Acropolis Dry Cleaners, Cyprus

- Type of restructuring:
  Merger/Acquisition
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Other services
- Country:
  Cyprus
- Date:
  10/01/2012
- Keywords:
  Recession/Crisis

Abstract

Founded in 1975, the family-run Acropolis Dry Cleaners is a market leader in the dry-cleaning sector in Cyprus. It comprises six micro-businesses, having expanded its operations and services over the years. Expansion however has been hampered by poor trade and pressure to cut costs. Striving for operational efficiency in the crisis, to cut costs the business had to close a retail unit and outsource services, as well as integrate a hybrid franchised workshop store into its network of retail shops. Yet the business has managed to retain 25 employees since 2007.

Organisational profile

Eracleous & Sons Ltd, trading as Acropolis Dry Cleaners, is one of the market leaders in the fragmented dry-cleaning sector, offering the highest standards of service, due to continuous investment in modern technologies. Today, the company employs 25 people (including owner/managers) and enjoys sustainable business success, steady growth and financial stability. It constitutes a group of micro-businesses that are integrated into Acropolis, which is the 'parent firm' and is wholly owned by the family owner/managers. The organisational structure of this small enterprise is very flat, managerial positions are held by family members and there is no works council.

Acropolis Dry Cleaners was founded in Larnaca in 1975 by the – now semi-retired – owner Zacharias Eracleous when he was aged 28 years, following a long apprenticeship (16 years) in the industry. In the early days, the original firm was a sole proprietorship, run by the founder, offering dry cleaning from a one-stop workshop and retail unit (often referred to as a store in the industry). Zacharias Eracleous established a loyal clientele in the town, but also used to organise the collection of clothing from nearby villages, notably Aradhippou, where the family is based. Following early growth, the firm progressed to the profitable stage of the business life cycle model, with no formal strategic plan to expand further. The emphasis has been on offering quality service to its loyal customer base. The store was profitable enough for the founder to buy out the freehold of the property and to be able to support the growing family of five sons. Family developments have proved the trigger for business growth in order to provide the expanding family with jobs.

Thirty-six years after its establishment, Acropolis Dry Cleaners opened its second store in 2002, after buying another company in nearby Livadhia village, with a view to scaling up operations via horizontal integration. In 2004 and every year until 2008, they embarked on an ambitious expansion through horizontal integration by opening up stores in new locations in the suburban village towns of Aradippou, Kiti, Nissou and Anglisides around Larnaca town. The range of services has been expanded and now includes laundry cleaning and ironing, leather and carpet dry-cleaning, fabric repairs, curtain cleaning, specialist cleaning and pressing of wedding dresses and tuxedos.

In recent years, the firm has triggered new business activities such as laundrettes, which also act as points-of-sale for the dry-cleaning operation, and a rental service offering table and chair covers. Acropolis Ltd evolved from one small retail workshop into a fully integrated owner-managed family business that dominates the dry-cleaning market in the Larnaca district. Following incremental growth, the firm today enjoys a leading market position, with a network of shops that are vertically integrated with a state-of-the art central production plant for the cleaning operations.

Following its business expansion, Acropolis Dry Cleaners went through a series of restructurings and reorganisations, as part of a multi-dimensional strategic plan, addressing managerial, ownership and financial issues.

In the context of the prolonged macro-economic-financial crisis, two major restructuring events are the focus of this case study. In its search for operational efficiency and sustainable competitiveness, Acropolis decided to close a retail unit operating on the high street and outsource the service to a local supermarket. The company also abandoned a hybrid franchising route by wholly acquiring a retail unit that involved a partnership with the managing director, and they have integrated the business unit into their network of shops that outsource the dry-cleaning to a central depot located in the industrial estate.

Today, the firm does not suffer from a funding gap – a shortage of bank loans coupled with escalating late payment of trade debtors – that often hinders growth and jeopardises the survival of smaller firms. During recent tough times, the Eracleous have 'shaken the tree' and got rid of some business clients (such as hoteliers that fail to honour their terms of engagement by delaying settlement of their invoices). Today, Acropolis Dry Cleaners remains focused on developing high value added services to their loyal customers, as emphasised by their slogan: *Always offering clear solutions ! Πάντα , Καθαρές Δουλειές!*

Background to restructuring events

In 2006, as a result of market development through the establishment of a network of workshops (retail units), the company embarked on an ambitious investment in a central production plant in Larnaca's industrial estate to serve all of their shops. This was geared to standardise certain processes to achieve operational efficiency, reduce cost structures and ensure quality of service across the chain.

