Brian Mordaunt & Sons, Ireland

- Type of restructuring:
  Closure
- Employees before restructuring:
  50-249
- Employees after restructuring:
  0-9
- Nace/Sector:
  Retail
- Country:
  Ireland
- Date:
  30/04/2012
- Keywords:
  Recession/Crisis

Abstract

Started up in 1982, the Irish car retail business of Brian Mordaunt & Sons went from selling second-hand cars to having four dealerships under their control by 2007. Helped by the government's 'scrappage scheme', employment grew to 53 people. In 2008, the banking system collapse meant fallen demand for new cars. The company was forced to cut wages, make redundancies and sell cars at a loss to reduce stock. Major financial difficulties meant the company finally closing down in 2011. The owner since started up a smaller venture of selling cars online and employs nine people.

Organisational profile

Brian Mordaunt, George Mordaunt's father, started his car retail business, Brian Mordaunt Limited, in August 1982 in Clonmel, the county town of South Tipperary, which has a population of approximately 17,000.

Brian Mordaunt initially focused on selling second-hand cars and in January 1987 invited his eldest son, George, to join the business as a general runner and car polisher. George had been dismissed from two jobs before he started in the family business.

In 1988, the Mordaunts secured the Nissan franchise for the area; Japanese car manufacturers such as Nissan and Toyota had been making a sustained assault on the Irish car market and were perceived to be brands with good sales potential.

Later that year, the family became the local dealership for another car franchise, Daewoo, the Irish franchise of which was owned by Nissan Ireland. The Mordaunts opened the Daewoo dealership as a separate company, Daewoo Clonmel, in a separate location to their Nissan garage. Initially, the family rented the premises for their Daewoo operation but later built a purpose-built showroom.

Between 1989 and 2007, employment in the businesses controlled by the Mordaunt family grew to 53 people. The majority of employees were male in their 20s and 30s and worked in sales, marketing, financial and technical positions. The employees were not members of any trade union.

The Mordaunt group of companies was renowned for its innovative approach to sales and marketing; however, despite the fact that the number of employees had grown to over 50 and involved a considerable recruitment and training process, there was no formal HR policy.

Background to restructuring event

The car market grew strongly in the early 1990s following the introduction of the 'scrappage scheme' under which the Irish Government gave a financial incentive for people owning a car of ten years old or older to trade in for a newer model.

The expansion in the car market prompted a recruitment drive by Brian and George Mordaunt (who were joined in the business by George's younger brother, Brian) to take on more sales staff to handle the extra business. Reflecting the involvement of the two brothers in the business, the company name was changed to Brian Mordaunt & Sons Limited (BMS).

Not everything was rosy: the Mordaunt family had concerns for the future of Daewoo Clonmel following the bankruptcy of the Daewoo conglomerate in 1999 (General Motors acquired Daewoo's motor division in 2001). The Mordaunts later changed the name of their company from Daewoo Clonmel to Mordaunt Chevrolet in 2005.

Tensions arose between George and his father over the future direction of the company: the former wanted to expand quickly while the latter was more cautious. The strained relations between George and his father escalated following the 9/11 crisis when car sales plummeted with the result that the Mordaunts were left carrying a large amount of stock. However, George's flair for advertising meant that the business was able to reduce this to a manageable level.

George's parents had given him 24% of the family business in 1993 but he was frustrated by his lack of control of the business and his father's cautious approach. Following a tense and heated meeting in October 2001, Brian Mordaunt agreed to cede control of the original family company, BMS, to George but, under the deal, retained control of Daewoo Clonmel.

In 2003, a Block Exemption Regulation (BER) was introduced by the European Commission to promote competition in the automobile retail sector by giving car owners the freedom to have their vehicles serviced and repaired at a workshop of their choice. The BER also sought to increase competition between dealers of the same brand and strengthen the dealer's position vis-à-vis the manufacturers.

One outcome of the BER was that car dealers would be required to build large — and expensive — showrooms. The new regulations also specified that garages had to employ a ratio of 1.25 sales staff for every 100 new cars sold.

A more fundamental and immediate impact was that dealers had to re-apply for their franchises and with some existing dealers wanting to retire or being unwilling to make the investment in new facilities, it was inevitable that there would be franchises changing hands.

