

# Turnarounds

Seizing new opportunities



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BUSINESS  
CAN.**

# TURNAROUND TO SUCCESS

POTTINGER

Nigel Lake, *Founder and Executive Chair*

Almost every business – and almost every business leader – will eventually face a crisis. Sometimes turbulence appears rapidly, due to uncontrollable external events such as the global pandemic or internal failures. More often, social and technological change drive creeping shifts in the commercial and competitive landscape that place companies under progressively greater pressure. Either way, both trigger the need for an urgent response and may even imply a risk of impending insolvency.

Disruption and opportunity are, however, frequent travelling companions. For the well-prepared, well-resourced or just plain nimble organisation, external turmoil and internal disruption can set the stage for dramatic shifts in market position. To achieve long-term success, every business and every leader must navigate uncertainty, whether in the form of short-term challenges or longer-term market shifts. The stronger your business and the better your leadership, the more you will be able to make headway in stormy weather.

Whatever the cause, preparation and informed decision-making can help transform crisis into commercial opportunity. This book provides perspectives and tools to help you thrive in an uncertain world, looking across the full spectrum of issues that you will face. The insights we have gathered from business leaders and professional advisors provide both practical guidance as to what to do and inspiration to act early and decisively.

My own first experience of an overnight crisis came near the start of my career, working in the corporate finance team at Barings in London. At the time, we were in the thick of advising on one of the largest public take-over bids ever announced in the UK – very much business as usual for what was then the leading mergers and acquisitions house in Europe. From learning that there may be some issues in Barings' international equities division to administrators being appointed to the entire business took barely 48 hours. Yet, through effective leadership and remaining firmly focused on our clients, we ended that year with the corporate finance business entirely intact under new ownership and top of the league tables for a second consecutive year.

Since then, I've advised companies, financial institutions, governments, entrepreneurs and social enterprises of all shapes and sizes through times of crisis, in dozens of countries around the world. Though the circumstances, commercial dynamics, people and cultures have varied dramatically, the same underlying themes come up time and time again, and they are embodied in the chapters in this book. We've divided the material into two parts, reflecting the natural priority to stabilise the business first and then to seek opportunity for growth.

## STABILISATION

Before all else, you must act to give the business the best possible chance of surviving the storm. In doing so, whether the crisis emerges rapidly or is the result of a long period of incremental change, it's essential to be grittily realistic about the problems that you are facing, whilst keeping in mind the potential for new opportunities to be lurking just around the corner.

- First, you must grasp the situation quickly. This means confronting the challenge you face in the most complete and holistic way possible in the available time. You will need to make tough decisions quickly, so you'll also need clarity about the order in which to deal with problems and the implications that this will have for stabilising operations, conserving cash and maximising your ability to make the most of opportunities that may follow. Beware of simply slashing costs to the bone as you may be left with nothing on which to rebuild. In 'Change Becomes the Norm', we reflect briefly on the turbulent environment that small and medium businesses have had to navigate over the last decade, explore what turnaround means and the types of support that are available to support you.
- Very early on, you must devote serious thought and energy to 'Crisis Communications and Building Stakeholder Support'. No matter how good your understanding of the challenges that you face and your plan to address them, to deliver an effective response you will need a strong, motivated and aligned team alongside you. More broadly, although the environment will likely be stressful for you, and perhaps for your stakeholders, there is also a significant opportunity to deepen your relationships through this period. Honesty and transparency will help to build trust, but you must take care not to trigger a crisis of confidence in the future of the business. And though we mention this topic early in the book, remember that effective communication will be critical throughout the stabilisation phase and beyond.

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In tackling the crisis, you will need to live and breathe the financial performance of your business week by week or even day by day. Frequently, this means that you will need new types of reports and forecasts that give you the ability to manage financial resources much more tightly than in normal times. A strong CFO who provides you with reliable information efficiently and objectively is invaluable as this helps to create a calm space in which to think and act. Once again, there are various steps that are common to almost every situation.

