# Tips for Tune-ups and Turnarounds: Strategies Target Healthy and Troubled Companies

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***The Phoenix Effect: 9 Revitalizing Strategies No Business Can Do Without***
By Carter Pate and Harlan Platt
John Wiley & Sons, Inc., 2002

Carter Pate and Harlan Platt targeted the management of both good and troubled companies in *The Phoenix Effect* , a book that came about as a result of the relationship the co-authors developed through TMA and the Certified Turnaround Practitioner (CTP) program.

Pate is managing partner of PricewaterhouseCoopers LLC's Financial Advisory Services in Dallas, and became acquainted with Platt while earning his CTP designation. Platt, the ACTP faculty dean who created and oversees the administration of the CTP examination, is a finance and insurance professor at Northeastern University's College of Business Administration.

Their book capitalizes on Pate's broad, practical interim management and consulting experience at his own firm, Pate, Winters and Stone, and later at PricewaterhouseCoopers, with the knowledge base Platt has built through his classroom, troubled-company research activities, and his positions on the boards of directors of a number of companies.

Scope, orientation, and scale are the words the authors use to describe corporate missions and strategies. Each chapter presents one of their nine revitalizing strategies with folksy Texas humor and familiar case examples that help clarify concepts. Lovers of corporate renewal storytelling will like this book.

*The Phoenix Effect* takes its name from the mythical bird that repeatedly rises from the ashes to live again. The story was first told by the Egyptians and then adopted by the Greeks. Unfortunately, it's a story that is not often repeated in corporate turnarounds. As management expert Peter Drucker says, "Most turnarounds don't!"

Yet, *The Phoenix Effect* gives the reader the impression — and the hope — that most companies can be turned around. The authors classify all organizations into three main categories:

1. **Good.** These businesses dominate their markets, but they need to continue to renew their strategies to remain ahead of the competition. These companies need periodic tune-ups. "What can we do better?" they must ask continuously.
2. **Bad.** These companies have some problems, but they can be fixed through traditional turnaround

methods if the difficulties are identified early enough. Turnaround tools can be used to help transform a market laggard into a market leader.

3. **Ugly.** These companies are hopeless cases in need of crisis management. They have run out of cash.

The categories serve to identify which strategies are likely to be most effective in revitalizing profits in a given situation. The nine revitalizing strategies are helpful to both healthy companies in need of tune-ups and troubled companies that require turnaround or crisis management. Revitalizing strategies discussed in*The Phoenix Effect* are:

1. Get to the point of pain by overcoming denial and deception and identifying the specific business problems a company faces. The authors believe that diagnosing problems is critical but that it's not as easy as it may sound. Unlike "Chainsaw Al" Dunlap, Pate and Platt regard businesses as complex entities, and their book makes no claims that solving their problems is simple. They don't believe a single number exists that can serve as a flawless indicator of success or failure.

   Not surprisingly, the first step the authors suggest in addressing problems is to determine a company's cash position. Strategy, marketing, and operational issues are important, but they don't even become relevant if the business has run out of cash.

   Autocratic CEOs, who often blame the bearers of bad news rather than address the issues they raise, are frequently cut off from the realities of their own businesses. Their companies rarely fit the images that these leaders hold of them; even strong executives tend to overlook their own flaws. Pate and Platt demonstrate why gaining an outside perspective is usually helpful.

2. Determine the scope of the business by picking one or more markets the company can serve profitably. The scope of the business typically covers its range of products and services and/or the geographic locations in which it operates. A company can fail if its scope is either too broad or too narrow.

   Many companies fail because they overextend into areas in which they don't belong. A company in distress must decide whether to try to maintain its existing scope, to withdraw from certain markets, or to enter into new businesses.

   The authors believe it's easy to identify those parts of a company that don't fit in the current business environment. Simply listening to people up and down the organizational chart is often a good method for singling out problem areas. Scope changes are fairly easy to execute. A deeply distressed company often must revise its scope significantly to survive.

3. Orient the business by focusing on the right customers and differentiating products from those of competitors. The orientation of a business can often be found in its mission statement, which may reveal a company's target market and whether its focus is on providing the highest quality or the lowest cost. Orientation must change over time, however, because customer needs and the business environment change.

The keys to understanding orientation include comprehending what the customer values, such as price, quality, and durability, and how the customer ranks utility in relation to attractiveness and convenience. Companies get into trouble when they fail to understand what brings value to their customers.

The authors view setting prices as the most critical element of the orientation decision. Fine-tuning orientation is an ongoing process in successful corporations, but it is critical in a troubled company. Although reorientation is key, the authors recommend against major changes in orientation for a company that is in the middle of a major crisis.

