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## ADV, Romania

- Type of restructuring:  
Internal restructuring
- Employees before restructuring:  
50-249
- Employees after restructuring:  
10-49
- Nace/Sector:  
Professional services
- Country:  
Romania
- Date:  
13/10/2011

## Abstract

The downturn in 2009 meant that Romanian advertising production company ADV had to take on smaller contracts. Cost-cutting measures included not replacing temporary workers or those resigning, re-negotiating contract terms with suppliers, moving two departments to one single space, freezing wages, cutting senior staff salaries and not paying bonuses. ADV returned to profitability in 2010 and one year later the company moved to a new location, raised salaries and increased staff by 5%.

## Organisational profile

ADV is an advertising production company. The company was started in 2000 by 'Mr T', who at the time was working as a cameraman for a Romanian TV channel. Mr T is the general manager of ADV advertising. The company employs 50 people and does not have a works council. In 2010, Mr T offered shares as an incentive to five of his senior staff. One person was promoted to the position of partner and given a separate line of business to run (Public Relations).

Although Mr T did not consult anyone in this decision, he says that from own experience he felt that some people would react better to shares than to a salary raise. He says that he did not have any prior expectations but felt it was the only option at the time to motivate the staff. One deliberate decision he made was to choose people who had stuck with him over time, although others would have qualified also.

Mr T had studied theology and film. He attended the EMBA Berlin School of Creative Leadership. He toyed with entrepreneurship since he was in school and while he was a student at the Buzau Theological Seminary he got to know the world of television, when he collaborated with a local station and also with the national TV station TVR on the Spiritual Life programme. He left in 2000 to establish ADV.

In Romania, the name of Mr T and ADV are linked to successful campaigns for brands like Timisoreana, Alexandrion, Bucovina, Apa Nova,

Boom, Cosmote, Monte Banato, Omo and Millennium Bank.

Mr T coordinated a successful communication campaign in over 10 election campaigns, five for the current Romanian President.

In recent years, ADV has crystallised its mission: 'We help brands to help people.' Thus, people are the centre of most brand communication and most of the brands ADV deals with focus on values.

## Background to restructuring events

ADV is 100% focused on clients that have their activity in Romania and thus target Romanian customers. In 2009, due to the deterioration of the economic conditions, the majority of firms in Romania cut their advertising budgets. Naturally, this affected most of ADV Advertising SR's clients. The advertising budgets were the first ones to be cut for the majority of companies in Romania. The only examples where budgets have remained similar to previous levels were a few multinationals in telecommunications and gasoline distribution, according to 'Ms I'. But even in those cases the duration of the economic crisis has forced even those companies to cut their advertising budget in 2011.

This meant in the first stage that for 2009 and 2010 the company had to accept smaller contracts and some clients gave up new advertising altogether. For 2009 Mr T was able to keep his entire staff and to pay them their salaries. In fact he hoped until the end of the year that the situation would turn around. But at the end of 2009 Mr T was facing a new year with fewer clients and much smaller advertising budgets. Thus at the end of 2009 he had to take some tough decisions.

## Restructuring processes

At the end of 2009, Mr T and his senior staff had to find ways to reduce costs. As in the case of other SMEs, the financial crisis took Mr T by surprise. Also, this was the first time he and his colleagues were facing a financial crisis as managers. They did not have a plan at first, they just had to cover 'holes' as they appeared. Action needed to be taken as the turnover had been falling constantly throughout the year and the prospects for 2010 were not encouraging.

Some decisions were more obvious than others and implied less management involvement, and thus were easier to take. As Mr T said, he had no formal management training and thus he tried to find decisions that were easy to take from this perspective but also fast to implement and with less trauma for the employees. For example, employees who resigned or were hired on temporary contracts were not replaced. The main costs besides salaries were identified as cost for supplies, rent and utilities. Mr T and his senior staff hoped that by looking at these costs first the economy will turn around and would not have to adjust any costs related to the personnel.

Also, some suppliers agreed to re-negotiate the contract terms even though it was before the official negotiating date stipulated in the contract. These negotiations between the management of ADV and its suppliers did not have direct implications for the employed staff. However, as the company as a whole saved money and improved the cash flow the implications for the staff were long term as they kept their jobs. Among the suppliers that agreed to renegotiate were the phone provider, the internet provider and the office equipment provider. But further adjustments were needed. Until 2009 the PR and the Advertising side were renting two different spaces. In 2010 Mr T took the decision to move both of them in one single space, which was much cheaper. As the two business lines are connected, the new setup suited everyone. One added feature that was mentioned by Mr T and a favorite of the staff was that in the new location almost everyone had a parking space (parking is a serious problem in Bucharest).

