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*"Success is not final, failure is not fatal:
it is the courage to continue that counts."
~Winston Churchill*

*"Coming together is a beginning;
keeping together is progress;
working together is success."
~Henry Ford*

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4. Problems With Process & Organization

Generally speaking, a turnaround and start-up are at totally different points on the life cycle of a business bell curve. But surprisingly, many of them share the same issues with process and organization, including losing focus on commercialization, which is the driving revenue of a company.

To combat this problem, a start-up has to focus on building up and implementing product development first and then on other business processes second. A turnaround, however, can simultaneously reorganize all of its business processes, as well as organizational and industrial flows. Regardless, both have urgent needs to review and implement new processes, drive a culture of continuous change management, and concentrate on recruitment in order to build up a high-performing management team (both at the top and in the middle).

5. Struggling Sales

Both start-ups and turnarounds struggle in the sales arena. For start-ups, the picture is a little more challenging. After all, developing sales from scratch is far more difficult than developing sales in an existing market. The sales problem in turnarounds is somewhat different. These entities need to stop selling products with negative or insufficient margins in order to shore up the cash bleed. This short-term shrinkage decreases sales and therefore must be very quickly followed up by business development efforts into existing and new (international) markets. In both cases, there needs to be competitive product positioning, a focused marketing effort, and an efficient sales organization in place to enable successful business development.

What's Happening with Lakelet this Quarter?

- Lakelet Advisory Group and Lakelet Financial Forensics Group announced the expansion of services into Rochester, NY in August 2014. Both firms are excited about the opportunities that lie ahead in Rochester. The new office is located at 510 Clinton Square.
- New! Financial Risk Barometer - Based upon our cumulative experience with high-risk organizations and turnaround engagements, Lakelet Advisory Group has developed a financial risk indicator for its website. This confidential, preliminary barometer can help determine the overall health of your organization. Find it at LakeletAG.com.
- New! Fraud Risk Barometer – Lakelet Advisory Group's sister firm, Lakelet Financial Forensics Group, has prepared a similar barometer to assist your organization with determining its preliminary risks associated with financial fraud. Simply address 10 questions and a set of financial parameters to provide you with a measure of your organization's risk for financial fraud. Find it at LakeletFG.com.

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Search *Lakelet Advisory Group* and *Lakelet Financial Forensics Group* on LinkedIn and YouTube

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The ABCs of Improving Business Cash Flow

In business, cash *really* is king, as the saying goes. Workers won't stick around if they don't receive paychecks on time and suppliers won't continually extend credit. It's a lesson many business owners have to learn, sometimes painfully. That's why, regardless of the industry – whether it's manufacturing, distribution, financial or service – aggressively managing cash flow is key to success. The faster cash flows are realized and received, the faster the funds can be invested back into the business and put to use.

However, managing proper cash flow is not luck. It's all about good planning for the entire business cycle and driving continuous improvement within each area of the business. This includes, but is certainly not limited to, the cycle from the initial sale through to delivery. Every day counts, which is the primary reason working capital and cash flow are measured in days.

When a company is struggling in this area, there are some adjustments to a few of the business metrics that can have a significant impact on cash flow and, ultimately the company. They are:

Accountability for the key elements of the business cycle.

Relative cash flow is the #1 indicator of the health of a company – and the success of your team. It is therefore critical to assign each component of the cash flow process to each member of your executive team so they are responsible for overseeing income and expenses. Recommendations include the following:

- Sales should be reported to the sales and marketing leader.
- Cost of goods sold should be reported to the COO or the general manager.
- Selling, general and administrative accounts should be reported to the controller.
- Debt / interest should be reported to the treasurer.
- Payroll and its associated expenditures should be reported to the human resource leader.
- Taxes and tax planning should be reported to the financial leader. (It is imperative that tax planning be proactive, not simply conducted post year-end.)

