



# Ohio TMA News

**September 2011**

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### **About TMA**

TMA is the premier national organization of professionals dedicated to corporate renewal and turnaround management.

A note from this month's  
Featured Sponsor



## **Business as Usual: No Way to Run a Company**

By Aaron Gillum and Robert Wanat, CTP

In nature, in life and in business there is no such thing as a permanent status quo. With time, things either get better, or they get worse. You evolve and adapt to change, or you find yourself or your business falling behind. No matter what happens, sticking to a "business as usual" mentality is a clear path from prosperity to survival mode.

The current economic climate and resulting economic changes have made proactive, adaptive management skills more important than ever. Faced with new economic pressures, small entrepreneurs, middle-market and even Fortune 1000 businesses that previously got by with less-than-stellar management and strategic planning are struggling for survival, and in some cases collapsing. As a result, fixing management failures is becoming a more important, higher-priority task for turnaround advisors. As turnaround professionals, we are accustomed to managing businesses that are going through periods of financial or operational distress. However, as the prolonged recession continues and tighter lending markets become the new norm, companies must become even more adaptive, lean, mean operating machines, not just in times of

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## **President's Report**

by John K. Lane

Dear Ohio TMA Members and Friends,

Feeling somewhat like the frostbitten Dr. Zhivago, I have just returned from the internet equivalent of Siberia. For nearly the past 100 hours, the internet connection at my home office has been mostly non-existent. It took only about 15 calls with the internet provider (a couple lasting over an hour) and two long visits by the technicians to remedy the problem, which turned out to be a simple frayed wire into the house.

I did have my iPhone and so I was connected, but I must note that my advancing age sure makes reading those small screens quite difficult!

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Since 1980, MorrisAnderson has successfully led more than 1,500 private and public companies through change and performance challenges by acting as consultants to management, investors and their lenders, and as interim managers. Whether a company is declining, underperforming, distressed, or doing well and looking for ways to improve operations, MorrisAnderson's experts in finance, manufacturing, distribution and logistics, sales, marketing and information systems are interested in helping companies worldwide improve their financial performance and maximize their enterprise value. You can learn more at [www.morrisanderson.com](http://www.morrisanderson.com).

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## President's Report (continued)

I do have a take-away from my experience, though: I think the internet has become a drug. While you are taking it, all seems fine. It is not until that you stop taking it, that you go into withdrawal and realize how dependent you are on it. You cannot function. You become lost, dazed and confused. Then, when you get it back after a long absence, you are positive blissful!

What am I proposing to do about this? Frankly, I do not care, just give me my fix...

Let us talk now about Ohio TMA chapter events. After a nice and restful month of August off, we are ready to get right back into our fall programs.

Tomorrow, on September 15th, we are going to have Daryl Wizelman as our guest speaker at the Wyndham Hotel, with registration starting at 5:30 PM. Mr. Wizelman's presentation is titled "Tools of the Trade – Mastering the Art of Business Development and Retention." Not only will Mr. Wizelman be sharing his secrets on business development, he will also provide us with the motivation to go out and make it happen.

Mr. Wizelman's presentation is our outreach event for post-graduate students and non-member young professionals, in which students will be invited at no charge and young, non-member professionals will be offered member rates for this event. I strongly encourage all of you to assist our effort to create awareness about the TMA and its many benefits by bringing at least one non-member, young professional (age 35 and under) from your organization or elsewhere.

The topic for our October presentation will be "The Economy is Going to Hell in a Hand-Basket...So Where are the Turnarounds?" This is our annual joint presentation with IWIRC (International Women's Insolvency & Restructuring Confederation), and it will be held the evening of October 27th at The Club at Key Center.

Our annual education event held in cooperation with the Cleveland Metropolitan Bar Association (CMBA) will be on November 17th, at their facilities on the second level of the Galleria at Erieview. This is a half-day event covering such currently planned topics as Cuyahoga County Reformation – One Year Later, the impact of Stern v. Marshall on bankruptcy litigation, an in-depth discussion of the alternatives to bankruptcy and acquiring distressed assets with the use of a strategic-note purchase. More information on this event to follow.

