

## BUSINESS IN CRISIS: **WEEK ONE**

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When a business “hits the wall” (i.e., is unable to continue operations due to lack of funding), all stakeholders become engaged in a process distinctly different from past practices. Whether a stakeholder is an officer of the company, a creditor, a supplier or a customer, companies in crisis require special attention and immediate actions.

Ownership and management are now in a position where they must face reality, address issues either previously unknown or ignored, and allow “outsiders” to have access to information and become involved in their decision making process. The activities and actions needed when an organization hits the wall typically require entirely different skills than those present in the existing organization. Ownership, management or outside constituents should seek help from turnaround specialists and legal counsel, with distressed business experience, to help them through the crisis. These specialists will provide critical leadership in developing an objective understanding of the current situation, stabilizing the company through a process aimed at managing stakeholder interests fairly, and developing a long term plan encompassing the interests, positions and needs of all constituents.

At the point when a company becomes unable to continue operations and a turnaround specialist is appointed along with legal counsel, an appropriate action plan must be adopted quickly. The first week of a turnaround is typically focused in the following three areas:

1. Short-term Survival and Mitigation of Value Loss
2. Developing a Broad Understanding of Various Stakeholders’ Interests, Demands and Potential Actions
3. Implementing Processes to Control and Manage Critical Activities

### **SHORT-TERM SURVIVAL AND MITIGATION OF VALUE LOSS**

Activities to ensure short-term survival while mitigating loss of value include:

- Obtaining a detailed understanding of the current cash position and near-term viability of the company
- Determining the borrowing base availability or out-of-formula position, and
- Conducting an assessment of the present ability to deliver goods or services to customers and the related constraints including cash requirements

These activities should provide an understanding of what is required to re-establish the revenue generating capability of the business. Often, the cash crisis is immediate (i.e., the business cannot pay its employees or critical suppliers) and the existing equity holders cannot or will not provide any additional funding. If this is the case, to avoid shutting down production, the customer(s) and the lender(s) will have to work cooperatively to bridge the immediate liquidity gap. Once the immediate funding needs are addressed, short-term financial accommodations from the stakeholders including customer(s), lender(s), and suppliers should be pursued and captured in a formal agreement among the parties. For example, requests may include: accelerated payment terms from customers, extended payment terms to suppliers, additional equity from the owners, or a temporary over-advance from a lender. Generally it is in the best interest of one or more stakeholders to support the company in the short-term until the problems are understood and alternative strategies can be developed.

Furthermore, assessments should be made to determine the liquidation value of the enterprise. What are the collectable accounts receivable, usable inventory and appraised value of the fixed assets? What is the security position of the secured creditors and the extent of credit provided by suppliers and other unsecured creditors? The preliminary answers to these questions provide a baseline to establish current value as well as guidance in managing stakeholders and mitigating further loss.

In general, the positions of the various stakeholders should be understood with the intention of treating those of a similar nature consistently and not allowing respective positions to deteriorate or improve at the expense of others. It is key, early in the process, to have stakeholders “stand still” to preserve value and allow time to develop long-term solutions. More importantly, by having stakeholders stand still, one stakeholder is not improving its position over another. This assists in establishing credibility and confidence in the process which generally increases the degree of cooperation the stakeholders may be willing to provide.

## **DEVELOPING A BROAD UNDERSTANDING OF THE VARIOUS STAKEHOLDERS' INTERESTS, DEMANDS AND POTENTIAL ACTIONS**

During the first week of a business crisis, the establishment of communication with various stakeholders is critical. Typically, outsiders are not aware of the severity of the problems, have been provided little information and in many cases have become frustrated, irritated or even begun to take action against the company for lack of performance (delivery, quality and other issues), lack of timely payment to the trade, violation of loan covenants or out-of-formula borrowing positions, or other issues.

By communicating with the various stakeholders, their issues and concerns become known and better defined, realistic expectations can be established and, hopefully, confidence that the situation, as bad as it may be, is at least being handled in a constructive, professional and forthright manner. Key factors in communication with certain stakeholders may include the following:

<b>SUPPLIERS</b>	Communicating Company status, go forward plan of action, and proposed resolution plan for amounts owed
	Understanding actions taken, legal, delivery stoppage, and accelerated payment demands, etc.
	Stand still request, COD for new shipments, if required
<b>CREDITORS</b>	Communication of Company status, go forward plan of action, and timing
	Reconciliation of current loan status, funding request, cash flow forecast
<b>CUSTOMERS</b>	Communication of Company status, go forward plan of action, and timing
	Shipment status, backlog, quality issues, expedited freight, new program timing and funding
<b>EMPLOYEES</b>	Communication of Company status, go forward plan of action, and timing

Part of the initial communication should be the establishment of a communication process. How and when will the constituents be updated? Who do they contact with specific concerns? How will discrepancies of fact get resolved and with whom? What specific authorization or reporting is required?

### IMPLEMENTING PROCESSES TO CONTROL AND MANAGE CRITICAL ACTIVITIES

If an outside turnaround specialist is retained by the company, the roles, responsibilities and authority of management will need to be redefined. Decision making processes will need modification. Cash control and cash management are critical processes during this phase and should reside with the turnaround specialist. Too often, at least initially, company personnel will be unable to make objective decisions regarding the use of cash in a survival mode. Past practices such as making payments for non-essential items or allowing suppliers to accelerate terms are hard to change.

Understanding the cash balance per book on a real time basis is necessary, including the daily projection and management of cash receipts, borrowing availability and cash disbursements. Cash flow forecasts must be updated on a daily basis for two- to four-weeks out. Following initial stabilization (after week one), the preparation of a rolling 13-week cash flow forecast needs to be established.

Processes for generating new reporting need to be established, such as more frequent (even daily) and detailed borrowing base filings, cash disbursements by expense category (as forecasted), weekly cash flow of budget to actual analysis, and other information. Additional examples of week one processes include the daily identification and procurement of critical items required to maintain the revenue stream and the management of vendor issues to ensure continued supply. Tracking of COD payments and the

related goods received and invoicing documentation and reconciliation is important as vendors begin to require COD payments. All of these activities should be performed under the authority and guidance of the turnaround professional.

## SUMMARY

For a business in crisis, week one is a very hectic and challenging time. It is important to obtain the broadest understanding of the situation and issues while digging deeper where required to deal with key issues. Short-term cash flow and survival are generally the top priorities. As conditions begin to stabilize, a longer term focus can be undertaken. As early as possible, efforts should be made to understand the mid-term and long-term viability of the organization. The viability of the entity is required for the various stakeholders to assess the situation and to identify possible solutions that meet the needs of the constituents.

The above discussion of key activities required in the first week of business crisis is not exhaustive (for example, other actions would be required should a company file for bankruptcy, or when a bank refuses to continue lending), and certain examples may not apply in all situations. For a quick reference summary of Week One Items, [click here](#) or contact us at your convenience.

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