

### **Background & Problem**

The business is a manufacturing company which had been started to focus on one principal customer struggling to cope with closure of customer. There were four partners who had different views on how to proceed. It was a good niche business but with no real leadership and losses were increasing.

The business had been started by the ex production manager of a similar business which had closed in partnership with two of the original owners (brothers) and a friend of theirs brought in to provide finance. One of the original owners was the conduit to the major customer who provided substantial business in the first 6 months of the company's existence but then changed buying policy.

Irregularities in this business relationship came to light bringing in to question the ethicality of one of the 2 brothers. No management controls were really in place with the finance being controlled by the other brother from a base 400 miles from the manufacturing unit where the MD focused on production and a small amount of sales development (he had no experience of this but had a great knowledge of product.)

The company had made substantial profit in the first 6 months as it worked at full capacity on supplying 1 major customer but had effectively now lost that customer and was struggling. All the profit of the first 6 months had been dissipated and the company was now losing money—but due to poor management information didn't know it.

### **Actions Taken**

The initial actions were split into 3 areas:

1. getting improved management information and financial controls
  2. developing external sales
  3. removing barriers to new business as a result of perceived ethics of at least 1 of the partners
1. The company moved its financial control to its manufacturing base and employed a part time bookkeeper to operate a Sage System which we purchased. Monthly management accounts could now be produced and Cash flows in particular showed the likely need for help.

Because the bank had been set up near the administration facility (which in effect was the house of one of the two brothers) a local Bank was approached with forecasts and an Invoice Discounting Facility was agreed locally.

There was significant creditor pressure particularly as Invoices seemed to have gone missing and errors had been made in PAYE posting resulting in old debt to the Revenue as well. Once realistic cash flows had been done we negotiated payment plans with all old creditors.

2. The company operated in a niche market and enjoyed with its existing customers a reputation for quality and service. The MD was well liked with great product knowledge and a very personable manner. However he had no time to spend developing sales as he also controlled production. A new production manager was employed and this released the MD to spend more time out with existing and potential customers. We produced a robust sales budget which also helped identify potential new opportunities both in the UK and in Europe.

We also helped to develop a web site and reached agreement with a company in a related business to share space at 2 or 3 National Exhibitions.

3. It became very clear that one of the 2 brothers was in fact a barrier to the business developing as some customers would not deal with the company because of his reputation. Accordingly we negotiated (as a matter of urgency) a deal to purchase his shares and he was then immediately removed from the business and customers were made aware of this. Subsequently since his brother now had no useful purpose to serve with the business (he had done the 'financials') he was also made an offer which he recognised as being very fair as the company was losing money. As a result the structure of the business now has only 2 equal directors and shareholders making it much easier to help and advise.

### **The Result**

The company now has a clearly focused management team with weekly management meetings and accurate financial information. The losses of last year have been more than compensated by profits this year. New customers are being introduced all the time and the MD and his new production manager are using their product knowledge to introduce new products. Cash is properly managed and expansion into new premises is a distinctly likely next step.

**If you want to find out more about any of the areas covered in this case study  
and how we can support your business – contact us today.**