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Recipe Plus, Latvia

- Type of restructuring:
Business expansion
- Employees before restructuring:
50-249
- Employees after restructuring:
50-249
- Nace/Sector:
Retail
- Country:
Latvia
- Date:
17/12/2011
- Keywords:
Recession/Crisis

Abstract

The company supplies medical products to pharmacies, hospitals and other medical and healthcare facilities. Founded in 1995, it has become the leading medicines wholesaler in Latvia. Due to the economic downturn in 2008, the company had to look for new markets in order to preserve its market position. The main aim of the restructuring process was to increase profits, satisfy customer demand and achieve a constant level of sales. Overall, the restructuring had a positive influence on the company.

Organisational profile

Recipe Plus JSC is a drugs, medicine and health products wholesaler and distributor. The company supplies medical products to Latvian pharmacies, hospitals and other medical and healthcare facilities. Recipe Plus also handles the export of medicinal products and pre-wholesale processing of medicines and medical goods, as well as delivering medicines and medical and veterinary goods to other wholesalers in Latvia. The company was founded in 1995 and has become the leading medicines wholesaler in Latvia.

The drug wholesale activity of Recipe Plus has two aspects. The main aspect of the business is working with retail pharmacy businesses where the main customers are pharmacies, preventive medicine institutions and hospitals. Recipe Plus has some 7,000 items in its product portfolio. The second aspect of the business is cooperation with the largest pharmaceutical companies in Latvia. In its dealings with both smaller and big customers, the company uses an individual approach, whereby customers are treated individually regardless of size and other characteristics, allowing deferred payments, discounts and so on where necessary.

There are 166 employees working in the company: 93 women and 73 men. The management of Recipe Plus is organised in a single hierarchical system in which one employee is subordinated to another. The firm is headed by the chairman of the board, who is also the owner of the company, and the accounting, legal, marketing and personnel departments, the IT specialists group, and warehouse are under his direct supervision. The

advisor to the board is in charge of the purchasing, advertising, customer service, communications and numerical-analytical departments. Procurement managers monitor customer needs and the demand for certain products, identify trends related to changes in orders, and forecast demand for the next working period. The company has no works council or trade union presence.

Recipe Plus has a licence allowing it to produce or repack drugs and also has a GMP (Good Manufacturing Practice) certificate, confirming the company's adherence to GMP requirements. These require a quality approach to manufacturing, enabling companies to minimise or eliminate instances of contamination, mix-ups and errors. The main aim of the company is the expansion of its pharmaceutical wholesale market share in Latvia and the Baltic states.

Background to restructuring event

The main competitive disadvantage of the company was a lack of professionals in the area of procurement. The owner of the company found weaknesses in the negotiations of the management staff over contracts: 'Managers who were responsible for making delivery agreements were not able perform their work at the necessary level. Sometimes the conditions that we had to accept were terrible. A tangible decrease in the company's turnover was evident.' Managers who had to conduct negotiations had been unable to resolve this process satisfactorily. Delivery time was usually too short and prices too high; the company received no privileges and no discounts. Thus, the company had to think about significant changes in this area to save its reputation and, more importantly, to save its profits.

The situation was even more complicated due to the economic downturn, which affected the pharmaceutical industry in similar ways to other industries in Latvia. Even though drugs are considered to be 'goods of the first necessity', the economic downturn was not a time when the market accepted just any offer: it became very price-sensitive and many people simply could not afford all drugs they needed. That is why effective work with distributors, in addition to choosing the right product for the right segment and reducing all possible logistics costs in order to keep the selling price as low as possible, became crucial issues. The internal restructuring was implemented to solve these issues.

Restructuring processes

Similar to other firms in Latvia, Recipe Plus was affected by the economic downturn, and 2008 was challenging for the company. As financial numbers were not as promising as previously, the company had to look for new markets and to seek to preserve its market position. Competition among drug wholesalers in Latvia is tough, yet Recipe Plus managed to maintain leadership in this market segment during the financial downturn. According to the company owner, it was possible due to:

- successfully continuing business as usual through cooperation with clients, especially with pharmacies;
- expansion of its product portfolio and establishing cooperation with 15 new producers representing the non-medical and medical products segments;
- the introduction of several new approaches to work with medical institutions in the field of drug delivery, especially collecting debts;
- consistent maintenance of excellent logistics and customer service quality, shortening delivery times to customers to 24 hours;
- ongoing investment in R&D and monitoring of various processes within the company, particularly in logistics, thus achieving high efficiency and fast response to any changes in the market;
- the extra visibility arising from the organisation of a social campaign called 'Bringing joy to Latgale!', where every pharmacist was asked to take an active part, providing transportation and logistical services;
- focusing on the minimisation of costs, to keep the existing jobs and to proceed to a growth-oriented business.

All these activities were possible due to a successful restructuring process. Restructuring started in October 2008, right after the first problems were noticed, and ended in April 2009. Restructuring was initiated by the company owner as a response to problems arising due to the economic downturn, and the message was clearly communicated to the employees from the very beginning of the restructuring process. Both formal communication channels (such as newsletters) and informal ways of communication (such as meetings) were used for this purpose.

The major aim of the restructuring process was to increase profits, to satisfy customer demand and to make demand more inelastic in order to achieve a constant level of sales. To implement the restructuring process, the company owner initially developed an action plan. According to this plan, the internal restructuring required the creation of a new department, Procurement. With regards to human resources, the key people that implemented the restructuring were employees who were previously responsible for sales and four employees newly hired in the Procurement Department.