- First, urgent 'Financial Stabilisation and Risk Reduction' measures are likely to be required. This means evaluating the financial implications of the current situation, understanding the underlying issues and engaging with lenders and creditors at an early stage so that they know you are in control of the situation. This will maximise the chances of avoiding administration or insolvency.
- Building on this, you will need to identify and prioritise the 'Financial Restructuring Options' that are available to you, including debt restructuring, raising new equity, government support packages and even selling the business (as occurred with Barings). We provide a simple overview of some of the issues and options that you may wish to consider.
- Often, a turnaround will involve working with external advisors. We provide 'A Turnaround Practitioner's View' so that you can get a feeling for how they approach the challenge. Whether you're a director, manager in the business or external consultant, you should think about the longer-term implications of every decision so that you lay the right foundations for growth.
- No matter how hard you work to address your short-term challenges, longer-term

success will always be driven by people. This means that you need to think from the outset about what steps you will take to '(Re)Build a Winning Team'. If the crisis is purely financial, then you may well already have exactly who you need, and your primary goal will be to figure out how best to support and retain them in the near term. Alternatively, if your business needs significant reshaping, you will need to assemble the best possible mix of skills, hustle and vision so that you can make decisions quickly and effectively and restore confidence in the business. Either way, remember that the best thing a captain can do when facing a storm is to make sure that the crew are safe below deck, well-fed and focused on addressing critical tasks.

- In parallel, legal elements and processes can become critical, so you must understand your 'Directors' Duties in a Financial Crisis' and ensure not only that you are making the best commercial decisions possible but also that you are doing this in a manner that is responsible from a legal perspective in order to avoid creating new risks for both your board and the wider business.
- You should also consider the various issues related to 'Navigating Corporate Insolvency', including restructuring, administration and liquidation. This is a complex area where specialist advice will be essential. Importantly, as every company director should be well aware, in the face of crisis, your risk comes not from the unattractive cards that you may have been dealt but rather from how you respond to the situation.
- Lastly, entering administration may provide the best pathway to protect the interests of all stakeholders and preserve the maximum possible value from the business. Thus 'Understanding Insolvency Laws and Procedures' in advance of getting caught up in such a situation is valuable.

## GROWTH

Though stability may make for business security, change frequently creates significant

commercial opportunity. So whatever the root cause of the challenges you currently face, it's also important to look beyond the immediate crisis and seek out opportunities to build and strengthen your business. Humans naturally become more inventive and adaptive during times of crisis, so the very environment that may be threatening your company can also be the crucible from which significant new business opportunities can be forged.

As many companies have experienced, the global pandemic has led to profound changes in both consumer behaviour and working practices in many countries and industries. Perhaps the most significant of all is the wholesale adoption of video communication and the wave of international collaboration and flexible working that has emerged as people and companies have discovered that they can work effectively together across time zones and locations. This shift is creating spectacular new opportunities to hire great new employees or to win new customers in locations that might have been unthinkable a couple of years ago.

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Though these trends were already under way, they have been accelerated by perhaps as much as a decade, changing the game for many people and businesses. Take a moment to reflect on the ways the world in which we live and work are evolving profoundly.

- The entire energy value chain, from where and how we generate power to the cars that we drive and the trucks that deliver goods, is transitioning from fossil fuels to renewable solutions. This is reshaping energy markets, power grids and even the role of the domestic automobile. Over US\$500 billion per year is now being invested in this shift as business

and society unite to tackle the rapidly growing effects of climate change.