Business Process Optimization is a long journey, but each step in the right direction will reap tangible benefits. A few general opportunities include:

- Be aggressive, but fair with your clients when it comes to Accounts Receivable.
- Explore down payments.
- Get invoices out as soon as possible.
- Consider adjusting your pricing.
- Inventory turns will have the largest impact on your cash flow for a manufacturing entity. (A detailed blog was prepared on this topic. See http://lakeletag.com/blog/2013/6/17/inventory-turns for more information.)
- Obtain additional quotes on a regular basis, even if it's simply to confirm you're getting the best deal.
- Dual source wherever possible. Competition is good!
- Align payment terms for payables and receivables. If creditors are demanding payables in 30 days and customers are paying in 45, you will run out of money.
- Check your occupancy costs. If you can, reduce your utilities, phone services, etc. by renegotiating contracts or switching to different vendors.
- Aggressively diversify your customer base so you are not relying on a single source for the majority of your revenues.

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- Decrease direct variable costs by increasing the value-added to non-value-added ratio. Do so by optimizing the wait, rework, travel, preparation (e.g. retooling) and administrative aspects of production labor. Warning signs include high production labor costs, high absenteeism, high inventory carrying costs, low quality, multiple shifts, overtime, poor customer service and poor cycle times, all of which negatively impact cost of goods sold.
- Make sure your ERP and Product Data/Lifecycle Management technology is working for you.

Conducting a Comparative Analysis – or "benchmarking" – is key. If you are comfortable with your cash flow, then there's a problem. As Thomas Edison once said, "Show me a thoroughly satisfied man and I will show you a failure." Be sure to compare quarter-to-quarter, year-to-year, and industry specifics and also explore the best-of-breed companies to determine how they have achieved their success.

Keep in mind, good cash flow management can alert you to trouble – and help you head it off – well before it strikes. It will also help you fuel and drive your company toward growth, strength, and achieving organizational goals.

Corporate Fraud: Why It's a Bigger Problem Than You Think

With the likes of Home Depot and Target, fraud and data breaches have been getting their fair share of news coverage lately. While consumers may be concerned about their credit card numbers being stolen and used by cyber thieves, it's actually executives and board members who should be just as worried – if not more so – about their company assets being jeopardized.

Many corporations assume their CPAs will detect a problem if there is one. But statistics show that independent CPAs are only successful 3% of the time. The justification is that they are not engaged to detect fraud or security issues. Management has a bit of a better success rate, at 7%, but it's only purely by accident they typically stumble across fraud or a security breach.

Fraud and data breaches aren't going away any time soon. In fact, thanks to technology and easy access to data, there will likely be more instances of them in the future. And for a corporation, a breach can be deadly. Just consider these statistics from the "2014 Report to the Nations on Occupational Fraud and Abuse" below:

- For a typical organization, 5% of revenue is lost each year due to fraud.
- The country with the greatest fraud by both number of instances and the dollar amount is the United States. Other than Brazil, in the U.S., it's almost double than in any other country.
- Executives commit 19% of fraud.
- 77% of fraud is associated with the following departments: accounting, finance, sales, customer service and operations.
- Average fraud occurs within an organization for more than 15 months.
- Private companies are at a greater risk than public entities. (Of course, government is in a league of its own with the lack of controls, amount of cash transactions, and very limited accountability structures.)

Who is most likely to commit fraud at your company?

While there is no template for fraud or single face of a perpetrator, there are some trends to note, including the following:

- Fraud most often happens in banking and financial institutions, followed by government (see above comments) and healthcare, in the finance and accounting departments.
- In fact, the billing function is associated with +22% of cases of fraud.
- Interestingly, the more education an individual has, the higher the dollar amount of the fraud and the number of occurrences. For example, someone with a post-graduate degree is three times more likely to commit fraud than an individual with just some college education.
- Perpetrators have typically been with an organization for 5+ years.