The new Procurement Department was supposed to be staffed completely by new professionals. To fill these positions, a special recruitment procedure was organised. Agreements were signed by the most motivated and skilled representatives that could be found within the company as well as professionals from outside. During this process, as initially expected, there was some resistance from the employees that were to be replaced. As the owner of the company puts it, 'It is simply unnatural to agree that you lack the skills that are necessary for the development of company, especially if you have worked for the company for years.'

Challenges and constraints of restructuring

The major challenge for restructuring was that two people working on procurement procedures at Recipe Plus had to be replaced. According to the owner of the company, it was not an easy decision, since these employees had been working for Recipe Plus for more than three years as procurement managers. They were very familiar with the business and were well informed about existing suppliers and possibilities for further work improvement. Yet, even though they had a lot of knowledge of the business, they lacked communication and sales skills, which were crucial for successful restructuring.

As Recipe Plus did not want to fire these two employees, the chief executive came up with the idea of creating new positions for them. The main responsibilities of these positions included the collection of information and financial data about competitors and the provision of monthly reports concerning sales issues and turnover; the two employees were particularly suited to these tasks. As the owner of Recipe Plus explains, their salaries remained the same and the main trick was related to psychology: 'If the person is given a choice of two options, he or she would definitely choose the alternative which is considered to be "better by society."' That is, if the title of the position sounds better, it will be filled faster. So he offered them the title of 'chief analyst'. Surprisingly, they were not much concerned about the wage issues. They received good compensation for lacking the necessary skills.

Restructuring advice and support

No external advice or support was used, as the knowledge that was necessary for the restructuring process was brought into the firm by hiring new people and training existing staff.

Outcomes of restructuring

The new Procurement Department significantly improved the performance of the company. New professional staff took over responsibility for reaching clients, developing connections between stores and suppliers, and creating the company brand. From the viewpoint of one of the company employees who was directly involved in restructuring process, positive changes became possible due to more attention being paid to the information resources. The whole process of acquiring market information, communicating and analysing the information, and using it to make business decisions was reviewed. Training of employees (paid by the company) was implemented, paying particular attention to communication and sales skills. Elements of good teamwork and delegation of responsibilities were also addressed, and all this resulted in a positive effect on net profits.

Overall, the restructuring had a positive influence on the company. In fact, the company has already decided to use this positive experience in the future by further expanding the Procurement Department. According to the owner of the company, 'this should not only help increase profits but also ensure better competitive advantage for Recipe Plus'.

Below, some calculations are provided that show the efficiency of the restructuring process (see Table 1).

Table 1: Net profit margin, 2008–2010

	2008	2009	2010
Net profit (LVL)	5,326,438	6,000,987	5,476,134
Net sales (LVL)	87,307,977	95,755,351	87,561,419
Net profit margin (net profit/net sales)	6.10%	6.27%	6.25%

Note: LVL = Latvian lats

Source: Recipe Plus

Comparing three years starting with 2008, the net profit margin is much higher in 2009 than in 2008. It reduced slightly in 2010, but overall the share of net profit in turnover is stable. In 2010, net profit was 6.25% of turnover.

Net profit margin figures, however, do not provide sufficient information for estimating profitability. It reflects both profits from the sales of goods and services, and costs and benefits not directly related to sales (such as interest paid and received and accrued taxes), which are outside of managers' control.

The gross profit margin assesses cost of goods sold as a percentage of sales (Table 2). This ratio estimates how well the company controls the cost of its inventory and the manufacturing of its products and then passes on the costs to its customers. This indicator also reflects the changes in pricing policy and the company's ability to control the cost of goods sold. The development of the factor dynamics indicator may indicate a need to revise its prices or strengthen the control of inventory production.

Table 2: Gross profit margin, 2008–2010

	2008	2009	2010
Gross profit (LVL)	7,101,918	8,001,316	7,301,512
Net sales (LVL)	87,307,977	95,755,351	87,561,419

Gross profit margin (gross profit/net sales)	8.13%	8.36%	8.34%
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Note: LVL = Latvian lats

Source: Recipe Plus

Gross profit margin increased in 2010 compared with 2008, which indicates that all actions related to the restructuring process and the process itself improved the efficiency of Recipe Plus. So, overall, the financial data depicts the positive influence of the internal restructuring.

Yet, as usually happens, many activities were implemented in order to achieve positive financial figures. The main ones are as follows. First of all, the variety of goods offered by Recipe Plus increased as a result of restructuring. Due to better communication and sales skills, the company was able to work more professionally with both local and international customers and suppliers, and that has resulted in a more diverse product portfolio. Thus, the increase in profits was very much fostered by an increase in sales that, in turn, resulted from the increase in the variety of products that Recipe Plus offers. Furthermore, as explained by the owner, 'Sales managers became better at finding suppliers that could offer better prices, thus we could offer more affordable products to our customers.' Recipe Plus also became more favoured in the market; the owner explains, 'Customer trust depends on the quality and diversity of products. As soon as the company becomes a provider of cheaper and differentiated products, it starts to win over the market. If we add a marketing element, the firm simply starts winning the market, leaving the competitors far behind.'

Commentary

Recipe Plus had various issues that had to be solved if the company was to remain in the market, especially after the economic downturn. The most important issues, however, were related to the people that directly influence the price of the product. As the company owner reflected, during the rapid economic growth that Latvia enjoyed before the downturn in 2008, many companies, including Recipe Plus, simply forgot how to work effectively and had to relearn this skill as fast as possible when the crisis came. This is easier done in a small business than in a big one, where changes usually take longer. As Recipe Plus is in the SME category, it might be interesting to compare how the same problem would be solved in a large company.

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Information sources

Interviews with the owner and an employee of Recipe Plus

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 - [About EMCC](#)
 - [European Restructuring Monitor](#)
 - [About the European Restructuring Monitor](#)
 - [Restructuring events database](#)
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