- Technology is displacing millions of management, administrative and clerical jobs as we see machines extend their capabilities from the automation of manufacturing to the automation of decision-making. Over a few decades, a significant proportion of employment will shift from the tertiary sector of the economy to a new quaternary sector. This comprises all activities with an intrinsic need for human interaction, including caring, creativity, collaboration, communication and culture. These shifts will have a profound impact on the workforce and society more broadly, and both governments and companies will face growing pressures to focus on the importance of creating well-paid jobs.
- Consumers are demanding action on ecological sustainability. Humans – and the animals we are breeding for food – now account for 96 per cent of the bodyweight of all mammals on the planet. Pets and wild mammals account for just 4 per cent. Meanwhile, demand for meat is growing rapidly as wealth increases, especially across Asia, placing ever greater strain on our agricultural supply chains. Unsurprisingly, we are seeing an explosion of interest in plant-based diets and animal-free meats, fish and cheese. Looking ahead, by 2025, our oceans will contain one tonne of plastic for every three tonnes of fish. Widespread calls to reduce both waste and limit environmental pollution are welcome and important.

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These industrial and philosophical shifts are affecting almost every industry and every business, contributing significantly to the accelerating pace of change. As a result, it

is important for every business leader to cut through the hype and understand where and how these forces are operating and how to make the most of the opportunities that they will create.

- New technologies are enabling new business models and new approaches to supply chains that can transform the profitability of businesses and the prosperity of entire communities. In 'Thriving in the New Economy', we provide a down-to-earth explanation of what is really meant by buzzwords such as industry 4.0, the internet of things and the circular economy, and how these can create significant new opportunities.
- As always in business and in life, 'Building Financial Resilience' is of paramount importance. This means thinking about every aspect of your business and how you manage it so that you understand where upside and downside risks lie and how you plan ahead so that you are best placed to make the most of the opportunities and to act quickly to neutralise the threats.
- ESG has become a hot button issue for many companies and investors, so 'Making Sustainability Work for Your Business' is more important than ever. This includes action on climate change and environmental degradation, as well as issues related to diversity, equity and economic inclusion. With the right approach, you will find that action on ESG can be synonymous with improving business efficiency, stakeholder relationships and growth (ESG by another name) and can both reduce risk and make your business more resilient.
- Meanwhile, new technologies enable increased efficiency in many areas of business, which means exploring opportunities for 'Transforming Your Business through Digitalisation'. In doing so, consider how you can use automation to humanise your business, both through greater personalisation as well as through more extensive human interaction. This will

build customer appreciation and loyalty – and create valuable new jobs to boot. Conversely, if you focus solely on efficiency and eliminate all human interaction, you may find yourself in a race to the bottom on costs and little else to differentiate yourself from your competitors.

- With all of the above unfolding, you may also find opportunities in new business models and, in particular, 'Partnering for Growth'. Many of the most successful startups over the last decade have entailed a collaborative approach, either in the nature of the product itself or in how that product is delivered to customers. The fundamental point is that with greater flexibility and connectivity than ever before, significant value can be unlocked through the right type of collaboration with the right partners.

On a personal note, I can vouch for the effectiveness of these recommendations. As the COVID-19 outbreak began to expand beyond China, we were able to shift our entire business to working from home overnight, thanks in part to a disaster plan that contemplated the total loss of access to entire city centres. Within a couple of weeks, we had engaged with all our key stakeholders and shifted some relationships to reflect the new environment whilst retaining all our employees and providing certainty of ongoing income to our suppliers. Our teams were thus able to focus on delivering for our clients and taking care of their own communities, too.

In saying this, I know we were also lucky in that professional services have been much more adaptable than businesses that depend on physical premises, so we went out of our way to provide pro bono support to others wherever we could, building some wonderful

new relationships along the way. We also looked for ways to address the effects of isolation, helping to launch ESGX.org, a non-profit online sustainability community that has since featured contributions by the likes of environmentalist Dr Jane Goodall, New York Times best-selling author Dr Stephanie Kelton and many others.

As the last year has unfolded, we have seen many of the themes described in the various chapters first hand, both in our own business and through the eyes of our clients around the world. Most powerful of all have been the new collaborations that have emerged across borders and across industries, helping to create new products and services, launch new businesses and support entire communities. We've also seen new multinational startups form and grow rapidly despite the constraints of local lockdowns and travel bans. And on 31 December 2020, Pottinger closed its first '100 per cent remote' M&A transaction, where the vendor, the target business, the various bidders, the eventual purchaser and their respective advisors never met face to face at any point. What might have been unthinkable in 2019 is today's business as usual.

