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TAD, Latvia

- Type of restructuring:
  (Avoiding) bankruptcy, Internal restructuring
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Retail
- Country:
  Latvia
- Date:
  05/12/2011
- Keywords:
  Recession/Crisis

Abstract

TAD was formed when entrepreneurs unrelated to the business bought out DUNI, a bankrupt provider of disposable dishes and household items that operated three shops and a wholesale base in Latvia in 2010. Most employees (23 out of 28) were let go and replaced by more qualified staff. The new staff had to work overtime and nights and help to win new business to save the company. Cash flow problems meant salaries were not paid every month and staff were offered shares in the company instead. The company was turned around and in early 2012 had 22 staff.

Organisational profile

TAD was established in November 2010, after purchasing the company DUNI (established in 1996) following the bankruptcy of DUNI in 2010. TAD's main focus is on the distribution of disposable dishes and household items. In spring 2012, TAD had three shops and one wholesale base, all located in Riga, the capital of Latvia. TAD is mainly focused on a business-to-business approach, targeting relatively large, mainly local firms. It is an independent SME, owned by a group of people, some of them having other businesses, and managed by the CEO. TAD's chief aim is to be a major supplier of disposable dishes and household items for these companies, which, according to the company owners, can only be achieved by a creative approach in sales. Good networking and logistics with direct manufacturers that ensures best price, quality and timely supplies of products is another prerequisite for the success of TAD.

Out of 22 employees working for TAD in spring 2012, nine deal with monitoring and quality assurance. According to the company owners, monitoring supplies is crucial for TAD, since most of the products the company sells in Latvia come from abroad, mostly Poland and Estonia. Overstocking, failure to deliver on time, and orders not meeting customer requirements (and changing requirements) are all factors that can harm TAD's business. In view of this, TAD implements monitoring activities every other month, thus minimising losses.

The company has no works council or trade union presence.

Background to restructuring event

Following its establishment in 1996, DUNI achieved reasonable profits. The successful internal structure of the company and well-organised control of cash flow played a significant role in this regard. Yet, the situation changed drastically in 2006 with a change of the board members. The strategy of the new board was focused on saving money whenever possible, not excluding salaries. This in turn changed the employee structure of the company: less-experienced employees willing to work for lower salaries were hired. According to the owners of the firm, the major problem with this move was that higher skills were required from relatively low-skilled people. For instance, low-paid staff got involved in projects of highest importance that required fundamental skills and knowledge. As a consequence, it was not uncommon for decisions that had a direct influence on the company's performance indicators to be made without proper evaluation.

Still, perhaps in part due to the rapidly growing economies of Latvia and other Baltic countries during 2006–2007, the company managed to be profitable while ignoring the basics of doing effective business. This, however, changed with the economic downturn in 2008, and the company started losing money very fast. In 2010 the inevitable happened: DUNI declared its bankruptcy. To summarise, the poor quality of management from the board, poor strategies that led to hiring low-skilled employees, in combination with the economic downturn, led to bankruptcy.

Restructuring processes

Four months after the initial filing for bankruptcy, DUNI was bought out by a team of entrepreneurs not previously linked with the firm, and renamed TAD. The delay of four months is a legal restriction. After it has filed for bankruptcy, a company can be bought out only after four months, and every legal action in which the company is engaged is transferred to the new company. This implies fulfilling the firm's obligations to employees, suppliers and customers. In this case, the restructuring process was initiated by the bankruptcy. Success of acquisition, however, usually depends on the quality of decisions, the competence of the people involved and their speed of action.

The restructuring process was semi-formal, that is, based on a short action plan prepared by the new owners that allowed for various ad hoc activities where necessary. As the owners put it, restructuring as a process lasted some six months and had to be quite radical, as almost everything, starting from equipment and ending with employees, had to be changed. This is how the new owners tried to answer the question 'What now?', a common question that follows acquisition of bankrupt companies. To be more specific, TAD started restructuring with the factor that is most important almost for any business, namely, its employees.

