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Blažič robni trakovi, Slovenia

- Type of restructuring:
Business expansion
- Employees before restructuring:
50-249
- Employees after restructuring:
50-249
- Nace/Sector:
Retail
- Country:
Slovenia
- Date:
19/01/2012
- Keywords:
Globalisation

Abstract

Slovenian company Blazic restructured by acquiring its German supplier firm as it was interested in producing the basic product itself. Buying a company that already had the required technology and know-how was thought to be the better alternative to investing in its own technology.

Organisational profile

Blažič robni trakovi is a leading provider of edge-bandings in Europe and a distributor of material for the furniture industry. The company is also the exclusive sales agent in Slovenia and the Balkans for a number of well-known trademarks.

The company was founded in 1987 by Franc Blažič as a small joinery to produce furniture. Since the market then was inadequately supplied with edge-bandings, he developed an innovative machine for cutting sheaves and joining veneer tapes. A year later, Blažič then invented a machine for cutting melamine edge-bandings of different widths. The workshop next to the family home soon became too small and in 1997 business and manufacturing facilities were bought from a former Slovenian printing company. These buildings were thoroughly renovated and in 1999, the business was transferred to the new location at Bravničarjeva 18 in Ljubljana. Soon after, an extension was added, with a new offices and a warehouse constructed in 2008, meaning an increase in space from the original 2,800 m² to 6,800 m². Company warehouses, at other locations, provide. There are two main warehouses in Slovenia, not including warehouses that are a necessary part of shops, providing an additional 1,400 m² of space. The company also has warehouses in Croatia, Bosnia and Herzegovina, Serbia, Macedonia and Montenegro for distribution to local markets. The new store in Ljubljana (500 m²) is located in the city centre and has a large car park.

Today, Blažič is the market leader for edge-banding tapes used in the furniture industry. Customers are offered the widest selection of products in different patterns as well as thickness and width sizes. Over the years, the sales programme has been expanded, first by the addition of furniture hardware and metal products, then by flat-surface materials and subsequently, by adhesives, surface materials and joinery tools. The company

stocks more than 25,000 different items and collaborates with 70 different suppliers from 17 countries. Their competitive advantage is fast delivery.

Blažič have developed both wholesale and retail sales market networks. They have five points of sales in Slovenia and are gradually expanding abroad. They have already established outlets in Croatia (2003), Bosnia and Herzegovina (2006), Montenegro (2008), Serbia and Macedonia (both 2010). In 2011 Blažič bought Furwa, Furnierkanten GmbH in Germany. The company also actively sells in the Austrian, German, Belgian, UK, Russian, Italian and Ukrainian markets. They collaborate with more than 3,500 sales partners.

In 2009, Mihael Blažič, the son of the founder, took over the company, after a 10-year process of managerial succession from his father. With Mihael becoming a director, the company began to internationalise, establishing a subsidiary in Zagreb in 2002/2003, his first major solo project. This was followed by an intensive expansion and establishment of subsidiaries in the Balkans. During this time, Franc remained managing director. However, such a situation meant heavy responsibility but limited power for Mihael with the result that Franc formally delegated the position of director to his son. With a new leader, the business developed strongly, especially with expanding operations to foreign markets.

Table 1: Blažič robni trakovi: Average number of employees, sales income and profit (€)

	2006	2007	2008	2009	2010
Average number of employees (not including international subsidiaries)	14.24	55.70	71.54	80.01	85.35
Sales income (€)	8,583,680	10,793,328	11,959,154	11,195,108	12,543,150
Profit (€)	581,587	311,047	715,334	38,383	-394,998
Added value per employee (€)	18,608	24,097	40,812	29,390	19,327

Source: [GVIN business information data base](#)

The slight sales income reduction in Blažič in 2009 does not indicate a real drop in market share. Rather, it involves a redistribution of sales, where the newly-established enterprises in the group account for a higher share.

Rapid growth in terms of both markets and product range required development in knowledge and employment. The company employs 125 people, 90 in Slovenia and 35 abroad. The number of employees has increased considerably over the last three years. They are a young and promising team, with extensive know-how and practical experience. Most employees are experts in the timber industry, ranging from joiners to university graduates in wood science and technology. Since customers expect a complete service, as well as help in finding solutions, they regularly attend professional training and education courses both in Slovenia and abroad. The company does not have a works council.

The company's extensive growth began with 35% growth over 2004/2005. During this time they have not been able to formalise organisational processes and future plans in the form of written strategies. The company has no written HRM or corporate social responsibility strategy. Management closely monitors personnel turnover, which is of course to some extent dependent on the overall economic situation. They are more interested in why employees' leaving the company voluntarily, although managers say that, in the last four years, only one worker per year has left the company voluntarily.

