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Meble Bugajski, Poland

- Type of restructuring:
  Business expansion
- Employees before restructuring:
  50-249
- Employees after restructuring:
  50-249
- Nace/Sector:
  Manufacturing
- Country:
  Poland
- Date:
  23/04/2012

Abstract

This Polish furniture producer has managed to succeed in the market by adapting flexibly to changing customer markets and tastes. By introducing new production methods and insourcing more and by strengthening domestic sales, variations in international sales were more easily absorbed. However, 30 employees lost their jobs.

Organisational profile

The Meble Bugajski company was established by Slawomir Bugajski in November 1991 in Wieloglowy near Nowy Sacz, in the Malopolska Region. At the beginning of its operations, the company's owner and its only employee was involved in multi-sectoral trade, including an international dimension. As a former sportsman, a cyclist, he had many contacts, both in Poland and abroad, which he used in his business. From the start of operations, the legal status of the company has remained unchanged and it continues to operate as a sole proprietorship.

The owner holds secondary level education (vocational secondary school with *matura*, the equivalent of the GCSE). He did not receive any technical or economics education nor did he have any previous work experience; however, he has taken part in professional development training courses.

In February 1994, Slawomir Bugajski decided to change the profile of his company from trade into trade and production. He had neither the experience nor the know-how concerning the furniture market and production but had noticed a significant demand for these types of products. Thus he became involved in the production of furniture. Initially he made furniture by himself in a basement of his parents' house, his only fixed assets being a truck and basic tools to make furniture. At the time, he still did not employ any members of staff, and he only used services of an accountant, who was his friend and helped him to manage accounts. He dealt with supplies, production, distribution and sale of his products by himself, and delivered within a range of 200 km from the seat of his company. Direct contacts with buyers allowed him to match the production offer to the needs of his customers.

All the furniture products are made from high-quality components, which guarantee a professional look and high-quality usability for many years. Moreover, well-qualified staff, knowledge and long-term experience allows for constant development of products, to fit the needs of customers perfectly.The Meble Bugajski company produces all types of upholstered furniture, in the belief that it is able to offer customers a diverse range of comfortable suites, including armchairs, two to three person sofas, and corners. It offer wide selection of fabrics, leathers or alcantaras, in a wide range of colours, imported or ordered from best Polish companies. In addition, it offers a wide range of additional options to choose from, which allows for customised furniture.

At present (2012), the company employs 90 employees and this represents a decline in relation to 2006, when it employed almost 120 employees. The number of staff in the individual years has ranged as follows: 2006: 120 employees; 2007: 98; 2008: 91; 2009: 94; 2010: 95; 2011: 93; and 2012: 90. Out of the current employees, 65% are male while 35% are female. The age structure is as follows: 5% of females aged between 22 and 30 years, the rest above 30 years; 10% of males aged between 22 and 30 years, the rest above 30 years. The education structure is as follows: 5% higher, 20% secondary, 75% vocational.

There are no trade union representatives in the company. There are no representatives of such bodies as council of employees or other formal structures of staff representatives. The owner does not have any formalised business development plans.

The structure of gross sale has ranged as follows: 2006 – € 2,232,500; 2007 – € 2,222,500; 2008 – € 2,110,000; 2009 – € 2,145,000; 2010 – € 2,246,250; 2011 – € 1,930,000.

Background to restructuring event

This company continues to operate in the same single location, and no branches have been established. Since 1994, the general profile of the company operations has not changed; however, the buyers' markets are different. In 1995, the owner noticed increased demand for furniture, both on the domestic market and the emerging Eastern buyers' market. By 1997, practically 85% of the products were exported to the former Soviet Union states (Russia, Belarus, Kazakhstan, Ukraine and Lithuania). However since January 1998, due to the crisis in Russia, the Eastern market simply disappeared for Polish furniture manufacturers. They could not sell any furniture suites, stopped receiving orders from sales agents and wholesalers. The company faced a risk of losing financial liquidity. During the first six months of 1998, it had financial problems resulting from the lack of demand, both abroad and in Poland. Problems with selling the already made products on the local market were due to the colours of the furniture made for the Eastern customers. Fortunately its quality and prices were acceptable on the local market, which allowed to sell the finished stock without incurring major financial losses. That helped to avoid staff dismissals, although there was a surplus of labour force and production had to be suspended temporarily.

