GC, Romania

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  50-249
- Employees after restructuring:
  50-249
- Nace/Sector:
  Retail
- Country:
  Romania
- Date:
  29/09/2011

Abstract

When the construction bubble burst in 2009, restructuring became unavoidable for this Romanian wholesaler and retailer of construction materials. A number of retail spaces were closed, which led to almost 10% of the workforce having to either be relocated to other retail locations or production facilities or to be let go. For staff who were retained, salaries were cut or frozen; some had to take unpaid leave for one or two weeks at a time. The best way to maintain motivation among the staff, according to the owner-manager, was keeping them apprised of his efforts to avoid further staff reductions.

Organisational profile

The company GC is located in Ramnicu Valcea, west of Bucharest. Its main activities are selling construction materials either wholesale or retail. The company was set up by 'Mr P' in 1999. It employs 100 people in different business areas, the two main ones being retail and production. There is no works council. The management structure is very simple. Mr P is the final decision-maker on all costs and payment-related issues. There are heads of businesses and of teams but they cannot take decisions about finances, hiring and firing, the suppliers of goods and services or prices of own goods and services.

The business has developed by following market trends. For example, Mr P entered the construction business when he observed the booming construction sector.

GC sells construction materials, electrical appliances, kitchen fixtures, furniture, double-glazed windows and window frames.

Mr P is 35 years old and has been an entrepreneur all his life. He started the company to meet a growing need in a bullish economy. It was a time when Romanians were making their first ventures into credit loans and when they wanted to own their houses. Building their own house was one of the preferred options.

Mr P discovered this demand very early. At first the company sold fittings for kitchen and bathrooms. Then construction material and double-glazed windows and frames were added. As mentioned above, the dynamics of the company were dictated by the market dynamics. Mr P did not follow one single business line – it just went according to what was profitable at the time.

Background to restructuring events

Although Mr P was very good at spotting the development of the construction sector related to the development of the mortgage market, he was not able to predict the end of the boom. The 2009 recession found Mr P during an expansion phase as he was investing in new retail spots and hiring new personnel.

The fall of the construction market for housing was swift and sharp. Even in 2012 the sector was still searching for the bottom.

Another problem was the concentration of the business on only one market: housing and house remodelling. Thus Mr P had to react very fast to the changing realities of his business, especially as close to 100 people were depending on him. Unfortunately, there was no way to avoid the introduction of a tough restructuring programme.

Restructuring processes

All the investment decisions and programmes that were decided in 2008 had to be revised. The restructuring plans were divided into two: measures that could be implemented immediately and measures that would be implemented throughout 2009 and maybe 2010.

It was obvious at the beginning of 2009 that some of the investment plans had to stop immediately. Mr P first tried to exit rent contracts for new retail spaces that were not yet developed. Then he looked at his inventories and made a plan to identify if any of the materials could be sold to a market like Turkey, where the construction market was still growing.

At the same time Mr P looked at his retail spaces that were already established. Together with his senior management, he chose which of them they would keep and decided to close the others. To make this decision, he looked at overall profitability of individual location, number of employees, proximity to main shopping areas and, probably most importantly, the cost of renting. This decision led to almost 10% of his workforce having to either be relocated to other retail locations or production facilities or to be let go.

To decide on which personnel to be made redundant, Mr P looked at the most profitable locations and identified which ones could accommodate one or two more employees. He determined that around 15 people from production who were supposed to leave could be employed in other parts of the company. For the other five people, Mr P negotiated a severance package comprising, from case to case, depending on experience and years within the company, one or two months' salary above the one month salary required by the law.

At the same time Mr P was trying to find places for the people working in the retail stores in other departments of the company. Of course, not all staff could be saved, and some of the personnel were dismissed with a severance package.

The employees who had to move to other areas of the company were informed by their immediate superior. However, Mr P said that he personally informed the people who had to be fired.

For the reassigned staff, there was a short half-day training regarding the products that they would sell in the retail stores.