In 2008, Blažič won the 'Gazelle' competition for the fastest growing company in central Slovenia, and was also nominated for the prize again in 2009. In 2010, the company, as a manufacturer of boundary strips of veneer, was certified by the Forest Stewardship Council (FSC) as complying with the standard for sustainable and controlled usage of wood in a complete production chain. This demonstrates they are among the most progressive companies in the sector regarding environmental sustainability. The company has received many other awards and nominations recently, including, in 2010, a recognition rating from Creditcheck.

Background to restructuring event

Blažič have experienced various types of restructuring during the last ten years - mostly business expansion. The first expansion refers to Blažič rubne trake d.o.o. in Croatia, where a retail store was opened in Zagreb in September 2003. Since then, the company undertook intensive internationalisation, setting up subsidiaries in the Balkans. Simultaneously, the company focused on Western European markets, looking for business opportunities, but the process of business expansion in this part of Europe was not planned.

The focus of this case study is the acquisition of German supplier Furwa, Furnierkanten GmbH. The management described the three most important drivers for this restructuring event.

The first was opportunity. Furwa got to a breaking point when the owner was unable to transfer the business to members of his family and, due to age and ill health, decided to sell up. Furwa was founded by Armin Wiblshäuser in 1974. His family had been in the woodworking business for generations and he invented veneer edges in continuous rolls. Furwa is nowadays the world's third biggest company in the niche production of veneer edges, employing 35 people and generating €6 million sales income.

The second motive was that Blažič had just lost its major supplier at that time, the world's second largest company in this niche market, due to a takeover by a global manufacturer.

The third motive concerns technology. Blažič wanted to produce Furwa's basic product themselves. It is a highly complex process that requires a large and expensive production line. Blažič was then considering either investing in its own new technology (which they tested with a potential supplier while negotiating the purchase of Furwa) or buying a company that already had it all. By purchasing Furwa, the company also gained much from the transfer of know-how as well as the expansion of sales markets.

The decision to acquire Furwa was led by the desire to speed the firm's internationalisation. Blažič believe the acquisition to be an appropriate investment due to Furwa technology, complementary to Blažič. In this way, Blažič covered the entire segment offering veneer edge bandings. Another aspect, of course, is the expansion of the distribution network by taking control of Furwa channels: 80% of Furwa's production is exported. Blažič has, therefore, acquired many new markets in North and South America, and Africa. Furwa has a strong market reputation derived from its knowledge and technology developed in a narrow market niche – a reputation Blažič has now gained through acquisition. In this specialised niche market experience and tacit knowledge are critical to creating a competitive advantage.

Restructuring processes

Blažič first considered acquiring Furwa in mid-2010. Basic interviews with the owner, management and other experts in branches were maintained for about three months. They also consulted legal and tax advisors. The process of selling the company was held up because the owner felt his business was worth much more than he ultimately got. Furwa was acquired in March 2011, after four months of intense negotiation.

Before the purchase, Blažič management prepared a detailed three-year business plan, examining the effects that the purchase of Furwa would have on Blažič.

Our correspondent has pointed that the family business philosophy common to both companies contributed to the success of the acquisition. Their intention was to change as little as possible. The main reason for this was the company's family tradition and their sensitiveness to change. Alignment of business was done with the introduction of a new communication protocol. They discussed targets with the Furwa management and employees and aligned products and market appearance. All this was done gradually; step by step. The cultural compatibility of the two companies supported the situation. Post-acquisition integration took place relatively easily because of this compatibility.

The purchase of Furwa was a leveraged buyout, Blažič financing the acquisition through German banks, with 15% of the deal coming from its own resources. As part of the loan agreement, German banks stipulated that Furwa's management would not be replaced.

Challenges and constraints of restructuring

Workers at Blažič did not accept the acquisition of the German supplier without hesitation. They felt quite a lot of frustration and fear that the acquisition would cause unwanted change. However, management attempted to calm these fears by clearly communicating their plans, preparing a written notification, so that all employees were informed about acquisition objectives. Reactions to this were mixed, although managers and some employees accepted the decision very positively. In general, workers are less afraid about their own future at the company.

Interestingly, some customers in Slovenia reacted to the move quite negatively. The reason for this may lie in the fact they were not informed directly by Blažič side, but from magazines or newspapers. Anyway, they did not take any specific action, but just let it go.

