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Mermaid, Denmark

- Type of restructuring:
Business expansion
- Employees before restructuring:
10-49
- Employees after restructuring:
50-249
- Nace/Sector:
Manufacturing
- Country:
Denmark
- Date:
02/02/2012

Abstract

A digital signage company in Denmark has expanded significantly over the last years by continuously adding other companies with complementary products and markets across Scandinavia. After several waves of expansion, the next steps are about consolidation and rethinking the group structure.

Organisational profile

Mermaid A/S is a total solution provider in digital signage with expertise in the development, production, and design of monitors and software. When the company started its activities in 2004, it was mainly a hardware company selling monitors and screens for digital signage, but through acquisitions and product development the company can now offer complete solutions in the following areas:

- Monitors;
- Software platforms;
- Services (recurring business);
- Service-level agreements;
- Software upgrades;
- Administration contracts (customers outsourcing management of the platform);
- Content production.

Mermaid's customers are companies with a need for dynamic signage: retailers, public transport and the public sector in general are the main customer segments.

The development and acquisition of new products and services is part of a strategy where recurring business on the installed bases should generate an increasing share of revenue instead of through highly fluctuating hardware sales. Mermaid A/S expects to reach a milestone in 2012 where profit from recurring revenue will cover the fixed costs.

Mermaid A/S was born out of a restructuring in 2004, when the fast growing PC manufacturer Mermaid Technology A/S, originally founded in 1997, more or less collapsed after changes in tax laws and competitive environment. The company closed and assets transferred to the new company Mermaid A/S.

The re-born Mermaid sets out to be the leader in consolidation of the DDS market (Dynamic Digital Signage) in northern Europe – or even all of Europe - and Mermaid A/S now owns the companies mentioned in Table 1.

Mermaid A/S is based in Glostrup, Copenhagen, and now has subsidiaries in Aarhus, Denmark and in Stockholm, Sweden and Oslo, Norway.

Table 1: Mermaid A/S' acquisitions and current ownership

Company	Acquired	Location	Ownership
Victor Soft	2006	Århus, Denmark	Merged with Mermaid A/S
Acrossmedia A/S	2007	Århus, Denmark	100%
Mermaid Leasing ApS		Glostrup, Denmark	100%
Mermaid Technology AS	2008	Oslo, Norway	100%
Mermaid Technology AB	2009	Stockholm, Sweden	100%
Mermaid Norway AS	2011	Oslo, Norway	100%

Source: Mermaid A/S prospect for First North 2009 and annual reports available at www.mermaid.dk.

Today, the CEO and founder Henrik Johnsen holds 22.3% of the shares in Mermaid A/S. Other important shareholders are the chairman of the board (22.3 %), the former owners of Norden Media Solutions – now Mermaid Technology AB – (17 %) and COO at Mermaid, Mads Henrik Hansen (2.42 %). The remaining 35% of the shares are held by minor shareholders.

Daily operations are managed by CEO Henrik Johnsen and COO Mads Henrik Hansen. The COO was originally the founder of the first acquisition Victor Soft. CEO Henrik Johnsen has an education in IT (EDB assistant, Datanom) from 1983 and a management career in different companies in the IT and electronics industry until he co-founded Mermaid Technology in 1997. COO Mads Henrik Hansen also has an education in IT (Datamatiker) and a Master in Management of Technology. He gained his former management experience from founding Victor Soft A/S at the age of 22.

At the end of 2011, the Mermaid group had about 60 employees – the large majority in Aarhus and Glostrup (Copenhagen), Denmark – and an outsourced team of 12 freelance software developers in Pakistan. Employees are mainly men between 25 and 45 years old and mainly technical staff including 12–15 hardware or software engineers. Administrative staff includes sales people and a few business graduates. Staff are generally organised in trade unions.

The company is international in the sense that it has operations in three countries and is looking for potential acquisitions in other European countries like Finland and Germany. Export sales outside Denmark, Norway and Sweden are about 15%.