This investment has been critical in the effective adoption of operations management systems across the integrated platform which allowed the building of sophisticated logistics (collection and delivery to the shops) and production systems employing state-of-the-art, ecologically friendly technologies and solutions. Through the standardisation of production and service across the network, training of staff and adoption of modern shop management techniques, the firm has achieved unparalleled success, offering high value added services to a growing customer base. However, the production plant has not managed to reach operational efficiency due to under-utilisation. Thus the firm is under pressure to expand and bring in greater volumes of apparel for cleaning.

In recent years, and in the context of the prolonged economic crisis, the owner/managers have pursued a restructuring process that primarily involved the closure of a retail store and outsourcing the service to a supermarket (cost-cutting), and the integration of a hybrid franchised workshop store into the network of retail shops (cost cutting and enhanced independence).

Restructuring processes

Given the predominance of Acropolis Dry Cleaners in Larnaca, the firm decided there was scope to expand geographically with partnering. It was imperative to grow in order to bring in more work for the central production plant seeking enhanced utilisation, but also to fence off any rivals entering the market. The owner/managers of the firm crafted the restructuring on an ad hoc basis, a step-by-step growth plan, which from time to time they discussed with their bankers and accountants.

In 2008, the Eracleous set up an independent shop in Anglisides village, on the road to Limassol – a thriving metropolitan business centre. Basically, they took on a shop with a flexible lease to act as point-of-sale offering Acropolis services. In 2009, they established a limited company jointly (with a long-time associate who had also formerly been an employee) to acquire an existing dry-cleaning workshop venture in Nissou which is on the road to Nicosia – the capital city of Cyprus. Both shops have been equipped with their logistics systems and refurbished with their classic well branded model of operations. Given the small distance, experienced employees from the existing Acropolis operations were transferred to the new shops and then using word-of-mouth and networking they recruited additional staff, initially on a part-time basis and then, based on performance, on a full-time basis.

Unfortunately, their appetite for expansion has been hampered by poor trade and pressure to cut costs in order to cope with the recession. Thus the restructuring events as described below have been pursued.

Outsourcing

In the light of performance management, the Acropolis team decided to close the retail store (collection point, outsourcing the jobs to the central production plant) located on the high street in Anglisides village and relocate the service into a supermarket. Basically, this involved the closure of the store (capitalising on cost economies in terms of rentals, and saving on labour costs due to shedding a full-time job and a pro rata, part-time job). This action is effectively outsourcing, as the supermarket hosting the Acropolis service provides the counter for the collection and deliver of the treated apparel. Acropolis rewards the supermarket with a commission on the trade volume. This win-win partnering is proving fruitful for both parties. This model is under review in order for Acropolis to activate more collection points in other supermarkets in other locations.

The Anglisides project, which took over a year to plan and implement, had to be re-engineered. Despite the fact that it has not violated their patient investment pay-back period, and there was optimism that through effective marketing the financial numbers would have picked up, after a year of running it the family decided to close the shop and simply outsource the operation as 'a counter service' in the leading supermarket in the village. The supermarket that hosts their service is adding value to their range of services, plus they get their commission from the Acropolis Cleaners. The new arrangements meant a lower cost structure because of savings on the rental payments, and a greater flow of people. The economic crisis has signalled a more conservative approach to growth.

Thus, based on this business model innovation strategy, Acropolis Dry Cleaners now operates a partnership with the supermarket, considerably reducing its cost structure and offering its services to a higher flow of clients that are out shopping for essentials around the clock. As a result of this retrenchment, Acropolis continues to operate in the Anglisides area with a representative agent – who is rewarded by a commission on trade. Thus, Acropolis enjoys savings after exiting from the shop, saving on overheads and eliminating staff costs.

Acquisition of a sister firm

Acropolis acquired a sister firm by owning/managing a retail unit located in Nissou. Basically this store, which was owned by Acropolis and the managing director of the operation, was a type of hybrid franchising which was being investigated in order to expand further by establishing more units (based on partnership between Acropolis and the appointed managing directors). Unfortunately the economics of this workshop store (where production-dry cleaning was taking place on premises of the retail unit) were not very efficient. Thus this restructuring is part of the strategic effort to consolidate the firm's business model (and, for the owning family, to simplify the ownership and governance regime and consolidate control) in order to achieve cost savings essential to help reconfigure its business model to weather the crisis.

