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C Level Community is a member-based community exclusively serving business owners, CEOs and senior executives of middle-market companies. Its mission is to help make businesses more effective, successful and profitable by sharing insights and perspectives, cross-industry best practices, solutions to crucial strategic and tactical questions, referrals to top providers and interactive dialogue.

Each week C-Level Community hosts a Q&A for its members with notable experts in their fields.

Expert of the Week (December 2020): Gary Nacht, Chairman & CEO of Synergy Enterprises, LLC

Synergy Enterprises LLC was founded by Gary Nacht in 1995 to focus on acquiring and advising distressed and underperforming companies.

Transaction History. Mr. Nacht has served as both an owner and operator of high-profile companies, including Kmart Canada Ltd. (big box retail), Gemini Industries (Philips-branded distributor), Northern Reflections (women's retail apparel chain), Digital Products International (consumer electronics) and AmerTac Industries (designer and distributor of home lighting and related products).

Advisory Services. In 2014, Mr. Nacht added turnaround advisory services for underperforming companies, which now includes assisting a $200 million company downsize to achieve profitability at a lower sales volume following the loss of a major customer and working with a tech company to build a business infrastructure to accommodate rapid growth.

The following transcript is from a week-long,on-line Q&A between Gary Nacht and members of the C-Level organization.

"Fascinating that Gary listed those key misses - they are exactly the issue we run our business with all the time, especially making sure that you don't get "overhead creep" as a percent of sales"

"Love Gary's comment on execs sharing on the upside - it clearly protects the company owners (me and others) from the downside"

"Two thumbs up on Gary as an expert-such thoughtful, detailed and concise responses to our questions!"

"Now I finally understand "*experiential retail*"- great explanation!"

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIn
M: (732) 406-0377

Q&A

Q: Gary-really impressive bio. Since you've worked in so many turnarounds over the years, what are the key misses 3-5 across the board? If only the company had done xyz . . .Was it self-inflicted? Management mistakes? Didn't watch cash? Owners pulling out too much and not reinvesting in the business over the years? Thank you.

StoweVT December 7, 2020 at 7:29 am

A: Hi StoweVT. As your questions suggest, there is an 80/20 rule where the overwhelming majority of the distress companies experience can be traced to a handful of root causes. Every company at some point experiences distress. In hindsight, these are always easy to ascertain. Trouble happens when you're in the middle of it and scrambling, so it's invaluable to keep an eye on these Top Five:

1. **Lack of Visibility**. Unless your reporting system measures performance-based KPIs and management enthusiastically tracks and proactively reacts to negative trends, it's highly likely negative trends will accelerate and worsen.

2. **Inflated Overhead**. Overhead, as the name suggests, can be a growing beast. Unless challenging overhead and cost control is part of your organizational DNA, it will grow beyond what's needed to operate the company at optimum margins. Start with the assumption your overhead is too high. You might be surprised how much overhead you can cut without negatively impacting how well your business runs.

3. **Lack of Urgency**. In business, negative trends compound quickly. Missing a bank covenant leads to reduced availability under a bank line. With less cash, companies slow down vendor payments. Vendors, in turn, reduce credit terms, leading to slower inventory replenishment and ultimately lower sales. This cycle not only repeats but shortens each time, leaving you with fewer and fewer options. The earlier companies react to distress, the more time and options will be available to get back on track. Sadly, the list of perfectly viable companies that failed by not acting soon enough is long and growing.

4. **Organizational Silos**. Problem-solving is rarely linear and making a change in one department or function can have negative consequences elsewhere in the organization. Organizational silos can be especially deadly in distressed companies, so it's imperative you treat problem-solving as a 360-degree exercise. Once a problem has been identified, build a team across all departments that will be impacted by the solution.

5. **Be Profitable with the Business You Have**. With our relentless focus on growth, we sometimes overlook the importance of tending to the current business. I often hear CEOs and business owners of unprofitable companies say, "We would be profitable if only we had more stores or more customers." My advice – change your frame of reference and figure out how to make your company profitable as it is today, not as you want it to be.

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIIn
M: (732) 406-0377

Q&A

Q: As a vendor, there are critical times in pre-bankruptcy. Do you keep shipping and get x cents on the dollar or wait until they declare bankruptcy and be protected. They can also go back 90 days. I know everyone has to take haircuts here but the system doesn't seem to be equitable.