Aware that there might be a risk that he would lose the Nissan contract, George wrote to the other main car franchise holders in Ireland. He was rewarded with a phone call from Renault who following negotiations awarded him the Renault franchise contract for Clonmel and the neighbouring town of Kilkenny. The new Renault contract required the acquisition of new premises and the recruitment of staff in both locations. George set up a new company, GBM (George Brian Mordaunt), to operate the Renault franchise in Clonmel. He secured loans from three banks to fund the new development, which opened in 2004.

George then opened a Renault dealership in Kilkenny even though he was required to make a substantial investment in the Nissan garage in Clonmel to meet the new showroom requirements; the added complication was that the site was subject to flooding necessitating a complete rebuild.

Using Mordaunt Chevrolet as security, George was able to secure finance for both projects. It resulted, however, in three of the four dealerships controlled by the family having a debt attached to them. The new Kilkenny venture, GBM Cityside, was scheduled to open in December 2006. Renault was keen to involve their existing financial partner in the new arrangement even though George would have preferred to stick with his banks.

With four dealerships under his control at the start of 2007 and though the car market had grown strongly up to that point, George was concerned with his high stock levels of used cars. The major manufacturers dominate the car market in Ireland for whom a key market performance indicator is the number of cars registered (it is important to note that the number of new cars registered does not equate to the number of new cars sold). Dealers were given lucrative incentives to hold new cars and they in turn incentivised customers to buy new cars, often by taking used cars as part-payment.

Two years previously, he had begun to worry about the lack of cash that his dealerships were generating. He consoled himself at the time that this was a common feature in fast-growing businesses and would be temporary.

The growth in the Irish economy resulted in competition for staff and consequently salaries and wages rose as employers vied with each other to recruit sales people to take advantage of the booming consumer market. George Mordaunt found that it was increasingly difficult — and expensive — to recruit experienced car sales people and consequently had to put considerable investment in staff training.

Towards the end of 2006, there were signs that sales growth within the Mordaunt group of companies was beginning to tail off. Stock levels of used cars were proving difficult to shift and profits were proving illusory. Despite the rebranding of Mordaunt Chevrolet, the marque never recovered, internationally, nationally or locally. George Mordaunt sought another franchise to attract customers to Chevrolet.

Purchasers of new cars in Ireland must pay two taxes: Value Added Tax (VAT) and a Vehicle Registration Tax (VRT). In 2008, the Government, prompted by its minority partner, the Green Party, changed the basis on which VRT was charged from engine size to CO_2 emissions; cars with high emissions would pay a higher VRT while those with lower emissions would pay less. While laudable in intent, from a dealer's perspective the new tax meant that every car had a price adjustment, some up, some down, depending on its emission level. A combination of VAT and the new CO_2 emissions-based VRT changes pushed a number of cars into a higher price bracket. Additionally, high emission cars also incurred a higher level of road tax. The impact for dealers of these developments was that they were now carrying stocks of cars that were substantially more difficult to sell.

Restructuring processes

At the end of 2007, while there were storm clouds looming on the horizon, the Mordaunts' group of companies had sold over 3,000 cars during the year, generating a turnover of €34 million. George was concerned, however, that the business was not generating any profits nor did it have any cash cushion if there was any downturn in sales.

The collapse of Lehman Brothers in 2008 and the full extent of the disastrous lending policies of Irish banks became apparent and sent shockwaves through not only the banking system but also throughout the economy.

Customers stopped visiting George Mordaunt's dealerships, which at the time had large stocks of high emission cars that were proving almost impossible to sell because of the changes in VRT. George developed a new innovative radio advertising campaign that helped to restore customer footfall. This improved cash flow but did result in any profits; in fact, some losses were incurred.

George's employees were aware of the difficulties within the business but it was only afterwards with the publication of his book, *Shepherd's Pie: Family Business, Recession and Recovery*, that they realised the full extent of the problems he was grappling with. His employees could see that the lack of customer footfall signified a fall in demand for car sales. Sales staff saw their overall income fall because of reduced commissions.

Junior staff had more reasons to worry because they would have known that when a company downsizes it was usually the last in who are the first to be made redundant.

The Mordaunts held review meetings with staff to brief them on the evolving situation; George addressed all employees together approximately four times during the restructuring process. He told them that it was a fight for survival and that nothing should be taken for granted.

As the company's difficulties increased, the salaries of employees were cut (reductions ranged from a minimum of 20% to a maximum of 50%, though in the case of the latter there was a corresponding reduction in responsibility) and a new method for calculating sales commissions was introduced.