The Nissou project, which involved geographic expansion with external growth strategies – the initial informal plan was to build a partnership via a franchising agreement with a few entrepreneurs in the region – also had to be revisited. More specifically, the Eracleous decided to buy out their Nissou partner with cash simply in order to save on management overheads and enhance their strategic independence to integrate the store into the network and make the operation more profitable. Again, in the context of the recession, the firm streamlined the Nissou workshop-store and fully integrated it as a point of sale store (collection and delivery of apparel) into their Larnaca network of shops, allowing the central production plant to do the cleaning.

Challenges and constraints of restructuring

Acropolis exemplifies the prolific small family business where the founding and/or successive generations of owners/managers play a protagonistic role in strategically navigating the family business across its development path. The Eracleous family have established a reputation as masters of the dry-cleaning trade. Acropolis Dry Cleaners is now synonymous with innovation and high value-added service. They have developed a cash-rich business model, enabling the Eracleous family to manage the classic challenge facing growing smaller firms: getting funding.

Moreover, the entrepreneurial family have managed to accommodate the aspirations of the new generation, kick-starting ventures to allow siblings to carry out entrepreneurial activities under the umbrella of the Acropolis confederation. As the siblings expand their own family units, it is envisaged that in the context of parallel strategic 'family in business' planning, each business unit will be matched to a family unit. Thus, the Eracleous have to master the challenge of building inter-generational goal congruence as the members of the second generation are taking more managerial positions in the firm and naturally want to impact on the decision-making process that governs venturing, growth and financing.

As a result of the expansion of the network of workshop-stores as part of the integrated business network, the owner/managers have to cope with transitions and challenges overshadowing their evolving family and business organisation. More specifically, on the business axis, the firm has made a lot of progress and the quest for new growth horizons continues. They are mapping new ventures in order to fuel growth as the family has been growing faster than the business.

On the family axis, the second generation (five sons) are working together with the founder who is acting as the executive chairman of the firm. Currently, there is inter-generational (father and sons) cooperation and intra-generational goal alignment – sons are working harmoniously to build business consolidation in the competitive market. The question is when/how will the next generation take over? How do they plan for the introduction of the third generation of family members?

On the ownership axis, the father is still the controlling owner as he has the majority of the shareholding. Strategic succession planning is needed in order to ensure the smooth transfer of ownership rights, stewardship roles and responsibilities to the next generation. Currently they are all involved, working in the business, and there is a memorandum of understanding that shareholding will be distributed on *equal terms*. But already a son is exiting from the family business in order to pursue his own venture. This means that there is an emerging challenge concerning the ownership related succession, which is how to reorganise the shareholding on a more equitable terms, rather than an equal split of shares.

The managing director, Andreas Z. Eracleous, has been working tirelessly to develop a more effective organisation and governance structure, management and operations systems in order to master the company's growing empire of small business units. Integrated into Acropolis are shops, laundrettes, a trading firm selling technology and chemical solutions (this helped them collect market intelligence), and another trading firm hiring linen such as table and chair covers to function halls, small hoteliers, etc.

One of the challenges facing the Acropolis owner-management team is to safeguard goal alignment of the five brothers that represent the siblings' partnership regime. They do not always agree on strategic goals and approaches, as they do not have a homogeneous entrepreneurial DNA. Occasionally, family issues do overshadow business management best practice, thus causing inertia, erosion of professionalisation and confused communication and blurred lines of command. Already one brother is seeking more entrepreneurial independence.

There is growing pressure to re-evaluate the current business structure with a view to set up a holding group which can offer scope for better governance, better access to growth capital from the banks and make succession planning more systematic. Moreover, the new group structure allows members of the owning family to pursue their own ventures, in which the parent company can act as investor. This is why the family decided to buy out the Nissou partner in order to exercise full ownership control and thus embark on the new holding regime – which will involve the transfer of shares from operating companies to the new parent holding company.

An emerging challenge is the banking crisis in Cyprus which resulted in reduced bank liquidity and subsequently credit rationing. Banks are seeking to renegotiate lending to SMEs using stringent collateral conditions.

Restructuring advice and support

The Eracleous family as artisan entrepreneurs have managed to master growth challenges, but now they are revisiting their strategic plan in order to survive in this ongoing recession. They have been learning from their mistakes, and somehow engineered entrepreneurial strategies with limited outside advisory support. Normally, they discuss strategic matters around the Sunday lunch table. The weekly management meeting is on Tuesday afternoon and the agenda mainly concerns operational matters.

