Helping Borrowers Help Themselves: The Case for Turnaround Consultants

Description

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With recession fears rising and economic volatility high, now is a good time for banks to revisit the tools available for managing troubled loans. One resource that's often overlooked—but increasingly relevant—is the turnaround consultant.

Having spent much of our careers in loan workout (Jason) and turnaround consulting (Ken), we've seen firsthand how this arrangement can lead to better outcomes for both borrower and lender—when used appropriately.

As you read this piece, keep in mind that, in most cases, a consultant can't be imposed unless the borrower is in default or the loan is transferred to workout. A court may also require a company to bring in outside help. But when signs of distress are present, lenders can and should encourage borrowers to voluntarily consider a turnaround firm. Early action can preserve relationships, protect collateral, and improve outcomes for all parties. In addition, it's been our experience that, should the situation worsen, bankruptcy courts often look more favorably on borrowers who take proactive steps to stabilize operations before filing.

This article offers a practical overview of how turnaround firms are engaged, what they do, when their involvement makes sense, and how banks can help borrowers take that step early—before a crisis limits their options.

Spotting Trouble: When To Consider a Turnaround Consultant

When a customer continuously exhibits signs of distress or cannot meet contractual obligations or loan covenants, a bank's suggestion that the borrower voluntarily engage a turnaround consultant may get more traction. A borrower may be slowly slipping into distress, tripping one covenant after another, and

struggling with cash flow visibility. Here, a turnaround firm can help with reporting and cash flow management.

Other problems can occur quickly rather than gradually. For example, consider cases where:

- The cash flow drops due to a sudden market correction.
- A firm with customer concentration issues loses its only client.
- A merger has gone wrong.
- Unexpected and significant higher costs have been incurred due to changes in regulations, litigation, or enactment of penalties.

An outside consultant could manage cash, optimize assets, and improve the allocation of resources during such calamities. This is where a lender earns their advisor status—by spotting distress early and recommending a turnaround consultant that can help facilitate solutions.

What Turnaround Consultants Actually Do

Turnaround experts can help stabilize distressed borrowers by providing services such as cash flow forecasting, operational restructuring, and stakeholder negotiation. Their capabilities vary, and every engagement depends on the borrower's specific challenges.

Some consultants focus on financial restructuring, identifying alternative capital sources to reduce the bank's exposure. Others target operational inefficiencies and help uncover cost-saving opportunities. In more serious situations, a turnaround firm may place an employee in a leadership role—such as chief restructuring officer—to rebuild trust with creditors and stakeholders.

Consultants are typically embedded with and engaged directly by the borrower. They work closely with management and ownership to understand operations, identify risks, and develop a customized recovery plan. In cases where liquidity is tight, their fees may be indirectly covered using bank-controlled cash or collateral. But because consultants prioritize rapid stabilization, their work often offsets the cost—especially when measured against the potential recovery of loan value. Even if the engagement is carried at a loss, it can be a reasonable investment in preserving long-term value for both borrower and lender.

The Bank's Role in Facilitating Consultant Engagement

Bankers are expected to serve as trusted advisors to their customers. But there are strict legal limits they must observe—especially when a borrower is financially stressed. To avoid lender liability, the banker's role is typically limited to understanding the customer's business and financial needs and offering appropriate financial products to meet those needs.

Still, in distress scenarios, banks can play a pivotal role by identifying risks early and recommending that borrowers consider professional support. A well-timed suggestion can help guide the customer

toward a solution before the situation worsens. After all, a distressed borrower's volatility and need for vigilant servicing can strain lender resources. And because many borrowers don't fully understand how banks operate, inconsistent responses from lenders can lead to paralysis or panic—especially if the borrower doesn't know how the bank will react to each new piece of information or request. A breakdown in communication can erode trust and delay action, increasing the potential for losses. A turnaround consultant can help bridge that gap, creating a path forward that borrower and lender can agree on—and improving the odds of a win-win solution.

