



**MY BANKER IS WORRIED ABOUT MY COMPANY
- WHAT'S NEXT?**

THE KEYSTONE GROUP

By Brian L. Stewart



Why is my banker suddenly so worried?

“the sky is falling, the sky is falling,”

A round of golf and box seats at the big game are nice benefits of a banking relationship, but when your banker strongly supports your business the value is priceless. As a business executive, you have most likely managed through profit and cash flow pressures before. However, this time your banker seems less patient.

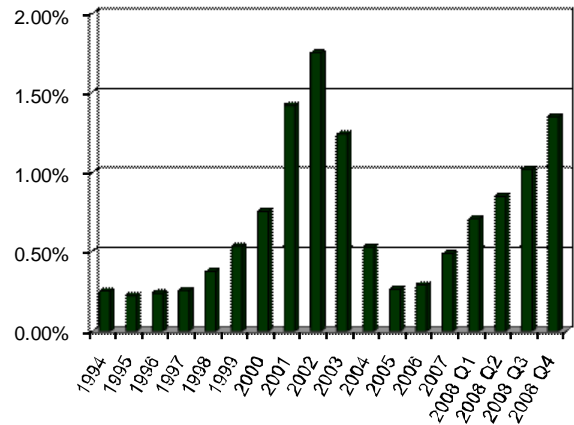
While it may appear that your banker is a pessimist, there are many factors increasing the level of pressure at the bank on both your company and your banker:

- Reduced liquidity and revolver availability
- Missed financial covenants
- Late loan payments and repeated budget revisions

Your banker is not only measured on new business, but also on return on assets and write-offs. The bank credit committee’s job is to poke holes in your financials. This committee only assesses “the numbers” and places substantial pressure on your banker when results are not meeting their expectations. One banker summarized this role as, “it’s pretty simple—losses, cash flow issues, or missed covenants and there will be pressure at the bank.” Further, significant attention has focused on stemming the significant write-offs during the current and previous economic downturns (see graph at right).

To prevent your loan from joining this list, it is common for the bank to suggest you consider a consultant to assist in improving your profitability and cash flow. While bankers are very astute financially, their role is not to identify specific operational issues or develop improvement plans. When business issues appear, the bank’s goal is to reduce their risk by having you actively fixing the problems that raised the red flags. Your banker will usually have a list of consulting firms that they trust to be able to help a company in your situation. Despite recommending a consultant, your banker typically desires to continue growing your relationship.

Bank Write-offs - Commercial and Industrial Loan Write-offs as a Percentage of Loans Outstanding



Source: Federal Reserve Statistical Release

What should I look for in a consultant?

You may remember one consulting firm’s recent television commercial where a consultant answered a client’s request to fix the identified problem with: “Oh, we don’t actually **implement** our solutions.”

Different consultants’ approaches for actually fixing your problems will vary. As you begin discussions with the list of consultants, selecting the “right” consultant is critical to your success. The right consultant is an exceptional advisor for both your interests and the bank’s. In our experience, the best situation is where the company derives value from the insight, analysis, and improvements driven by the consultant **and** the bank feels comfortable with the consultant’s objectivity.

There are several qualities you should look for when selecting a consultant:

Been There Before – They should understand your business issues. Make sure they work with companies your size and in your line of business (e.g., manufacturing, distribution, retail, service).

Business People – It is not to your company’s nor your bank’s benefit for the consultant to just focus on the finances. Experience in strategy and operations should accompany financial skills.

Experienced – The firm should utilize experienced resources on your project - not just in the proposal.

Collaborative Style - When the consultant’s work is completed, your management team must be able to make a smooth transition and hit the ground running.

Sense of Ownership – A consultant for your company should be concerned about your business, profitability, and implementation. Generating a return on your investment (fees paid) should be paramount.

Walk the Walk – They should have successes in improving their clients’ bottom lines, the bank’s position, and the banker-company relationship. Contact their references and address the qualities above.

Case Study:

Working with a car parts manufacturer, the relationship between the bank and management was one without trust. The bank was skeptical of any improvement plans and forecasts that management provided due to a history of complacency and inaccuracy. Management held the opinion that the bank did not understand their business and just hampered any potential improvements. The only communication between the parties was negative.

Once the consulting firm began working with the company, the relationship immediately improved. Due to the banker-consultant relationship, there was immediate support for management’s plans once they were assessed by the consultant. The management team also benefited as the consultant developed improved strategies, processes, and improvement plans. Management was able to present a more favorable and achievable forecast making it easier to gain the bank’s acceptance.

What will happen when the consultant is here?

Anticipation. Challenge. Achievement. Exhilaration.

