

LOOK WHO'S MAKING THE WORLD A BETTER PLACE!

Our Family Center is definitely making the world a better place. Founded in 2004, **Our Family Center** is a non-profit Christian-based organization that provides help to at-risk children and families in the Hammond, Indiana area. Their flagship is an after-school program for school-aged children and teens. The program works with their at-risk kids on a holistic basis, tutoring the kids and giving them overall help in the social, physical, mental and spiritual realms of the kids' lives.

Our Family Center also puts smiles on the faces of hundreds of poorer families in the Hammond area by providing them Christmas through their Gift Of Hope Program .

The Directors, Todd and Raquel Forrest, have blue chip resumés, including stints with Catholic Charities and The Salvation Army – arguably two of the best non-profits out there. But more important even than that, is their genuine passion for helping these kids. I've met with them, been out to **Our Family Center's** facilities, and witnessed some of their success stories. Todd and Raquel are the real deal – the type of people you can invest with, and know your investment will go a long way to helping those that need help, and making our community a better place.

If you are interested in helping, or learning more about **Our Family Center**, please feel free to contact Todd and Raquel at:

Our Family Center

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SPRING 2009

The Community Lender

from **FOSTRIAN** | Business Capital Corporation

Fostrian Business Capital is a commercial lender specializing in working capital loans to emerging companies through the factoring of their accounts receivable.



From Jeff:

Fostrian being an asset based lender/factor that puts a premium on helping its clients strengthen and achieve its financial goals, I've always been interested and intrigued with the specialized field of Turn Around Management, and recently read the classic book "CORPORATE TURNAROUND" by Donald Bibeault. Most all of the recipients of this newsletter are also in the business (directly or indirectly) of helping clients better their businesses, so I thought doing a quick book report on this book would be a worthwhile endeavor for the Spring 2009 issue of Fostrian's newsletter.

I've also added a new section in this issue that could be a recurring feature of the newsletter. It's called "Look Who's Making The World A Better Place" and will feature non-profit organizations (and others) that are doing good work in our community, and that I think deserve a shout out.

So please enjoy!

~ JEFF'S BOOK REPORT ~

Donald Bibeault is considered to be one of the pioneers of the modern Turnaround Management Industry. His book, and the book I'm reporting on, "CORPORATE TURNAROUND," is considered a foundational work for conceptual thinking in the Turn Around Management Industry. It was written in 1982 and is written from a middle market – large company perspective, but most all its lessons are applicable to businesses of all sizes in 2009. I cannot come close to doing the book justice in a brief newsletter, but think it's worth a try to point out some of the more salient messages culled from the book. I will concentrate on those challenges/issues faced by the turn-around manager early in the turn-around process (The Emergency Stage).

REASONS FOR A COMPANY'S DECLINE

Roughly 80% of the reasons a company goes into decline can be attributed to internal problems that are controllable by management. Management ineptitude rather than uncontrollable external factors is the primary reason a business fails. Failure is generally many years in the brewing and thus, almost always, there is time to react, change and turn the business around.

Management errors that stand out most to me are:

- 1. Unjustified Empire Building/Overexpansion/Overdiversification** – growth in itself has no merit. In fact it can be deleterious to an organization if not pursued intelligently. Growth must be smart, disciplined, methodical and pursued only because it optimally increases shareholder wealth.
- 2. Underpricing**
- 3. Failure to Control Operations** – namely ineffective financial controls
- 4. Poor Response To Market Changes**

EMERGENCY STAGE PRIORITIES/STRATEGIES

The first duty of a Turn Around Manager is to assess the viability of the business. Two questions must be asked. First: Is the core business viable? Are the fundamentals there? Does the company have a reason to exist? And secondly, is the needed funding available (internally or externally) to execute the turn-around? Only if these questions are answered "yes", does it make sense to proceed with the turnaround.

Once the turn-around proceeds, the turn-around manager must be given full control, and he/she must use this control from day one to "shock the system." The leader must be strong, and make big moves early. A culture change is underway, and all employees of the organization must be made aware of this through communication, and more importantly by bold early changes (severe cost cutting, firing personnel, cutting out certain customers and product lines etc). While revolutionary change is a must, all changes must be rational, carried out with integrity and with sensitivity to those affected.

Stop The Bleeding The first order of business is to STOP THE BLEEDING, and stabilize the cash position of the company. There are four basic pressure points here.



First, severe cost cutting may be required. This means cutting out all non-essential expenses – expenses that have no immediate quantifiable payback to the company (overstaffing, advertising, perks, etc.). Second, liquidate losing business segments/assets and pare back to the business segments you know and have a competitive advantage in. This reduces company losses, and raises needed capital at the same time. Third, negotiate better terms with your lenders. This could mean having the lender convert its debt to equity, and/or reducing interest rates paid, and/or stretching payments out over a longer period of time, and/or bringing in needed capital from a brand new line of credit. Lastly, manage working capital optimally (collect receivables, extend payables where it makes sense, work out payment arrangements with vendors and show them you're serious and warrant classification as a preferred customer, take discounts when feasible).

The Big Bath In most situations it makes sense to write down assets and recognize losses aggressively, and as early as possible. This accomplishes several things: a cash injection from tax savings, a clearer financial picture for investors and lenders who will be needed for financial support, and a psychological benefit in that by taking the losses you've hit bottom (on paper), and you should only see improvement from there.

Personnel Early on you will spot employees that are relishing the opportunity to be part of the turn-around. This type of person has a positive attitude, and wants to contribute and be part of a winner. This person sees the turn-around as an opportunity for him/her to shine. It's this person that you want to recognize, and solicit him/her to help you lead the charge in the turn-around war you are about to engage in.

Because of space limitations, I've necessarily keyed in on issues facing the turn-around manager in the earliest stages of the turn-around. As the turn-around proceeds into later stages, new and different strategies will be incorporated by the turn-around manager. For those interested in a more in-depth study of this subject, I recommend the book.

Jeff Jentgen
President

Fostrian Business Capital Corporation