Interactive Net Design, Hungary

- Type of restructuring:
  Business expansion
- Employees before restructuring:
  50-249
- Employees after restructuring:
  50-249
- Nace/Sector:
  Information / communication
- Country:
  Hungary
- Date:
  18/11/2011

Abstract

Interactive Net Design, a Hungarian company producing technology for the banking and finance sector, underwent restructuring to pursue a change to its business model in the context of the economic crisis and reduced client budgets. New branch offices were opened in foreign markets, creating new jobs in target markets, but leading to the lay-off of employees at headquarters. Subsequently, the company increased its sales and marketing staff abroad, and new teams were established within the company to support its business strategy. The company made a major effort to change company culture to adapt from being a small Hungarian player to becoming an international force.

Organisational profile

Interactive Net Design Kft. (later IND Group) was established in 1997 by three Hungarians who today comprise the top management team of a seven-level functional structure. In 2008, the founders had to give up part of their ownership in order to obtain venture capital investment, but they retained a majority influence on company decisions. With its unique 'banking front office technology'(BFO), IND is a leading product developer and provider for the European e-finance market. The front office technology is a comprehensive range of sales and banking services including branch, internet, mobile and contact centres, on the same centralised platform. The technology delivers high-quality customer service while optimising sales with reduced acquisition and retention costs. IND group employed approximately 145 people in 2011, including 45 independent subcontractors who work exclusively for IND Kft.

Of the 100 people directly employed, 70 are involved in the design, programming, testing and support of the banking front office technology. Employment has fluctuated in recent years:

1. 2007, there were 93 employees; in 2008, 121; in 2009, 95;in 2010, 98; and in 2011, 102.

Their main functions are product development, marketing, sales, administration, office management and finance. All the technology experts have, on average, four years' experience in delivering internet and mobile banking solutions. Their average age is 28, and 85% of them are male with higher education qualifications in software development or economics. There is no trade union or works council. At the beginning of 2009, IND bought a majority ownership stake in Simple Soft – a local competitor with six employees – and transferred all e-business clients.

IND formed a partnership with Brokat Infosystems Ag., a major banking software developer, and subsequently acquired their e-channels business unit (and in that context also took over one of the employees) in 2003 to become a primary market player. IND has experienced remarkable growth over the past few and years in the international financial IT market. It operates in several countries (Austria, Germany, Hungary, Romania and the UK) and, through their local business partner network, they are represented in Bahrain, Dubai, Egypt, Italy, Switzerland and Ukraine. They provide proficiency and state-of-the-art technology in more than 15 countries on three continents.

The company has achieved substantial growth, although income has fluctuated during the last three years. Income in each of the last five years has been:

1. 2007, HUF 1,454 million(€5,013,800);
2. 2008, HUF 2,100 million (€7,241,000);
3. 2009, HUF 1,434 million (€4,945,000);
4. 2010, HUF 1,734 million (€5,980,000);
5. 2011,HUF 2,450 million (€8,448,000) (expected).

By 2008, 90% of the company's income came from the e-banking business unit and 10% from small e-business projects (webpage programming and design).

Background to restructuring event

In 2007, IND management changed the business model, from recruiting staff to meet specific software/application development project requirements, to develop their own 'out of the box' software, which can be customised for individual bank client needs by other providers. As a consequence, the pricing and income model changed too. Bank clients now pay licence fees. This required a large investment, so IND ,for the first time, acquired external capital. This was in the form of venture capital from Euroventures to invest in product development and entering new markets. This included opening an office in Bucharest office and forming a partnership with BSC Russia (2009); opening offices in Zagreb and Bratislava (2010); and opening an office in Warsaw (2011).

In autumn 2008, IND visited all clients to introduce their new product and to map the next year's needs. Because of the financial crisis, most clients planned budget cuts for 2009 and 2010. Banks were not planning new branch offices, focusing more on electronic sales channels and, therefore, in need of more e-applications.

IND had three possible ways to prepare for the future, and they used all of them except one:

1. cutting internal costs, increasing costefficiency;
2. searching for new markets;
3. other possible sectors (telecommunication, healthcare,public institution);
4. finding new customers in foreign markets;
5. getting larger share of its existing clients'budget.

Larger firms/enterprises tend to be more inflexible and 'froze' in the crisis. IND, however, was prepared for restructuring, and had a long-term plan developed by senior management.

Restructuring processes

To pursue the new strategy, new branch offices were opened in foreign markets, creating new jobs in target markets. This meant that 20% of employees, mostly software developers doing basic programming, were dismissed at headquarters. However, IND helped them to find new jobs. The company took steps to increase programming efficiency. Subsequently, they reinforced their sales and marketing staff abroad but, altogether they hired fewer people, only 10%–12% of their original number, resulting in large savings.

They established two new functional teams in the organisation. The first was a gap analysis team. This comprised business consultants, who identified gaps between client needs and software capacity before product implementation. They specified extra functions and development needs, and ordered it from the platform team.

The second group was the platform team, comprising software developers responsible only for product development.

A separate R&D department with ten employees, all redeployed from elsewhere was also created. This screens all innovations and trends on the markets, and ensures that IND has the latest technology in its products. Team members attend conferences, read the relevant literature and keep an eye on competitors' developments.

In 2009, IND increased attendance at conferences, advertised in foreign scientific journals and became more proactive, including running a sales road show in Europe and organising 150 one-on-one meetings with potential clients. As a result, the number of bank requests for information and for proposals has increased. Twenty 'hot topics' (potential development ideas) were collected. These ideas were presented to potential clients, to identify what those clients would buy For example, instead of expensive sms notification, they could develop 'push alert' for mobile application. This changed the business model. Instead of selling developer days, they started selling bespoke software for a licence fee, offering customisation as an extra service.

