

## Part IV

### ALTERNATIVES AND ACTION PLANS

#### INTRODUCTION

Building upon the factual knowledge and understanding obtained through the diagnostic process, we turn to developing and assessing realistic alternatives for maximizing the value of the business. Crafting a solution for a troubled business requires a detailed and practical assessment of opportunities, resources, risks and potential rewards, all in the context of the agendas, desires and relative leverage of the various constituencies.

In Part IV, we present recommendations for:

- Identifying, defining and assessing alternatives;
- Developing consensus and support for a chosen alternative;
- Selecting the right management to implement the plan;
- Maximizing the value of asset sales, whether they are going-concern businesses or underperforming or surplus assets.

## Chapter 12

### DEVELOPING AND EVALUATING ALTERNATIVES *Establishing Realistic Options*

Simply stated, in all financially troubled business workouts, there are three basic options:

1. Cut your losses and exit now.
2. Reallocate the interests (i.e., restructure debt and equity) and move forward.
3. Change the course of operational results to increase the value.

Within each of these three options are various permutations and multiple choices that reflect more finely differentiated and detailed alternatives. But these three general options define the basic range of alternatives, and *each needs to be addressed*. We believe that a disciplined and complete factual evaluation and diagnosis of the troubled company's situation is critical both to fleshing out and documenting detailed alternative responses and to evaluating their relative merits. The end product and objective of the diagnosis process should be to obtain and document a clear understanding of:

- Challenges faced;
- Reasonable alternative courses of action;
- Relative risk/reward and probabilities of success and failure for each alternative.

This diagnostic end-product then becomes both a tool for the decision-making process and a factual basis for negotiations.

There is a natural tendency for the party in control, typically management and equity (at least in the early stages), to pursue its *desired* goal, regardless of how unlikely it may be to achieve, while consciously or unconsciously avoiding