Wachusett44 December 10, 2020 at 7:36 am

A: Hi Wachusett44. Absolutely yes, there are critical dates pre- and post-bankruptcy every vendor should be aware of, and you should consult a bankruptcy attorney for proper advice. From a practical perspective, however, here are the basics:

1. Outside of bankruptcy, vendors understand they take a credit risk when shipping product to a customer with terms. There are, however, several options to mitigate this risk, including credit checks, full or partial cash in advance and credit insurance.

2. Unlike a liquidating bankruptcy, when a company files Chapter 11 with the intention of restructuring, it typically secures a "DIP" (debtor-in-possession) loan giving lenders priority over other creditors for post-petition (i.e., post-filing) working capital loans. Fortunately, post-petition vendor shipments are given "administrative claim" status, meaning they too will have priority (behind the bank but ahead of unsecured and other claims). As long as your product falls within the definition of "ordinary course" and is on commercially reasonable terms, companies in bankruptcy are permitted to continue to pay those invoices. While there is never absolute certainty of collection on those invoices, they are typically low risk. Pre-petition amounts owed to you, however, do not fall into this category and instead become part of the unsecured creditors' pool that will be resolved when the bankruptcy case concludes.

3. The gray area comes into play when the company (or Trustee) looks back 90 days for "preferences." These are payments made not in the ordinary course of business during that period and, if found to be "preferential" (meaning, with hindsight, to the detriment of other creditors) can be clawed back.

4. There are other complexities to be aware of, including whether or not your product shipments were by individual purchase orders or under a contract (in which case the company will have the right to either "reject" your contract and leave you with your unsecured pre-petition debts, or "assume" the contract in which case it needs to cure any past due amounts). On the plus side, product shipped directly to your customers (but not to your customer's customers) during the 20 days preceding the filing are granted administrative expense status. Vendors may also have a right of "reclamation" for goods sold to a debtor within 45 days prior to the filing that are still in the customer's inventory and identifiable.

5. There are never any guarantees. Though uncommon, debtors can still default under DIP financing. Although your claims will be superior to unsecured claims, they will still fall below the secured DIP lender and all other administrative claims under the bankruptcy (such as trustee fees, counsel and their expenses).

What does all this mean? Sorry to say there is no one-size-fits-all answer, and the issue of fairness is a tough one as reflected in the continuing changes to the bankruptcy rules over the years. Different rules apply to different classes of debt, but are generally designed to treat everyone the same in each class while giving some measure of priority to key vendors the company needs to stay in business. When you suspect a company is heading down a road towards bankruptcy, the best advice is to minimize your exposure while staying within the bounds of "ordinary course" and, of course, consult with a bankruptcy attorney.

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIIn
M: (732) 406-0377

Q&A

Q: Let's talk skillsets. I run a company today as I have for decades. Are there different skillsets required to turnaround a company vs what a lot of us do? In other words, I focus on the profitable growth of our company, building a strong asset for the future, and in my case, hopefully, future generations. Great to have your viewpoint on this. Thank you!!

albany December 11, 2020 at 7:45 am

A: Hi Albany. Thank you for your question.

Whenever I speak or write about turnarounds, I offer the same advice: Don't try this at home. Two of Einstein's famous quotes capture the essence of this perfectly: "Insanity is doing the same thing over and over again and expecting different results" and "We cannot solve our problems with the same thinking we used when we created them."

It's not so much a different skill set as it is a different perspective and process – deploying those skills in a different way to better understand the root causes and uncover the solutions. Here's a perfect example: Your accounts receivable collections are slowing down, negatively impacting your cash flow. You bring in your CFO/Controller and start asking why. Now imagine I am working with you to solve your company's cash flow problems and bring in the CFO/Controller to ask the same question, in confidence and without judgment. Do you think the answers would be the same? Absolutely not. Your conversation with the CFO will be guarded, shaded by internal politics. He/she will have preconceived notions about how you view the issue and the people involved, or your attitudes towards certain customers.

Now imagine not one but dozens of conversations across all parts of the company's operation. It's in those very differences where solutions are found that would not otherwise surface. This is just one example where a skilled, independent intermediary can add great value. On a final note, I'll also mention that time you spend managing a turnaround is also time not spent doing what you do best: generating profitable growth and building strong assets for the future. I suspect you'll come to the same conclusion: Use an expert.

