AMSY Marking Technology, Hungary

- Type of restructuring:
  Business expansion
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Retail
- Country:
  Hungary
- Date:
  29/11/2011

Abstract

When Hungarian company AMSY Marking Technology took over the national subsidiary (clients, projects, inventory and employees) of its main supplier (a global player), the merging of the two corporate cultures was among the main challenges of the restructuring. At the end of the first phase phase of restructuring in 2010, sales had improved by 40% and turnover was expected to stabilise or grow slightly. The family business had become a small corporation with goals, methodology, processes and motivated people.

Organisational profile

Sándor Szőllősi founded AMSY Marking Technology Ltd. in 2000, taking four technicians and the right to distribute marking equipment from AMSY International, where he had been co-owner. The original right to this in Hungary had been acquired by the subsidiary of New England Machinery, an American packaging machine manufacturer, where Szőllősi worked between 1990–1992 as a consultant.

AMSY (American Systems) provides coding and marking solutions for industrial companies. The product range consists of 30 kinds of equipment, including industrial small-character inkjet printers, print-and-apply labellers. Clients include medium-sized to multinational companies. The company has an exclusive contract to distribute products only in Hungary.

Out of the 30-strong workforce, the AMSY sales division is composed of five technical engineers or economists, while the technical service is provided by 14 well-trained, experienced staff. There is no trade union or works council at the company.

AMSY has been a family business since 2006, when Sándor's son Gergely joined the company.

Many Hungarian companies deal with identification technology but only five distribute small character inkjet printers that are sold worldwide. The market size during the past five years has been constant but AMSY could increase sales and capture one third of the market through new product development, for example, software to connect printing equipment to a company network, or by customising the serial marking, labelling machines from their original equipment manufacturer (OEM) partners. Other possibilities include finding new items to distribute, such as digital label printers, or by investing in new businesses close to marking but not exactly equipment sales (such as contract marking, or equipment lease) or find supplementary marking equipment to sell through their East European distributor partners.

The company increased revenues during 2000–2008, from HUF 168,000,000 (€ 582,761 as at 29 June, 2012) to almost HUF 1.5 billion (€ 5,203,220), despite occasional blips. Until 2005, the marking industry in Hungary experienced an annual growth in volume of 10%, despite the fact that there was also a sharp rise in the number of original equipment manufacturers and service providers – with growing employment numbers. The 2009 crisis hit the sector hard. AMSY turnover decreased by 20% but responded however, with a strong growth of 40% in 2010.

Background to restructuring event

In 2003 AMSY acquired a site in the prestigious Budaörs Industrial Park, near the capital Budapest, and commissioned a construction company to design a headquarters for them.

However, the principle marking technology producers in the world were experiencing major changes. AMSY's main supplier became the biggest player, and took over its two main rivals, one of which had a subsidiary in Hungary. Suddenly the nominal non-exclusivity contract on distribution rights became real, as AMSY and the supplier's new subsidiary were selling the same product range. The supplier set out a plan for its new subsidiary and AMSY to cooperate, based on a model plan for the cooperation of two distributors, used in more than a hundred countries.The plan was practicable, but it was hard to meet all the stipulations, as it meant squeezing the turnover of both companies. There was also the knowledge that where this had happened elsewhere the two distributors had merged, with the subsidiary coming out on top. With this in mind, Sándor Szőllősi had to decide whether to concentrate on selling only his supplier's products and begin building the headquarters, or try new business somewhere else. He opted to build the new HQ in 2005, and to deal with the subsidiary as best it could. The subsidiary, however, had a disastrous year in 2006, making sizeable losses. The directors of American supplier dismissed the subsidiary management and hired an Austrian crisis manager to direct the subsidiary's operations.

Nevertheless, the supplier decided that Hungary was too small for two such operations, and it offered AMSY the chance to take over the subsidiary, which AMSY accepted.