Mermaid A/S has had a fluctuating turnover due to the original hardware based business model (Table 2). However, the increased focus on recurring business is expected to stabilise turnover and especially improve earnings. An almost constant increase in gross margin ratio suggests that they have succeeded.

Table 2: Turnover, gross profit and EBITDA in Mermaid A/S, 2005-2011

1.000 DKK*	2005	2006	2007	2008	2009	2010	2011
Net turnover	16.752	39.191	31.733	61.710	55.575	83.877	71.417
Gross profit	4.725	12.196	11.290	26.799	31.724	47.582	45.464
EBITDA	1.187	3.273	159	850	320	12.739	7.145

*) 1 DKK = € 0.13

Source: Mermaid A/S, Annual reports.

Mermaid A/S' activities are funded by 70% equity capital and 30% short term debt, and with external equity funding from First North they publish elaborate information for investors on their website at <http://mermaid.dk/investors>.

Background to restructuring events

The restructuring event described in this case study is a series of acquisitions made by Mermaid A/S from 2007 to 2011 with the first acquisition of Acrossmedia in 2007 described in most details. The reason for describing a series of acquisitions instead of just one event is that the whole acquisition process has been the key to building a complete product, service and technology platform that can make Mermaid A/S the European market leader. So it is actually a story about building a market leader in a new industry.

To understand Mermaid today, it is important to know a bit about the original Mermaid Technology that was founded in 1997 with the current CEO Henrik Johnsen as cofounder. Mermaid Technology made customised computers with logistics as the core of their business model, since the founders had a background in logistics.

According to Henrik Johnsen, the company became the fastest growing company in Denmark in 1998 and had grown to a turnover of DKK200–250 million (€27–34 mill.) and 150 employees in 1999. However, a change in tax laws for home PCs for employees and the invasion of Dell computers on the market put a sudden stop to the success. After fighting hard for a few years out of moral obligation to the remaining employees and banks, the founders gave up Mermaid Technology and in 2004 Mr Johnsen founded Mermaid A/S with seven years of experience in managing rapid growth as well as rapid decline.

The new Mermaid business was still mainly a hardware business manufacturing monitors for digital signage. After an early period with DVD players connected locally to the monitors, they soon realised that they needed software to manage the signage online. After searching abroad they found a local product in Denmark from Victor Soft and in 2005 they bought part of the company to acquire ownership of the software.

After landing a large order from the retail chain Matas, ambitions grew and at a European trade show in Paris in 2006 Mermaid realised that their products were miles ahead of competing offers. So they decided to go international and get equity capital from the First North marketplace in 2007. First North is an alternative market, operated by the different exchanges within NASDAQ OMX. First North is an alternative to the regulated market, with less strict requirements and rules.

In December 2007 they added another stone to the foundation when they acquired a major competitor, Acrossmedia, who had content production as a core part of their business model. This made Mermaid the dominant player in digital signage in Denmark.

Acquisitions were not just about growing in volume, but also about adding products and competences to the palette. By adding software and content production they also created the foundation for a different business model, where hardware sales were not the goal in itself, but rather a means to make recurring revenue on additional services.

Henrik Johnsen had obviously learned an important lesson about the vulnerability of a business model based on hardware sales in the first Mermaid Technology venture.

The acquisition of volume and additional products and competences continued in the other Scandinavian countries and can be illustrated by the timeline in Table 3:

Table 3: Timeline for acquisitions

July 2004:	Mermaid founded and buying assets from the original Mermaid Technology. First contract on digital signage.
October 2005:	Acquiring software through 50% of shares in Victor Soft.
December 2005:	Acquiring the remaining 50% of Victor Soft.
April 2007:	Mermaid stocks for sale on the First North marketplace.
December 2007:	Acquiring Acrossmedia.
January 2008:	Establishing Mermaid Technology AS, Norway.
January 2009:	Acquiring Norden Media solutions AB, Sweden. Now Mermaid Technology AB.
January 2011:	Acquiring HeadlineTV AS, Norway (Now Mermaid Norway AS)

Source: Mermaid A/S prospect for First North 2009 and annual reports available at www.mermaid.dk.

