Friedrich Marx, Germany

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  50-249
- Employees after restructuring:
  50-249
- Nace/Sector:
  Retail
- Country:
  Germany
- Date:
  02/12/2011
- Keywords:
  Recession/Crisis

Abstract

When German company Friedrich Marx was hit by the global economic crisis, it implemented a restructuring process including the injection of new capital and internal reorganisation. This involved the reduction of costs through dismissals and short-time working. In the beginning, this was perceived as unfair by the staff and resulted in a dampened and mistrustful atmosphere, exacerbated by rumours and fears that further dismissals were imminent. The atmosphere improved when management clearly communicated the firm's situation and its plans, and when employees could see themselves that the company's situation was improving.

Organisational profile

Friedrich Marx GmbH & Co KG is a technical wholesale and retail company selling security systems (such as time-recording, access control, video monitoring), truck and car products (fleet management, navigation and positioning systems, taxi meters), marine products (motors, leisure boats, equipment for steering and gearing) and motor industry (engines and motor equipment). In general, the company is an exclusive partner of several leading manufacturers in its sales areas and it offers its customers individual solutions and advice from project planning to implementation and maintenance. Furthermore, a garage for trucks, cars and marine craft is run as a subsidiary company. Its customers include small, as well as large well known companies, and public clients.

The company, a fourth-generation family business, was founded in 1905. Since then, there have been numerous change and diversification processes, seen as necessary to its growth. Current annual sales amount to about €13 million.

There are about 60 employees, with a further ten employees in the subsidiary company. They have either trained as wholesale or retail traders, or are skilled technical workers (such as graduate engineers and motor vehicle mechatronics technicians). They are aged from 18 (trainees) to 62 years. The average job tenure of 16 years means the company is characterised by a low labour turnover.

For about 30 years, the management has been designed in such a way that the owner is responsible for technical and sales aspects while another person is responsible for the commercial area (finance and human resources organisation). In the beginning this was done by appointing an authorised officer; however, in the 1990s, the position of commercial chief executive officer was created. The person who currently does this job has been working for the company since 2006. He has a great deal of experience in the field of company restructuring, having previously worked as restructuring consultant.

There are five sales or department managers responsible for the individual business units and the staff members working there. The business units are administered as autonomous cost centres in order to allow them to be individually monitored for effectiveness and efficiency, while at the same time giving them a certain level of autonomy.

There is a works council in the company, but it was only marginally involved in the restructuring process.

Background to restructuring event

In 2008, the company experienced sales growth of 9% for the third year in a row and started to adapt its internal structures for the expected further growth. However, the planned restructuring went slowly as profit margins were not very good, the debts of the subsidiary company had to be covered, and the company could not make many savings.

In autumn 2008, the company suddenly lost some important German clients who were active on international markets but who experienced a sharp drop in their own business due to the global financial and economic crisis and hence could no longer place orders with Marx. The effect of this chain reaction was that the company realised a sales decrease of slightly more than 22% in 2009 compared to 2008. This was mainly based on the development of the trade-oriented business units while the area of security systems was less affected in the short run as it is characterised by a stronger project orientation with longer order cycles.

To counteract this decrease, which was caused by the financial and economic crisis, a restructuring process was implemented. Next to strategies to save costs it included the infusion of new capital and the initiation of company internal reorganisation measures.

Restructuring processes

The restructuring plan drafted by the company management as soon as the current and future difficulties became obvious was scheduled over two years, until the end of 2011. This was later supplemented by other measures extending until 2013.

The plan, developed by the management, was presented to employees at the beginning of 2009 at a general staff meeting. The plan set out not only measures to reduce costs (mainly dismissals and short-time working, and also company internal reorganisation) but also to start negotiations with the firm's banks about access to additional capital.

The 22% drop in sales led to immediate cuts in costs. Rent, for example, was reduced considerably by taking advantage of the change of ownership of the firm's office building. The lease agreement was terminated and cheaper rooms were rented.

All employees who still were in their trial period were dismissed. Workers in the business units most affected by the sales drop were made redundant; employees with the shortest job tenure were selected for this, and a total, of six or seven employees were dismissed in those two measures.

