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You are here

- [Home](#)
- [Observatories](#)
- [EMCC](#)
- [ERM](#)
- [Restructuring in SMEs](#)
- [Foodstuff Company, Belgium](#)

Foodstuff Company, Belgium

- Type of restructuring:
Business expansion
- Employees before restructuring:
50-249
- Employees after restructuring:
50-249
- Nace/Sector:
Manufacturing
- Country:
Belgium
- Date:
26/07/2012

Organisational profile

Foodstuff Company is a company active in the processing, wholesale and retail trade of food. Foodstuff Company was founded in 1984 by the current Board Member and former CEO, as a means to diversify his agricultural activities. At the outset, the company was breeding a small stock of animals for the benefit of a French company but, following the bankruptcy of the latter, it was decided to start breeding animal stock for Foodstuff Company's own activities.

Foodstuff Company rapidly developed a sales network, followed by the opening up of franchised shops and restaurants/*tables d'hôtes*. In 1996, Foodstuff Company started offering their products in the Belgian supermarket chain, Delhaize Group SA, as well as to the Belgian supermarket chain Colruyt NV. Between 2005 and 2010, Foodstuff Company took over three companies:

- Company A (2005), a Brussels-based company specialised in the processing of food;
- Company B (2007), based in Flanders, delivering food to restaurants; and
- Company C (2010), a company based in the German speaking part of Belgium, specialised in food production and sales.

The takeover of these three companies is the 'restructuring event' for the purpose of the present case study.

The shareholding of Foodstuff Company has been exclusively family-owned from the date of creation of the company until May 2012. So, for the period of restructuring, that is from 2005 to 2009, the capital was family-owned exclusively.

In early 2012, 20% of Foodstuff Company's activities qualified as 'international', that is exports to the Netherlands, the Grand Duchy of Luxembourg, to Hong Kong, Mexico and Japan.

In early 2012, Foodstuff Company had 42 employees working on site in the historical centre of the company, the family farm. In addition, approximately 40 employees worked outside, notably in the franchised restaurants/shops, and these are all employed by Foodstuff Company.

Foodstuff Company's employees are equally divided between men and women. There is a high level of employee loyalty as some families have worked for two generations within the company. The employee population counts more blue-collar than white-collar workers. Most employees have no diploma at all, whereas some hold a vocational training certificate and four have a university degree. Half of the employees have never had another employer than Foodstuff Company. There is no human resources charter at Foodstuff Company, but the company's values – mutual respect, availability and flexibility – are strong within the company. There is no works council at Foodstuff Company, the legal thresholds for such a body not being fulfilled.

Over the last five years, Foodstuff Company's turnover steadily increased by 20% each year. In 2011, the turnover was €12 million.

At the outset, the current general manager was a farmer. His wish to diversify his farming activities rapidly made him responsible for large fruit orchards in Belgium and abroad. He holds a secondary education certificate in Latin and classical Greek. He dropped out of university to start working as a farmer.

The employee interviewed for the case study has a vocational training certificate in the field of hospitality business gained in 1993. He worked in the hospitality business sector for seven years before joining Foodstuff Company in 2000. At Foodstuff Company, he started as a white collar worker assigned to the production chain for a couple of years. He then became responsible for production for five years. He is currently a purchasing manager responsible for buying or approving the acquisition of approximately 650 goods needed by the company.

Background to restructuring event

The cause of the restructuring event is the aspiration of Foodstuff Company's manager to grow externally and to diversify his activities, combined with his personal knowledge of the market, including personal/professional relationships with general managers of other companies/competitors:

- With the takeovers of Company A and of Company C, Mr General Manager saw an opportunity and was willing to expand and diversify his portfolio of food offered.
- With the takeover of Company B, Mr Employee was willing to expand his customer base, by notably having access to restaurants.

The restructuring process was quite simple, mostly based on personal contacts with the managers of the purchased companies and knowledge of these companies' activities.

Restructuring processes

The restructuring process was relatively informal. The general manager, due to his long involvement in the industry and his proactivity, knew of the existence of potential companies to be purchased and took time to get to know these companies' managers better. He thus first made informal contact with the potential companies to be purchased. After some time elapsed, the managers eventually agreed to the purchase and the purchase was structured, with limited external support, that is basic legal advice from a local law firm and support from the company's external accountant/auditor. After the purchase was executed, for approximately six months nothing was changed in the daily running of either of the purchased company, spending time observing the daily management, asking questions to the management and the staff. Once the learning curve was over, change was implemented, for example replacing inefficient processes by more efficient ones (replacement of one packaging process by another one, for example).

