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Unifi joins the turnaround crowd

Struggling area companies are getting mixed results

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Unifi Inc., a yarn-maker in Greensboro, is back at the drawing board.

It has closed plants and cut hundreds of jobs in recent years, but those actions have not been enough to return it to profitability.

So last month it said it would look at every alternative - including a merger or sale of the company - to get its stock price headed north. The stock has fallen from more than \$40 a share in the late 1990s to about \$3 last week.

Unifi's position is not unique among Triad companies. Several other area companies have tried major turnarounds in trying to get out of trouble. Some have succeeded; others have faltered.

Unifi's board of directors felt "we needed to move the needle," Brian Parke, the chief executive, said on a conference call the day of the announcement.

The company's cost-cutting moves have not been able to offset the effects of cheaper foreign imports and higher energy costs.

"You can reduce costs only so much," said Tony Wingler, a finance professor in the Bryan School of Business and Economics at UNC Greensboro.

Cutting jobs and other costs are an age-old way for a company to try to overhaul its operations and increase profit and its stock price.

Oakwood Homes Corp. of Greensboro, which makes manufactured homes, tried cutting production and jobs and closing stores in a bid to turn around, but those moves failed and the company filed for bankruptcy. Oakwood's assets were bought out of bankruptcy by Clayton Homes Inc. of Tennessee in 2004.

R.J. Reynolds Tobacco Co.'s former publicly traded parent company cut hundreds of jobs as part of a restructuring in 2003 and subsequently agreed to buy Brown & Williamson Tobacco Corp. in 2004 to try to build a stronger company. The stock price has surged from about \$28 a share at its low point in 2003 to \$85 last week. Where the shares will trade a few years from now will all depend on the combined company's ability to execute its cigarette-brand plan and keep productivity high.

Krispy Kreme Doughnuts Inc. is also having a tough time getting back on its feet. Its sales have been in a downturn since the spring of 2004 and it is unprofitable. Unlike other companies facing business problems, Krispy Kreme also has regulatory and legal problems to overcome.

Wingler said that turning around Krispy Kreme would be easier than Unifi because Krispy Kreme has a unique product with a good brand name. In contrast, Unifi makes a commodity product in a troubled industry.

Krispy Kreme has replaced most of its former senior management, which is another way companies try to turn themselves around. It has also slashed its payroll and closed stores. But its troubles are deep and returning to profitability has been elusive.

Peter Tourtellot, a certified turnaround professional and a managing director of the ALTMA Group, a turnaround-management company, said that the most important thing about turning around a company is "being receptive to change, changing the way you've done things."

That could mean closing a plant and finding another way to obtain the product or finding other products to make. Change is not easy, and sometimes management has trouble doing it.

"It's coming to grips with that on a timely basis." Tourtellot said. "Most companies wait too long."

Many times companies focus too much on cutting costs and not enough in thinking about how they will compete in the future, Tourtellot said.

In the textile industry, he said a lot of companies have paid so much attention to cutting costs that they are not asking themselves what kind of company they need to be to survive.

Tourtellot points to VF Corp. as an example of a company that has changed and succeeded. "They're going to be a marketing company and they're going to be good at it," Tourtellot said.

In recent years, VF, like other apparel companies, has moved production offshore and shut factories to cut costs. VF has also been buying high-growth, higher-profit-margin brands to increase profit.

"They had a vision of where they wanted to be, obviously," Tourtellot said.

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