4. Manage the scale of the business while keeping in mind that although large companies may enjoy some economies of scale, size alone is no guarantee against failure. Many companies fail while pursuing of the advantages of size. Both healthy and distressed businesses must decide whether their strategy is to grow, maintain their size, or shrink.

   The effects of scale often show up in different areas, such as advertising, brand name importance, access to capital, logistics and distribution, and research and development. The authors warn, however, that large companies encounter certain diseconomies of scale such as the need for voluminous written operating procedures, comprehensive business policies, and bureaucratic checks and balances. Their solution is to keep the management system as decentralized as possible.

5. Manage debt by restructuring, renegotiating, and/or merging to create or enhance the value of an enterprise. Debt levels must be managed carefully by both healthy and troubled businesses. Several tips on negotiating, along with case examples, are presented to help those unfamiliar with restructuring and renegotiation.

   Even healthy firms restructure debts constantly. Troubled companies often have no choice but to exchange excess levels of debt for additional equity. An outside negotiator who is familiar with the real issues and the parties involved can often produce superior results.

6. Get the most from assets by managing working capital wisely to avert a cash crisis. The authors recommend using changes in the levels of working capital as early warning signs of other problems in a business. Most businesses have cost saving and capital raising opportunities that have both short-term and long-term benefits available to them. Monitoring working capital may be tedious, but it's critical to any company's survival.

   As a general rule, the authors recommend that a company maintain current assets above current liabilities by at least 25 to 100 percent. A cash budget that accurately reflects reality is the best tool for managing working capital.
7. Get the most from employees by managing people effectively. People are more important than products. In fact, Pate and Platt consider employees to be a company's most important asset. All companies should

continually look for ways to improve the quality and productivity of their employees.

Employee attitudes alone can save or destroy a business. If customers dislike a company's people, it won't be long before they dislike its products. Having courteous, patient, and helpful people handling telephone inquiries provides the first line of defense. Good people can help resolve even the most difficult product problems, as many companies have proved.

Turnaround managers should be familiar with the exchange rule, the ethical rule, and the environmental rule for dealing with employees. Unfortunately, it may be necessary during a crisis to deviate from these three rules for maintaining balance between employees and the employer. Pate and Platt also offer tips for handling issues involved in major layoffs.

8. To get the most from its products, a company must make periodic adjustments to ensure that its goods meet the changing needs of its market and its market strategy. Products must fill customer needs, and every product and customer should yield a profit. Unfortunately, most companies don't measure profitability by product and customer very well.

   Strategic refocusing should be constant and unrelenting in every organization. Strategic goals may include raising market share, being the lowest-cost producer, or having the highest-quality product. Naturally, in the face of a cash crisis, strategic concerns are placed on the back burner, but they should remain there only until the cash situation is stabilized. Real and sustainable turnarounds require strategic refocusing.

9. Produce products efficiently by considering the optimum combination of self-manufacturing, redesign, and out-sourcing. In today's global environment, every company should look at both domestic and foreign production alternatives. Even plant-less and outsourced businesses can encounter financial trouble. Combining plants and operations is always an important option for troubled businesses, but it is a growing trend even for healthy companies in need of an occasional tune-up.

10. Don't hesitate to change processes. Small changes and operating performance improvements can pay big dividends. Re-engineering the entire corporation isn't necessary to fix most businesses. Companies should take advantage of small changes and process improvements whenever possible. Refining functional processes is one of the fastest and easiest ways to bring about improvements quickly.

    Unfortunately, it often requires a crisis such as the potential loss of the largest customer to promote creative thinking. Change is necessary for all organizations to survive.

### Case Studies Galore

*The Phoenix Effect* is a quick read. It is loaded with more than 80 case examples and references that demonstrate success and failure in executing the strategies well and poorly at both good and bad companies. The examples of corporate revitalization are applied to both good companies and those that are currently troubled or highly distressed.

Readers are offered examples from good companies such as Home Depot and McDonald's and from dramatic failures such as Cendant, Compaq Computer, and Kia Motors. On balance, readers probably see more examples of good companies than of troubled ones.

Examples of troubled companies are incorporated across several chapters, however, which helps tie the book together. The many examples make the book appropriate for helping to focus or refocus a startup situation or a business plan. Tom Peters, management guru and co-author of *In Search of Excellence*, called*The Phoenix Effect* "a damned good book...strongly recommended for any consultant or manager that is concerned with maintaining a profitable business."

Tens of thousands of companies do not live up to their profit potential.*The Phoenix Effect* can help them, while aiding efforts to fix the concept of corporate renewal more solidly into the business world's vocabulary.

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