As the fall of the construction market was so dramatic, more had to be done to keep the company profitable in the long run. Mr P had to freeze and cut some salaries for the rest of the employees. At first he froze salaries for the second part of 2009 but, as this was not enough, he negotiated a 15% salary reduction for the whole of 2010. In some cases, especially during the winter period, the people working on the side of the business connected to the construction sector had to take unpaid leave for one or two weeks at a time. There were 45 employees in this unpaid leave programme. At the same time, Mr P renegotiated the acquisition prices for his inventories and new products, and also asked for a longer period to pay the suppliers. Negotiating lower prices and costs is tough but Mr P felt that during 2010 all these adjustments were easier to implement. He felt that the counterparties also had an active interest in keeping him as a client and were more willing to accept worse conditions than previously agreed.

Mr P explained that he felt 2009–2010 was a period of just cutting and negotiating. And even then it would not be enough to make the company profitable.

Challenges and constraints of restructuring

Throughout the restructuring process, Mr P had to ensure that his staff remained motivated and that he made the payments to his creditors and suppliers. When asked about what he did differently to motivate his people during the crisis, Mr P replied that he didn't do too much. He had to keep paying the salaries in time, added a few more meetings with his senior staff to update them on the new contracts or upcoming deals and asked them to pass the information as soon as possible to the rest of the workers. The best motivation came from his efforts to keep the jobs in place and not to be forced to further reduce the number of his employees. He made sure that this message reached the employees constantly. Also, getting out of lease contracts for retail spaces proved almost impossible in those times and it came at a cost. The situation improved from his point of view for contracts in the latter part of 2009 and throughout 2010 when it was obvious that the construction and real estate market would not recover any time soon.

To this cost was added also the cost of severance packages for the people he could not retain. To pay for the severance package, Mr P contracted a short-term loan from a local bank, which he paid back in 2011. To get the loan Mr P met with five banks, all of them ranked among the top 10 banks in Romania by asset size. Unfortunately, none of them was able to give him a deal that he could afford. In fact, four out of the five banks did not present an offer as his company was seen as a risky one due to its reliance on the construction sector. In the end, it was the sixth bank that gave him the loan. It was a small bank used to dealing with SMEs similar to GC.

Finally, another constraint was the high inventory, construction materials and fixtures that he had accumulated in 2008, based on the 2008 turnover numbers. Unfortunately some of the inventory is still there today but Mr P had to pay for it in 2009.

However, in the last months of 2011 and at the beginning of 2012 Mr P sold 80% of the old inventory.

Restructuring advice and support

Mr P did not use any restructuring advice or support. Mr P said that he could not afford the advice of a consultant. He also said that he does not see the point, as at first he would have had to explain his business to the consultant, which would have taken time. In his view, it was better for the company if he used this time to solve the problems himself. Also, he does not think that he will use outside help in the future if a similar situation will arise.

Outcomes of restructuring

GC saw the same meteoric rise as the other companies in the construction business. The restructuring has been long and in some respects it is still continuing today.

But as other similar companies disappeared, Mr P managed to turn his company around in 2011 after two really tough years. In 2011 he managed to increase salaries again and registered a profit. The turnover is not at the 2008 level but Mr P is expecting it to be at that level in a few years.

Commentary

Mr P's management style resembles the style of the majority of managers in Romania, in both small and large companies. As this business was not his lifelong dream, Mr P was always guided by the market. Thus, when business was good, Mr P hired more people than he actually needed as he was hiring for his future plans not current needs. However, when things slowed down he did not shy away from restructuring personnel or from shifting staff within the company.

The restructuring process was long and complicated for a small company but Mr P was more than capable of managing it. It is also interesting to see that he did not have any problems with the staff he let go and those that were relocated were more than happy to just keep their jobs.

Mr P shows that even without formal training the survival instinct led him to the right decisions for his company and employees.

Author

Florin Citu, GEA Strategy and Consulting

Information sources

Interview

Mr P, owner and manager of GC

Contact us

Eurofound, Wyattville Road, Loughlinstown, Co. Dublin, D18 KP65, Ireland

Phone: (00) 353 1 2043100

E-Mail: information@eurofound.europa.eu

Press: media@eurofound.europa.eu

Top