



# SOME KEY TAKEAWAYS

from the webinar



## 01

Turnarounds are a **massive short-term performance improvement** effort in a constrained situation.

## 02

**Diagnostics** are an important part of turnaround management; understanding the situation can allow for a more suitable approach.

Performing factual diagnostics can **improve the chances of a successful** turnaround.

## 03

There are **four overall diagnostic lenses**:

- Results and plans
- Market and competitors
- Customers and suppliers
- Organisation and operational efficiency

**Review these – with the 5 whys and pinpoint your priorities**

## 04

It is vital to be able to **secure cash flow** going forward and to know how much cash will be needed, when and how to get it.

## 05

Before undertaking a turnaround effort, make sure that the **effort is viable**.

In order to do so, there are a few important questions to ask relating to the company and the situation it is in.

# THANK YOU!

# FIVE BELIEFS DRIVE US ...

*We believe*  
**REAL CHANGE  
IS ROLLED UP  
– NOT ROLLED OUT.**

*We believe*  
**REAL CHANGE  
CHANGES  
CONVERSATIONS**

*We believe*  
**PROBLEMS CAN BE  
COMPLICATED.  
SOLUTIONS CANNOT.**

*We believe*  
**DETAILED PLANS  
ARE AN INSULT TO  
THE FUTURE**

*We believe*  
**LEADERS ARE SOCIAL  
ARCHITECTS OF  
ENERGY AND  
PASSION**

# THE NEXT WEBINAR

is about planning

## TURNAROUND LEADERSHIP

A massive short-term performance improvement in a constrained situation

### DIAGNOSTICS

A fact-based understanding of the internal and external situation and root cause triggers followed by a realistic assessment of the value creation

Next webinar after the summer

**Net working capital:** Extend payables, collect receivables, reduce inventory

**Costs:** Right-size organisation, reduce external spend, reduce supply chain costs

**Commercial:** Price optimisation, prune complexity, improve commercial effectiveness

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**KEY  
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Target

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→ We're continually updating our series of **bite-sized webinars** with new themes and ideas for tackling the challenges surrounding the COVID-19 situation.

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## #1 POST COVID-19 GLOBAL SUPPLY CHAINS

18 June 2020, 11:00–11:25

## #2 THE PSYCHOLOGICALLY SAFE WORKPLACE

23 June 2020, 08:00–08:25

## #3 BEDRE KOMMUNAL VAGTPLANLÆGNING

24 June 2020, 14:00–14:30



\*More themes will be added every week

**IT'S TIME FOR**

**QUESTIONS**



**Q&A**

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# THANKS

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