First, all employees were informed about the forthcoming restructuring process using informal communication methods. Then, the new management team assessed all employees, and as predicted, the quality was far from good. The owners considered various strategies to overcome this challenge. One option was to train existing staff, but this was counter to the main goal of the new owners, which was to start to earn profits as soon as possible without investing considerable amounts of money. The process of training existing employees, even though it could potentially bring positive results, promised to be a long and expensive process. In addition, the previous experience of the new owners suggested that spending time and money on employees that did not manage to do their work properly for years is often waste of time and money.

The company did not have free financial resources and also had time pressure, so the new owners took quite drastic action: most employees (23 out of 28) were let go and replaced by more qualified staff. With this approach, the company faced yet another problem: the temporary cut in its operation while former staff were replaced with new employees. Overall, searching for new employees took two months, and during this process the company suffered some losses. The length of time to replace people, however, can be justified, as the board decided to hire only experts with good references and more than ten years' experience. TAD did not choose an open competition where anyone could apply. It was a 'closed door' process, where only people known by the board were invited to apply, and jobs were offered to the best.

After the replacement of most employees, in mid-2011, three more employees were hired to take over the import and horeca departments. (Horeca refers to a sector of the food industry that services food and beverages; the word is an abbreviation of hotels, restaurants and catering.) This was when 'real' restructuring processes, with new people on board, could start. Every employee was involved in the restructuring process by collecting and analysing necessary market information, presenting suggestions to the board and deciding upon the best strategies to make TAD a more competitive company.

Challenges and constraints of restructuring

It is often said that 'you don't need to reinvent the wheel', and according to owners of TAD, this thinking can be applied upon purchasing a company. Despite having to deal with a lot of paperwork and countless meetings with lawyers and court visits, TAD already had some foundation, the 'leftovers' from DUNI. These included a number of suppliers and customers; thus in case of TAD, it was indeed restructuring, rather than a new start-up when these would be acquired newly. What had to be generated anew, however, were attitudes and image. TAD had to convince both previous customers and also suppliers that it 'meant business', and the only way to do that was showing customers that both products and services provided by TAD were of the highest level.

The company also had to deal with many legal issues, and the associated paperwork was onerous. To understand the context, it should be mentioned that, for instance, the staff that were laid off were very disappointed and often argued that there had been no reason for them to be let go. In some cases, ex-employees demanded compensation from TAD, yet TAD managed to avoid paying extra money without good reason. There were also no court cases for any of the disputes.

Apart from solving human-resources-related issues, restructuring processes usually also involve answering several questions with regard to financial resources. Luckily, the new owners of TAD had enough money to complete the restructuring. Without doubt, this played a role, as the company was not dependent on any other stakeholders, as in cases when restructuring is funded by a third party.

Restructuring advice and support

TAD's owners undertook restructuring without much external advice or support. Only in some circumstances were experts invited, especially during the phase when most of the decision-makers that did not work efficiently had been let go and replacement staff were yet to come. External experts were hired on a short-term contract basis. Experts included accountants that dealt with financial issues, and lawyers that ensured the smooth transition from the bankruptcy of DUNI to the creation of TAD. Attracting experts was not cheap, yet with the right people on board, such investment paid off.

Outcomes of restructuring

Soon after the internal restructuring, the atmosphere in the company improved substantially, and TAD began to generate its first noticeable profit. Yet, the sacrifices that were made to achieve this were staggering. Out of 28 staff, 23 were laid off in order to keep the system up and running. That makes it approximately 82% of people that were let go. Those that were newly hired had to work overtime, sometimes even at night, to implement the restructuring process, including winning new clients.