George realised that a plan was needed to pilot the business through the crisis; he saw it as his responsibility to develop and implement the plan. One element of the plan involved the closure of the Chevrolet showroom and its relocation to his main Nissan premises. Another element of the plan saw cars being sold at a loss to reduce stock levels.

Despite his strategy for dealing with the difficulties facing his business, George was not prepared for the next thunderbolt: a demand from one of his banking partners to either return the €2 million they had lent him or secure it. To placate this bank, George agreed to secure it on a property that the company owned in Clonmel.

Another shock followed shortly afterwards: the decision of a second banking partner to terminate its relationship with George Mordaunt and to seek the return of their money. They demanded their money back (€0.9 million) within a month.

In addition, George was facing his own personal financial difficulties; his investments in the stock market — particularly in bank shares — were showing significant losses. He lost €0.3 million on shares in one bank alone.

In late 2008, George approached Kia Ireland and secured the franchise for Clonmel. He tried to operate the Kia brand in the vacant Clonmel Chevrolet showrooms but the lack of sales and profits forced him to relocate it to his main showroom. He then closed the Chevrolet showrooms for good.

With the business losing money every month, more employees had to be made redundant. These were difficult decisions for George Mordaunt because he soon realised that one round of redundancies was not sufficient, and more redundancies followed (from the first redundancies in September 2008 to the final round in 2011, the Mordaunts let all 53 of their employees go).

The redundancy programme operated initially on a last-in–first-out basis but then the Mordaunts introduced a points system which evaluated senior employees on past performance and future ability. As noted above, George organised four major briefing sessions for staff to apprise them of the difficult situation facing the business. The employees could see for themselves that sales were falling and therefore knew the business was in trouble, and because of the dynamics of small towns they also had to contend with rumours circulating about the impending closure of their employer's business. Employees experienced a shock when following the company's decision to change its redundancy selection method from a last in-first out to a points-based system a senior manager was let go. This change brought home to long-serving employees that their jobs might not be as safe as they previously had thought.

The employees noticed that George was constantly closeted away in meetings with managers, suppliers and bankers. With these meetings taking place behind closed doors and in the absence of any communication from management, the internal rumour mill went into overdrive, further adding to the employees' sense of anxiety. As mentioned above, it was only after the publication of George's book that they became aware of the full extent of the challenges he was facing to keep the business alive.

It soon became apparent to George that he did not have enough working capital to keep all four dealerships operational. He decided to close the newest one, GBM Cityside in Kilkenny. He discussed the matter with the bank that had financed the property but following their advice decided not to follow through with the decision. The bank advocated holding onto the business to see if the market would recover.

Six months later, he followed through on his original decision and closed the Kilkenny operation. He realised he should not have discussed strategy with the bank; if he had followed his own instinct he could have saved money — money which was needed to support his other dealerships.

Trading conditions continued to worsen and the business continued to haemorrhage cash. George had to deal with relentless pressures from distributors, banks and the tax authorities, all of which were simultaneously seeking reports on the business, particularly in terms of its ability to pay its debts.

High levels of car stocks proved stubbornly difficult to shift but George managed, between March 2008 and July 2009, to reduce these from a value of €6.7 million to €1.2 million. Reducing the level of stocks was important — even though George incurred huge losses in doing so — in persuading his bank in 2009 to provide working capital. The bank took six months to finally approve the loan. There were a number of conditions attached to the new finance and all of the business's assets (bar the family home) were now used as collateral for the new finance.

George and his brother, Brian, had made a number of trips to the UK to examine the feasibility of importing second-hand cars into Ireland. They hired a UK consultant to open doors to them in the UK car trade.

The Mordaunts took the decision in 2009 to wind down their second oldest company, Mordaunt Chevrolet.

Additionally, as part of the process of closing the Kilkenny dealership, George Mordaunt had to put two companies, GBM Motors and GBM Cityside, associated with it, into voluntary liquidation. These liquidations took place in January 2010 and unfortunately for him attracted the attention of the national press. One national newspaper, the *Irish Independent*, featured a story on the two liquidations and, more damagingly, used the Renault logo and the logo of GBM Cityside in its detailed article.