AMSY agreed to pay off the subsidiary's debt up front, plus its business value (the equivalent of five years potential profit) in monthly instalments over three years. The agreement incorporated a sales incentive, which meant that if sales were well above target, the monthly payment was lowered. In the second year, AMSY's monthly instalment was reduced but the third year was very difficult. The worldwide crisis hit sales hard, the quota was not reached, and AMSY had to pay extra every month in 2009 – which proved an almost unbearable burden.

Restructuring processes

The merger started in summer 2007. AMSY took over all clients, projects, inventory and the ten remaining employees. The other employees joined a new company established by the dismissed management of the subsidiary, which has become a major competitor in Hungary.

The merger was a sudden shock for AMSY, as new machines and work habits were introduced. The two companies were very different in culture, wages and workflows. The American company had implemented dozens of mergers throughout the world so they were aware of how difficult the process could be. The supplier who had known Sándor Szőllősi since 1992, knew that he had majored in design engineering; had become an effective salesman, and was an excellent problem solver. However, although his management style had achieved good results, they were concerned that he might not necessarily be as effective in the new merged company. Consequently they sent a team to assess the situation and draw up an action plan. This called for the acquisition of SAP Business 1 software to record procedures and actions, and to handle purchases, deliveries and stores. The New Hungarian Development Plan – co-financed by EU funds – gave AMSY 25% of the total HUF 12 million (€41,625) cost for the SAP implementation. The software changed everything. It enabled performance evaluation and monthly publication of results. It improved transparency and consequently –more important – employee trust.

Prior to the merger, AMSY had 16 employees. Sándor Szőllősi's son Gergely reorganised its structure in 2007, in order to take on the 10 new employees from the subsidiary, and hire four new employees.

The merger contract, signed in summer 2007, put together two previously competing teams. There were two people available for each job, which led to redundancies at every level. However, AMSY wanted to retain as many employees as possible from the subsidiary which entailed redeployment to new positions. The subsidiary had a more formal management culture, while AMSY relied on the originality, enthusiasm and extraordinary efforts of their employees. The challenge was to make a new, a more effective organisation, which led to growing interest and support from the supplier which has been sending experts for consultations and helping to decide necessary actions and their implementation. These include improving the identification of new market opportunities, providing additional sales support and to communicating changes to the rest of the market.

Up to 2007, the company had only yearly distributor contracts with the supplier, which could be terminated without explanation. To complete the merger, a three-year contract was signed with new terms. When this contract expired, the supplier proposed a new one-year contract, but eventually agreed to sign a three-year one on condition AMSY came up with a three-year business plan which they would approve. AMSY overcame this challenge setting new goals, new responsibilities, and new deadlines for each department in the company.

During restructuring, the learning process continued. These included:

- participation in training webinars organised by the supplier on improving internal communications and sales methods;
- continued reading of management literature.

The company also had to pay for the services of a lawyer for three hours a month, a work safety expert for one hour a month; a fire protection surveyor twice a year, an overdue bill collector; and a tax expert, when needed.

From 2009, Sándor concentrated on human resources and international relations, with Gergely supervising SAP implementation, leading the service team which now comprised 13 people, and also led the business support unit.

Father and son always had the motivation to build up a serious corporation, and strongly believed that they could outperform competitors. They prepared their first strategic paper (including mission, values, comparative advantages, and mid-term goals) earlier that year, which was explained at a special meeting of all employees. Before the merger there was only informal communication with employees. However, there have always been one or two topics every year that are the focus for improvement. It took about a year to document the many aspects of sales. Another major topic began in 2010, when the company hired a mechanical engineer to take over the knowledge and experience of a 75 year old designer who is eager to leave his designs to the company.

Now Sándor Szőllősi, the founding CEO, plans to retire, handing over his role to his son, Gergely. Planned changes in management structure were expected to start in 2012. The Association for Responsible Family Business in Hungary is supporting this changeover, as only a third of businesses successfully make the transition to the next generation and only 5% of family firms create shareholder value beyond the third generation.