Mr T said that getting the suppliers to adjust their prices before the negotiating date stipulated in the contract was easier than he expected. On the one hand he had to deal with the same issue on his side as his clients demanded the same attitude from him. Thus, he used his own situation of being forced to cut revenues to bring his suppliers to the negotiation table. The contracts were rewritten to include the new prices for supplies and services. There are two main points here: the date of the contracts was extended and in some cases the quantities of the supplies were increased in the later years of the contract. Of course, the only costs that could not be reduced were those with the utilities and that was one of the main reasons for relocation. In this way the utilities bill was reduced and as mentioned before there were improved results from the business lines synergies.

As the recession dragged on new decisions to cut costs were needed. These decisions were harder to take and, most importantly, more difficult to convey to the staff. The least painful was to freeze salaries for six months at first and then for another six months. At the same time senior staff's salaries were cut by 25% for six months. Also, no bonuses were paid for 2009 and 2010. Understandably, the reaction of employees to the salary freeze was at first bad. They all argued that their own bills have gone up and counted on higher wages. Unfortunately they did not have the same negotiating power to reduce their own costs as a big company has. However, Mr T and Ms I had meetings with all employees, explaining the financial situation of the company, the costs that were already cut and their view of the future of the company. They also presented scenarios with salaries increasing as before and salaries frozen (or cut as it was the case for senior staff). The staff attitude towards the salary freeze improved once all the information was presented to them. The alternative could have been that they all would have lost their jobs if they insisted on salary rises as in the boom years.

Mr T completed the move to the new location in 2011. He also decided to share the space in the new location with another company, an internet developer who had worked with them before, to share the costs. The nature of Mr. T's business is that it relies quite heavily on internet development. Both business lines, advertising and PR, have been relying more and more in recent years on internet development. Therefore,

besides the costs argument there was also the business interest to bring in the same location the internet provider company that it is being used for 90% of the ADV's projects.

## **Challenges and constraints of restructuring**

As the restructuring process involved cutting and freezing wages, there was a risk that some of the senior and professional staff would leave. Also, there was a risk that the quality of work would suffer. Thus Mr T had to get involved in the day-to-day business of the agency more than ever before to demonstrate to the staff that the measures were temporary and necessary. For example, any expense – lunch with a client or a pitch – had to be approved personally by him. He would participate at meetings with the most sensitive clients or senior staff. The purpose was twofold: to motivate his own staff but to make sure that he kept a personal relationship with clients in case one of his senior people would be offered an opportunity by a client or a competitor. He attended internal meetings with junior staff as well as senior staff. The staff were positive about this experience and took every opportunity to ask about the welfare of the company, about new projects, about the future direction or about how to respond to different moves made by the competition. Mr T said that he expected his staff to enjoy his visits and interest in the details of the projects but he did not expect it to be 'this much fun'.

The other problem still faced by the agency was the still tough market conditions in a bad economic environment. In this environment Mr T was trying to acquire new clients to increase his business' profitability. The challenge faced by Mr T was an obvious one and it is faced by all companies during economic crises: lower revenues due to lower budgets from clients (some going bankrupt) while costs were harder to cut. In this environment, after cutting costs as much as possible the only way to increase profitability was to acquire new clients (if he wanted to stay in business and not wither away). On top of everything his agency lost one of the most important clients to a competitor. Also, the next election year was 2012 and thus no short-term political project was in sight.

In the end he managed to bring in new clients, including a beer company who has been one of the more consistent accounts.

## **Restructuring advice and support**

Mr T did not use outside advice or support throughout the restructuring process. He said that there were two reasons for this: he knows his company best and in Romania restructuring consultants are expensive and tend to specialise in big companies and financial institutions.

## **Outcomes of restructuring**

Mr T had to implement some tough measures to keep his business alive. The crisis has hit the Romanian advertising market harder than anyone would have expected. Mr T knew that the measures were necessary to keep the company profitable. It was hard to get his staff on board but in the end he managed.

As a result ADV was able to return to profitability in 2010. It kept its key people and is now again winning new clients. It is important to note that the company remained profitable while the rest of the industry is still in the red.

In 2011, the company moved to a new location, managed to increase salaries and to increase staff by 5%. The staff increase was related to a new account that the PR business line acquired at the beginning of 2011. Some of the staff hired for this project only had temporary work contracts. All of this was done even though 2012 was another a challenging year.

## **Commentary**

Without any outside help, Mr T has managed to survive and even improve the condition of his company during the ongoing economic crisis, based on a programme of cost-cutting that included a salary freeze. He claims it shows that he knows his business best, but most importantly that he knows his people.

The main lessons here are: in times of crisis make sure you keep your staff informed and motivated. Also, it helps if top management gets involved in the day-to-day work of the different projects as the staff feel empowered by this attitude.

## **Author**

Florin Cite, SC GEA Strategy and Consulting SRL

## **Information sources**

## Interviews

Mr T, Owner and Manager, ADV

Ms I, PR Partner

- [European Monitoring Centre on Change - EMCC](#)
  - [About EMCC](#)
  - [European Restructuring Monitor](#)
    - [About the European Restructuring Monitor](#)
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