Gero serviso garantija, Lithuania

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  10-49
- Employees after restructuring:
  0-9
- Nace/Sector:
  Hotel / restaurants
- Country:
  Lithuania
- Date:
  09/01/2012

Abstract

The slump in the hospitality sector in Lituania in 2008 led to a sharp drop in income for restaurant business Gero serviso garantija. The owner took over as manager and developed a restructuring plan which was based on focusing activities only in the most profitable areas. The business has managed to survive due to business optimisation and good cash flow management.

Organisational profile

The private limited company ‘Gero serviso garantija’ (GSG) was founded in 2005. It was established by Linas Pučinskas as the main owner, with a minor part of shares owned by a trust fund. Since the beginning the company was operating in the food & beverages and restaurant industry. The restaurant was opened in the historical Verkiai Manor estate which consists of a main house, botanic park, stables and outbuildings. The estate is run by the Botanic Institute, managed by the Ministry of Education. The estate is about 10km from Vilnius city centre. It is a very picturesque location, well known by local residents and a major tourist destination.

The restaurant was open every day for visitors to the estate, while weekends were usually booked for larger events (mainly weddings). It was expected that there would be mutual benefit from the company renting the reception rooms at the historic manor hall for these events and financing the renovation needed.

The company’s business is rather local and the only international aspect is the foreign visitors.

The company grew from the start, up to 2007. However, in 2008 company had to review operations, and the hired management was replaced by the owner, Linas Pučinskas.

With a background in the hospitality industry, Linas Pučinskas is involved in several different projects related to tourism. He was previously the manager of Baltpark hotel (later sold to the Holiday Inn group).

GSG has few employees so there is no works council nor union representation in the company. There are no human resources or corporate social responsibility strategies.

Background to restructuring event

Restructuring began in the second half of 2008, caused by external as well as internal factors.

The greatest of the external forces was the crisis in the Lithuanian economy. The slump in the hospitality sector led to the sharp drop of income. The number of visitors having lunch and dinner at the restaurant decreased dramatically.

One important internal reason was debts from rental arising from the indiscreet actions of a manager which reached significant proportions by 2008.

Restructuring processes

Pučinskas started to manage the company in autumn 2008. He developed a restructuring plan which had two important aspects.

The first, and most important one, was a review of activities. As daily services were no longer profitable because of the drop in visitor numbers, the challenge was to optimise and concentrate activities only in the profitable areas. A few alternatives were considered:

- limit activities only to the servicing of contractedevents;
- limit activities only to the servicing of contractedevents and enter catering business;
- close the business.

After evaluation of the market potential and business capabilities, it was decided to limit the business to weekend activities, mostly for weddings and some other contracted events in the historical estate only.

Another important aspect was sorting out the problem of a negative cash flow. The owner tackled this by putting in his own money. The shrinking business and unplanned debt required an in-depth review of expenses, which showed that the biggest expense was salaries, which had to be reduced.

The optimisation of activities and tightened cash flow management were introduced in the beginning of 2009. The biggest impact of those changes was on the salary system. Incomes were now related directly to events. A minimum, unchanging, level was offered to the 36 employees, with an extra variable amount on top directly related to the events.

All employees were offered the chance to stay under new conditions. Employees were very understanding about the situation and management efforts to secure operations. This may have been because the new owner was honest with them. Most employees left the company because of the poor prospects; this, however, allowed the company to secure some financial resources as there was no need to pay lay-off compensation. Also this was in line with the downsizing activities. The most important employees, including the chef and the sales people, agreed to stay on. Nevertheless, only six people started activities under the new conditions in 2009.

The restructuring process can be evaluated as properly planned. Examples of other businesses in similar situations clearly demonstrated that the inability to change would have led to bankruptcy. Quick reaction to changes in the market and decisive control of a cash flow allowed GSG keep afloat.

Challenges and constraints of restructuring

Restructuring was focused on optimisation and a major reduction in the number of employees. The main challenge was to ensure a smooth lay-off process. All employees left the company on a voluntary basis. If the company had had to pay lay-off compensation it would have faced bankruptcy.

Another important challenge was to ensure the company retained key people, especially the kitchen chef. This was possible because the company’s new plan to specialise was opening new opportunities.

GSG is anchored to a special location, so it was a challenge to secure the relationship with the tenant. Debt was increasing and tenants felt they could not work any longer with GSG. The ministry had to intervene to ensure further normal cooperation between the two parties. GSG’s flexibility and ability to understand how the tenant’s market was changing could have been better.

And the last, but not least, there was a need for additional funding as the business was not able to generate enough income to pay all the ongoing expenditures. Banks at that period were not willing to lend any money, especially to SMEs. So the owners had to finance cash-flow shortfalls themselves. This was a significant problem for most of SMEs at this time and sometimes a main reason for business bankruptcy.

Restructuring advice and support

There was no crucial advice and support from external sources except one. Sustaining the relationship with tenant was a significant challenge. Debt was increasing and the tenant was not willing to wait for the money, even though GSG was renting out estate halls and generating additional income for the tenant. If the Ministry of Education had not intervened to help GSG may not have been able to survive. The Ministry's proper and timely actions in helping to develop a mutually compatible debt payment plan were very important.

Planning of the restructuring and financing transition period was carried out by Linas Pučinskas with no financial or managerial support from external sources.

Linas Pučinskas is certain that financial support for SMEs during restructuring is crucial. Banks, as commercial institutions, are not willing to support business in such a situation, especially during a crisis. Even relatively small financial resources can be vital for ensuring the survival of SMEs under these difficult sorts of conditions.

Outcomes of restructuring

The outcome of restructuring can be evaluated as positive because the business is still operating. The company is optimised, business is sustained and debt for the tenant is covered. Another positive result is that the reputation of Linas Pučinskas as a manager and as an active participant in hospitality industry was secured. This is personally important for him as GSG is just one of the activities in this sector that he is undertaking.

In terms of employment, 30 full time jobs were lost, but business was sustained. The new payment system (a minimum basic plus a variable amount dependent on the work load) worked very well for those who stayed with the company. New opportunities for self-development and family life were opened, and employees' wages have improved as the business recovers and the work load is increasing.

There is now no strict organisational structure; functions are spread among employees, which has led to fewer internal tensions. This is very different to 2005–2008, where a vertical organisation was developing.

Commentary

Linas Pučinskas feels he learned some important lessons from the restructuring. He thinks that in the case of SMEs it is very important to act decisively in response to external changes. Some SMEs try to delay acting until the last moment, which is a mistake. He adds that quick surgery is preferable to long-drawn-out suffering, with changes planned and implemented much faster than in big companies.

In situations of rapid decline in business, it is important to relate salary payments to the cash flow and outsource all possible activities in order to reduce fixed costs. Cash flow is one of the biggest threats for SMEs in restructuring periods. State financing during those periods could be very successful in ensuring the sustainability of SMEs.

SMEs dealing with public sector in a public-private partnership should be able to expect more flexibility from the public partner. In the fluctuating periods the position of the public institutions remains stable and business (as a less powerful participant) is left alone to weather the changes.

However, the key to successful restructuring in SMEs remains the ability to act and implement changes very quickly.

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Information sources

Interview

Linas Pučinskas, Manager and owner,JSC 'Gero serviso garantija'

Company website

www.verkiai.lt

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