SYNERGY Enterprises LLC

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIIn
M: (732) 406-0377

Q&A

Q: I've had friends in the turnaround business and they always said to me their 3 priorities are cash, cash, and cash. First, they focus on stopping the bleeding then restructuring the business as a whole-saving it if possible. They also say that the huge shift is who they are representing-the debtors and not the shareholders/equity. Essentially, the equity gets shelved in these situations and it is a matter of who comes first-employees paid first, taxes I suppose, and then bank, debtors(vendors etc). Did I miss anything here? Is this the way it typically works? ty.

wildcat63 December 11, 2020 at 8:46 am - Reply

A: Hi Wildcat63. Thank you for your question. Let's unpack this.

1. "Cash is King" – without cash, the engine stops. Not only is cash needed to continue operations (even at a reduced level), a large amount of it will likely be consumed if the company ends up filing for bankruptcy. It's not unheard of that companies that were otherwise perfect candidates for restructuring couldn't pull it off because they didn't have enough funds to cover the cost of the bankruptcy itself, which includes court and trustee fees, legal fees for both the debtor and the creditors, taxes, payroll for critical staff and the like (all generally referred to as priority "administrative" expenses). While lenders are usually happy to lend into a bankruptcy ("DIP" or debtor-in-possession loan) when the underlying collateral is there to cover, banks will not lend for administrative costs. In fact, the court requires rolling 16-week cash flow forecasts to ensure the company will not run dry through the pendency of the case. **No cash = No restructuring**.

2. The restructuring process usually begins well before the actual bankruptcy filing, with debtors evaluating whether a traditional bankruptcy, prepackaged bankruptcy or 363 Sale are viable options. With a pre-pack, the company negotiates ahead of time with its creditors, seeking their approval to go into court with an approved reorganization plan. This is hard work, but efficient. It significantly reduces the time and expense of a traditional bankruptcy and minimizes the impact to the ongoing business. A 363 sale is an auction process, where a company seeks out buyers for the Company's assets, selects a "stalking horse," and goes into court expecting to make a sale to the highest bidder.

3. There are reams of documents that talk about the fiduciary duties of directors in insolvent companies. To sum it up, the moment a company becomes insolvent, directors' responsibilities shift from looking out for shareholders to looking out for Company's creditors. The definition of when a company becomes insolvent is a little gray – but essentially occurs at the point when the Company is no longer able to operate in the ordinary course of business due to lack of funds or credit. Think of it this way – when a company starts paying some creditors and not others due to cash flow constraints, chances are that it is, or getting close to, insolvency.

4. Equity is, for all intents and purposes, "shelved." Management will still operate the Company, but under the watchful eye of the court and the creditor's committee. The only time equity will see any recovery of their investment is if all other creditors, secured and unsecured, have been paid in full. Having said that, if the Company does have a successful restructuring (as opposed to a 363 Sale), and the cap table hasn't been crippled, shareholders can always hope to recover value from their investment some time down the road.

This is, of course, just the tip of the iceberg. Companies should consult with bankruptcy counsel and turnaround advisors as early in the process as possible.

SYNERGY Enterprises LLC

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIn
M: (732) 406-0377

Q: Gary-curious if you think that over time, companies grow "fat and happy". In other words, they give everyone a standard raise, say 3% annually, and then big bonuses for senior management and then something happens. That "something" is that SG&A as a percent of revenue has gotten out of control. It's gone from 17% to 35% and the company profits from profitable to bleeding money. Then it becomes drastic cutting of overhead, lose some of the best people as it is done across the board, and then the company is on a spiral downward. Agree/disagree? what am i missing? is this typical that companies don't watch their numbers during good/great times and get killed during bad times?

Tiger111 December 8, 2020 at 9:34 am

A: Hi Tiger111. Thank you for that excellent question. As you may have seen in my profile, I've spent the last 30 years working with distressed and underperforming companies as either an owner or advisor. Every one of them, to one extent or another, was victim to the built-in bias that traditional compensation models (annual increases and year-end bonuses) cause, resulting in a growing disconnect between compensation, performance, value and competitive pricing. As you noted, this gap worsens the longer it is ignored. So what is the solution? Change the compensation model.

