CASE STUDY

Turnaround Management

ROLE
Interim Management as Chief Restructuring Officer

SERVICE PROVIDED
Turnaround Management of a distressed company

SECTOR
Industry

apcore
making change happen

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Company Background:

For the past 50 years, this company had been a part of the porcelain industry, producing crockery and tableware and selling them on an international scale.

With an annual turnover of approximately €85 million, the company, based in a former communist Eastern European country, consisted of 55 office employees, eight people in the sales team and 340 plant employees. After being extremely successful in the past, the company was then sold more than five times over the past 15 years – transforming it from a state-owned company, into a national-owned private one, then passing on its capital to an American private equity fund, and finally to several Spanish companies.

Their sales strategy only focused on B2B-Sales, where they used distributors in each of the countries they were operating in, and didn't establish a single B2C contact with the final customers at all. The company's three major distributors were placed in three different European markets and were responsible for more than 70% of their total sales.

The production process was poorly organised with a high percentage of non-qualified workers using decade-old production techniques. Nevertheless, the parent company partly invested in new equipment and machines that were not being used to their optimum ability. Neither product, nor production or consumer innovation had taken place in 15 years and time-to-market for new products was anxiously poor.

The market was basically divided into European and Chinese competitors. In recent years, European companies had struggled to maintain sales and were only able to compete through quality innovations and product excellence. Whereas, Chinese competitors flooded the market with cheap, low quality products. The consequences were high product inflations in retail channels as well as in the B2B business that forced indigenous competitors to adapt their cost structure to the new market challenges.

Challenges:

1 **General Management:** Due to a steady streak of success in the past, the management had become complacent over the years and reacted with false urgency when they found themselves in a critical situation. There was a clear lack of leadership and a reluctance to change. The company's employees and workers faced too many cultural changes without a clear strategy.

2 **Financial Management:** There were no provisions made for sufficient cash flow and treasury management proved to be unstable. Due to accumulated losses, the company drifted into a negative equity structure. The inventories were high and over-evaluated.

3 **Production:** Out dated and badly organised production strategies were still in place. Production costs were higher than the sales price as the company had been importing semi-finished products from Spain in order to finish the production process locally.

4 **Sales & Marketing:** There was accumulated risk due to the concentration of sales volumes in three different markets. A coherent pricing strategy was non-existent, as was a clear marketing and communication plan.

5 **Innovation:** The company's product range was very old-fashioned and the inexistence of constant product innovations led to a decrease in market-worthy competition.

Solution Provided:

By the time apcore was contacted, the company was highly financially unstable. Management had been accumulating losses for the past three fiscal years, with short-term liabilities of more than 25 times and long-term liabilities 60 times their last annual EBITDA. Therefore, the company had no cash flow left for more than 90 days and was struggling with payrolls and liabilities for the past six months. At the same time, the Spanish parent company filed for bankruptcy in its home country, making it unable to support the investment they had made years ago. Neither companies wanted to depend on banks to bail them out thus resulting in an eroding market share and demotivation of employees.

Based on the group CEO's requirement, apcore took over the general management and the financial guidance of the company. We swiftly analysed the situation and chalked out an aggressive six-month action plan. A three-year restructure business plan was put in place to financially stabilise and restructure the company's business model completely.

A: **Debt negotiation with the main creditors:** Due to the possible risk of filing for bankruptcy and the company's unstable equity position, banks accepted a 15% write-off on current short-term debts and 20% on all long-term debts. However, negotiations with the parent company were more difficult as it had already filed for bankruptcy in Spain and therefore desperately needed cash. The administrator, appointed by the judge, who managed the company through the process, accepted no write-offs, rather, a payment moratorium of three years on all current short-term and long-term obligations. This meant that no payments were required to be made, which gave the company a better cash flow position for the next 36 months. However, higher debt repayments were to start from year four.

B: **Asking for cash in advance from the distributors:** Instead of receiving payments from major distributors within 120 days of the product order, apcore proposed to temporarily disable the previous payment method, and asked for advanced payments. This significantly increased the company's working capital and additionally contributed to stabilising its cash flow position. In addition to that, apcore negotiated a loan of one annual turnover each with three of the main distributors that would be converted into capital if it doesn't get repaid after three years.

C: **Inventory sales:** apcore proposed inventory sales at a reasonable price to enable the inflow of fast cash. In the past, the management had used high-inventory valuations to strengthen the balance sheets. This constant over-valuation of inventories and its subsequent sales at lower prices led to an added financial loss in the company's balance sheets but added cash in its account.

D. **Negotiation with the unions:** Office employees and members of the sales team were asked to renounce 10% of their annual salaries for the next two years and accept a 30% delay on their salary payments for the next six months (following that, salaries would be readjusted to the current level), as the company needed this extra cash flow as working capital. Plant workers were asked to renounce 5% of their annual salaries for the next two years and accept a delay of 10% on their salary payments for the next three months. In exchange for that, apcore reassured the unions to not lay-off a single of the 340 plan workers during the next three years. Management renounced 20% of their salaries as well as all extra payments and bonuses for the next 18 months.

Over the next few months, **additional sales measures** were applied as followed:
A. **Direct sales** within the plant: Sales to final customers with higher margins.
B. Introducing temporary sales discounts for new clients and product packages.
C. **Geographical expansion:** Sales teams entered new markets to search for new clients interested in high-quality products.
D. **Sales of C-Choice products** to residual markets: Sales of low-quality and waste products to African and South American markets to create additional revenues.
E. Introduction of some basic **product innovations** opened doors at old and new clients.

Return on services apcore provided to client:

apcore's intervention provided the company with a new strategy and a plan to exit the desperate situation.

Within the first three months, the financial situation stabilised significantly and sales started to grow after the fourth month. A year and a half later, the company was working at 93% of its total production capacity, repaying its liabilities before schedule. In addition to that, the company repaid all its employees the amount held back throughout the first six months of the restructuring process.

Throughout the change, not a single plant worker had been laid off. Some of the top management resigned or were laid off to guarantee lasting company reorganisations through trained and committed managers able to face upcoming challenges.

apcore finished its mandate after 18 months in charge, and handed the investment over to a newly appointed CEO.