Where There's A Will, There's A Way

Walter Simson

I have been doing turnarounds for over twenty five years, and along the way, I've accumulated certain prejudices about what types of businesses are easiest to fix. Wholesale distribution and retail/restaurant chains are among my favorites, just because there are usually enough profitable parts of the business—a core product or very profitable locations—so that the survival of the business is assured. Construction firms are among the harder cases. Why? Well, usually there is an issue not only in the company, but in the market. The construction company's clients are also having problems with cash flow, product demand and financing. Sometimes the markets are overbuilt, so a drop of demand for new construction can seem almost permanent.

It's really hard to turn around a company whose customers are also weak.

Turning around a business is hard work and hard psychologically. Layoffs, bank negotiations, capital raises—these are all once or twice in a lifetime occurrences for most closely-held businesses, and the difficulty of these tasks is one of the reasons businesspeople hire consultants in times of trouble.

But the best construction turnaround story I know occurred without any outside help, and was conceived and executed by the company founder. He told me the story about a year after he had obtained a new bank credit line and had won a number of new clients—which indicated to him, correctly, that his troubles were over.

I can't tell the name of the company or its principal, so let's call the company "Harbor" and the principal, "Jim." Harbor was a site work/landscaping contractor located in New England that had risen from a one-truck, one crew operation to a very prominent firm, innovative and specialized in certain kinds of work, and almost ubiquitous in its home city. The firm worked mostly for city and state governments on increasingly larger and complex projects over the years.

Then bad times hit in 2002-03. Prospective projects were cancelled and existing projects were being starved of cash. The bank had pulled the Harbor's line of credit back to the amount outstanding by cancelling the unused portion of the line. Harbor had substantial equipment notes to pay for the specialized and large equipment it used in the business, and the finance companies had threatened to repossess equipment if payments continued to be paid late.

Naturally, early in this crisis Jim showed the normal signs of stress. He gained weight and had a particularly vexing sleep disorder, waking every morning at three or four AM and tossing and turning until his alarm went off.

One day Jim told his wife that if he was going to be awake, he would work. And he determined to turn around his company.

Here's what he did:

1. *He drastically reduced his fixed costs*. He negotiated the return of his fancy equipment, which involved paying substantial penalties over six to nine months. This meant that he had to rent equipment when he worked on jobs requiring it. In fact, there were months he paid twice for the equipment: once for penalties on his financing, and then for rental of a substandard replacement. But Jim calculated that within a year he would be rid of his largest fixed cost.

2. *He downsized to three crews*. He fired his good friends and some relatives, and left only two crew supervisors, which meant that he often had to go out on job sites as a crew supervisor, in addition to his other duties.

3. *He made incredible personal sacrifices*. He sold his home and moved into an apartment—and, at the time he had two teenagers who had to adjust to their reduced circumstances. His wife took a job and Jim refrained from taking a salary. In addition, his wife did the company accounting and made collection calls during the day on Jim's account.

4. *He sold like a demon*. In particular, Jim wanted to retain the important government work that had underpinned his growth, so he stayed in front of that market even during a time when those clients were not buying. He continued to attend the charity events and government agency meetings and events. Instead of making contributions from his own checkbook, he would solicit others or organize committees.

5. *He raised cash*. He had a portfolio of small office buildings that had equity in them. He sold all but one of them at less than his target price and reinvested the proceeds. He kept one building to house the office for the construction operation.

6. *He sold the company*. Harbor converted to an employee-owned business. Jim figured that he needed his people to make sacrifices alongside him, so he sold the company at a reasonable price and took a note for the proceeds. He then used part of his time to mentor the employees on the myriad judgments good business leaders make.

I haven't spoken to Jim in years, (After all, we were never close. He was my landlord in a beautiful office building that was in fact the one that he retained through his crisis.) But here's an update: I looked Harbor up on the internet, and it appears that they are thriving: still employee-owned, still innovative, and now award-winning.

Their web site also has a clever video link that actually shows some of their projects in progress, and I recognized Jim in one of them. He now looks fit and trim, but he has very deep, dark circles under his eyes, just as he had when I first met him. It appears that he hasn't given up the habit of waking up early for work.