Harrisons

Turnaround Case Study

Background	A family owned business operating as a private hire coach/transport business. It had come under severe pressure from a number of creditors, in particular HM Revenue & Customs, who had already presented a winding up petition which was due to be heard within 10 days.	On becoming aware of this, its accountants referred the directors to Harrisons, to provide specialist professional assistance, on a project management basis.
Free Business Review	Harrisons attended the Company's premises, during which the following issues and objectives were identified: • The Company had in recent months embarked upon a process of refocusing its business from a combination of cold call private hire and contract work, to concentrating solely on its contract based operations. • This had represented a strategic decision by the existing management in order to reduce the inefficiencies within the business resulting from the funding of down time of staff and vehicles, thereby reducing costs. • Although a ' business plan' and financial forecasts had been prepared, which suggested this strategy had long term benefits for the Company, the existing management had substantially underestimated the short-term financial exposure of the business.	• As well as undertaking a complete structural and financial review of the business Harrisons therefore also considered the merits of the 'business plan' from which a number of areas were identified that would impact of the future long term viability of the business. Appropriate recommended modifications to the business plan were made by Harrisons to the management, and subsequently integrated into the framework of the plan itself. • Historical turnover levels had been approximately £3 million, however upon the implementation of the business plan, the equivalent turnover had declined by over one third. • As a consequence of such a dramatic fall in income, the policy of restructuring the businesses overheads was unable to keep pace with the decline in turnover. The restructuring itself had a significant cost impact on the business, such as redundancy payments, and this further exacerbated the cash flow difficulties it was experiencing.

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Continued…	• The existing reserves and capital base of the business were insufficient to accommodate the level of losses being sustained by the business in such a short period of time and its on-going cash requirements. • The management had not allowed for such a downside when implementing the business plan and had therefore made no provisions for additional funding for the business. • The company's Bankers historically had provided only limited support to the business by way of an expensive £50,000 overdraft facility at a rate of 4% over Bank of England base rate. This facility was secured by way of a debenture over the entire assets of the Company. Although the directors had held discussions with the Bank with regard to extending this facility, due to its current financial position and poor recent record in managing its account, the Bank was not prepared to do so.	• The directors and shareholders were not in a position to support the business any further. • As a consequence of its deteriorating financial position, it had accumulated liabilities, principally to the Crown departments, of in excess of £120,000. This sum was payable within 10 days in order to avoid liquidation.
Stakeholder/ Management Objectives	Given the petition for the winding up of the company issued by HM Revenue & Customs, the primary objective was to avoid liquidation and secure the immediate survival of the business. Once survival had been achieved, co-ordinated implementation of the modified business plan was required to return it to profitability.	The ultimate objective was to grow the business over a five year period for subsequent sale or a potential MBO of the father from the other family members involved within the business.

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Formal Exit Meeting/Letter of Engagement	The issues identified above by our free review, together with potential routes for recovery, were discussed with the management at a formal exit meeting. Following this, Harrisons provided a formal letter of engagement to the Company clearly detailing the scope of instructions and the basis of fees. Following receipt of a signed copy of the letter of engagement, Harrisons provided a formal written report confirming its findings and detailing the proposed strategy to	recovery. Steps were then immediately commenced in implementing the strategy, which initially focused on ensuring the survival of the business, before moving on to the medium to long-term objectives of implementing the business plan as modified by Harrisons and accepted by the management, and returning the Company to profitability.
Short Term – Survival Of The Business	Harrisons immediately made contact with HM Revenue & Customs and an adjournment of the winding-up petition was agreed to provide time to prepare proposals for the settlement of the PAYE/NIC liabilities. These liabilities exceeded £120,000. In order to establish the immediate and short-term cash requirements of the business, daily profit and loss, cash flow and balance sheet projections were prepared on the basis of current income and overhead levels. A detailed analysis of the company's balance sheet was undertaken to evaluate potential financing opportunities. From this the following opportunities were identified that would bring cash into the business to deal with its pressing cash flow problems. • The company owned a number of vehicles outright, against which finance could potentially be raised. • The company also operated a clean sales ledger, against which a factoring or invoice discounting facility could be arranged.	Harrisons' financing team, who specialise in asset finance, factoring and invoicing discounting was engaged to provide advice as to the level of funds that could be generated from these facilities together with the details of the costs and the security required. Following this, the finance team was ultimately instructed to make enquiries with their panel of funders / asset-based lenders and seek a number of offers to be presented to the company. Extremely competitive offers in principle were received within a 24-hour period from all financiers introduced to the business. The management agreed on a new invoice discounting facility and the refinance of a number of its owned vehicles. Cash generated was sufficient to repay the Bank its outstanding overdraft facility as well as providing sufficient funds thereafter, to enable Harrisons to structure an acceptable payment plan with HM Revenue & Customs, whilst still providing sufficient cash to meet the anticipated cash requirements in implementing the new business plan.

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Medium Term HM Revenue & Customs Repayment Plan/Review and Implementation of Business Plan	The scope of instructions in relation to the business plan consisted of the following: • Integration of new accounting package with existing transport software, enabling more effective monitoring and control of the relationship to the financial aspects of the business. • Following introduction of improved operating systems, structured rationalisation of certain direct and indirect overheads with ultimate objective to increase gross profit margins.	• With the short term survival of the business secured, the company retained Harrisons on a monthly consultancy basis to implement the agreed modified business plan and also to ensure that the repayment agreement reached with HM Revenue & Customs was strictly adhered to. This enabled the existing management to concentrate on their respective areas of expertise, such as generating new contract business at competitive, but profitable margins.
Long Term	The company has now achieved its short and medium term objectives, HM Revenue & Customs' debt having been fully discharged, and the business is now trading profitably.	Harrisons continues to work with the company towards its 5 year objective of growing the business for subsequent sale or MBO, and is actively involved in negotiations for the acquisition of a direct competitor.

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