## THE PATH TO ACTION

Any strategy and any plan is only as good as its execution, so remember that the ideas and perspectives set out in this book aren't just theory. They are distilled from the real-life experience of both business leaders and professionals across a host of different businesses, and these chapters are packed with pragmatic advice. 'The path to action' may at times feel daunting, but many have undertaken similar journeys before, and there is a wealth of advice and resources available to support you.

# EXPLORING RESTRUCTURING OPTIONS

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Every turnaround situation has its own particular complexities and dynamics, making independent, objective guidance invaluable as you explore how best to navigate the challenges you face and/or unlock new opportunities.

Typically, when a business is facing financial difficulty, they'll be referred to their bank's support function. The bank will then work with them to develop consensual turnaround strategies. That may involve signposting to a choice of professionals including a restructuring accountancy firm or turnaround executive.

Below we've outlined a number of turnaround approaches which may be considered as part of this process. Which is right for your business will depend on a number of factors, including:

- the reasons why your business is in distress;
- market conditions i.e. is there still sufficient demand for your products and services; and
- your business's financial health.

You may choose one strategy, or a combination of several. Whatever path you follow, the goal must be for the business to emerge stronger, nimbler and more resilient to future stresses.

## KEY TAKEAWAYS

- Your bank's support function can help you consider turnaround strategies and refer you to appropriate expert help.
- There are a variety of turnaround strategies - the right one for you will depend on how your business is structured and the challenges you've faced.
- The ultimate aim of a turnaround is for your business to emerge more resilient.





practice. Allana is an accredited specialist in insolvency law and is ranked by *Legal 500* and *Chambers* legal directories as a 'Rising Star'. She has over 10 years of experience specialising in all aspects of corporate and personal insolvency and restructuring and recovery work including: debt restructurings, pre-pack administrations, advising boards of distressed entities, security enforcement and enhancement, standstill and settlement arrangements, insolvent business and asset sales / acquisitions, contentious insolvency practitioner appointments and jurisdictional issues. Allana's practice spans a wide range of sectors including bio power/energy, hospitality and leisure, retail, shipbuilding, real estate and professional firms.



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John Garner is a Managing Partner at LDC and is the driving force behind the firm's commitment to invest £1.2bn across the nation in the next three years to support the growth of UK mid-market businesses. He leads LDC's investment efforts across all 12 of its regional locations in the UK.

Since joining the firm in 2006, he has supported a broad range of fast-growing businesses across multiple regions, investing over £500 million in 30 mid-market businesses.

Investments of note in recent years include: the minority investment and subsequent IPO of Team17, the MBO of NBS from the Royal Institute of British Architects, the minority investment into iamproperty and the MBO of Commsworld.

John has been a leading figure in the private equity community for more than two decades, working across a wide variety of sectors, including technology, consumer goods, business services, healthcare and manufacturing.

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Nigel Lake is an investment banker, strategic advisor, sustainability expert, entrepreneur and author. Founder and Executive Chair of Pottinger, he has lived and worked in most of the world's top fifty economies and across all major industry sectors. He has an insider's view of decision-making at dozens of the world's largest companies and has advised on hundreds of billions of dollars of M&A transactions and numerous strategic assignments.

He co-founded corporate advisory firm Pottinger in 2003, Runway 41 (a B2B virtual accelerator program) in 2017 and the global sustainability community and education network ESGX.org in 2020. He is also an advisor to Change Foods, an animal-free dairy business.

From an early age, he has had a fascination with how things work, and a passionate belief that with the right perspective there is (nearly) always a more insightful alternative to conventional wisdom. Nigel has a background in science, finance and systems thinking and is a graduate of Cambridge University.

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