Overcoming Borrower Resistance

Even when a bank makes a strong case for early intervention, most customers are loath to recognize they are in distress. They may strongly resist spending money on outside help, especially if they believe the issues are temporary or solvable with internal resources.

Common objections include:

- "We've been in this situation before."
- "We already have an accounting firm that can provide these services."
- Or, simply, "There's nothing wrong."

Absent a default, banks have no leverage to require their borrower to engage a consultant. But if lenders truly understand the customer's business and industry conditions, they can make a compelling case that the "ounce of prevention is worth a pound of cure." Hiring a turnaround firm early can improve operations and help sustain long-term profitability.

Often, the concept of preventive action is hard for management to grasp—especially if they've historically always made payroll or view certain expenses, like staffing levels, as untouchable. Helping a borrower see the need for new thinking in the current context can be highly motivating. This is especially true in industries experiencing rapid change or existential threats.

Consider the example of trucking companies. In recent years, they have been beset by industry-wide overinvestment, falling demand, and rising costs related to interest rates, insurance, and drivers—squeezing cash flow in a highly competitive industry. At some companies, management may be tempted to "ride it out" (pun intended), but as the industry changes, the viability of certain customers, equipment types, and routes may not be sustainable.

A turnaround consultant can help distinguish between the loads that generate cash and those that don't, and then develop a plan that stakeholders—senior lenders, equipment lessors, and management—can understand as both actionable and valuable.

Case Study: Preventing a Seasonal Collapse

A banker grew concerned about a seasonal business that imported and sold Christmas-related merchandise. With long off-season exposure and global shipping risk, the business had little margin for error. The banker asked the company to develop a cash flow plan, and a turnaround consultant was brought in to model the business's resilience. Once the owner saw the risks laid bare, they made key changes—adjusting staffing and purchasing to better align with cash flow. The company stayed afloat, and the banking relationship was preserved without ever entering default.

Matching the Right Firm to the Right Situation

When recommending turnaround consultants, fit matters. A firm that's effective in one scenario may be a poor match in another—especially if the borrower's business is small, highly specialized, or operating under tight resource constraints. To avoid overreach and lender liability, banks often provide borrowers with a vetted shortlist of firms. This allows the borrower to make the final decision while still ensuring a level of quality and relevance. But that list must be curated carefully. Firms should be suited to the borrower's size, industry, and complexity. Mismatches—such as assigning a boutique retailer to a high-cost national firm—can erode value and stall progress. It's also important to note that a turnaround consultant is not a vendor of the bank and is not subject to the bank's third-party risk management requirements.

Case Study: Matching the Fix to the Problem

A well-known regional shoe retailer with multiple locations was feeling the pressure of online shopping trends. Sales were down, and inventory turnover had slowed. The banker recognized that the leadership team had strong fashion instincts—but lacked the tools to manage the business's operational complexity. A turnaround consultant was brought in with a firm directive: simplify and stabilize. Instead of recommending an expensive inventory system, the consultant implemented basic KPIs and cash flow planning. The lighter, lower-cost approach aligned with the business's size and skill set—and helped turn the company around.

What Banks Stand to Gain

Turnaround consultants can provide the bank with detailed information it would not have otherwise, improving the bank's understanding of the borrower. For example, many turnaround firms have their customers project 13-week cash budgets and annual pro forma budgets. At smaller businesses with limited finance departments, these reports don't exist for the bank to analyze. Even when they do, they can be superficial or not especially useful to the lender, as small business CPA firms are typically more focused on creating financial reports and tax returns than on operational clarity.

While everyone understands what cash is, how it moves through a business can be a mystery to some borrowers. Further, how it connects to simple operational steps—such as invoicing, shipping, store hours, services delivered, purchasing, and even HR and team alignment—become hard to define and manage. Turnaround consultants can quantify the cash flow impact of seemingly disconnected activities. And not only do they strive to identify cash mechanisms and waste in a business, they can also tap relationships in the capital markets, allowing them to find new lending facilities or equity sources for the borrower.