Finally, once again, please check out the announcement elsewhere in this newsletter regarding our recently formed Ohio Chapter Turnaround of the Year Award.

You can sign up for all of the TMA events at [www.turnaround.org](http://www.turnaround.org). I hope that we will see you there!

Best regards,  
John K. Lane  
President of Ohio TMA  
[jlane@ingw.com](mailto:jlane@ingw.com)  
216-533-5860

## Ohio TMA Officers

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## Feature Article (continued)

distress, but ALL the time. They must believe in and practice evolutionary theory, always striving to do better, because in today's world the alternative is usually unacceptable.

### The New Economic Norm

Recent economic indicators show that the financial markets are just beginning to increase lending to the commercial markets. According to the Federal Deposit Insurance Corporation, U.S. banks increased lending for the first time in three years during the second quarter of 2011, but the change was still only a modest 1% increase from the previous quarter—far short of the lending activity required to support a robust economy and economic growth.

It is still too early to predict how long it will be before lending picks up again, but we believe one thing is clear: business managers must recognize that the economy is not going to appreciably improve in the near term. Given that, companies must heal themselves in the near term. They must resolve to improve their internal cash flows and cash availability and place less reliance on financial-world third parties to fund their operations. Companies that wait around for recovery are likely to instead find themselves contributing to the quarterly economic statistics that we have all grown familiar with over the past few years.

### Cash is Still King, But...

Small-and middle-market business managers who have survived the past few years have all discovered that cash management is of foremost importance. Companies are slowly realizing that they need to anticipate and plan for blips in the business cycle and be prepared to weather them. "Less debt, less leverage" has become a frequently repeated motto.

As turnaround advisors, in a downward economic trend or a down cycle, cash management is our most important management tool, and this will forever hold true. However, many companies are now starting to accumulate and store cash, even after they have adequate reserves, instead of expanding and reinvesting in their operations. This strategy sounds safe, but in reality, it has the potential to prove fatal. Managers need to set enough aside to make it through rough patches, but after they've done that, they should seek to take advantage of this economic climate to invest—or reinvest—in marketing, brand-building or customer service—all of which are critical for driving future growth. To win the evolutionary battle, companies must use cash flow to reinvent themselves.

It is true that, as lending markets remain tight, companies with loans must be proactive in managing their lender agreements and bank covenants, but building cash reserves is only part of the solution. The true key is communication. Companies need to be prepared to give lenders a heads-up if they think they might trip a covenant or, worse, miss a payment. A turnaround professional may be utilized in certain cases to assist companies in balancing the demands of their lender agreements with the need to reinvest and reinvent.

### No Bank, No Problem. Leverage Your Customer Base

In addition to building strong cash reserves, companies should resolve to get more cash more quickly. There are a few low-effort methods for doing this. If margins can stand the pain, companies can offer longtime customers a discount for making A/R payments faster than normal terms require—for example, "5 percent off if paid within 15 days." If invoices are large, or the company invoices in progress payment stages, asking customers to wire payments can be beneficial. Most banks have at most one-day clearing with modern ACH techniques, but with wired funds, the company may be able to have instant access regardless of the origin of the wire.

The simplest strategy, yet the one our clients most often overlook, is to be aggressive when it comes to following up with slow-paying and delinquent customers for payment. As advisors, we often hire collections staff to go after delinquent accounts. Staying on top of the customer base for payments also provides another opportunity to interact with

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## Announcing the Turnaround of the Year Award!

We are excited to announce the 2011 Ohio TMA *Turnaround/Transaction of the Year Award*. This year, we will recognize the best turnaround or transaction in Ohio for 2011, and we'll celebrate the winner at an awards ceremony during the TMA Holiday social in December.

The deadline to submit applications is October 31st.

The entry package should be completed by the turnaround professional, with the assistance and concurrence of the company involved.

Click [here](#) for an entry package.

Click [here](#) for the historical financial statement form.

Please email the application form to [admin@tmaohio.org](mailto:admin@tmaohio.org).

Even if you do not have an entry this year, please encourage someone you know who has completed an outstanding turnaround to send in their application. Or better yet, let us know and we will contact them ourselves!

