

# Turnaround

James L. Horton

Chicware Inc. was in trouble. The 300-store chain of designer cookware and household items was groaning with inventory, short on cash and plummeting in shoppers' acceptance. The family-run firm had a good run of 40 years but since the high-profile founder had died three years before, it had lost its magic, and online retailers like Amazon.com were offering much of the same merchandise at lower cost. The firm had not transitioned quickly enough to the Web, and it had never gained profitable market share online in spite of reworking its site and offerings several times.

Chicware was weeks from bankruptcy when the family brought in a turnaround CEO, Ed Herbert, and told him to save the company. Herbert was no-nonsense. He started by examining sources and uses of cash, and he moved decisively to stop the bleeding of money. He closed 50 stores quickly, laying off 18 percent of the firm's employees, and cut inventory by 20 percent through liquidation. He negotiated with suppliers to extend payment. He downsized corporate headquarters by 15 percent. Executives to secretaries were pulling double-duty. Store managers worked floors along with shrunken staffs and did paperwork after hours.

In six months, Herbert had Chicware on a cash-neutral basis, neither bleeding nor growing its money stock, but the damage to employee morale was severe. Many old hands – 30-year-employees – had been fired. Herbert had gotten rid of the defined benefit pension plan in favor of 401(k)s and raised the co-pay on the health plan to \$100 per family.

The family watched Herbert's moves in horror. They knew what he was doing was necessary if Chicware was to survive, but many long-time friends and associates were gone. The family atmosphere and professionalism of the sales force had been gutted. Young employees who didn't know the difference between Cuisinart and Farberware or a chef's knife from a boning knife had upset long-time customers who e-mailed Chicware to complain about service. They also griped about the stores, which were looking dowdy.

Herbert knew what the family was thinking. Sam Orenstein, son of the founder, and Executive VP of merchandise had confronted him several times. Each time Herbert explained what he was doing and why, but he knew Sam and his mother, Lilith, wanted to stop the cutting. Sam's sister, Shana, who led the HR department, was arguing at family dinners for the replacement of Herbert by a retailer, a CEO who could reignite sales, rebuild customer loyalty and move merchandise. Sam and Lilith were coming around to her view, and Herbert sensed that too.

Herbert was a professional turnaround manager. He had no intention of staying at Chicware for the long haul, especially since the family would assert itself again in the running of the stores. But, he knew before he departed he had to stabilize sales which had been falling on a comparable store basis. Sales per square foot had declined from \$425 to \$375 and were continuing to erode. Soon, Chicware would be just another pots-and-pans retailer dependent on everyday low prices. Herbert didn't have cash to launch new marketing programs or engage in large-scale staff training. Moreover, the economy had gone soft and had cut into household spending. Even sourcing more goods from China hadn't allowed him to lower cost of goods to a competitive range. With this in mind, Herbert called a meeting of his marketing VP and PR manager to discuss what could be done to put spark back into the stores. He asked Sam and Shana to attend.

Herbert laid out the situation. Chicware didn't have cash for a relaunch or even an expanded advertising program. Chicware had made its name with its choice of trendy items, dependence on well trained staff and store design, but two out of three attributes were damaged. While Sam continued to find merchandise for upscale cooks, the unskilled staff was having trouble selling it, and stores could not be refitted for another two or more years.

"What can we do?" Herbert asked.

"Launch a training program," said Shana.

"The funding?"

"We should have enough cash to put some of our departed 30-year veterans on contract."

"We don't, not for an extended period."

"We can at least make sure stores are faced well," said the VP of marketing. "And, we can upgrade end-caps." He was referring to product being lined up neatly on shelves and to displays at the ends of aisles.

"That we can do," said Herbert. "But, we can't afford overtime."

"Upgrade lighting?" said Sam.

"We can retrofit halogen, but there isn't much we can do with fluorescents without new fixtures. We don't have money for that."

"Restart the cooking studios," said the PR manager.

"We can't afford to pay chefs for demonstrations."

“What if we promise exposure as long as they demonstrate wares?”

“That’s tougher than you think. We’ll need a roster of chefs. That will take months,” said the VP of marketing.

“Start with the home store. Publicize what we’re doing there across the system,” said Sam. “Blog, Twitter, YouTube, web site. You only need one chef.”

“In-store promotion, e-mail capture and blasts, flyers to build traffic for demonstrations,” said the PR manager.

“That doesn’t train staff,” said Shana.

“Demonstrations become video training for the staff,” said the VP of marketing.

“We’ll need to convince store managers. They’re over their heads,” said Shana.

“Sounds expensive. We’ll need lighting, a video crew, editor, a writer, a host, printed materials,” said Herbert.

“Sam and Shana are the hosts,” said the VP of marketing. “Second generation, same great stores.”

“I can write blogs, tweets and publicity,” said the PR manager.

“I’ll handle training materials,” said Shana.

Herbert nodded. “I need a plan, budget and timeline.” He wasn’t convinced the idea would work.

###

Questions for discussion:

1. What are the opportunities and pitfalls in this Big Idea?
2. What are the critical steps needed to ensure the Idea has a chance to work?
3. What in your estimation is the minimum time needed to launch the Idea?
4. Should Herbert be readying a backup plan if this one fails?