BIOK Laboratorija, Lithuania

- Type of restructuring:
  Business expansion
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Manufacturing
- Country:
  Lithuania
- Date:
  06/12/2011

Abstract

Set up in 1988, the Lithuanian BIOK laboratorija is a leading producer of beauty/skin care cosmetics in the Baltic states. Taken over in 2005, the new owners introduced changes in the business scope, focusing on changes in management, planning and encouraging teamwork. It increased its product range striving for more return on investment. Market response was positive. By 2009, the workforce amounted to 42, with only a natural turnover of personnel. The system of motivating workers enabled the company to see an increase in profits, sales and added value.

Organisational profile

BIOK laboratorija, a private company, was founded in 1988 and is the leading producer of beauty/skin care cosmetics in the Baltic States. It specialises in the development and production of body, hair and tooth care products. Since its foundation, BIOK has launched a few leading brands, such as ‘Rasa’, ‘Aras’, ‘Margarita’ and ‘Thai’. From the beginning, no significant changes in the area of operations were made. However, when it was taken over in 2005 by its new owners, changes were made in the scope of business, and following restructuring the company increased its product range. At the moment it consists of 160 items (from 60 in 2006). This indicates penetration into new categories and the increased importance of product development. Products are based on locally sourced ingredients, such as beer and nettles.

BIOK has grown steadily since its inception, except in 1999–2001 due to the Russian crisis. Even in 2009, when the Lithuanian economy as a whole shrank, the company was able to sustain growth.

The company is located in an industrial area of the Lithuanian capita, Vilnius. It has no retail outlets of its own or other activities in beauty care value chain. The only significant feature of the company is that a high proportion (66%) of employees have higher education qualifications. Despite its current growth, the number of its employees is stable, at about 40.

BIOK can also be characterised as an international company. When it first began it imported packaging and some ingredients, but now it exports 8% of its products. The company has also reached the level of production where it can now locally outsource products or services such as packaging, ingredients, design and advertising.

The company was taken over in 2005 by three persons with a background in investment banking. The company founders, its previous owners, were biochemists. The new owners appointed Linas Čereška as managing director. His background is in international trade and marketing. He also has over ten years' experience in telecommunication and parcel logistics industries, client care and marketing activities. New marketing and finance managers were also appointed and the new team started work in 2005–2006.

Due to the low number of employees, there is no works council or relationship with a trade union in the company. There are no strategies for human resources or corporate social responsibility. There is only a verbal agreement to be honest to all stakeholders.

Background to restructuring event

When the ownership changed, it was obvious that there would also be some changes at the company's operational level. The main impetus here was the return on investments, as the new owners focused on turnover and profitability and related measures.

From the point of view of external forces, it was obvious that there was potential in the white cosmetics market. The main competitors are international brands with no local adaptation. Other local or regional companies were rather weak, without significant product development, branding or proper distribution. BIOK, however, already had well established local brands.

Much more important factors, which led to the restructuring, were internal. First of all, company was very much product and trade oriented. There was no clear focus on branding and understanding local needs of customers. There was also a lack of new ideas in product development. Moreover, it was commonly felt that the company had exhausted all possible ways of facilitating any more growth.

The new owners therefore had the challenge of challenging the prevailing mind-set in order to explore existing market potential.

Restructuring processes

In the beginning, it was challenging for the new management team to change the thinking of other management staff. As already mentioned, there were three new members of the top management (managing director, and marketing and finance managers), each considered of crucial importance to the restructuring, and they had to overcome scepticism towards their ideas for new products and initiatives. A common reaction was 'this will not work' or 'we have tried this before'. The first step therefore was to have a joint brainstorming meeting about new product ideas with members of management who had been with company before the takeover; the production manager, sales manager, quality control and new product development (laboratory) managers.

The next step was to develop and test the products in the market. Involving the management team in decision-making was unusual in the cultural framework of the company. As the ownership of new product idea was shared among all team members, those were the fastest new product development results in the history of the company. Within the period of three months, a new product was agreed, developed and distributed to the market. Market response was positive, so this was a first victory and an inspiring example of the capabilities of new team to the rest of employees.

To begin with, the restructuring was quite informal, focusing on changes in management, planning, and encouraging team work with the discussion of targets, sharing of ideas and getting positive results from this. A formal restructuring plan was neither approved nor announced, there were more structural changes targeting at business expansion and later o turned into a real restructuring process.

The new owners, now on the board, were very active in planning and reviewing performance measures. They and the managing director set an ambitious target of 10% growth in turnover and profitability, based on the development of new products. This was also a new toll in company's management culture. The new targets were defined during the normal planning process, bottom up, in different way from the previous experience. This led to a shift in the company's culture, from an attitude of 'this is not possible' to 'we know what we have to achieve, but is this realistic?'

After the first success with new products, a new planning system led to further changes. These were focused on:

- branding
- clients
- logistics,
- more outsourcing.

This involved the whole management team working in supermarkets as product presenters, while the new branding efforts strengthened the company's position in the market. The whole team developed a clear understanding of their products' competitive advantages, and what they should do to facilitate further development.

The restructuring process, which began in 2005, was reactive rather than planned and the results of this from 2007 should be considered as arising from a company development strategy rather than from a separate and prepared restructuring plan. However, although the changes were informal, they were based on naturally taken actions and steps, which were results of proper and adequate management and the right choice of development strategy, leading to business expansion.

There was also no specific written strategy for personnel. New management, appointed by the new owners, occupied the most important positions, and had their own ideas on selection, motivation, aspiration, and conveying the vision of company to every employee. Middle management changed organically; although no manager or employee was dismissed, a sales manager and a production manager left the company a few months after restructuring started.