According to company goals, the next acquisitions could very well be in 2012 in Finland or other countries in northern Europe.

Restructuring processes

The whole growth and acquisition process has not been planned as such, but since hardware selling with relatively few large orders lead to a very

fluctuating sales curve, it was a part of the early strategy that the company wanted to add services to the installed base that could generate a more stable income stream. And to quote Henrik Johnsen, he is constantly thinking about 'adding the next stone to the foundation'. Until now the new 'stones' have been picked for their ability to add new technologies and services to the total Mermaid solution package in combination with their ability to add new markets and customers to reach the goal of market domination in the Nordic countries – an ambition that was recently upgraded to market domination in Europe.

Furthermore the introduction of stocks on the First North marketplace has obviously required an elaborate business plan and a clear strategy.

Acquisitions are planned and decided in cooperation with the business partner and chairman of the board, Søren Svenningsen. The process typically starts with a decision to go into a certain market. Research is conducted about the market and companies in the market. Relevant companies are then contacted. The process before the actual acquisition is effectuated typically lasts half a year.

It may sound like an aggressive strategy where Mermaid is chasing potential skills and customer bases to acquire, but during the interview Mr Johnsen seemed a bit surprised when he realised that three of the acquisitions actually contacted Mermaid first with the intention of selling.

Even though the big master plan may not be very explicit, the company has gradually developed procedures for the acquisition process ranging from a checklist for potential acquisitions to the whole process of integrating different companies and cultures.

People who are going to work together in the future will start working together in a project team that takes care of the integration process; to Henrik Johnsen it is important to make employees of the acquired company feel equal in the project group. During the integration process, Mermaid A/S spends a lot of time convincing new staff why they have a future in the company and the project group is in constant dialogue over Skype throughout the process. Since acquisitions have been driven by the technology and skills in the acquired company, it is also important to keep the employees and their know-how.

The support manager (customer support) who was originally working for Acrossmedia remembers a '100+100+100-plan' for the process where the project manager made a plan with milestones and actions for three periods of a hundred days. According to the support manager this made it very clear what would happen.

The support manager was completely taken aback when he got the information that Acrossmedia was being sold to Mermaid. At the information meeting he expected to hear something about a new order. At the time of the Swedish acquisition he knew a bit in advance, but not about the Norwegian acquisitions. But he feels no need to know more about the acquisitions before they become a fact, and he hopes that more acquisitions will come in the near future since he would like to secure his job in Mermaid for many years.

In January 2011, after a long period of restructuring events, the top management was split between Henrik Johnsen and co-owner Mads Henrik Hansen (original founder of Victor Soft), who is now in charge of operations. In relation to acquisitions Henrik Johnsen now simply delegates a large block called 'operations' to Mads Henrik Hansen.

Challenges and constraints of restructuring

One of the challenges for Mermaid is that restructuring has not been a single event but a continuous series of events.

As a former elite handball player, Henrik Johnsen is very focused on creating a hard-working and committed team with strong players in all positions. People need to agree to long workdays and accept that the reward will come later. The formula is simple: workdays from 7 to 18 hours and below average wages (working hours are not regulated by law, but based on agreements with unions and local agreements in each company). This has not caused problems with acquisitions, since they are often in a weak financial position and used to below average wages. But the turnover in staff is low except for a few sales people who were tempted by considerably higher salary opportunities.

However, Mr Johnsen acknowledges that continuous acquisitions and working excessively can wear people out: 'We don't relax when we have reached a goal. Some people are getting worn out, and we cannot get the same resources out of our staff that we could before. In the long run, a company cannot be based on people working hard all the time', he says.

This is a major reason why Mermaid is now establishing project teams for all major projects in the company. This means that there is a managed process for each project managed by a project group – in acquisition projects with representatives for both organisations. Before that everybody was involved in everything.

Being a larger organisation also means Mermaid can now establish specialist functions with more specialists so they are less dependent on individuals.