They did not waste time on large impact studies, or detailed analysis. All decisions were made at management meetings, and followed by rapid execution.

There were painful but efficient steps:

1. dismissal of employees, quick budget cut on benefits,focus on those employees possessing most of the company'sknowledge;
2. renegotiation of fixed costs – for example,changing mobile operator, other suppliers;
3. cut overheads (administration and backoffice);
4. increase trips to sales meetings;
5. invest in foreign offices.

IND was aware that it was very difficult to increase its share of the Hungarian market as the domestic financial market was shrinking fast. Therefore, they reduced their domestic operational budget. During the process, they faced a choice of:

1. entering other sectors using their competitive advantagein R&D;
2. continuing to focus on their core activity and enterforeign markets.

Management decided to keep core people and exploit new opportunities, but their plan B in case of failure, was to retain 20 people capable of rebuilding the company from scratch within a year.

In 2010, production support was further cut back while marketing and sales were increased. The marketing department grew from one to five people and became more professional, for example, preparing product marketing documentation and website development.

Negative impacts of restructuring meant a benefits freeze for all staff for 2009, and in 2010, all sales bonuses were cut. Despite the restrictions, they pushed employees to take on increased workload and responsibility, in order to reach international standard.

Challenges and constraints of restructuring

The main challenge was to encourage employees to believe in the future of the company. Employees were aware of the sales decline and dismissals and were worried about job security. In order to be able to participate in international projects, employees were expected to travel more and to be more fluent in foreign languages, so training sessions were offered by the company.

Management felt constrained by the company culture in trying to adapt from being a small Hungarian player to becoming an international force. The best tool to effect cultural change was intensive internal communication. The founder, Balázs Vinnai, introduced quarterly meetings for employees, to inform them of prior achievements and future plans. A monthly newsletter was also introduced, to allay employee worries. These measures convinced employees they were able to compete at the international level.

A trainer was hired to encourage employees to change the company culture over one year. Team building and internal communication training took place outside the company. Management looked closely at whether employees were spending enough time on their duties, and discovered that although most employees believed they worked long hours, they actually worked fewer than 40 hours a week. Managers also believed employees should take more responsibility for the company and the products. This was difficult to achieve as workers had been used to working in an isolated way, and blaming colleagues rather than helping each other solve problems. Training helped everybody accept responsibility. Management also emphasised product quality as the top priority, in order to distinguish the company from competitors. IND's products were no longer the cheapest, but expected to be among the best. Management also wanted the company to be more innovative and adopt the latest technology faster.

Restructuring advice and support

The owners and managers also looked at their own personal development, by reading international business literature, and books on coping with crises. The company also used internal support for change management.

The key success factor was good internal communications and high employee motivation to take responsibility. Following the introduction of these cultural changes, employees switched from a position of resistance to being strong supporters of restructuring.

The resultant success has led to management predicting that they will be taking on at least 50 new workers in the next three years.

Outcomes of restructuring

The restructuring process was planned and well-managed. Early on, the founders recognised the market trends. They did not hesitate to change their business model completely from quantitative to qualitative growth. Instead of hiring new employees and charging their time to clients, IND Kft developed a product generating higher added value. This bespoke software product is more of a solution (such as SAP) than a daily billed software development service.

IND reached their goal of getting the company back into growth in 2011. Although the company is more vulnerable today by focusing on a niche market, they are also less at risk because of geographical expansion. Despite the large number of organisational levels, they remain a fast-reacting medium-size company.

Investment in software has enabled IND to become a market leader worldwide. Product quality has improved substantially and quality control has worked well. Now they can negotiate with any large international bank, but now they must compete with large international competitors. Forrester Research, one of the world's largest research companies, has, in a recent survey, included IND Group among the global players.

The focus has shifted towards international sales. For IND, the goal is to conquer the most advanced financial institution markets. Rapid growth in 2011 offered new opportunities. At the Finovate 2011 conference in New York – a unique conference series showcasing financial and banking technology innovations – the company introduced two new applications. Both received very good feedback from delegates; all experts from financial institutions and banks.

Last, but not least, the young general manager and the company have received numerous innovation and entrepreneur awards.

2009	**Knight's Cross Order of Merit of The Republic of Hungary (civil division) to Dr Balazs Vinnai** **Technology Innovation Award** for IND iMobile Banking / Innovation Grand Prize by Hungarian Association for Innovation CIB Internet Bank: **Best Retail Internet Bank – Gold-level Award** / Privatbankar Unicredit: **Best Bank Website – Gold-level Award** / Privatbankar **IT and Consulting Partner of the Year** of CIB Bank a Bank of Intesa Sanpaolo **Innovation Partner of the Year** of CIB Bank for mobilCIB (IND iMobile Banking)
2008	eFestival 2008 awards: in category **Tourism/Settlement** for the implementation of tourism portal vendegvaro.hu and in category **e-Services** for the multifunctional banking portal of Unicredit Bank. CIB Bank: **Bank of the Year 2008 – First place** / Mastercard CIB Bank: **Electronic Retail Banking Service of the Year 2008 –First place** (among others for mobilCIB)/Mastercard
2007	The Hungarian Venture Capital and Private Equity Association awarded the IND Group as the **Company of the Year** The CIB Internet Bank won the Mastercard **Innovative Bank of the Year** and the **Bank of the Year**

Commentary

IND participates in EU research and other IT programmes. As leader of an IT cluster, it does a lot for regional development. Success has positive effects on other SMEs and subcontractors in Miskolc.

The case has some general implications. In restructuring, companies should consider:

1. preparing different scenarios;
2. analysing client needs;
3. acquisition instead of investment;
4. decreasing risk by geographical expansion;
5. transparent operations;
6. ensuring better internal communication;
7. securing key employees.

Author

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