I am a big fan of cash-based, profit-sharing compensation. Each time I acquire a company (or advise a struggling or underperforming business) where compensation has become uncompetitive, it is one of the first things I address given how large compensation expense typically is as a percent of total expenses. The new model sets fixed base compensation and a profit pool based on predetermined levels of profitability over and above a company's base forecast. This solution won't necessarily work for every company, but when it does, this approach has multiple benefits for both employer and employee:

1. It sets a compensation floor based on competitive pricing, immediately bringing that component of SG&A back in line

2. It provides a mechanism for everyone to share in the company's performance. The better the performance, the higher the reward, and decision-making becomes more cohesive across the organization with everyone focused on delivering results.

3. It's affordable because it comes out of earnings over and above the company's base forecast.

4. The base forecast is updated at least annually to reset the bar

With something this important to your employees, communication is critical to ensure a smooth transition. Explain why the change is needed while emphasizing the upside potential. Be transparent. Broadcast your base forecast (within the limits of confidentiality), the amount of the pool and how profit sharing will be calculated. This transition can also be the perfect time to address other costly employee-related expenses such as health benefits. Lastly, don't hesitate to bring in an experienced advisor to help create the plan and be point on communicating the transition to your organization.

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIn
M: (732) 406-0377

Q&A

Q: When you come into a turnaround, do you try/not to figure out the why? Is this important to know or do you just deal with the facts as is? If so, why do companies fail? Over-levered with upside-down balance sheets? Management errors? Competitors ate their lunch? Dependent on one customer/client? Never made money over the years (don't know how to be profitable?), and/or just didn't watch the cash? Thank you
.

Brighton2222 December 11, 2020 at 8:26 am - Reply

A: Hi Brighton222. Thank you for a great question.

"Why" is always a good place to start. While there are exceptions to the rule, diagnosing what is wrong with a company and how it got there is the easy part. I tend to break these out between "internal" and "external" factors (you can do this with some of the common issues you've already pointed out: management error, inadequate financing/capital structure, aggressive competition, loss of a key customer or supplier). It's important, though, to distinguish between cause and effect. An over-leveraged balance sheet, for example, isn't necessarily the cause of the problem – it's more likely the result of other negative (and possibly) worsening trends in the business. I've worked with companies of all sizes and types, and by the time I'm done with due diligence, I can usually tell you exactly what the issues are and how they came about.

While history is an essential piece of the puzzle, it may or may not lead you to the solution. Sometimes returning a troubled company to profitability can simply be a matter of returning to its original formula. I did that with a womenswear retail chain that thought they would be better off if they moved to a younger clientele with more discretionary income. I bought it after it crashed, so most of the turnaround work had to do with returning to its original customer base. I also did that when I advised a client that lost a customer representing 40% of its business. That case was a matter of downsizing the business to when it was profitable at that lower sales volume. Other times, though, this isn't possible, and a new path forward must be found. That's where the 10-Step Turnaround Process I've described elsewhere in this blog can be put to good use.

In short, analyze the root causes, devise a plan and then execute.

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIn
M: (732) 406-0377

Q&A

Q: Day 1 of a turnaround- how do you set the stage? The expectations? Can't just walk around and listen and observe I assume- go into action Day 1?

Tiger111 December 10, 2020 at 4:26 pm

A: Hi again Tiger111. Another good question, thank you!

A few years ago, I was out to lunch with a business associate, and we got on the subject of turnarounds. He asked me if there was a process to it and I said no – it was something I did from the gut depending on the circumstances I saw on the ground. I then spent the next 45 minutes explaining how things usually progress and, before I realized it, had laid out ten specific steps to make a turnaround work. It turned out there is, in fact, a well-defined process, which I'm happy to share with you below.

I do want to first address your "Day 1" question. As you would expect, there are some important optics and sensitivities that are typically in play in a distressed company. For example, you can imagine the uncertainty that wells up when a company isn't performing well. People are worried about their jobs (and may already be looking elsewhere). Frustrations run high in middle-management because they don't see senior management moving quickly enough, or assertively enough, to address the issues. There's worry the skills that made the company successful are not the same skills needed to return the company to profitability. They worry if word gets out, their competitors will be more than happy to spread the bad news. All of this is a big weight that needs to be lifted at the outset.

With that in mind, Day 1 starts with the introduction of a turnaround advisor with a strong track record who will, in turn, announce to the organization exactly how the turnaround process works and what everyone's role in it will be. You declare that the organization chart is temporarily suspended, and everyone with insight into the issues and possible solutions is encouraged to come forward, without judgment and under the umbrella of full confidentiality. In fact, I tell people that the more bad news they tell me about, the more likely it is that optimal solutions will be found. I tell them I am looking for pro-active leaders (everyone already knows who they are). This is not only motivational but practical. I want the full force and energy of the people who actually make things work to be the ones who will take the lead.