Two days later, Renault summoned George Mordaunt to its head office and told him that their relationship was ending. George was devastated by the news as he had planned to base his recovery on the Renault franchise which was experiencing good sales. He closed the Renault operation in Clonmel in March 2010.

In 2011, the Mordaunt family closed their last remaining company, Brian Mordaunt & Sons, and made all of their remaining employees redundant. The Mordaunts also handed back their two last remaining franchises, Nissan and Kia.

With new external funding, George Mordaunt and his brother, Brian, set up a new company, wesourcenecar.com, trading as the Mordaunt Group, in 2011 to source new and second-hand cars for customers. Their new company now employs nine people (including two part-time employees).

Challenges and constraints of restructuring

George Mordaunt faced a number of challenges in restructuring his business. Firstly, he had to make a number of employees redundant. In a small town such as Clonmel, making employees redundant was difficult, both personally and professionally. George and his family socialised in the same circles as the families of the employees being made redundant which created its own tensions.

The very public liquidation of his two newest companies brought a host of unwelcome local and national media attention. Additionally, the dynamics of small towns is such that news — both good and bad — circulates quickly and also gives rise to a particular Irish trait of taking pleasure in others' misfortune. A number of rumours about the business began to circulate Clonmel — one even suggested that George had left the country.

More ominously for George, the negative publicity reached Renault which was not happy to see its logo in an article on the closure of George's garages in Clonmel and Kilkenny in Ireland's largest selling newspaper. The unfavourable publicity was one of the factors that precipitated Renault's decision to end its business relationship with the Mordaunts.

A major constraint on George's efforts to restructure his businesses were the banks who were facing a significant business crisis of their own — namely, an inability to raise funds largely because of the huge losses they were carrying — and thus many were not in a position to provide funding for the changes that he planned in the business. Additionally, the banks that did have access to funds took a long time to make up their mind.

The extent of borrowing by his various businesses was also an impediment to the restructuring process, as was the lack of cash reserves. As George's business had grown from one dealership to four, so too had the level of external borrowing. The lack of attention to car stocks also had a negative impact on profitability, with the result that the business was poorly resourced internally to fund the restructuring.

George's own personal resources that he might have been able to contribute to the re-structuring of the business were already depleted as a consequence of his ill-judged investments on the stock market.

George says that, if he is brutally honest, in retrospect he should have reduced his staff count quicker and he should not have made any redundancy payments because this decreased his working capital that he needed for his business to survive. He says he would have told all of his employees being made redundant to seek redundancy payments from the State (the very last group of his employees did not, in fact, receive any redundancy payments from the company). If an employer cannot afford to pay the full statutory redundancy lump sum payment to their employees the Department (Ministry) of Social Protection — which is responsible for the social security system in Ireland — will make payment out of the Social Insurance Fund, provided that the employer provides evidence that they are not in a position to pay. Recently audited accounts, or a statement of affairs signed by accountant/auditor would be accepted as evidence of the employer's inability to pay.

Restructuring advice and support

The Irish economy had, up until 2006, been on an uphill growth curve since the mid-1990s — even though it is now realised that the latter years of the so-called 'Celtic Tiger' were built on a credit-fuelled boom. This period of continuous economic growth meant that many Irish entrepreneurs had never experienced a severe business downturn and thus were ill prepared for dealing with adverse market conditions — and, more importantly, with a dysfunctional banking system. For the same reason, there were no external advisers who could provide advice and support to George in the restructuring of his business —particularly in terms of his dealings with the banks who were going through a severe funding crisis of their own.

At one stage in the restructuring process, George sought the advice of one of his banks on what he should do with his newest dealership, the Renault operation in Kilkenny; his own inclination was to shut it down. The bank counselled that he should wait to see if the market would recover. George realised after a few months that it had been a mistake to rely on the bank's advice and he closed the Kilkenny branch. He said that if he had closed the branch earlier he could have saved a lot of money. This was an important lesson to George: don't discuss strategy with banks. He felt it was bizarre that a bank would talk a customer into a decision that, potentially, could have brought down the whole business.

George believes that the banks were not experienced enough in dealing with their own liquidity issues arising from the collapse in the Irish property bubble and the global financial crisis. The banks' immediate and panicked response to the evolving situation was to demand their loans back, which created undue pressures on businesses who themselves were struggling to survive.

