Eurofreight Logistics, Cyprus

- Type of restructuring:
  Business expansion
- Employees before restructuring:
  50-249
- Employees after restructuring:
  50-249
- Nace/Sector:
  Transportation / storage
- Country:
  Cyprus
- Date:
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- Keywords:
  GlobalisationRecession/Crisis

Abstract

This forwarding and logistics company decided to take advantage of the economic crisis by supplying a market demand for a total logistic solution under one roof – low-cost road and sea freight of smaller consignments with an international perspective. This required the firm's expansion; while risky, given the economic climate in Greece, the project was able to capitalise on the availability of highly skilled staff who were rescued from a struggling Greek firm. The contraction of lending by Greek banks is a challenge for this company and similar smaller companies, who have problems accessing growth capital in the form of long-term loans.

Organisational profile

Eurofreight Logistics Ltd (EFL) is a leading forwarding and logistics company in Cyprus, with 73 employees (64 in Cyprus and 9 in Greece), delivering a wide range of specialised capabilities and solutions to clients across all industries. It was established in Larnaca in 1999, as the outcome of a merger of two micro-enterprises, G & L Forwarding, founded in 1990 by Leonidas Leonidou and George Papachristodoulou, and CPA UCS Clearing & Forwarding, founded by Christodoulos Partou and George Adamou. It is a privately held company, with the four owner/managers enjoying equal distribution of shares.

The owner/managers play key roles in the organisational structure which is driven by the services offered. There is no formal works council in the firm but, due to a very participative management and a family-like culture, employees are often invited to participate in open forums so that they can be updated on developments.

In the early years, EFL focused predominantly on the Larnaca market, offering clearing and freight services to local firms and associates. Following their early success, the founding team expanded operations to offer more integrated solutions to an expanding client base operating across the small island economy. With the configuration of the business model, EFL enjoyed steady growth, expanding via economies of scale and scope. More recently, and in the context of overseas expansion via a merger and acquisition in Greece, the firm is active in international development. EFL has been developing in the context of a five-year strategic plan designed to strengthen its overall competitiveness and performance. The company has engineered efficient processing systems and is employing technologies to stay at the forefront of a constantly evolving industry. EFL has developed from a forwarding company into a leading logistics provider in Cyprus, thus strengthening its supply chain capabilities, which in turn present new opportunities for growth and efficiency for clients. Moreover, Eurofreight partners, representing some of the leading forwarding companies in Europe, are offered a high-quality service at a reasonable cost.

More specifically, the firm continues to invest in state-of-the-art facilities – integrated offices and warehousing, located at a prime location (characterised as a transport hub linking motorways and the main international airport) – which enables both operational efficiency and the engineering of logistics solutions for local and international firms.

EFL has managed to grow from its small base and has evolved its business model into an integrated logistics firm that offers total customised transportation solutions, for example, providing third-party logistics in Cyprus and being the first Cyprus company to offer supply chain solutions to a multinational corporation – Merck Animal Health.

With the accession of Cyprus into the European Union and the opening of more trading channels across eastern and western Europe, third-party logistics (known as 3PL; and sometimes 4PL when another firm, as a subcontractor, undertakes to deliver certain services) has been promoted as an innovation process that can offer operational and working capital efficiency to trading partners, which is so vital in their quest for competitiveness. Eurofreight engineered the 3PL solution that can address the mounting pressures on trading parties both on the demand and supply side of the market. The operation is also integrated into a software platform that enables efficient ordering, invoicing, shipping, and working capital management by the trading partners. This operation reduces the lead time and enhances the responsiveness to customer demand.

This winning business model has also earned for EFL the 2007 Cyprus Employers and Industrialists Association Innovation Award for pioneering 3PL logistics services for local and international partners, for example Adidas and Miele.

Today, EFL continues to partner leading brands such as Adidas and Miele which seek improved lead times, better management of the supply chain, working capital efficiencies and valued-added services. The successful development of 3PL solutions for international firms has leveraged EFL operations in the core business which includes freight services. However, in the middle of a prolonged financial and economic crisis, EFL is experiencing a combination of growth pains, for example resource bottlenecks and competitive pressures to discover new avenues of growth.

The purpose of this case study is to discuss the strategic issues emanating from the latest major restructuring, namely: the expansion of the firm by developing the 3PL business model that offers integrated logistics solution to key brands and internationalisation strategy with Eurofreight Hellas in Greece to exploit the Athens-Thessaloniki-Cyprus hub.