How to Mitigate Fraud

Protect your organization by:

- Having a professional, certified financial forensics expert conduct a surprise audit. Evidence not obtained through professional means has little to no value in a court of law.
- Having an independent certified forensic examiner (NOT your audit firm) conduct a financial forensics exam of high-risk areas.
- Building an independent, active and progressive board.
- Promoting strong ethics throughout the organization.
- Prosecuting those caught. Only about 40% of perpetrators found are referred to law authorities because organizations are fearful of bad publicity. This speaks volumes and sends the message that the chances of being turned over to law enforcement are relatively small. In addition, only 50% of those prosecuted are found guilty and more than 20% of cases of fraud are "privately settled."

The statistics shared in this article are certainly alarming. That's why it's so important for business leaders to ignore the social ramifications of reporting fraud and take a pro-active approach to combatting it. Think of what's at stake. After all, what's an additional 5% in business revenue worth to your company and its future?

5 Common Traits Shared by Start-Ups & Turnarounds

At first sight, a start-up and a turnaround environment appear to be at the opposite ends of the development cycle spectrum. But after looking a little closer, you'll find that's actually not the case. In fact, start-ups and turnarounds share many common attributes, including:

1. Management Issues
2. Limited Cash Flow
3. Urgency to Achieve a Goal
4. Problems With Process & Organization
5. Struggling Sales

Let's take a closer look at each of these:

1. Management Issues

Both turnarounds and start-ups require a unique breed of executive; one that won't necessarily be a long-term player at the company. However, many times, experienced managers come in from large corporations – and yet rarely survive for a variety of reasons:

- They don't have the resources they are accustomed to having.
- Their experience is with well-established business processes, whereas all processes must be built from the ground up in a start-up, or re-tooled in a turnaround.
- They are forced to delve into a level of detail they never had to deal with before.
- They must act with urgency with limited access to financial resources.

In start-ups, many times founders also serve as CEOs. While they are excellent business developers and evangelizers (i.e. they have vision and product knowledge), they often don't perform well in company management due to lack of experience, background, and skill set.

Regardless of whether an entity is a start-up or in a turnaround situation, finding an independent leader with the financial acumen to mitigate cash flow exposure while seeking financing; the technical background to fully understand the product / markets; the knowledge of manufacturing / product development in a cost effective manner; and the ability to execute is extremely rare. Perhaps that's why 90% of companies in turnarounds have to change the CEO and management team either before or during the restructuring phase. Likewise, approximately 90% of start-ups change CEOs at least once in the first years of existence.

So what does an ideal CEO look like? It's a similar profile for both start-ups and turnarounds:

- Generalist – Exposed to complex and multiple environments
- SME experience – 100-1000 peers
- Sense of urgency – Ability to make decisions quickly
- Leadership – Ability to drive the team
- Analytical – Ability to discriminate and make priority adjustments
- Curious, creative – Does not remain blocked by hurdles
- Operational – Hands on
- Entrepreneur, autonomous – Has a "get it done" rather than "have it done" attitude

When it comes to management at either a start-up or in a turnaround situation, avoid hiring those with sector expertise or who are specialists. Specialists can be found internally. The key to success is to have a CEO with general multi-function and multi-sector experience. A non-specialist CEO will have a fresh eye and therefore be able to make a positive impact.

2. Limited Cash Flow

Start-up and turnaround companies are both in negative cash flow situations. Therefore, both types of entities need to maximize the efficiency of each dollar spent and minimize the cash burn in terms of expenditures and investments. Internal and external processes must be optimized and business development efforts boosted.

3. Urgency to Achieve a Goal

Besides cash, time is also limited. Both start-ups and turnarounds have a limited time frame in which to maximize business and organizational efficiency, and make the transition from a negative cash flow situation to a positive one.

However, the time frame for a start-up is slightly longer – two to three years – to survive beyond the critical state. For a turnaround, the time frame is typically one to two years. Other ways they differ? In a start-up environment, the executive team should be focusing first on product feasibility and industrialization, then business development; whereas in a turnaround situation, the first phase should involve reorganization and the second turning a negative cash flow into a positive one.

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