Challenges and constraints of restructuring

The most difficult task concerned the merging of two companies, formerly major competitors, with different cultures and technologies. The merger involved all business units of the two companies. The two sales teams had to sit together in one room, and share experiences and secrets. In the service field it took some time for them to acknowledge each other, but there was no such rivalry among sales people. There the hierarchy built upon the level of expert knowledge, and each one has found his/her position.

AMSY had to make people believe that there is no redundancy, that the company needs all of the employees except the dismissed management. However, up until the end of restructuring in 2010 they lost five out of the ten new employees taken on from the subsidiary. There were several conflicts between employees, and most people who left the company caused some damage – either financially or to company reputation. One colleague had to move from service to sales and did not work at all. Two new colleagues provided confidential information to a company selling unauthorised third party fluids for the printers, and later joined the competitor. Before the merger, such behaviour was unknown, and the whole company had been totally transparent.

The other challenges related to time. Competitors were waiting for the moment when the subsidiary was taken over, and tried to gain their clients. In the middle of 2007 AMSY took over 300 new clients from the subsidiary and hundreds of machines which they had never operated before. The company contacted clients to reassure them that they would continue to receive a high-quality service. However, half their new clients were lost because of lack of trust and competitors used the subsidiary's previous employees to gain market share. In order to gain client trust, the sales force was trained to develop their communication skills. A large proportion of their efforts was directed toward fighting a new competitor, formed by ex-subsidiary employees, selling a third party's goods to companies traditionally served by them.

AMSY cancelled the lease contract of the other company's headquarters and transferred all employees and equipment to their own plant. The system was not able to handle both inventories, so they had to introduce a new system which could manage all new products and spare parts. The change of management style was an important issue. One difficulty was how to motivate people to accept the implementation of professional workflows. AMSY moved from a family business style operation, to an SAP supported professional operation.

It was obvious that personal ambitions separated workers, and made it far more difficult to manage work. Individuals had illusions about their performance, and the working atmosphere was spoilt. There was a need for objective and comparable measurement and control.

Harmonisation of wages, bonuses, working processes, implementation of SAP was not easy. The biggest challenge was financing the merger; paying the high monthly instalment was a huge burden on the company. They had to increase turnover, and improve profitability year on year. Continuous growth was a must for survival.

Restructuring advice and support

Sándor and Gergely think that, in their case, continuity was important. They tried treating everybody the same way but did not get the same result when accommodating ten new colleagues. They think that one of the turning points was when the time came for Sándor to choose between becoming a CEO or remaining an entrepreneur. At that point he was able to draw on his 15-year experience in the marking business, wide reading of books on leadership management, and also the knowledge that he and his son's capabilities could well supplement each other. In the Szőllősi's view, Sándor's experience in a multinational environment coupled with the drive of Gergely's youth made a good combination.

Gary Harpst's book in particular, *The Execution Revolution*, dealing with the intricacies of how to grow a small business into a large company, helped them to understand their situation and to realise that they have the same problems that countless others face. However, it was not enough to apply basic management principles, to treat people decently, to stay close to the customer and to make gains in productivity through encouraging people. A specific policy was needed. Although AMSY had been built on open communications, trust, decency, and creativity, more was needed to ensure continued growth. Consequently, the directors of the main supplier sent over their specialists to survey the situation and come up with an action plan.

This covered five areas (sales management/target setting, training support, market understanding, and protection of installed base, marketing and communication) as well as identifying personal ambitions, milestones, and deadlines. Contacts between the US supplier and AMSY became more frequent; with continued support from the supplier. Sales and product skills training sessions were held. The publicly subsidised purchase of the SAP system proved to be a good supporting tool.

Outcomes of restructuring

AMSY completed the first phase of restructuring at the end of 2010, sales having improved 40% during the year. In 2011, they were expecting their turnover of HUF 1,500 million (€ 5,203,000) to stabilise or grow slightly. The family business had become a small corporation with goals, methodology, measurement, processes and motivated people.

