Royal Tsatsoulis Bros, Greece

- Type of restructuring:
  Business expansion
- Employees before restructuring:
  50-249
- Employees after restructuring:
  50-249
- Nace/Sector:
  Manufacturing
- Country:
  Greece
- Date:
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- Keywords:
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Abstract

The case of Greek food processing company RTB highlights a successful SME restructuring event where family control and entrepreneurial skills played a major role. The owners–managers were free to plan and execute their ideas, and also to adapt the restructuring process at all stages, leading ultimately to a growth in turnover and satisfactory profitability. There was also very direct and efficient communication with employees during the process.

Organisational profile

Royal Tsatsoulis Bros (RTB) is located in the industrial area of Xanthi in north-eastern Greece, and has a strong international presence. The company business is the food and beverages sector, particularly the processing of fresh vegetables, such as peppers, olives, tomatoes and pickled vegetables.

RTB is a family-owned business founded in 1925 by the current owners' grandfather in Kavala (35 km from its current location). The two owners succeeded their father as owners and managers. The company started by selling pickles in large volumes for the Greek market and has now expanded into new markets and products. In 1967 RTB initiated exporting to Germany, taking advantage of the strong presence of Greek immigrants there. The company's first foray into exporting had been in 1936 by the current owners' grandfather who reached an agreement to export pickled vegetables stored in wooden barrels to England. It was not until 1986 that the company decided to start packaging its products in jars under the company's label.

This decision was further fostered by the company's relocation to Xanthi in 1998, where two main advantages were evident: first, the opportunity to use a biological system of cleaning of waste water and, second, the opportunity to expand the processing system by importing new technology (machines) that would allow the company to offer new products in labelled jars and other packages. Following relocation, RTB was able to take make economies of scale and promote products to large retailers, such as supermarkets. The company was soon able to enter additional foreign markets, such as Saudi Arabia, while continuously expanding its production process and its variety of products (such as vegetables stuffed with cheese and other delicatessen items). Nowadays, the company exports to 28 different countries, ranging from America to the Ukraine, Finland and Africa. Exports represent almost 80% of annual sales. The company sells to all major supermarkets, and can offer customers own-brand labelling, thus very often producing customised products in terms of the product and packaging.

One of the company's current owners, who has also been the general manager since 1995, studied at the Aristotle University of Thessaloniki and holds a graduate degree in Agricultural Engineering, and a master's degree in Food Technology and Control. He has worked in the company from an early age and is aware of the different procedures and tasks performed in all departments of RTB. Nowadays, he is mainly responsible for the management, while he is also engaged in the research and development Department and quality control. His brother is in charge of the production department.

RTB's annual turnover exceeded €13 million in 2011, illustrating a stable growth pattern over the past few years. There are 75 people employed throughout the year in the Greek company, with 50 more employed on a seasonal basis, during the harvest period. Owing to the family nature of the business, the personnel have remained stable throughout the company's history. There is no collective representation of employees or a works council.

Background to restructuring event

Back in 2003, the company owners decided to expand sales in order to respond to the growing demand for pickled vegetables and similar products, mainly from abroad. However, there seemed to be a major barrier, related to the low volume of fresh vegetable production in Greece. As a result, RTB was unable to produce the needed volume in order to cover the growing demand. At first, a solution was reached by importing additional vegetables from neighbouring countries, such as Bulgaria, Macedonia and Turkey. At the same time, though, the owners faced another major problem, with pricing agreements, since there was a strong fluctuation in the volumes the major suppliers could offer, which in turn affected price levels and, ultimately, the company's ability to negotiate with foreign customers. Specifically, as mentioned in our interview, suppliers are not always capable of meeting the contract specifications, as far as order volumes are concerned. This affects the company's ability to negotiate with foreign customers, given that price is usually associated with discounts for large orders.