Further redundancies were avoided by introducing short-time working for all the company's other employees. Working time was reduced by 30% and this measure lasted for two years, although as the economic situation improved and orders grew, the short-time working level was reduced to 10%, with workers in some sub-units returning to normal working hours six months before their colleagues.

Employees, shocked at the news of the measures, felt they were being unfairly asked to bear the negative consequences of a crisis for which they were not responsible. However, some of the workers understood that management was trying to maintain the highest possible number of jobs with the introduction of short-time working and made their colleagues aware that the alternative would be further dismissals. This raised the understanding and solidarity among the employees so that the introduction of short-time working was accepted. anagement then won over their workers by showing them that a 10% working time reduction did not result in a net wage loss of 10% but only 4% while they could take advantage of 10% more spare time.

However, these cost savings were not sufficient to counteract the high sales decrease, and it became obvious that next to the extra cash already injected by the owner additional funds would be needed to promote the liquidity of the company and make it survive the financial and economic crisis. Accordingly, the firm's three banks were contacted, the restructuring concept including a liquidity plan presented and access to additional capital negotiated.

Due to the expertise and experience of the commercial chief executive officer in the field of restructuring, the firm's banks were contacted in spring 2009 – when he could see they were heading for a crisis, but before it hit them. Not least because of this early approach, the banks were generally willing to provide capital. However, they requested an expert testimony by an independent third party. This was ordered by Marx from a private specialist consulting company which specialised in accompanying companies in crisis situations. Before the restructuring, the company did not have any contacts with this consultant. However, because of his own experience as a restructuring consultant, the commerical chief executive officer knew the consultant by name. Together with the consultant, the company again negotiated with the banks and presented the results of the consultant's assessment in mid 2009.

The consultant's positive forecast resulted in the banks' agreeing to provide credit worth €500,000 in December 2009. However, this was conditional on the owner providing further capital, the workers forgoing their Christmas and holiday pay for two years and the largest strategic suppliers agree to a delay in their payment. Furthermore, the banks requested a debt guarantee of € 1.5 million for the offered capital. This was provided by the owner, who assigned his life insurance, and the charge on his home) and the Hamburg Alliance for Loan Guarantees (Bürgschaftsgemeinschaft Hamburg) (see below).

After initial unwillingness the employees accepted the deal, as management pointed out that the Christmas and holiday remunerations would be paid when it was again economically feasible.

The firm's two or three largest suppliers also agreed: Friedrich Marx had been working for them as an exclusive importer for years and it would have been a considerable effort for them to find a replacement at short notice.

The banks' final condition was that the restructuring consultant monitored the planned measures for two years. This is a very common procedure in such situations. Due to the positive economic development of the company, however, the consultancy could be stopped in 2010.

This restructuring was also used to push forward the internal reorganisation that had been started in 2008, as part of the planned growth strategy. This meant, for example, that sales were restructured. The company had products in its portfolio that were legally required (such as trip recorders for trucks) and was the exclusive representative for the manufacturer who held 90% of the market share. This had led to a rather passive attitude to sales of these items, with the company mainly reacting to customers' enquiries. In the meantime, however, both the product portfolio as well as the market had changed. Consequently a sales strategy was developed with pro-active sales and the acquisition of clients in the forefront, leading to more targets set and better monitoring of the achievement of objectives.

These adjustments also required changes related to human resources. Due to the long tenure of the staff, the responsibility felt by the employer especially for the older workers, and the high severance payments related to redundancies, the management tried to find within the new company structure new tasks for all employees. This step was supported by education and training measures and individual coaching. As consulting fees could be saved when the consulting contract was terminated earlier than planned, the company could use these financial means to cover the training costs.

One or two workers, however, were encouraged to take early retirement, and a few other employees were motivated to leave the company on their own initiative when it became obvious that a future with the company was not feasible. These staff members were also actively supported.

When recruiting new staff, the company explicitly looks for workers that support the new structure. It had found that, particularly at the departmental manager level, some employees were not able or willing to adapt to the new structures. Their employment contracts were terminated by mutual agreement and without any problems, as was the recruitment of new staff that well fulfil the new tasks.