During restructuring, the organisational structure was adapted to fit the new market portfolio and customer needs. The merger was a mixed success.

One product licence taken over from the retired designer is a carton overprinter that can be used in companies having many daily short runs (such as in the frozen food industry, or in wineries). Another is the semi-automatic flat product labeller, three of which have already been sold to small cosmetic companies.

Software development is another case. One colleague has been making applications software for about five years (AMSY paid the tuition fee), and has developed software for some 80 projects ranging from conducting SMS marketing campaigns to control all kinds of marking equipment (small and large character inkjet, laser, print and apply labellers) from a central dispatch office.

In order to facilitate the new branches and increase storage areas for the increased traded volume, the plant needed more space and to accomplish it, the company won a 15% government subsidy for the HUF 90 million (€ 312,193) investment project in building up new business lines.

The company has grown from 16 to 30 employees. The new organisation chart is built on functional teams, with clear managerial levels mirroring the operational structure. A third of the company's income comes from the sale of machines, a third from selling supplies and a third from services. The company's strength is services, because marking is a small value in production chain – but a problem with any machines can block production (in big companies it can costs millions) but AMSY is very fast and flexible in correcting problems.

The AMSY working environment is relaxed, with great improvements in conditions and atmosphere. Employees receive monthly feedback about their performance. Understanding the importance of continually seeking excellence improved a lot with weekly meetings. Everybody understands the real meaning of service, quality and innovation.

The next huge innovation will be to digitise the present service form, which needs to be filled in by hand. The aim has been to prepare digital forms in a Personal Digital Assistant or on a laptop with rolling menus and make them ready on the spot. The challenge has been to speed up documenting equipment faults, the fixing process, and remarks to improve usage. They plan to apply to the new European Fund - KMOP-2011-1.2.1 - to co-finance purchasing software, laptops, and PDAs for this development.

With the final payment for the subsidiary, the three-year contract with the supplier finished. However, AMSY had proved its strength, and asked for a new three-year contract. The supplier agreed, on condition AMSY came up with a clear business plan for the next three years setting out reasonable growth. Sándor and Gergely first prepared the plan to guarantee a moderate 2% yearly growth, but this was forced up to 8% by the supplier to challenge AMSY and avoid the company having such a low goal that it becomes lazy.

Compared to the main American supplier other smaller European partners are very good companies but are not as big, and do not have the size and or capability to set goals; they are always happy with AMSY's service. Consequently the attention of the main supplier had an important role in restructuring in many ways.

Sándor and Gergely became more entrepreneurial when they addressed company difficulties. They looked at the problems as challenges. They were aware of the value of the company and had a clear vision for the future.

Now they are detailing their action plan to reach, in stages, their strategic goals. They have begun involving all family members. Sándor has reinvested 95% of company profit since 2000. So he called together all family members, presented the situation to them and set out the potential value of the family business. In 2012, Sándor intends to work less, and Gergely will gradually take over control of the company.

Implementing a strategic action plan

Sándor and Gergely identified three priorities for future development:

- Introduction of ISO-approved quality policy and practice in two years' time.
- ISO-approved safe working conditions and healthy environment in six years' time.
- Sándor plans to write a non-compulsory 'founding deed' about the principles of a company that can grow, establish new business branches and survive the challenges of times.

Commentary

This case shows that establishing and building a company is a complicated process. Managers can undervalue difficulties and time pressure, which forces them to change several areas very quickly. The case has some general implications:

- It is necessary to have professional advice and support from someone who has directed several mergers or acquisitions;
- The organisational structure must be changed and flexible in order to receive new employees;
- The company must be well prepared in order to avoid losing too many clients;
- It must handle cultural difference as top priority, and make employees believe in the future;
- A subsidy from the government/EU, although small, is useful.

Authors

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Information sources

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Sándor Szőllősy, Owner and CEO, AMSY

Gergely Szőllősy, Service Manager, AMSY

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