The volume of fresh vegetables produced in the local market (northern Greece) is not enough to cover the demand of the company alone, which exceeds 5,000 tonnes per year. Moreover, the company faced enormous difficulties in order to ensure that contract terms with the farmers would be met, given that both the volumes produced and the agreed prices were not always fixed. Generally, according to the general manager, the farmers would offer part of their production to other firms, where higher prices are offered, despite the fact that a signed contract exists between them and RTB. Thus, even though several agreements were evident, they could not ensure access to raw materials, fresh vegetables, and as a result the company faced a limited capacity problem, given the large orders, especially from abroad.

Access to fresh vegetables constituted the major barrier to growth, with plant capacity and price competitiveness second and third. The owners considered alternatives to overcome this situation. At first, they considered investing in a new plant in Bulgaria, given that many Greek firms had moved or expanded their activities there and, thus, an intensive foreign direct investment activity was observed, especially in northern Bulgaria. However, they soon realised that production of fresh vegetables in the Bulgarian market was even lower than in Greece, while costs per unit would not be significantly lower. Another alternative, the expansion of the production process to India, was assessed. However, this solution was soon rejected as well, given that, although labour costs would be significantly lower, distance and language could hinder RTB's growth.

Then the owners realised the potential of the market in Turkey, which presented some crucial advantages. First, the volume of fresh vegetable production is one of the highest in Europe: the country produces more than 130,000 tonnes of Florina peppers annually. Added to that, the quality of fresh vegetables is exceptionally high, owing to the climate and the environmental conditions in Turkey. Moreover, significant reductions in unit costs could be achieved, primarily due to differences in labour costs. In addition, the business environment in Turkey appeared to be another motivating factor, since there are important benefits for direct investments there (for example, export subsidies, and the financing of mechanical equipment upgrades) and a supportive legal and financial framework for exporting companies. The new plant in Turkey enabled access to an extensive labour pool and raw materials and the owners decided to proceed with this alternative, while maintaining the company's operation in Greece, given the growing demand from large trading companies.

Restructuring processes

The restructuring process was planned during 2003, while the construction of a new plant took place in the Çanakkale Province, on the southern (Asian) coast of the Dardanelles in Turkey during 2004. The new company (Royal Foods AS) started operations in 2005, and the plant reached full capacity two years later, following extensions to the building. The owners contributed 95% of the new company's capital, while the remaining 5% is owned by a Turkish partner, who is employed as the general manager. However, the ownership and the management structure are centralised, given that the Greek owners are in essence entirely responsible for all activities that take place there.

This process was mainly planned and executed by the current owners and their father in 2003. However, given that a new company was to be established, the three men thought that it would be in their best interests to cooperate with a partner they had in Turkey through their previous exporting activities. This man was mainly responsible for assisting in the location selection and negotiating with the Turkish authorities and the construction company, in order to act as an intermediary for the Greek entrepreneurs. As our interlocutor mentioned, apart from being the general manager of the new company, they decided to offer him the opportunity to contribute to the company's capital, to obtain a higher level of commitment. Thus, an agreement was reached and the Turkish partner was also engaged in the planning process and the administrative issues that arose (for example, hiring new personnel).

There are 35 persons permanently employed in the Turkish company, while 300 more are employed on a seasonal basis, during harvest time. The Turkish partner is mainly responsible for recruitment, although the existence of 'local brokers' is also evident. Labour costs include not only employee wages, but, in certain cases, also their transfer from their areas of residence, as well as food provided during breaks.

During the early stages of restructuring, a general plan was set out by the Greek owners, even though, according to the general manager, it was not easy to define all related terms and milestones, or to specify a strict timetable, given the 'greenfield' character of the investment. Hence, the event could be characterised as a type of 'informal implementation', which lasted more than three years. As a result, personal monitoring of the process was essential, especially during the first year, which involved commuting on a weekly basis (four hours' distance) for the owners and two or three other persons, mainly technical staff. The owners were fully responsible for restructuring, and no formal efforts were made to inform the Greek workforce since, given the family nature of the business, most were already aware of the owners' intentions to expand operations and the production process in another country. Specifically, as mentioned before, the company has a large experience of exporting and cooperation with foreign customers (wholesalers and retailers). These activities had enhanced the workforce's ability to cooperate on an international level and, thus, it was obvious for most of them that the neighbouring markets presented specific advantages. As a result, the owners' decision to expand their production process in Turkey appeared as a rational solution to most employees, who realised this shift would assist the company to overcome the limitations that the Greek market presented.