Challenges and constraints of restructuring

One challenge was getting the employees to understand and accept the need to save staff costs. In the beginning they perceived it as unfair; however, some employees took on the role of mediators which helped ease the tension and foster a feeling of the solidarity in the company.

The staff-related changes (dismissals, short-time working, waiving of Christmas and holiday pay, and retraining) resulted in a dampened and distrustful atmosphere in 2009 and 2010. This was exacerbated by rumours and fears that further dismissals were imminent.

However, as the company finances improved and some of the business units began to be excluded from short-time working, a certain level of jealousy arose among the departments. This was because it was not possible for individual workers to compare different units and therefore could not see the reason for what they saw as unequal treatment. Management tried to keep the workers informed by giving facts and figures on the current situation and the planned steps at annual staff meetings. This enabled employees to recognise that the company's situation was improving, which also improved the atmosphere. The major change of mood, however, occurred because the employees themselves experienced in the course of their daily work that more customers were contacting the company, more offers had to be written, more orders had to be fulfilled and more staff was recruited to deal with this.

The banks' stipulation that a restructuring consultant had to be engaged resulted in the company having to spend a large part of its new capital on paying the consultant. In the first year of restructuring, for example, the consultancy fees were € 128,000 (out of a total of € 500,000 advanced to the firm). The company felt the consulting services were not good value. Indeed, due to the expertise and past experience of the commercial chief executive officer in the field of company restructuring, the external consultants provided hardly any ideas that were not yet known to the management and partly were being implemented since 2008. those measures that resulted in sustainable change for the company were developed within the firm. This was because the management, who had already been working on reorganisation plans for two years, was much more familiar with their own company than the external consultant who had to submit a concept within few weeks of learning company procedures. However, the firm does feel that the changes were implemented more quickly than otherwise might have been possible, because the external consultant could pose more pressure on the internal structures than the management.

Another big challenge was the risk to the owner's own funds that were additionally put into the company in the framework of the restructuring process as well as the collateral of his home and life insurance requested by the banks – a severe interference in the current private assets and the guarantee for the future of the owner, respectively. In particular, one of the firm's banks in spite of good cooperation for decades, requested conditions that were not feasible as they would have risked the livelihood of the owner in case of further difficulties in the company.

Restructuring advice and support

The restructuring concept and the restructuring measures were mainly developed by the management. The private restructuring consultant, as specified by the banks, came up with suggestions and measures, but although he provided some stimulus, his ideas did not result in the sustainably successful changes that the company itself brought about. Management say this is partly due to its own commercial expertise and knowledge of company restructuring, and partly due to its familiarity with the company and greater breadth of knowledge about its strengths and weaknesses. The obligation to hire an external consultant caused additional costs that did not bring about a commensurate added value. However, management did think that in companies where there is a lack of experience with crisis situations, it would be a good idea to approach a specialised consultant.

The public support for short-time working (also see Eurofound, 2010) which was increased during the economic crisis through the stimulus package II ('Konjunkturpaket II') is very positively assessed by the company. Short-time working was seen as necessary to achieve the cost reduction required for the restructuring without losing know how by dismissing employees. However, even though publicly supported further education was available to the workers during their short-time working, there was no demand for it from the firm's workers. Participation in training would also have separated the employees from their work for longer than would have been feasible at that time.

The Bürgschaftsgemeinschaft Hamburg (Alliance for Loan Guarantees) offered a guarantee for the capital provided by the banks. The Bürgschaftsgemeinschaft Hamburg is a self-help organisation providing loan guarantees up to 80% of the credit amount and up to €1 million, respectively, to foster small and medium-sized enterprises. Associates of the alliance are various chambers, guilds and enterprise confederations as well as credit institutions and insurances. The city of Hamburg as well as the federal government back the guarantees offered to the companies.

The company were very positive about the Bürgschaftsgemeinschaft Hamburg not only because of the opportunity to get access to the required capital, but also in its help in negotiating with the firms' banks. The Bürgschaftsgemeinschaft, for example, suggested that the company should only pay back the credit which was provided in December 2009 from 2012 onwards, so that the new capital could be used for restructuring and growth without affecting the liquidity due to a too-strict repayment plan. With this understanding of the company situation the Bürgschaftsgemeinschaft also helped persuade the banks to ease some of their credit conditions.