Meanwhile, at the human level, a good turnaround consultant can help a business owner repair team chemistry and show employees how to better communicate business issues and processes. In a business that is under stress, relationships are often frayed. A turnaround professional can serve as an independent, unbiased arbiter in mediating long-festering issues and rebuilding bridges along a productive path. While this may seem minor when millions of dollars are at risk, in our experience a company that improves how it functions at the human level often finds the fastest and least-disruptive path to debt repayment.

Turnaround firms also bring insight into how a borrower should work with its stakeholders. Some distressed business owners try to leverage their situation by making statements like “we will just file bankruptcy” or “we’re going to the lawyers” in an effort to gain negotiating power with lenders. A turnaround expert can help lower the temperature, providing objective analysis and helping the borrower make more rational decisions that maximize value and recovery.

Further, turnaround experts may uncover inefficiencies or capital needs that the customer’s lender is in a position to solve. Assuming the bank wants to continue the relationship, these findings can lead to the sale of new products or cross-sale opportunities with other bank business lines. For example, a lender with a simple, unmonitored working capital line secured by a blanket UCC lien might suggest the borrower engage a turnaround expert after reviewing financials that show a maxed-out line, rising revenues, and flat cash flow. After digging into receivables and inventory, the consultant may suggest new policies or procedures that would make the company eligible for an asset-based lending structure—unlocking cash from collateral and allowing for sustainable growth. The bank, meanwhile, would be in a stronger position with better collateral monitoring and reduced credit risk.

While this kind of win-win outcome could, in theory, emerge from a normal conversation between relationship manager and customer, many smaller businesses lack the experience to ask the right questions. In our experience, the core concept of an asset-based lending model—one built on understanding and managing the balance sheet—is unfamiliar to many entrepreneurs. Turnaround consultants have often walked clients through not just expenses but working capital, embedding those mechanisms into the 13-week cash flow model to show how much cash is tied up in receivables and inventory, and how quickly those balances turn over during operations.

Once turnaround professionals have the attention of a small business management team, they can demonstrate how using an asset-based lending facility improves liquidity. In fact, many borrowers—once they understand their balance sheet— don’t want to return to standard unmonitored lines and credit cards. The learning can be steep, and it takes time to reach the “aha” moment, but with a professional’s help the payoff can be substantial.

Case Study: A Last-Minute Exit That Worked

A chain of fitness centers lost its founder, and with that loss came a cascade of issues: declining memberships, deferred maintenance, and mounting internal dysfunction. The bank saw trouble, but management remained in denial. Eventually, both sides agreed to bring in a turnaround consultant for a quick assessment. The report revealed serious problems—but also a path forward. Faced with reality, management made the decision to sell to a stronger operator, avoiding liquidation and protecting the lender's position.

Of course, sometimes even the best turnaround effort will not prevent a borrower from needing Chapter 11. Even in those situations, a turnaround expert can help analyze the financial implications of each option—a menu that borrowers may not be equipped to evaluate on their own.

Important note: While turnaround consultants are sensitive to legal risk, they are not lawyers. Lenders should encourage borrowers to retain special counsel with restructuring expertise. A bank can support that effort by recommending legal professionals with deep experience in this space.

Closing Thoughts

In today's environment of persistent uncertainty and volatility, even well-run companies may benefit from outside, independent professional support. Turnaround firms can add value for businesses that are struggling to compete or sustain profitability over time. For financial institutions, these firms can serve as critical intermediaries—helping preserve the borrower's ability to repay and supporting the customer relationship before it deteriorates beyond repair or ends in bankruptcy. Banks that maintain a list of turnaround professionals with a range of experience and cost structures are better positioned to help clients proactively address inefficiencies, preserve enterprise value, and protect the bank's exposure—creating the proverbial win-win-win.

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