However, George has since identified a number of experts in helping businesses and owners of distressed assets to communicate and to negotiate with the banks, particularly in the context of the new rules and regulations governing the financial services sector. These experts are skilled in:

- identifying the problems between borrowers and lenders;
- presenting the solution to lenders.

His family were an important source of advice and support. However, his father was pre-occupied with his own financial difficulties and, additionally, the difficult transfer of the family business from father to son had fractured relationships. Perhaps because of these issues his father was not in a position to advise George.

Though it was not directly intended as a support for SMEs within the motor retail industry going through a restructuring, the decision in 2010 by the Irish tax authorities, the Revenue Commissioners, to make adjustments to the VAT administration system helped dealers to reduce their VAT bill and thus improve their profitability and cash flow. Additionally, the government introduced a new scrappage scheme in 2010, allowing people to claim a rebate of up to €1,500 for trading in their old car.

Outcomes of restructuring

Despite having to cope with three empty buildings, all with significant mortgages, George was determined to press ahead with his new venture of selling second-hand cars from the UK via the internet. Virtual car sales, that is selling cars via a web site, was a brand new concept and, more importantly, did not eat cash.

He and Brian had made a number of visits to the UK and had linked up with a UK consultant to open doors to large dealers who could provide them with second hand cars that they could sell via their new website.

One of the many lessons that George had learnt was that the old business model – of selling cars in volume – was no longer going to be sustainable in Ireland in the short and medium-term future. He realised that a new business model, such as virtual car sales, was the way forward even though it might mean a smaller number of employees. His new online business, wesourcenecar.com, allows purchasers to choose the model, the make, the year, the specification, the mileage, the colour and, finally, the price. George or his brother Brian personally signed off on all cars purchased by customers.

The negative outcome of the restructuring for the employees of the four companies controlled by George and his family was that they all lost their jobs. However, seven former employees have been recruited by George and his brother's new internet company, which in 2012 employs seven full-time and two part-time employees.

It is understood that most of the Mordaunts' other former employees have managed to find alternative employment and in many cases were assisted to do so with references provided by George Mordaunt.

Commentary

One of the issues that George Mordaunt had to grapple with during the restructuring process was communication with the banks. He had to deal with a situation where the banks were panicking because of the collapse in the property sector and their lack of access to wholesale funds. Their anxiety was manifested in their demand to George Mordaunt to return the loans they had provided to him and in delays in sanctioning new funding for the restructuring of the business.

Finding experts to help businesses negotiate with the banks was very difficult but George Mordaunt has subsequently managed to identify two experts who were skilled in helping him and other borrowers in a similar position. Since the publication of his book, George has become an unofficial mentor to many SMEs who are in difficulties with their banks and his main advice to them is to get in touch with these experts. He explains to them that these experts are skilled in identifying how to present their case to the banks, and how to use their contacts within a bank to influence its key decision-makers.

Surprisingly, George Mordaunt says the whole restructuring experience has been hugely beneficial to him. He asserts that he will never lose money again on a business venture (he will focus on his key business strengths and will put greater emphasis on digital social media, creativity and low overheads) and says the process has changed his perspective on life.

He also predicts that, within the new business model of using the web to reach customers and keeping overheads down, staff will have to multi-task.

The restructuring process — which resulted in 53 people losing their jobs — was traumatic for both the Mordaunts and the employees concerned. It is understood that the vast majority have now found alternative employment and some of these now work in the Mordaunts' new virtual car sales company. Reference has been made to the fact that, in a small town such as Clonmel, news — good and bad — travels fast. While George Mordaunt had to deal with rumours regarding the fate of his business, employees too had to cope with a work environment in which rumours were circulating that they or a colleague were losing their jobs. Though George held group meetings throughout the restructuring process to keep employees abreast of the perilous situation facing the company, this was not enough to keep the rumours at bay. It is speculated that in a larger company with more structured HR processes, there might have been clearer communication processes between management and staff.

Author

Tom Martin, Tom Martin & Associates (TMA), Ireland.

Information sources

Mordaunt, G., (2011) *Shepherd's Pie: Family Business, Recession and Recovery — The Real Story*, Mercier Press, Cork.

Interviews

George Mordaunt, wesourcenecars.com and formerly shareholder and director of BMS, Mordaunt Chevrolet, GBM and GBM Cityside

Sara Power and Ciaran Hayes, employees of wesourcenecars.com and previously of Brian Mordaunt & Sons Limited

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Davis Road,

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