Background to restructuring event

Core business model – early growth: In the early days, growth focused on attracting partners via freight services but gradually it has shifted focus to offering integrated logistics management services to local firms and also, increasingly, to world class companies seeking a local logistics firm to manage their local and regional distribution hub.

New business model innovation-based growth horizons: With the accession of Cyprus into the European Union and the opening of more trading channels across east and west Europe, third-party logistics (3PL; and sometimes 4PL) has been promoted as an innovation process that can offer trading partners operational and working capital efficiency.

The firm has been working on its core business, which is logistics, but also on offering high value based solutions to its clients, as follows:

- Costs: striving for cost leadership, following investmentin purpose-built efficient-scale facilities and continuous pursuit of costreduction across operating processes without sacrificing businessperformance.
- Efficiency: using state of the art technologies, buildingpartnerships with professionals streamlining processes allows integrated supplychain solutions with high-end efficiency—to deliver on time.
- Differentiation: engineering new innovative solutions,for example, 3PL and 4PL tailored to the business model of their clients andpartners.
- Supply chain management focus: campaigning forvalue-added services that can enhance the competitiveness of theirclients.

The major restructuring event to be further analysed in this case study is the development of the Cyprus-Athens-Thessaloniki hub. It constitutes the latest strategic activity of EFL which is proving 'the opportunity' triggered by the current crisis.

The firm also has a number of projects that offer additional revenue streams and will help build a long-term relationship with its clients. The winning business model has been the 3PL (sometimes 4PL) logistics which offers operational efficiency to its clients. In a nutshell, a total logistic solution under one roof is an integral part of process innovation as it offers better cost structure and higher customer loyalty. It adds value to all stages of the distribution process: from shipping out of the factory, to receiving at port/airport, to order execution and re-export. EFL, with its regional expertise, masters freight issues with airlines, shipping lines, customs, and port authorities and ensures an efficient flow of products. Overall, the engagement of EFL as a strategic partner contributes to reduced lead times, with timely and frequent shipping of goods within 24 hours. Moreover, it can offer more added value to products through repackaging, relabeling and allowing flexibility in order sizing. Obviously, 3PL logistics allows EFL to offer all its services to their partnering firms, thus boosting the operational efficiency of the core business.

The firm is also exploring several new ideas for strategic innovation. During the good times, EFL could offer training programmes to employees with a view to promoting innovation-based growth by looking at the new business models under investigation. The firm is now investigating the launch of a dedicated logistics service to cater for the needs of pharmaceutical and food-related ventures –as these sectors are proving resilient during the crisis. Another emerging growth opportunity is the energy sector.

Restructuring processes

For many years EFL has been partnering with Greek firms in order to deliver air and sea freight services to trading firms. In the midst of the prolonged economic crisis, more and more firms sourcing their products from Europe looked for low-cost road transportation for smaller consignments to reach the Greek ports of Piraeus and Thessaloniki and then via sea-freight further on to Limassol, in Cyprus.

Eurofreight was the first freight forwarding company in Cyprus and Greece that offered a reliable and fast door to door courier service for small parcels at a cost lower than that offered by traditional couriers.

This trend has shown EFL the opportunities that can emerge in the crisis. Following market analysis and consultations with associate agents that the firm cooperated with in Greece, a feasibility study was presented by the chief executive officer and finance director to the board of directors. The decision was taken to expand with the formation of Eurofreight Hellas – a sister company where the majority shareholder is EFL-Cyprus. Minority shareholders include members of the top management team working for EFL Cyprus and Eurofreight Hellas. The new firm was to be used as a vehicle to save certain business accounts that were handled by a Greek agency, UFS S.A., that was about to file for bankruptcy. The formation of the new firm was made easy due to the fact that Eurofreight Cyprus had been trading with UFS S.A. for some years and thus legally did a debt rollover. Moreover, they 'cherry picked' staff and customers.

With the deepening of the economic crisis, the establishment of EFL-Hellas (despite market risk) was imperative, both for strategic and operational reasons. On the operational side, there was a lot of red tape in mastering the freight procedures, which called for a dedicated team to expedite matters, but also to ensure trading partners were creditworthy, given the lack of liquidity which was hampering many enterprises. On the strategic side, given the prolonged macro-economic crisis there were market opportunities for Cyprus-based Eurofreight to expand with low-cost transportation solutions for Cyprus-based trading partners, but also to pick up more business from rival Greek firms struggling to cope with the repercussions of the recession.