As a result, the entrepreneur decided to search for new buyers abroad. That involved foreign business trips to attend furniture trade fairs in Zagreb, Ljubljana and Stockholm in order to learn about preferences and tastes of foreign customers. The company did not exhibit its products on these fairs, its owner only spoke with the exhibitors about issues such as colours, models, quality and prices at which he could sell his products abroad. He tried to initiate commercial cooperation with the exhibiting local companies. In order to search for contacts, he also used his acquaintances dating back to the times when he was a cyclist. His foreign colleagues from bicycle races facilitated his contacts with entrepreneurs they knew, and this type of personal recommendation was exceptionally useful for the small Polish business that did not have reputation and credibility among foreign businesses.

Searching for new markets and adapting the product offer to their needs took over six months. During that time, Mr Bugajski also started to cooperate with foreign buyers, including a Swedish national, owner of a business manufacturing and selling furniture on the local Swedish market. On his way back from a fair in Milan, he passed Wieloglowy and became interested in Mr Bugajski's company. Following a discussion, the two entrepreneurs decided to start to cooperate in the field of furniture making by the company in Wieloglowy for the Swedish Partner. Sweden was not the only market with which the Polish entrepreneur started to cooperate. Initially he managed to initiate commercial contacts with enterprises from the Balkans (Slovenia, Croatia, Bosnia and Monte Negro), and then also from Slovakia and the Czech Republic. By 2004, the company's structure of sales was shaping in the following way: 90% of the production constituted export (Sweden, Slovenia, Croatia, Bosnia, Monte Negro, Slovakia and the Czech Republic) which generated 80% of the revenues, while the remaining 10% was sold on the local market, which generated 20% of the revenues. The difference in the revenue proportions in relation to the volume of production sold in Poland and abroad resulted from the differences and fluctuations of the currency exchange rates impacting foreign transactions.

Since 2005, the company changed its structure in terms of the target markets. Export activities were reduced to increase sale on the domestic and local market. In 2006, at the beginning of the restructuring process, almost 45% of the production was exported to the Scandinavian market, Germany, Switzerland and Croatia. The remaining 20% was sold on the local market and 35% on the national one. During that time, sale of furniture was growing slowly, while the profit margin remained stable. Currently 60% is represented by export and 40% by the domestic sale.

The decision to restructure addressed the need to reduce the costs of production and improve the quality of the goods in accordance with long-term plans targeting production of more exclusive products. It also resulted from an unexpected loss of a key importer – a client from Switzerland, which took place in 2006.

Restructuring processes

The first restructuring measures were implemented in 2006 and continued until 2008. The key actions involved employment restructuring (review, appraisal of skills and staff dismissals) and extending production to manufacture furniture of a higher quality and basing it partly on insourcing of making furniture components (benches, woodworking joints) which before had been made by subcontractors.

The production process was also changed by replacing the two-shift system with one-shift; also, organisation of deliveries to the recipients was changed (reorganisation of storage of the finished furniture in a warehouse and the delivery system (*just in time*) to eliminate the costly process of storage and keeping finished furniture in the warehouse. The company made furniture following receipt of an order, and then, almost immediately, it was loaded to trucks that delivered it to its recipients. As a result of introducing such a system, the company's own transport and delivery system was established, which enabled to maintain flexibility and independence of external carriers.

The company developed and started to promote its own brand name, 'MB Design', trying to introduce it to the existing sales network in order to emphasise the more exclusive nature of its products. That decision resulted from a risk of perceiving the company as a 'no name' manufacturer, which would imply dependence on the current sale channels and network of stores. The new brand name was promoted in Poland and the Czech Republic in particular.

The decision on the need for restructuring was made by the owner who also based it on opinions of the following six managerial staff members: director of production, manager of production and foremen. Those decisions however were not formally recorded, there was no schedule for them (although some general assumptions concerning time of their implementation were adopted, which were then modified under the process of introducing changes). Employees and their representatives (none) were not included in the process of restructuring planning and implementation. Other restructuring-based measures were not taken into account either. Any changes and financial investments were delivered exclusively with funds provided by the owner, and in case of purchase of vehicles for the transport and delivery department, leasing was applied.

Challenges and constraints of restructuring

The company's employees were informed about the measures implemented by their immediate superiors at the beginning of the restructuring process. Further information was disseminated on an on-going basis. The response of employees was generally negative and distrustful as the process involved dismissing 30 employees.

There were difficulties in overcoming stereotypes related to work and production organisation as well as schedules and routine in the company, and overcoming the mental resistance of the staff.

Restructuring advice and support

The owner is of the opinion that professional assistance at the stage of preparing and planning restructuring of the company would have provided significant support for the planning and implementation process; however, he did not receive any assistance. He did not have information on the means of obtaining such support from government institutions. Due to financial reasons, the company could not afford to obtain any support from commercial entities because they are too expensive.