The major problems that occurred during planning and implementation related to RTB's ability to 'stick to the plan'. This refers to the owners' skills and experience regarding restructuring, since it was the first time the company had undertaken such a radical change. However, they were able to handle the situation due to its 'informal' character, which enabled modifications to the plan or, in other words, owing to the greater flexibility a small company can enjoy regarding restructuring. At the same time, close monitoring of the restructuring event was essential at all stages, which was ensured by the weekly commute , given the relatively short distance between the company's headquarters in Greece and the new plant in Turkey.

Challenges and constraints of restructuring

The most important challenge the managers faced was to familiarise themselves with a different legal framework and entrepreneurial mentality. However, this barrier proved to be of minor importance, given the experience gained through international collaborations in the past, involving the exporting operations the company had been engaged in for a long time. Another major challenge concerned the long-standing political and religious disputes between Greece and Turkey. It is worth mentioning here, however, that the company owners and their employees presented a greater sense of realism and proved to be more open-minded than the majority of the politicians on this issue. There was no significant reaction by employees or customers, and no major implications for them, as long as production on the Greek side of the border continued. Moreover, the owners did not seek to take advantage of any possible assistance from the Greek State, in order to avoid criticism of the local society. It is useful to note here that a sizeable percentage of the Turkish minority in Greece resides in the Prefecture of Xanthi, where the company is located. As the sales manager reported, an effective communication link between the company and customers was set up through the company's website, e-mail and telephone, which proved to be of crucial importance providing the necessary details on this move. The main argument was that the company would not discontinue its production in Greece, while the same quality control would be maintained for production in Turkey.

Moreover, allowing the Turkish manager to take a financial share in the new company assisted the Greek owners' efforts to become familiar with the legal framework in Turkey. The Greek owners' visits to the plant very often enhanced implementation of this process. Moreover, the Turkish partner, in addition to a translator employed to participate in the meetings, helped the owners to overcome the linguistic and communication problems that arose and ensured that this constraint would not constitute a threat towards successful implementation of restructuring.

Finance for investment was another constraint. It was not an easy task to define the size of the plant and acquire the necessary funds. However, the owners decided to rely on their private funds, while a relatively small share of the investment was funded through bank loans, given the dearth of any other financial support mechanism, as will be discussed later. Moreover, the owners soon realised that they had to reconsider the size of the new plant, given that the market in Turkey presented some peculiarities. Significantly higher production volumes could be achieved there, given easier access to raw materials, while exporting subsidies from the State were also available. Thus, an alteration was decided regarding the size of the investment, which could allow the company to enjoy higher economies of scale and annual turnover. This was achieved through building extensions to the new plant, which lengthened the restructuring event but presented significant advantages for RTB's growth.

Restructuring advice and support

The owner of RTB pointed to the dearth of public support instruments regarding SME restructuring in Greece. As a result, the company did not participate in any related programme, while the owners decided to rely solely on their own strengths in order to expand the company's production process abroad. The same is true regarding assistance from the private sector, since the company did not receive any type of assistance, apart from bank financial support.

However, the company owner holds a negative view of public actors engaged in consulting services or financial support mechanisms, even though he happens to be president of the local chamber of commerce and industry. He believes the Greek state presents a rather centralised and bureaucratic administrative system, which does not allow companies, especially small ones, to take advantage of assistance. Hence, he did not look for any public support during restructuring.

During the planning process, and before the owners decided to establish the plant in Turkey, the owners discussed their plans with a friend, also an entrepreneur, who had relocated to Bulgaria. This fact indicates the procedures undertaken at the small firm level in Greece, as regards, this type of restructuring.

RTB's owners soon realised that a more favourable business environment was evident in Turkey, especially for companies exporting high value-added products from Turkey. The company faced no significant bureaucratic barriers or problems related to the legal framework. They were also able to take advantage of specific measures (such as export subsidies or financial assistance for machinery upgrades) in Turkey, which proved to be of crucial importance for the company's smooth operation.