Once the groundwork is set, we're ready to launch the 10-Step Turnaround Process (I've got a podcast out there that will take you through these steps one at a time, with examples):

Step 1. Conduct interviews from the top, down to the second or third level in every department.

Step 2. Capture all of the recommendations that come out of that process and put them up on a war board.

Step 3. Choose the Top Five Changes that will deliver the biggest benefit for the lowest cost in the shortest time.

SYNERGY Enterprises LLC

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIn
M: (732) 406-0377

Step 4. Assemble an interdepartmental team, with a team leader, for each of the Top Five Changes.

Step 5. Prepare a draft Press Release to put up on the wall, with a future date and announcing exactly what was accomplished.

Step 6. Announce the teams and team leaders to the organization, and have each team present its Press Release.

Step 7. Let the teams do their work and create a game plan to achieve their target. Lay out critical milestones, timelines and needed resources, and identify any possible objections or interference.

Step 8. Meet frequently with the Teams, publicly and privately, and hold everyone accountable to their game plan.

Step 9. As the results come into focus, take advantage of the process and momentum to add additional mid and long-term goals

Step 10. Celebrate and Reward

Finally, consider making a slimmed-down version of this drill an ongoing practice of the company. You'd be surprised how collaborative problem solving can become an integral part of the culture of a business.

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIn
M: (732) 406-0377

Q: Noticed that you ran Kmart Canada-love to hear your viewpoint on the future of retail? Retail apocalypse/not? Gary, what will it look like 3-5 years from now? 10 years from now? smaller footprints? marketing only for the stores?

terra December 7, 2020 at 11:05 am

A: Needless to say, traditional retail is in trouble, and so is everyone who in one way or another is connected to that eco-system. Retail will (and has already started) to fundamentally transform itself in order to survive. This is taking the form of 1) inventing new retail concepts (e.g., "experiential retail") and 2) a dramatic acceleration in the shift towards online shopping (e.g., Amazon) and "showrooming" (e.g., Best Buy) in stores of all sizes.

Regarding Kmart Canada, our timing was fortunate. Today, big-box retail is increasingly giving way to small-box retail. I'm not sure my crystal ball is better than anyone else's, but at a high level, here are some of the more significant changes we'll likely see in the near and long-term:

1. Chains that have gone out due to COVID will not likely return as stand-alone retail operators. It is much more likely those brands will be acquired, aggregated and licensed.
2. Chains that are still in business but have reduced the number of retail locations will likely retain the lower store count
3. Retail store footprints will continue to shrink until retailers find the right balance between "showrooming," in-store inventories and staffing
4. Accelerating shift towards sophisticated VR e-comm, including AI-enhanced, individually-targeted messaging and promotions
5. Declining importance and differentiation of named retailers vs. increasing prominence of branded product (where influencers, Instagram and other digital platforms are becoming increasingly universal)
6. Lowering and rebalancing of retail rents
7. Accelerating shift towards same/next day delivery via in-store and distribution hubs
8. New retail lending rules favoring cash flow performance versus collateral values
9. Declining retail employment
10. Increasing importance and caliber of corporate technological leadership

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIn
M: (732) 406-0377

Q&A

Q: Gary-when I look at retailers today, I ask myself if they go away, will anybody notice? Some of these retailers did a lousy job before Covid. Now they use coronavirus as an excuse! When I walk in some retail stores, it is hard to find anybody to help. The last retail store I went into, two salespeople were talking to each other and another one was on the phone. You can say it is coronavirus but a lot of retailers didn't even focus on what they were supposed to be good at - customer service. Another example is a retailer that I went into and when I finally did get help, the salesperson responded to my question and ran away as fast as they could. And you wonder why customers don't go in stores, and want to order online? Your opinion on this.