At Furwa, the lengthy acquisition process meant that the employees were prepared for changes. They feared that production would be relocated to the Balkans, but with appropriate information at joint meetings, Blažič fostered a basic level of trust. It took a year after the takeover for employees to recognise the aspirations and vision of the new owner, and become confident about the future. Blažič is aware that the establishment of mutual trust requires time and that there are no shortcuts.

Restructuring advice and support

The acquisition of a foreign company is a demanding undertaking, and to facilitate this in terms of handling and knowledge of formal procedures, Blažič made extensive use of Slovenian and German experts and consultants. The acquisition process was led by Luka Novak, a Blažič manager at the time and now also responsible for managing the operations at Furwa. During the acquisition process, he had legal, tax and financial advisory assistance from local German consultants and from one external adviser on remaining issues such as finding good practices in the local environment. The advisor had been involved in a number of previous takeovers or mergers of similar sized companies. They discussed potential mistakes and threats, and also the advantages of such connections.

All support providers were from the private sector, and the company says that everyone, especially the local German specialists, were highly satisfactory. However Luka Novak was more critical of the support they received from the Slovenian side. He admitted they didn't undertake any in-depth research regarding government support for their activities due to time constraints. He feels that, in Slovenia, the business support structure is simply too weak. Even if it exists, it is lost in bad communications between government and entrepreneurs.

Outcomes of restructuring

No workers left because of the acquisition and Furwa's employees and organisation structure remain the same. This was clearly the vertical integration; no bigger synergies in HR were developed.

Luka Novak, says he learned many valuable lessons from the process including an insight into the functioning of acquisition processes abroad, and a thorough knowledge of the German business environment and customs. A key challenge for him was to ensure that the decision to purchase the company wouldn't be regretted later and that Furwa achieves positive performance in the next business year.

The current economic situation has caused market contraction for Furwa products. At the same time, it is also necessary to finance the costs of acquisition and to avoid Furwa's development processes being negatively affected. Consequently, Blažič decided to use Furwa's profits to finance the acquisition. All other issues in the acquired company are running smoothly, with no loss of staff or reduction in pay. Blažič is well aware how vital this is to building the necessary mutual trust and cooperation, in order to maximise production.

Furwa has clear plans for the future, with six projects outlined. They particularly want to attract new, large, customers, such as IKEA, with the hope that they will bring in for example, 20% of total sales in future. Operating results will largely depend on the success or failure of these projects.

Furwa's principal business objective (if they have sufficient equity) is to develop a distribution network in Germany. They are aware that this is a very demanding project in terms of capital, since a good salesperson in Germany is paid at least €60,000 per year. Profits generated will be primarily aimed at developing a sales network in Germany. Furwa is currently focused entirely on the B2B segment (selling to large factories or distributors), while Blažič wants, because of Germany's enormous market size, to target the B2C segment (selling to small cabinet makers, not to the final customer).

Blažič is already planning to extend operations into other European markets. In 2011, they employed a salesperson in Budapest. He is in charge of searching for potential new partners in agreed foreign markets such as Poland and the Czech Republic.

Synergies created between the two companies relate largely to the acquisition of new skills. Blažič has gained new production knowledge as well as knowledge of new markets. They have gathered many new contacts and forged new business ties. They organise regular visits by German technologists to Slovenia and vice versa. Many positive effects cannot be directly assessed; however the experience of both parties is enriched.

Blažič heavily invests in the development of new edge-banding tapes, as new trends continue to emerge at an increasing pace in the particleboard industry. New boards also call for new types of edge-banding tape. They strive to offer customers products that meet even the most demanding trends in product development, in terms of quality and affordable prices. In order to achieve these goals, they need to stimulate all employees to participate in development processes. For this reason, an intensive system of encouraging and rewarding employees for innovative pursuits is in preparation. There are fewer opportunities for manufacturing improvements, as only 10% of revenue derives from their own production; everything else is brokerage/trade. At the same time, great opportunities for improvements remain in administrative processes.

Commentary

Blažič now has the title of the fastest growing company in Slovenia ('Gazelle' award). According to our interviewee, a key advantage of a gazelle is its flexibility. The company is happy with its decision to acquire Furwa, and feels that they learned a great deal from the process, although it agrees it might have been better if some things had been done differently. The company's management is not in favour of state aid for restructuring, as they feel that it is too great a problem to identify those who really need help. They believe that it would make more sense to help those SMEs which want to restructure in areas such as expert knowledge. Restructuring can be very demanding, especially for small businesses, representing a disproportionately large burden in terms of acquiring knowledge and skills for successful implementation.

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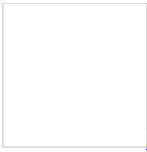
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