Outcomes of restructuring

The outcomes of restructuring are considered to be positive so far, according to both the owners and the sales manager, given that there has been no reduction in the number of employees in the Greek company. Business expansion to Turkey enabled higher production volumes with lower per unit costs, and ensured the survival of the 'parent' firm in Greece, since a significant part of the raw materials acquired through the Turkish market are further processed in the Greek plant. At the same time, RTB gained easier access to the significantly larger neighbouring market, while its exporting activities were further strengthened by higher production volumes that can meet international demand at competitive prices. Thus, the primary goals of this restructuring effort have been met.

The company has been able to overcome barriers by taking advantage of the flexibility common to smaller firms. This, combined with the short distance between the company's headquarters in Greece and the production unit in Turkey, enabled close monitoring of the whole process, while maintaining overall control and the ability to find suitable solutions to emerging problems.

Even though the general manager does not believe that all goals have been completely met, he considers restructuring, assessed in a 'pragmatic' manner, to have been a reasonable success. Moreover, the owners did not face additional pressures from external shareholders or a trade union, which is more generally the case in larger enterprises. This is considered to be another critical success factor, which enabled alteration of the restructuring plan without further problems, as the extension of the production unit at a later stage of the restructuring process demonstrates.

Interestingly, even though restructuring generated additional workload pressures for managerial staff, these were faced primarily as a challenge and not as a negative aspect of the whole process. Moreover, the family nature of the business ensured that no particular efforts were necessary to communicate the 'message of change' to other employees, who were able to appreciate business expansion as a means to ensure long-term company survival and growth.

The company owners are convinced that they have taken the right decision at the right moment, since they would have been less able to execute this plan today, owing to the economic recession during 2011–2012. From a personal point of view, he realises that this 'shift in the company's history' has created enormous benefits, such as a better understanding of production and trade on a global scale and improvement of his managerial skills.

RTB has enjoyed a growing turnover and satisfactory profitability, which can ensure that the next generation will be left with a profitable business. According to the owners, this would not have been possible if they had not decided to expand their activities to Turkey, while maintaining a good part of production and sales activities in Greece.

Commentary

The case of RTB demonstrates a successful SME restructuring event. Given the family nature of the business and its size, this company constitutes a typical example of a Greek SME. Moreover, it confirms the dominance of a rather centralised governance structure in which the company owners appear to hold a preeminent role, evident during restructuring. Their skills, characteristics (for example, age, experience, educational level) and entrepreneurial mentality can define the success or failure of most Greek SMEs, as the case of RTB illustrates.

Moreover, this case highlights the significance of flexibility in Greek SMEs. Given, for example, the absence of shareholders or collective employee representation, the owners–managers in these cases are more able to freely plan and execute their ideas, but also alter a restructuring process, even at later stages. Owners can also easily establish more direct and efficient communication links with employees compared with the case of large-scale enterprises, which can also foster successful implementation of a restructuring event.

At the same time, the findings confirm that the main motives for a Greek SME to expand in a foreign country are related to lower per unit costs and access to new markets, which constitute a means to ensure the survival of the firm and its future growth. Thus, restructuring events of this type represent one of the few alternatives for small firms to internationalise their activities and increase sales volumes. Hence, one could expect this phenomenon to increase during times of financial recession, such as the one Greece faces today.

The list of critical success factors in the case of Greek SMEs' expansion in foreign countries processes includes geographical proximity (which is particularly true for RTB given that is located in northern Greece), as close monitoring of the whole process seems to be essential, especially during the early phases, and can also ensure better communication and higher levels of trust. This argument was clearly confirmed by the case study presented above.

Lastly, it is worth mentioning that both the general manager and the sales manager feel they have been successful in ensuring a smooth transition in the company's history, while most major goals were also met, concerning faster and cheaper access to raw materials. At the same time, access to new markets was also facilitated, given lower unit costs, which rendered export products more competitive in international markets. Thus, the company is nowadays able to face, in a more efficient way than many of its Greek competitors, the impacts of the current economic downturn.

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Information sources

Interviews

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