The takeover of Company A was unplanned; it was an opportunity that emerged out of the blue. Company A was located in Brussels and it was decided not to use the premises of Brussels, but to relocate all activities to the family farm, approximately sixty kilometres away. The takeovers of Company C and of Company B were more planned; the general manager was actively on the lookout for external growth and activity diversification. According to him, being 'out there' looking for opportunities was made possible thanks to the efficient support of some employees and, more importantly, his wife. This support allowed him to delegate the day-to-day management and to concentrate on strategies and on exploring the market. All three purchased activities/companies were relocated to the family farm or the vicinities of it due to the wish to keep activities close to the family farm.

The employees were never consulted before or during the transaction. Employees were informed once the transaction was executed, during a single meeting in the cafeteria. Employees were presented with the '*fait accompli*', that is, informed only afterwards about the deal.

Challenges and constraints of restructuring

According to the general manager, the restructuring events went smoothly and quickly, without any major difficulty. External financing by banks was necessary for all three purchases, but, the debt proportion was low/reasonable at each time and the track record of the company was excellent, which made things relatively easy except for the following: Access to external financing was an issue for the takeover of Company A, where the debt level of the company was relatively high, following the withdrawal of a historical shareholder, whose shares were taken over by the company. Banks were difficult, requiring bank guarantees, which represented a financial burden for the company. The company managed to obtain the bank guarantee and, in the end, they were never executed, which is seen by the company to demonstrate that banks tend to be difficult with

SMEs when it comes to allowing funding.

Moreover, the heavy red tape surrounding access to financing, notably for restructuring purposes, was seen as a negative factor, and simplification of administrative process should be considered.

According to the interviewed employee, more information could improve employees' acceptance of the restructuring event. He points out a specific fear of employees regarding the impact of the restructuring event on the quality of work. As the sector is seasonal, work becomes very intense from early October until the end of the Christmas/New Year period; taking into account that the activities of Foodstuff Company almost doubled over the considered period of time/restructuring period – as explained below, employees legitimately feared a concomitant increase of workload, which, in the end, did not really occur. More information could ease such types of fears, the interviewed employee believes.

Restructuring advice and support

Foodstuff Company did not benefit from external financial support for the three acquisitions, apart from the financing from the banks, mentioned above. Both the lawyer and the accountant who provided external technical support were personal acquaintances of the general manager, so it was not an issue for him to find such external support.

Outcomes of restructuring

The outcomes of the restructuring event are positive from the company perspective:

- Steady increase of the yearly turnover of 20% since 2007;
- Increased competitiveness due to the diversification of supply sources;
- Increased market shares;
- Increased profitability;
- Diversification of production chain; and
- Modernisation of processes and distribution methods.

This is confirmed by the interviewed employee who notes that, following the restructuring event, Foodstuff Company improved the purchase management. Generally speaking, Foodstuff Company became more efficient.

Following the takeover of Company A, numerous employees of the purchased company eventually left on a voluntary basis. Out of the 23 former employees, five are still working within Foodstuff Company today. The interviewed employee explains this by the fact that these employees did not like the fact that they had to drive to their relocated workplace on a daily basis without further financial compensation. It needs to be noted, though, that no one had to be fired: people left on a voluntary basis or retired, and were not replaced afterwards.

The restructuring event did not lead to important changes in work arrangements, such as conversion of full-time jobs into part-time jobs or conversely. Likewise, social packages/employment contracts were not modified.

Following the restructuring event, work organisation has changed for some employees, as reported by the interviewed employee. He explains that, for his part, the diversification of the production chain and the subsequent merger of two different activities generated a lot of work as well as the learning of new tasks and processes (new machines and the like), which employees have learnt to manage (increase of work) and develop (new tasks/skills/processes) 'on-the-spot', that is, without external training. He says he gained new skills/competences and knowledge following the restructuring event.

The outcome of the restructuring event on the general manager's own assets/estate was positive as well.

Commentary

The general manager sees some advantages that SMEs have over larger companies in restructuring, notably flexibility and speed; and the fact that decisions are taken by a handful of people, without having to go through extensive reporting lines, which gives a clear competitive advantage over larger competitors. The interviewed employee confirms this. He moreover notes that task allocation in SMEs is less clear than in larger companies, also during/following restructuring, but he does not identify this as being either a negative or a positive aspect.

One drawback in SME restructuring is the lack of human, technical and financial resources.

Moreover, high taxes in Belgium following a restructuring event and/or in general are an issue for SMEs. He explains that high taxes lower Belgian

SMEs' profitability, which forces some of them to eventually go out of business or sell out their activities.

Author

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Information sources

Interviews

Board member (former CEO) and founder of the company, and purchasing manager

- [European Monitoring Centre on Change - EMCC](#)
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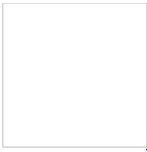
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