Outcome of the restructuring

Restructuring followed in accordance with the assumptions adopted, and its outcomes met the expectations planned. The company improved its situation and has maintained its *status quo* in its sector. It introduced its new own product, the 'MB Design' brand name in the form of leather-made furniture.

In the course of the restructuring process, around 30 employees with the lowest qualifications and competences were dismissed. These were blue-collar workers employed at the furniture production department, who had basic vocational education and carried out the simplest physical activities involving packing and moving finished furniture to its storing space in the warehouse, and loading it into trucks. They were selected for dismissal by their immediate superiors and the dismissals had to be approved by the company owner himself. The staff reduction process was implemented successively and in stages in order to avoid the so called collective redundancies. Changing the two-shift system into a one-shift system and limiting overtime arising from the need to cut costs were accomplished by vacating a rented building in which one of the production process stages had been carried out.

After a ten-month period, the best 25 employees of the company received a pay rise.

The individual department managers changed work organisation by redefining and elaborating the scope of competence and responsibilities of employees of the departments of production, transport and deliveries. A one-shift system was introduced in the production department, which reduced the production volume, while the company's turnover remained at the same level as the company started to make MB Design furniture, which extended the company's product line. At that time, 20% decline in the furniture sale was recorded while an 80% increase was recorded for MB Design. The structure of sale was as follows: 60% export, 40% domestic market.

The company decided to support the employees continuing their work for the company and delegated to other departments through internal training and practical courses providing skills to work at new posts. Staff requalification efforts were also supported.

The response of the employees to the changes introduced was rather sceptical, suspicious and distrustful in general, on account of the staff dismissals. However, the company survived in the market and extended the scope of its operations by 30%. The fact that the staff working prior to the restructuring could stay and their salaries were raised is also of importance.

In his current plans, the owner envisages business development through construction of a new production facility, increased production capacity, further consistent promotion of the company's own brand name, MB Design, establishing its own sale channels and networks in Poland, and entry to new store networks in the EU. Plans concerning the employees include vocational training and assistance to upgrade their qualifications.

Commentary

According to the owner, restructuring processes in large and small enterprises differ. Large enterprises have the funds to use professional support in the course of restructuring. They also generate a stronger impact on government institutions to obtain their support. On the other hand, medium-sized enterprises are more creative and faster in restructuring implementation. They demonstrate better flexibility during the process. SMEs hold significantly smaller human resources necessary for planning restructuring. They also lack funding necessary in the course of implementation of restructuring changes. The lack of trade unions is favourable, as they delay the dynamics of restructuring. They lack formalised procedures, which make changes more difficult.

The experience acquired by the owner during the restructuring process helped him to use a different approach to these measures now. Firstly, he is of the opinion that he would take more care in the process of staff dismissals. He would treat the opinions of immediate superiors with lower priority, as they often follow their personal feelings (likes and dislikes).

As regards *public support,* the owner thinks that it should be more flexible in terms of changing fixed costs to help businesses with their tax obligations, for example by using temporary tax suspension or postponement for companies undergoing difficult process of restructuring.

He is also of the opinion that he should spend more time in preparing and planning the restructuring. It is worth trying to consult other entrepreneurs and verify outcomes, results and introduce corrections on the on-going basis in the course of the implementation stage.

The opinions of the owner were matched by those of the company production manager (47 years of age, 15 years of service, in large furniture-making facilities in particular). He was personally engaged in the company's process of restructuring planning and implementation. In terms of his position, he was a superior of the staff covered by the restructuring measures (dismissals). He also proposed and justified dismissals of selected employees.

He is of the opinion that the changes facilitated management of the other staff and introduced order in the scope of competence and responsibilities of the specific job positions. They also generated significant financial savings for the company, as the new work organisation increased efficiency.

Employees of the company were informed of the restructuring planned; however, they were not involved in the decision on its implementation. Assistance offered to the employees by the company was limited to training to requalify the staff staying in the company.

Employees' reactions to restructuring were distrustful and negative. They expressed their anxiety and upset, and did not get involved. To the employees staying at the company restructuring meant stability and keeping work, as well as maintaining their current salary level, and perspective of pay rise.

He does not think that the changes could be planned and implemented better. He said that, according to the persons involved in the restructuring process, the changes were optimum, as they generated the outcomes planned. When comparing restructuring in SMEs and large enterprises, he said that small enterprises lack experience and knowledge about restructuring. They also do not have funds. However, they can implement changes more dynamically and respond to changes in the environment faster due to their flexibility and the lack of bureaucracy.

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Information sources

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