Eurofound

Company AS, Romania

Type of restructuring:	Business expansion
Employees before restructuring:	10-49
Employees after restructuring:	50-249
Nace/Sector: Information / communication	
Country:	Romania
Date:	14/12/2011

Abstract

Set up in 1997, Company AS operates in the film and advertising production business in Romania. The current owner acquired a loan to buy out the company in 2008 but this coincided with the economic slowdown. Due to delays in payments, fewer new contracts and competition from neighbouring countries, the company had to cut temporary contracts, outsource half the post-production jobs and look for alternative financing from other banks. In 2011, the company was again able to expand, stop outsourcing jobs and increase the workforce from 40 to 50.

Organisational profile

Company AS is involved in the film and advertising production business. Currently it has only one shareholder, Mr G. The company does not have a works council. Many of the clients are from overseas (40%), and the rest are from Romania. Also, some of the production is done in Romania but, since 2009, more and more is done in locations outside the country, for example South Africa.

The company scouts locations and hires extras, prepares and organises the shootings of the film or commercial and then does post-production filming and editing. In 2011 it also began to offer vision effects and 3D animation.

The owner is Mr G, who has been in this business for almost 20 years, starting on the sales side. The company was established in 1997. In 2008, when Mr G's partner wanted to sell his shares, Mr G borrowed the money from a bank to buy them, and thus became the sole owner of the company.

Company AS is a privately owned company, and in December 2011 employed 50 people. Part-time help is hired during filming. On these days catering and security companies are also hired.

Background to restructuring event

The Romanian economy was dealt a tough blow in 1990. The shock of liberalising prices, and attempts to introduce market practices after the 1989 revolution, pushed the economy into recession. The first private TV station, PRO TV, appeared in 1995. About the same time, the local TV advertising industry was starting to take off.

In the beginning, Mr G and his partner were just using commercials shot outside Romania and dubbed them into Romanian. At the same time they were able to win a few accounts for the post-production of films and commercials shot outside Romania.

Around 2000 the company upgraded its equipment and expanded its area of services with the most important being the production of foreign films in Romania. The company has expanded, hired people (up to 40) and built new offices.

In 2008 Mr G's partner wanted to exit the company and Mr G had to take out a substantial loan in order to buy his part of the shares. The following year the global crisis hit Romania.

Restructuring processes

The acquisition of the loan coincided unfortunately with the global economic slowdown. Payments for the company's services were delayed and there were fewer new contracts. At the same time competition from neighbouring countries exacerbated the situation, as companies there dramatically decreased their prices.

In this environment it was not surprising that the cash position of Company AS deteriorated, and this led to the bank downgrading the company's credit score, and asking Mr G to repay the entire amount of the loan.

Faced with this difficulty, Mr G chose two paths to solve the problem. The first was internal restructuring and the second was looking for alternative financing solutions. As he had never done this before he did not have a well laid out plan, or a time frame. He looked to solve the problem one step at a time and he leaned towards solutions that would relieve some of the immediate cash flow problems. As restructuring would take some time he used most of his efforts to find short-term financing.

Regarding the internal restructuring, Mr G first informed employees one month in advance about his decision not to renew four temporary contracts for the production team. At the same time he temporarily outsourced half the post-production jobs which would otherwise have required investment in new equipment.The outsourcing was done by contracting some of the post production process to the only other company in the market doing similar work. This was the first time the two competitors shared a working relationship. He did not have to get rid of any of the other workers as he outsourced the post-production part of the business which could be done more efficiently by another company. The remaining part of the post production process was done by his team.

On the second front, Mr G asked for financing offers from a few different banks in an attempt to retain the amount of credit, while lowering the cost. As Company AS is an SME, and it was this particular sector that got hit the most during the 2009–2010 crisis, negotiating a new deal with a different bank was not easy. More specifically, it was easy to get their attention but the terms and conditions they offered were worse than those offered by his original bank. However, he did get offers from three other banks and started advanced negotiations with just one of them.

With the cash problem solved, Mr G could return to his previous plans of expansion. He was able, in 2011, to acquire the equipment needed for post-production and thus stopped outsourcing his business to his competitors. Also, he was able to increase the number of employees from 40 to 50.

The internal restructuring process lasted 18 months.

Challenges and constraints of restructuring

The main challenge for Mr G was finding new financing to replace his previous credit line. His bank, under pressure from its headquarters, was continuously decreasing the amount available. Under those conditions Mr G was finding it difficult to pay for his monthly costs, such as bank loans, salaries, utilities, rent, production and maintenance.

The other major challenge was due to a surprising turn of events in the market for film production and advertising. All of a sudden there was a need for 3D production and there was increased demand for advertising production from outside Romania. However, Mr G could not immediately respond as he was still dealing with the financing issue.

Restructuring advice and support

After waiting for few weeks Mr G received a few financing offers from different banks. He asked the help of a former bank employee, a family friend, to identify the best terms. At the same time he told his bank that he was thinking of changing banks. This forced it to offer new loan conditions.

With the help of the family friend, Mr G was able to choose between offers from a new bank and one from his current bank. He chose to stay with the current bank but with better terms; he was also able to keep the original amount of his credit line.

Mr G has followed the advice of the family friend on cutting costs first. They first cut the easiest one, temporary contracts, and then looked at other flexible parts of the business (for example, the part of the post-production that could be outsourced). He also he left the renegotiation of the loan terms to the end in order to reduce this interest cost to his business.

Outcomes of restructuring

Company AS has always been a successful company. It grew organically into a leader in post-production for films and commercials but also lately film and commercial productions.

Throughout 2010, it had to deal with a cash flow problem which was finally resolved. With this out of the way Mr G was able to invest more and expand the business in 2011. It increased the number of employees from 40 to 50. Also, the overall turnover increased by 12%.

Commentary

It is interesting to note that Mr G, like most entrepreneurs in Romania, was taken by surprise by the current economic crisis. The reaction to the slowdown in demand for his services was unsurprising, as he turned first towards the easiest costs to cut. As he did this without outside help it shows that, for small companies, managers/owners react naturally to adverse shocks and they look at minimising costs first. One other aspect to mention is that Mr G was able very quickly to switch his focus to growing the business as soon as the cash flow problem was solved.

Author

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Information sources

Interviews

Mr G, owner and manager of Company AS