TGIF December 8, 2020 at 10:53 am

A: Hi TGIF. I can't defend those bad experiences, but I can certainly explain it in one word: Culture. Putting COVID aside for the moment, whether a retail chain has hundreds or tens of thousands of employees, you will find that the in-store experience most often is a reflection from the top. If ownership loves the business, its products and its employees; if they feel they are bringing something of value to their customers, something their customers will be excited about and want to share with their friends and family, you will likely find warm and attentive staff on the floor. You will also find those owners spending a lot of time on the retail floor themselves, staying in close touch with their staff and their customers (which I call "relational retail"). Unfortunately, too many unimaginative retail owners focus mostly on margins and think of their floor staff merely as another cost of doing business. Great retail executives train, acknowledge, incentivize and promote their staff. They encourage community among their staff and their customers. Unfortunately, COVID has hit at the heart of brick-and-mortar retail, and good retailers everywhere will be scrambling for some time to figure out how relational retail will work in a post-COVID environment. Getting a customer to cross your lease line has always been most retailer's biggest challenge. Now more than ever, if you don't offer an exciting and inviting in-store shopping experience, it's time to move online.

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIIn
M: (732) 406-0377

Q: Can you explain to me what it means for retail to be “experiential”. It is constantly talked about in the news as a point of differentiation but I am unclear what it means. Is it supposed to somehow leverage the in-store experience vs online? Is it truly unique? Is it Casper doing private sleeping pods? Does it engage the consumer in a different way? Your read on this. Thx

turkeyslr December 9, 2020 at 11:19 am

A: Hi Turkeysir. Great question! In short, think of traditional retail as binary and experiential retail as complex. While retailers typically spent money making their stores look “attractive” with window dressing, good lighting and fixtures, the traditional retail experience was anything but exciting and engaging. You walk in, find your department, rummage through what’s on the shelves, check out and go. You might be shopping because you saw an ad on TV, radio or got a catalog in the mail. If there was an “experience” associated with traditional retail, it was the fun of walking the mall and getting a Starbucks.

Today’s in-store experiential retail is about the senses (look, touch, feel), community (in-store events, loyalty programs), multi-platform engagement (store, apps, Instagram, e-comm), social connections (Facebook, Amazon, Twitter, i-messaging) and sometimes “localization” (where your local retail store will display, for example, images of local points of interest.

An experiential retail store will be visually appealing, from zone lighting to artistic fixturing. Every aspect of the store will connect to the company’s brand, not just the product. It will be entertaining, inviting and engage your senses with art, color and layout.

Furniture retailers, for example, that traditionally had a section with sofas in one area and night tables in another, now display complete bedrooms to connect with your sense of home, not to mention a candle burning and music playing in the background.

Experiential retailers will also increase the frequency of in-store resets so you’ll have reason to visit more often to see what’s new.

Finally, an experiential retailer will also be omni-present, reaching you through digital advertising, web browsing and, of course, influencers across all social media.

Does it work? Yes, it does. COVID aside, many are being rewarded for their effort with more frequent visits and higher ticket value per sale. It is, however, an expensive proposition not only of the initial conversion but the ongoing upkeep, so many retailers, at least for now, are using this new model only for their flagship locations or in a limited number of high volume malls.

Happy shopping!

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIIn
M: (732) 406-0377

Q&A

Q: You must have seen a lot given your background. What company/single event surprised you the most?

wingsb December 9, 2020 at 6:05 pm

A: Hi wingsb. Thank you for your question. I've learned a lot over the years working with underperforming companies. I've also been given a lot of credit for the work I've done, but there is one thing I learned early on that has been key to my success: Listening. My biggest surprise was coming to realize that I wasn't the one delivering solutions. The solutions were already known, but hidden in plain sight. Instead, I became a conduit to allow these solutions to get to the front of the line.

It's pretty straight-forward figuring out what's wrong with a company. That's a matter of understanding cause and effect. The real opportunity to create value comes from 1) identifying the solutions and 2) executing a turnaround plan.

Companies that have been around for a few years accumulate a wealth of what's often referred to as "institutional knowledge." This is the collective on-the-job experience employees acquire at all levels of the company. Sometimes a turnaround will necessitate going in a new direction. Other times it's more a matter of returning to the "old" – but more profitable – way of doing business. To someone leading a turnaround, the ability to access this wealth bank is invaluable, and the key is listening. My approach is to conduct one-on-one interviews at all levels in a safe environment, where everyone can speak freely, knowing that their communications are completely confidential and will help bring the company back to profitability. If done right, this process can also be empowering, and mining this knowledge can produce extraordinary results that can define the way forward.

I'll leave execution for another time, but this one thing, more than anything else, has been the key to every successful turnaround I've been involved with.