If you have any questions regarding the application, please contact Louise Walsh, at [admin@tmaohio.org](mailto:admin@tmaohio.org).

### Feature Article (continued)

customers. Companies can use this time to inquire about the service level they provide or, even better, to tell customers about additional products or services.

#### Go Where the Customers Are

Before the recession, many business managers took customers for granted, placing their emphasis on product, rather than on understanding their customer base and on marketing. Now, however, customers are less willing to part with their money, and companies must do more to win them over. The Commerce Department recently reported that U.S. consumer confidence slumped in August to its lowest level since April 2009.

Rather than waiting for customers to come to them, businesses must actively search out customers. An automotive supplier, for example, might look toward the white goods, electronics, or small appliances industries as alternate markets. Companies in consumer goods might look to alternate channels or use private labeling opportunities to consume excess capacity. Companies should also investigate the economic feasibility of selectively accepting lower margins from certain incremental markets or channels to reduce idle capacity overhead and fixed costs. This can ultimately improve profit and cash performance.

#### Uncertain Times, Certain Measures

In uncertain times, it can be tempting to shy away from formulating clear management plans, relying instead on old habits, but this can lead to lost opportunities and potentially a failed business. The key to success is to lay out a strategy that takes into account underlying economic issues and develops ways to proactively address these items. This is where a turnaround expert can come in.

"Business as usual" might work, at least in the short run, when economic conditions also continue "as usual," but, given current economic and financial community events, business as usual is no longer good enough. In reality, it was never good enough, because that does not maximize profits or cash flow. It also leaves many dollars on the table that could be used to ride out the next downturn or to strengthen the business's long-term cash-generation potential. As companies that are trying to get by on the status quo fail, turnaround professionals need to be prepared to fix the sorts of management missteps that are putting them over the edge. In the end, implementing the strategies that today's economic times require will make companies stronger, no matter what the future holds.

#### ABOUT THE AUTHORS

**Aaron G. Gillum** is a Director at MorrisAnderson. He has more than seven years of experience in strategic and restructuring consulting to Fortune 500 and middle-market companies. He assists companies with turnarounds, organizational change, financial management, private equity investment, sales and marketing strategy. Mr. Gillum earned a master's in business administration from the University of Chicago's Booth School of Business and a bachelor's in economics and public policy from the University of Michigan, graduating with honors. He can be reached at [agillum@morrisanderson.com](mailto:agillum@morrisanderson.com).

**Robert (Bob) Wanat, CTP** is a Director at MorrisAnderson. He specializes in business turnarounds, crisis management and process improvement. He has more than 30 years' experience in manufacturing and distribution environments, including both senior corporate/line management positions and consulting capacities. His accomplishments include more than 100 successful profit-improvement turnarounds and corporate restructurings for manufacturing, distribution, process, foundry, textile, printing, and service companies. He holds a degree in finance and marketing and an MBA in operations research from Northern Illinois University. He can be reached at [rwanat@morrisanderson.com](mailto:rwanat@morrisanderson.com).

## **2011 Meeting Schedule\***

### **September 15th – The Wyndham Hotel 1260 Euclid Ave. Cleveland, 5:30 p.m.**

Daryl Wizelman will give a presentation on networking, business-building and maintaining client referral networks. In addition to our regular membership, we are extending invitations to post-graduate students and young professionals, as part of a new "college outreach" initiative, and also in support of the national "Generation Next" membership initiative.

Students will be invited at no charge. Young professionals will be offered member rates.

Registration starts at 5:30 pm.

### **October 27th – The Club at Key Center, 5:30 p.m.**

Our annual event with IWIRC (International Women's Insolvency & Restructuring Confederation).

### **November 17th – CMBA offices, Galleria at Erieview**

The TMA, in cooperation with the Cleveland Metropolitan Bar Association, will host an educational seminar with panel discussions debating current issues in the restructuring world.

Cleveland Metropolitan Bar Association 1301 East 9th Street, Second Level - Cleveland, OH 44114

*\*Event dates and locations are subject to change*