The company is now seeking to offer these low-cost solutions to more clients sourcing their goods (such as spare parts or computers) from central Europe, where lead times are secondary to economies of scale. Moreover, there is an effort to synchronise the ordering of EFL's representative offices in Cyprus and Greece in order to achieve economies of scale in terms of volume trade discounts and, of course, to ensure lower transport costs.

The project Eurofreight Hellas was launched in Athens in the early summer of 2010 and the formation of the new firm took about three months. Given the familiarity of the Greek market and rolling the operations of the struggling firm (UFS SA) into Eurofreight Hellas, the expansion of the new firm was orchestrated from Cyprus in order to keep the costs down.

It involved regular trips by the chief executive officer to appoint the managing director who had to build the Greek team, which was based almost entirely on key members of the Greek firm that defaulted as a result of the recession.

Overall, it is estimated that about €60,000 has been invested in EFL-Hellas, which basically involves a dedicated team of professionals, operating from two offices, and one in Athens and one in Thessaloniki. In the light of market uncertainty, collapse of trading norms due to lack of liquidity, and deteriorating trading relations, capital expenditure and offering trade credit was kept to a minimum.

Moreover, the formal strategic development business plan set out tactics to streamline operations and shed costs. Thus, despite market declarations, and the offer of integrated logistics solutions, the firm also planned to outsource certain activities to other local service providers, for example warehousing and transport. This was essential to manage risk but also in order to concentrate on the vital part of the logistics chain – bringing in new clients and ensuring they get customised, value-added solutions.

Challenges and constraints of restructuring

The development of Eurofreight Hellas was a risky venture given the economic climate in Greece, but the project was able to capitalise on the availability of highly skilled staff that were rescued from the struggling Greek firm. The original team have been instrumental in guiding Eurofreight Hellas during this turmoil, in order to save the trading activities of EFL in Greece and of course to capture and build more niche business opportunities.

There are, of course, a series of internal and external constraints hampering growth as part of restructuring. Historically, the firm has been financing growth by retaining profits and borrowing from the banks. However, local banks are now experiencing problems due to the Greek crisis (which has meant the hair-cut of Greek government bonds; and defaulting on loans to the private sector in Greece) which erodes their capital base and thus their lending power. Subsequently, smaller companies with growth aspirations such as EFL are experiencing a finance gap. They have problems accessing growth capital in the form of long-term loans; their working capital, in the form of overdrafts, is being rationed; and of course higher interest rates have further hit profitability.

The crisis has hit the sector as trading volumes have fallen and rivals are engaged in price wars in their effort to sustain their performance. Since the company has grown organically (growth was financed with internal profits and external debt), it was felt that that the firm had reached a stage where it was essential to bring in strategic partners to enable the enhancement of investment in the financial and human capital base.

It is imperative to develop the business to the next stage in order to overcome some of the classic SME constraints that relate to the narrow resource base and inertia of owner/managers to radically address certain operational issues and strategic challenges in the context of the prolonged recession. The recapitalisation of the business and the strengthening of its top management team could enhance its strategic capability to master the ongoing organisational and market challenges and, more importantly, to seize emerging opportunities in the growing logistics sector.

Restructuring advice and support

The executive management team, which is dominated by owner/managers, have prepared a feasibility study (with technical input from outside financial consultants and legal experts) which was presented to the board of directors, which includes in addition to the four owner/managers, three non-executives, including the chairperson. The Greek expansion was approved as a part of the strategic development plan to allow the necessary restructuring of operations to and from Greece.

Outcomes of restructuring

In the early days of the restructuring, finance director Paris Papageorgiou and chief executive officer of Eurofreight Cyprus had to travel regularly to Athens to streamline Greek operations and offer an induction to the Athens team about the new regime; the operations are now managed by the newly appointed managing director, Demetrios Nikitopoulos. There was limited impact on the Cyprus based team, simply because they have been dealing with the Greeks as UFS SA.

The EFL Hellas operation resulted in the saving of nine jobs (two people working for UFS SA left the operation) and subsequently led to the establishment of some part-time, pro-rata posts and business for associates. It is notable that the Demetrios Nikitopoulos and Paris Papageorgiou, who have played a key role in the planning and implementation of this major restructuring event, have been awarded a small minority shareholding in EFL Hellas.