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIn
M: (732) 406-0377

Q: The U.S. has debt levels due to coronavirus that have skyrocketed, % of GDP is over 106% now. Fast forward a couple of years from now and potentially, with interest rate increases, our debt service could be our biggest line item. Will our own government need a turnaround person to run our country or be the COO focusing on reducing debt levels or will this just be a can we kick down the road. Thx

wooster December 11, 2020 at 7:48 am

A: Hi Wooster. Great question. Government "spending" is a peculiar thing. Aside from the sheer complexity of accounting for the vast amounts that flow in and out of the Treasury and the thousands of government operating units from your local DMV to the Pentagon, there are some basic conundrums. Is it spending, or is it investing? If deficit spending creates GDP growth, how do you measure the cost against the benefit?

Here's what I do know: Like quantum bits, the government can be like a business and not like a business at the same time. Those parts that provide goods and services (think post office and VA hospitals) should definitely be run (and turned around, when necessary) like a business (although more in line with socially responsible companies than traditional for-profit companies). In these cases, an experienced turnaround operator can contribute significant value. When it comes to spending on programs such as Medicare, Medicaid, disaster recovery and the military, spending is driven by politics, not profit motive. While a turnaround expert can certainly deliver efficiencies even within those agencies, I wouldn't expect that to rise to the level of having a meaningful impact on the overall budget.

As to your point about current spending outpacing GDP, that's a given in times of crisis. It's up to the responsible adults in the room to manage the government's resources prudently. Part of the problem is that if your currency is the safest haven for investors, you have virtually unlimited capacity to borrow, so unlike a business with limited borrowing capacity, there's little pressure to control government spending and politicians are happy to kick the can down the road. For every economist that says our deficit is too high, another will say it's in bounds. Makes my head spin.

The solution, which is entirely antithetical to how our government runs today, is to shift the culture at the operating units to focus on performance, efficiencies and KPIs, just like our own businesses. I would even go so far as to say there should be a cabinet position dedicated specifically to overseeing improvements in the operating performance of government agencies. Are you listening TMA?

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIIn
M: (732) 406-0377

Q&A

Q: Gary-do you ever work with restaurant chains in a turnaround/restructuring? would think there is a lot of opportunities there today. If so, can they make it in a different format i.e. takeout and smaller venues or do they have sustainability through covid at 25-50% capacity?

Lexus232 December 9, 2020 at 1:51 pm

A: Hi Lexus232. I'm usually not at a loss for words, but you've stumped me. There are a handful of businesses I haven't had any direct experience with, and restaurant chains is one of them. Having said that, there are a lot of fundamentals that apply across industries, so please take a look at my reply to "wingsb" earlier in this blog, which talks about one of the components ("Interviewing") of my 10-Step turnaround advisory practice that reviews to the turnaround process and toolkit needed in any turnaround or restructuring.

Q: What is it like for you being/having been a turnaround guy? Isolating? in other words, do you feel the "lone wolf" when you come into companies(representing the debtors/bank) or do you tend to have a partner with the CFO?

austin December 11, 2020 at 8:20 am – Reply

A: Hey austin. Thanks for your question!

In my early days, it was a bit terrifying going into each new distressed situation, cold turkey, not knowing what the issues were or how I would fix them, and with everyone hoping I was a miracle worker. Over time and with years of experience, I accumulated a great deal of practical solutions to 90% of the typical problems most distressed companies face. I also learned to put faith in the process itself, which allowed me to be confident I would gather all the data I needed, set the right goals and priorities, and then effectively and efficiently implement the turnaround plan. I was rarely alone – I always had a team of talented people (accounting, finance, sourcing, logistics and distribution, IT, etc.) on the team, depending on what skill set was needed to do the job.

I like the analogy of watching a movie for the first time. It's exciting, always wondering what comes next and how things will turn out. The next time you watch it, you already know how the story evolves, how all the pieces fit together, and most importantly, how it turns out. That's a good way to look at what I do. While there are always unscheduled surprises, I already know where I'm headed and what it will look like when I'm done. Uncertainty and trepidation have long given way to confidence and excitement and, whether it's for my own account or a client, the personal and professional satisfaction of getting a job done well.

SYNERGY Enterprises LLC

Gary Nacht, Principal
Synergy Enterprises, LLC
www.synergyllc.net
garynacht@synergyllc.net
LinkedIIn
M: (732) 406-0377