The management also sees the provision of guarantees or collateral as the best public support for restructuring, particularly as in owner-managed small and medium-sized companies it can be the case that the owners do not have enough private assets to finance the restructuring, nor a sufficient level of collateral to offer the banks in exchange for credit.

Outcomes of restructuring

The economic situation of the company improved quicker than initially expected and by 2010 the banks agreed to the management's request to dispense with the services of the restructuring consultant. By the end of 2011, 60% of the sales decrease experienced in 2009 had been levelled out, and it is expected that, by the end of 2012, the firm will achieve the sales levels of 2008. The € 500,000 credits advanced in December 2009 was to have been fully repaid by April 2012, resulting in considerable cost savings related to credit interest and fees for the guarantee certificate. This will further increase the company's liquidity, and the company will not only have mastered the crisis but will have trimmed its structure and improved its competitiveness due to the reorganisation.

The restructuring has meant that six or seven employees have been made redundant, with all other employees affected by wage loss for a maximum of two years due to short-time working. However, because of the firm's access to public short-time working support the net income loss was lower than the level of additional spare time. Short-time working was stopped in mid 2011. The employees also had to waive Christmas and holiday pay for two years. Management, however, plan to honour these payments as soon as company finances allow.

Most of the department managers, and some other workers who did not support the new structures left the company. These employees were supported in their transition to a new job or retirement, and the vacancies have been filled in the meantime. Hence, there were hardly any changes in staff numbers in the medium term. The remaining employees were trained for their new tasks. At the end of 2011, 75% of the workers employed by Friedrich Marx before the crisis were still working for the company.

Management, seeing what has been achieved during the restructuring, are now motivated to introduce further changes as they realise that alterations previously thought impossible during times of 'normal business' could now be implemented. The crisis situation is seen as a chance to improve aspects that could not or at least not as quickly have been changed in times of 'normal business'.

Commentary

The management feels that the public short-time working support and the credit collateral by the Bürgschaftsgemeinschaft has been an important contribution to the success of the restructuring. Short-time working was a considerable factor in reducing staff costs without loss of know-how, and the Bürgschaftsgemeinschaft was a valuable mediator between the company and the firm's banks in the negotiations on credit conditions.

As for the hired private restructuring consultants, the management is convinced that such specialised support is of advantage in many cases. However, in their own specific case it did not bring about a satisfactory price/value ratio due to the company management's own expertise and experience. Accordingly, the generally prevailing idea among banks that they will provide capital for restructuring only if a restructuring consultant is hired should be reconsidered. Any company needing to be restructured which is unhappy with its consultant has hardly any room for manoeuvre as any credit has to be paid back immediately if the consultant resigns. Furthermore, some of the banks' credit conditions, such as the design of repayment plans, are seen to be counterproductive as it can lead to a drain on liquidity.

The company recommends that others in the same situation should conduct a detailed analysis of the causes of its crisis and develop strategies for dealing with it. The implementation of the measures needs to be continuously controlled and, if necessary, adjusted. It is also vital to be open with banks, employees and suppliers about what is happening, and the plans for restructuring. In order to maintain the trust of the stakeholders it is important to fulfil given promises. When in negotiation, a sound concept should be presented, even if it is felt that the negotiation partner will not agree. It has to be borne in mind that, in most cases a bank is not interested in closing down a company that is to be restructured and is more open to good arguments than might be expected. However, it is particularly important that in these discussions a company owner stays factual and rational despite their strong personal involvement.

An important factor for the success of restructuring is the availability of sufficient commercial steering elements in the company. This may be a problem particularly in owner-managed small- or medium-sized companies as the self-employment is often based on a creative idea rather than on commercial expertise. Accordingly, it would be important to make entrepreneurs aware that they should organise commercial support (through employees or advisors) before the administration of the company gets too complex.

Finally, a company crisis should be seen as chance to improve one's business, and for the company to come out of the situation in a stronger position. A successful restructuring can motivate managers to change in the future when opportunities arise. At the same time, it is important to remain self-critical and not to let success blind one to the possibility of crisis.

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Interview

Knut Reher, chief executive officer, Friedrich Marx GmbH & Co. KG

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