Even though Mr Johnsen is concerned about the extra workload for some employees, it does not seem to worry the support manager. From his perspective, the integration of new acquired companies appears to be more a gradual learning process than something that is turning their work upside down. For the support manager, the integration of a new acquisition has mainly involved learning about new hardware/software and learning a new language (Swedish) to be able to support new customers. Learning about software was in dialogue with the Swedish acquisition and language was learned through a language course. From his perspective the constant growth leads to increased responsibility and continual learning.

Even though he finds inspiration in learning about new cultures, the support manager also emphasises the challenges of integrating different work styles and the difficulty in understanding the subtle details and especially dialects in a different language. Today Mermaid has employed a native

Swede in the support function.

Of course, the addition of Swedish customers has increased the workload for the support department, but the extra time has been taken from Danish customers. 'We do what we have to do, but we have to prioritise harder', as he says.

He also experienced how the willingness to cooperate in acquired companies is important when systems must be integrated, particularly when there is a lot of tacit knowledge in the acquired company that must be passed over. The Swedish subsidiary might have felt that they were being downgraded, and since the Swedish developers had been laid off they were not able to train the supporters in their system. This was not a problem in Norway since they had a well structured support function and were able to help themselves.

Since the support manager was originally employed in one of the first and biggest acquisitions, Acrossmedia he has also experienced challenges in acquisitions from the acquired company's side. In the case of Acrossmedia the big challenge was the clash of cultures.

Where Mermaid's history and culture has its roots in production, Acrossmedia was rooted in a partnership between marketing and multimedia skills. Where Acrossmedia was the archetypical creative company with table football as an integrated part of the workday and structure was a swearword, Mermaid was dominated by engineers and technicians with a more structured approach to business.

For the creative staff it was a huge challenge to lose some of the benefits like flexible work hours and loose structure they had in Acrossmedia, but for people like the support staff it was a blessing to get more structure and better tools. The support manager felt that in the new culture the management was listening to him and took his problems more seriously.

From the original staff at Acrossmedia one from the creative staff was laid off after the acquisition and three others decided to leave voluntarily.

From the employee perspective it seems like the project organisation of acquisitions has been working well during the recent acquisitions. He attended three or four meetings where everything was planned. However, the project of integrating Acrossmedia seemed to show the limitations of a small organisation. The 100+100+100-plan seemed like a great plan to the support manager, but because people had their everyday operations as well, they sometimes lost focus on the project plan and did not follow up on the planned milestones and actions. Some of the tasks from the first 100 days were passed on into the next 100 days, and the plan for the last 100 days was never really made explicit to the support manager. In general, he felt the need to know exactly what to do and when – and somebody to 'knock me in the head more often' as he says. This has not been a problem in later acquisition projects though.

However, with future acquisitions Henrik Johnsen anticipates a more complicated process. Until now, the acquisitions have mainly been about adding new competences. This basically means that all employees in the target company are still needed, but the next acquisitions might very well bring along a more competitive agenda. 'Now we have it all, so with the next acquisition we have to consider who is holding the best competences', Henrik Johnsen says, since the purpose of new acquisitions will mainly be expansion into new markets.

It may involve centralisation of functions in the mother company, but if this involves cutting away functions in the Danish mother company there may be a loyalty issue with the original employees who have made sacrifices in the early days. This is still a hypothetical problem though, and not an issue where Mr Johnsen has experienced specific concerns among employees.

Finally, Henrik Johnsen also mentions the access to funding as a challenge, when you grow through acquisitions. Frequent acquisitions also mean that you regularly have to think about raising money.

Restructuring advice and support

The Trade Council under the Ministry of Foreign Affairs has conducted market research on new markets for Mermaid. This is a special offer, where SMEs can get market research in a market of their own choice at half the normal price.