While exhilaration seems like a stretch, it is attainable over time with the right consultant. Ultimately, the right consultant is there to improve your company and mend your relationship with your banker by reducing financial risk. The consultant will be involved with you in frequent communication with the bank, which will greatly improve your credibility.

Managing cash is an immediate issue where additional discipline will be brought. Focus will be directed towards collecting all receivables timely and additional scrutiny will be given to each expenditure.

Working closely with your management team, a comprehensive, time-compressed review of your business will be performed. The goal is twofold: identify short-term fixes to gain breathing room, and implement long-term changes to improve your business.

The consultant will:

- Develop detailed recommendations to improve cash flow and profitability.
- Create financial projections based on making improvements, along with a scenario of maintaining the status quo.
- Develop comprehensive implementation plans to fix your business.
- Execute an organized, driven effort to achieve results.
- Transfer knowledge and skills to your team to sustain improvements.

Case Study:

Working with an unprofitable industrial equipment manufacturer, the consulting firm began with a comprehensive assessment of the company. Several high-value recommendations and implementation plans were developed after conducting employee and customer interviews, along with sales, market, operational, and financial analysis.

Financial projection models were created based on the recommendations – e.g., key account management to drive revenue growth, reorganized business units, improved integration of previous acquisitions, and increased manufacturing efficiency. Implementation plans were developed and managed to ensure company-wide entrenchment.

The consultant worked closely with the management team which made the transition and changes sustainable. As a result of the project, operating income was improved 300%. Today the company is strongly positioned in its key markets with a re-energized mission and enhanced capabilities.

What does a consultant bring to the business that you know like the back of your hand?

“A consultant is someone that will ask to borrow your watch in order to tell you the time.” – author unknown

A consultant will never know your business as well as you do. What a consultant brings is objectivity, focus, and experience navigating through your current situation with your lender.

The right consultant brings experiences from different companies and industries in financial situations similar to yours. They have dealt with the strategic and operational issues that are affecting your business - lost customers, lack of product innovation, outdated pricing strategy, poor supplier management, ineffective sales and operations coordination, operational inefficiency, poor order fulfillment, inefficient back-office processes, etc.

Your management team may be dealing with so many daily fires that it is easy to lose focus on what is needed to turn around your business. The situation can be extremely stressful and challenging – dealing with this crisis is precisely the consultant’s specialty.

A successful consulting project creates a win-win-win:

- The **company** gets back on track financially, with growth potential.
- The **bank** preserves capital and its customer relationship.
- The **consultant** adds value and gains a reference.

While hiring a consultant may not have been in your five-year strategic plan, when the time comes, choosing the right one is key. Using the right consultant effectively provides financial benefits and builds a foundation for a prosperous future.

Case Study:

Working with a Third Party Logistics Provider (3PL), the management team was highly skilled and knew the industry well. However, there were issues including organizational structure, sales declines, poor warehouse utilization, and inefficient customer service processes. The problems were due to an inability to focus on execution, a lack of cross-functional cooperation, and a stronghold on maintaining the way “things have always been done.”

The consultant was able to provide the focus to identify the critical issues at hand and develop an achievable solution. Walls were broken down as cross-functional teams were created to partner together and fix longstanding problems. The consultant brought experienced change-management skills to implement new ideas across the company. The project results were tremendous as the company realized nearly a ten-times return on their investment in consulting fees within the first year.

Consider this CEO’s view: “(the consultant) was instrumental in providing the analytical resources necessary to assist us in making management decisions to affect our business turnaround. They also identified key initiatives and a disciplined approach to implement them. As a result, our business went from a severe loss position to a profitable position in nine months.”



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About The Keystone Group

The Turnaround Consulting practice at Keystone is focused on providing companies with customized solutions to achieve sustainable profitability improvement. From companies that are just having a tough year, to those in more severe situations, the Keystone approach is tailored to the needs of the business. The goal throughout the project is to work closely with, not replace, the company's management team. Solutions are driven by both the top and bottom lines resulting in improved short-term financial performance and a client positioned for sustained growth and profitability.

The Keystone Group is a management consulting firm specializing in assisting companies to realize their full value through comprehensive analysis, pragmatic problem solving, and involved implementation. Keystone's long history of successful projects crosses a broad range of manufacturing, distribution, and service companies. The focus is always on sustainable results and a return on the client's investment in consulting fees. The firm is made up of experienced business leaders utilizing strategic, operational and financial project skills across three service lines - Turnaround, Strategy & Operations, and Mergers & Acquisitions Consulting.

The Keystone Group...
Attainable Goals. Sustainable Success.

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