Moreover, the firm decided to pay the salaries and wages for the Greek team who remained unpaid for a two-month period during the default of UFS SA and the transition to the new firm. This ethically respected gesture has boosted the empathy between the Greek team and the new management, which has translated into good early operational results.

More specifically, the managing director who is accountable to the chief executive officer of EFL Cyprus, in cooperation with the Athens team, took effective action on two fronts: to reduce costs – by reorganising operations and outsourcing more services; and classing clients in terms of creditworthiness and scope for cross-selling.

In terms of operational efficiency, it is notable that the new enterprise enjoys administration from Cyprus (ordering, credit management, invoicing and handling management) as it is fully integrated in the IT system and financial function.

In the early days, business was heavily dependent on Cyprus-based firms using their services, but gradually more and more new contracts were secured from new customers, mainly Greek trading firms – especially those serving Greece, Cyprus and the nearby markets.

Interestingly, other large market players, such as international courier companies, have been lined up as partners of EFL, as they seek to use the European economy transport route via road and sea-freight option (which involves seven to nine days) for certain clients dealing with durable goods who want to lower their cost structures.

The fact that about a third of the volume of trade that EFL Cyprus is handling is now associated with the Hellas operation is a testimony that the restructuring is offering a competitive advantage. EFL Hellas delivers value both to EFL and its partners but ironically also some of its direct and indirect competitors due to horizontal partnerships that are symptomatic of how logistics work.

As a result of the expansion with the Hellas operation, the firm managed to pick up very important clients such as ECCO shoes, transporting volume from Poland to Greece on the road and then via sea-freight from Piraeus in Greece to Limassol in Cyprus. This route offers tremendous cost savings for ECCO and, of course, expanding business for EFL.

Now that the Hellas operation is integrated into the parent company, the company can start to take advantage of the challenges from the economic crisis and to enjoy early growth. The managing director of Hellas EFL is also offering business development support to EFL-Cyprus. Indeed, he has been instrumental in securing a few high-value contracts that leverage the market position of both operations. For example, EFL now handles the operations of many Greek-based organisations such as Public, Marinopoulos, and Eshop.

In the context of mapping new growth avenues, EFL has managed to get the contract to offer sophisticated logistics support to PHC which manages a chain of restaurants which include Pizza Hut, KFC, and Hobo’s.

Commentary

This case study epitomises how restructuring can help SMEs to enhance their long-term development by seizing opportunities, especially during the crisis. Basically, EFL has engineered solutions including 3PL and 4PL and low-cost transport routes via Greece, for its trading partners searching for economies central to their sustainable competitiveness.

According to the chief executive officer of EFL, George Papachristodoulou:

In the short run, the crisis is proving traumatic, butfor us, given our robust business model built on partnering and offering valueto our clients, this crisis is helping us to consolidate our future growth path.The shaking up of our market will get rid of cowboys that will not make it andsmart firms naturally will embrace our professional ethos and practice. What weexpect from the government is to cooperate with the banks and perhaps help outto channel growth capital in the context of a loan guarantee scheme.

Today, EFL is on a mission to kick-start a new business model by offering sophisticated logistics for the food and pharmaceutical sectors (insulated from the macro-economic cycle). Thus, the next restructuring event is now on the horizon: expansion of its operation via building a purpose-built warehousing-distribution system to offer logistics but also high value-added services to food firms and restaurant chains.

Moreover, the firm has growth capacity as it enjoys a unique capability platform which includes:

- long-lasting relations with other prestigious logisticsfirms such as TNT, UPS;
- a prime location, 5–6 kilometres away from the newLarnaca International Airport;
- state-of-the art warehousing (with plans to build morefacilities in the free trade zone);
- a network of partners in 120 nations;
- sophisticated IT platform;
- logistics expertise to handle standard and complexcargo.

EFL is ready to cater for any project in Cyprus (and offshore) which is an emerging hub for new energy and utilities projects to deal with gas, radioactive materials, telecom and electricity. Cyprus is proving to be one of the bridges between East and West, North and South. Recent findings of sizeable gas reserves in the sea between Cyprus, Israel and Egypt has stimulated explorations for new projects that will boost the macro-economic multiplier effect and thus further boost trading in the region.

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Information sources

Interviews

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