Apart from that, Mermaid has not received public advice or support in connection with the acquisitions. However, Mermaid participated in a spinoff-project under the regional business service centre Væksthus Hovedstadsregionen. The purpose of the project was to help a group of companies develop new spinoffs. During this project Mermaid developed a new spin-off project in media sales, where Mermaid A/S is selling ads on their installed hardware. The spin-off is now integrated as a new business area in the company (not a separate spin-off).

Even though Mermaid was entitled to public funding for the project they said 'no thanks'. Henrik Johnsen reasons that it would be indecent to ask for money when they got a profitable business out of it. If they had wasted their time participating in the project, they might have asked for the money.

The problem with a state fund is in this case that they are not risking their own money and that decisions are made by a small group of people with no money at stake themselves.

Outcomes of restructuring

The restructuring has required a lot of extra work, but long hours and a good work ethic is part of the culture at Mermaid. Because of the low earnings, wages remained unchanged in 2007–2009, but better earnings have led to small increases in wages in 2010–2011.

Some acquired companies have paid lower wages since they have been struggling, so there has been some harmonisation in wages there to match the general Mermaid level. But in general, Mermaid is not a leader when it comes to wages.

An important part of the mainly intuitive evaluation process of potential acquisitions is the evaluation of the work ethic and whether there is a lavish or a thrifty culture. Cost awareness is an important part of the culture in Mermaid.

The acquisitions have not caused layoffs in the mother company, but layoffs of one or two employees have been necessary to improve profitability in some of the acquired companies and some time after the original Victor Soft and Acrossmedia were located at the same address in Aarhus, two people from the overlapping departments were laid off.

Currently, the Norwegian subsidiary is performing as planned and making a small profit, but in 2010 the management was replaced as the subsidiary was not contributing to overall profitability. The Swedish subsidiary is still struggling to make a profit, but is expected to break even in 2012. Adding recurring revenue to their current installed bases is an important element in this.

According to Henrik Johnsen, it is important for performance to create a sense of equality and mutual respect between colleagues in acquired companies and the mother company.

Even though the financial crisis in 2008 stopped the order flow, Mermaid A/S decided to keep the staff and did not lay off any employees because of the crisis. They expected the market to recover and they did not want to let highly skilled people go, who were too good and important for the future.

This period of overcapacity drained the bottom line, but according to Henrik Johnsen it was important to keep his employees as long as possible.

Commentary

In Henrik Johnsen's view, the major difference between restructuring in SMEs and in large corporations is communication. In an SME the communication flow can be much more informal. On the other hand, you also need to be able to communicate everything and see each other as colleagues.

He also thinks that negative restructuring is easier in SMEs. It is easier to ask people to accept a cut in salary – if they get something in return like ownership or bonus.

As an owner-manager in an SME it is also easier to be honest with your staff and tell them exactly what the situation is. And since you have been in the boat all the way and have taken your turns, it is easier to ask people to do the same.

When it comes to disadvantages of being an SME in a restructuring process he points out the access to funding. It is hard to make a long-term investment strategy when you have to raise money continuously.

He also mentions the increasing workload on key employees who literally work day and night. Entrepreneurs need people with a work ethic like themselves.

From the employee perspective the support manager thinks that it is an advantage in an SME that you do not have to involve a lot of middle managers in the restructuring process. You do not have to convert as many people, as he says. On the other hand he sees the lack of capital and resources to move the process forward as the main disadvantage. He also likes the way SMEs can easily bring people together to get to know each other and get the same information. However, he also finds it important that management is selective when they give information. He does not feel that he needs to know everything.

Looking back on the process, Mr Johnsen wishes that he had restructured the top management earlier. The restructuring has made delegating things easier for Henrik Johnsen. 'If you have key employees you shouldn't be afraid to give them a share of the company. Then you don't waste your energy thinking "what if I lose him"', Henrik Johnsen reflects.

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Information sources

Interviews

Henrik Johnsen, CEO and founder, and Henrik S. Jensen, Support Manager

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Company website

www.mermaid.dk

Secondary sources

Prospect First North 2009

Annual company reports

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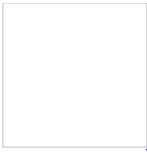
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