By 2009, when the initial restructuring was over, the total number of managers (top and medium-level) was seven and the average of employees per manager was six.

No employees were hired during the restructuring process, only a natural turnover of personnel has taken place. The share of new employees averaged about 20.5% per year, which indicates the company's moderate growth, while the share of employees who left the company in 2009 was 18%, which indicates a moderate level of satisfaction with job and working conditions in the company. People, who left the company voluntarily, could not expect state help or company support. However, they did not need this, or any re-training, as they were highly qualified, and their skills were in demand on the labour market. About 66% of the company's employees have university education, and the average age is about 36, which implies that employees are ambitious. Two thirds of employees are women, which gives some stability to the company's turnover of personnel. However, such a personnel structure also means that salaries are quite high compared with the average national wage. Indeed, salaries rose steadily, at a rate of about 1.2%, despite the global economic crisis.

During the restructuring process, the system of motivating individuals was sustained; every person is rewarded on overall performance, with work load being adjusted to individual needs. Together with other structural, management and working culture changes, this motivation system enabled the company to see an increase in profits, sales and added value. In 2009 the profit per employee was close to LTL 33,000 (about €9,500) compared to almost LTL 34,000 (up to € 10,000) of costs for one employee, and up to LTL 333,000 (€ 95,000) of sales per employee and over LTL 236,000 (over € 68,000) of added value per employee. An input of employees into profit, added value creation and sales exceed 50% and indicates the quite high job productivity and profitability of company.

Challenges and constraints of restructuring

The main challenge in terms of restructuring in the BIOK case was to release internal potential.

The first task was to improve the overall atmosphere in the company after the takeover. The new management team acted more flexibly and freely in terms of personnel policy. As has been mentioned, there were no drastic changes in the management structure or in the general organisational structure affecting ordinary employees. There were only minor changes in payment or motivation system. All these actions enabled to reduce the resistance to change and created trust in the new management team.

The next task was to break the prevailing clichéd way of thinking. The company was short of new ideas and confidence. However, the involvement of management and the sharing of new ideas proved the way to success. Open information about achievements, no matter how positive or negative, also added confidence and helped build team spirit.

Following this, it was important to kick-start the product development process, with the key words being speed to the market and flexibility. The successful development of new products at the first attempt served as a good example of the potential of the company.

Another challenge was for the management team, especially in the sense of product development, to be always be a few years ahead of the market.

A common ailment of growing businesses is to demarcate functions, so that employees are involved only in operations outlined in their job description. Such a strict functional distribution is not healthy for SMEs. From the start, the new management team gave a good example of taking on different roles such as packaging products, and talking to potential customers in supermarkets. The team also introduced work rotation, with employees moving from department to department.

This changed the company's culture to a more 'family' style atmosphere, with people working in teams, sharing responsibilities, and feeling part of the company.

Restructuring advice and support

The new management team received no external advice or support during the takeover. However, they successfully implemented changes by using their previous experience and tuning their relationship with rest of the management team.

An important role was played by board members, especially at the first steps of restructuring. They asked the right questions, encouraged the planning process and set ambitious targets. After the first year the have taken a back seat, now following up on the most important performance measures.

Linas Čereška feels there is no need, in the case of restructuring for a business expansion, for any external support or financial resources. The company should use its own internal resources and go through changes on their own with all the attendant ups and downs.

Outcomes of restructuring

BIOK was a growing and profitable business before the takeover and restructuring, with problems more related to a lack of confidence and ideas. Management has developed the company using its existing potential.

The overall outcome of restructuring is positive:

- constant growth of the company value, despite thenational financial crisis;
- export growth;
- portfolio diversification.

Restructuring made a minor impact on employees. There were no significant changes in the payment system, and no significant impact on the number of employees.

There are two outcomes worth mentioning:

- Due to the diversification of the firm's portfolio,plus the development of exports and spreading internal functions, the company ismore risk-resistant;
- After restructuring, the company can make a bigger impacton the local economy as it can now buy some materials from local suppliers,rather than importing them.

Commentary

There are some important differences in the restructuring of SMEs compared with that of large organisations. In an SME, it is difficult to distinguish restructuring processes from everyday activities. For example, the restructuring process in BIOK started in 2005 but it is not clear if it has yet finished.

Another issue is a clear split of responsibilities. Linas Čereška says that, for SMEs it is crucial to have a more 'family' type of organisation, where people are interested in more than just their activities. It is not clear if such a set up would become an obstacle to growth in the future, but it was important for BIOK development.

In large organisations changes could be facilitated or even implemented by the use of external resources, mainly management consultants. In an SME, however, a company could rely on itself and make changes without external support. Employees, not able to cope with such changes, should leave.

Linas Čereška has identified certain major factors vital to the success of restructuring:

- clear vision and new ideas for further development at thetakeover stage;
- quick-wins and outcomes are of crucial importance ingaining trust and strengthening confidence among employees;
- setting realistic, but ambitions plans;
- no compromises on product quality.

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Information sources

Interview

Linas Čereška, Manager, Biok Laboratory

Company website

http://www.BIOK.lt/

Secondary sources

UAB 'BIOK laboratorija' benchmarking report

- European Monitoring Centre on Change - EMCC

- About EMCC
- European Restructuring Monitor
  - About the European Restructuring Monitor
  - Restructuring events database
  - Restructuring support instruments
  - Restructuring related legislation
  - Restructuring case studies
  - ERM publications
- European Jobs Monitor
- Labour market research
- Case studies
- Future of Manufacturing in Europe (FOME)

- European Observatory on Quality of Life - EurLIFE
- European Observatory of Working Life - EurWORK

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