The investments that were necessary to replace employees had some influence on the cash flow. As a result of restructuring expenses, TAD's financial resources were rather limited. In some cases, it meant that employees were working a month or two without a regular salary; they were paid as soon as some income was generated, but it didn't happen on a regular basis due to adjustments made on the fly. Not all companies would be able to handle that kind of pressure, and most employees would simply march out of the company without looking back, demanding financial compensation. The employees that were hired, however, were well informed about the possibility of such a situation and accepted it for the sake of 'achieving good times together'. Yet, they needed some guarantees that salaries would be paid whatever the future looked like. The situation was handled by offering employees company shares.

Months later, TAD started to generate its first profit. People were getting salaries on a regular basis and TAD started to flourish. New employees were hired, reaching 19 full-time employees. This was the point when the idea of expanding the market became interesting, and TAD's particular interest was in the horeca concept.

TAD, as many other companies, faced the challenge of meeting its target client base requirement to find the cheapest possible products, combined with good to exceptional quality. Meeting the needs of these customers, however, proved to be difficult since existing suppliers were setting prices too high, rendering the generation of profit next to impossible. Thus, in many cases, new suppliers had to be sought, and were found in Poland. As a consequence, TAD managed to decrease cost per employee by almost 40%, increasing the competitiveness of the company. Contracts with previous suppliers were cancelled.

The horeca department soon expanded from non-existence to being one of the biggest departments in the company, and one that brings a major income share. Furthermore, tackling the concept of horeca (that is, introducing the new service of food and beverages) decreased expenses by almost 30%, implying that goods could be offered at lower prices without greatly affecting the profit. Since the factory in Poland produces only for TAD, the relationship is a monopsony, where a company produces only for one company in great amounts but for a lower price.

Having a wholesale base, international suppliers and a new target market meant that more effort should be allocated to marketing the company. The obvious thing to do was to set up a website. That, apart from serving a marketing function, also helped to monitor stock levels. Yet, it was not enough to attract any significant customers. It was simply not paying off in the beginning. An interesting method was applied to increase the levels of supply and to achieve more contracts. TAD representatives started calling companies that would be able to spend much more than smaller firms, trying to create partnerships. This method of marketing worked surprisingly well, generating a good share of income.

The next big step was to engage in active competition with market leaders such as leading retail chains in Latvia, RIMI and Maxima. Such companies have their suppliers and factories and usually avoid signing deals with small companies like TAD, and this, in fact, happened. As a consequence, TAD faced the risk that both giants would easily out-price it in the market. TAD decided to diversify location-wise, by opening three shops in Riga.

Because RIMI has focused on disposable dishes much more than Maxima, RIMI is TAD's main competitor. It didn't seem worthwhile to RIMI, so it ignored the competition from TAD. Soon after, there was a noticeable drop in demand levels of disposable dishes from RIMI and the company started to lose it profits. Then a 'competition dance' began.

In microeconomic terms, such situation is called a Stackelberg competition, where the market leaders set their price and the smaller company (defined as a follower) adjusts its price accordingly. The fact that TAD could offer goods in bulk gave the company the edge, and RIMI kept losing money. Thus, the only reasonable way out for RIMI was to sign a partnership deal with TAD. TAD, however, was not interested in such a deal, as the company managed to grow outside these retail chains, and the offer was declined. This, in turn resulted in something that was even hard to imagine at the beginning: RIMI simply had to react to a newcomer into market, TAD, by adjusting its product range in given categories according to the decreased demand.

Commentary

As common sense suggests, dealing with restructuring in small companies is much easier than in large corporations. It takes less financial investment and also less time to implement changes. There are also fewer employees to deal with, and it is easier to keep everything organised in the way owner or managers want to see it.

According to the experience of TAD, timing is the most important factor to determine the success of the restructuring. Taking immediate actions to maintain a positive economic profit is not an easy process. Assembling a strong team in a short period of time was difficult for TAD. It was even more challenging to ensure that the newly hired team started working efficiently from the very beginning. There was simply no time for a slow start: results had to be achieved immediately.

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Information sources

Interviews with CEO and employees of TAD

Company website

www.tadlv.lv

Social media

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- Follow us on Twitter
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- Subscribe to our YouTube Channel
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