This forum was open to the non-family managers – when they were around in the jointly owned trading firm before the family decided to exit (to concentrate on their core business) and in the Nissou partnership venture which the family now wholly owns. Andreas Eracleous, as the CEO, often attends executive development seminars geared for smaller companies and tends to invite trainers/consultants to the family business meetings. This has helped the Eracleous to develop a consensus on the need to explore the strategic 'family in business' planning process which has to address multiple important business matters (such as leadership, management, taxation, funding, risk diversification) but also sensitive family issues such as succession which involves ownership and employment rights (governed by equality or meritocratic / equitable principles).

With the support of their accountants-auditors and bankers, who act as the main source of advice, the Eracleous continue to strategically manage their integrated business model. They consult business advisors on an ad hoc basis on certain marketing tactics and strategic steps that focus on how to streamline operations in order to further improve the efficiency of the core business.

Outcomes of restructuring

In a nutshell, as a result of the restructuring process Acropolis has managed to keep its leading market positioning and level of employment to 25 people since 2007. Due to the restructuring, their network now has six stores. Jobs were lost in three stores, but three jobs were generated in the labour-intensive production plant. Normally, affected employees get an option to be relocated in other operations, in order to ease the impact of the restructuring. The company is proud that they have managed to sustain employment for their loyal employees.

The outcome of the two restructuring events has impacted favourably on the bottom line, by saving on labour costs. Three employment posts have been cancelled: one full-time and one pro-rata, part-time sales assistant positions in Anglisides and one more supervisory post at Nissou workshop store. In addition to substantial labour cost savings, Acropolis have managed to enhance operational efficiency for the central production plant.

In the words of the owner/managers 'restructuring has been very positive as it has led to sustainable business success, stable sales performance and profitability'. In the short term, the restructuring events have resulted in the loss of jobs, but this is part of flexible entrepreneurial management, which can now allow the firm to embark on a coherent strategic plan to expand steadily.

Next on the horizon, according to the CEO Andreas Eracleous (the eldest son of the founder) is further restructuring in the quest for efficiency. This involves the relocation of other retail shops to better positions and mapping out step-by-step growth via geographic expansion. Historically, the financing philosophy of the family owner/managers has been faithful to financial prudence and adherence to the pecking order principles of funding: retaining profits and securing short-term bank finance. Given the financial discipline of the owner/managers – as reflected in the systematic retention of profits – and in conjunction with the cash basis financial model of the business, the firm is weathering the current crisis and continues to enjoy an optimal capital base and sustainable bankability.

Commentary

It is axiomatic that the restructuring of Acropolis pursued by the Eracleous family, both in the context of internal and external growth, was initially driven by market opportunity; but with the crisis hitting Cyprus, they had to fend off market pressure in order to safeguard sustainability and financial stability.

The owning family took the strategic decision not to simply grow the numbers, but to reconfigure operations with a view to getting better operational performance and profits which are imperative for long-term survival and step-by-step growth. Moreover, the brothers in business decided to exit from the company trading related to dry-cleaning technology and chemical solutions and to concentrate their efforts in the core business and fledgling ventures that enjoy a competitive advantage.

As Andreas Eracleous stated: 'Growth has been healthy for us to identify our 'fortes'; we are now keen to unfold growth opportunities for our family managers and other loyal staff to develop, by building on our successful business model; after consolidation, we envisage to generate "managerial partnerships".' In a nutshell, the company has mapped out their next growth horizon which will embrace next-generation family managers (and other loyal non-family insiders) who will be supported to set up new operating units in the metropolitan centres that can be served by the central Larnaka production plant.

It is envisaged that the younger brothers will be incentivised to set up their own ventures in order to 'franchise' the Acropolis concept across the Larnaka region. This family confederation is necessary to test out the partnership formula which is based on the new retail units outsourcing the dry-cleaning of the apparel to the central production.

In the context of strategic succession planning, the brothers, as a result of their renewed family independence, are now exploring how they can build integrated 'family-in-business' strategies balancing personal, familial and business goals. They aspire to match a business unit to each family unit, so that each brother can control one venture each.

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Information sources

Interviews

Andreas Eracleous (CEO) and Lenos Eracleous (Production Manager), Eracleous and Sons

Michalis Eracleous, family employee and entrepreneur

Company website

www.acropoliscleaners.com

- Environmental policy
- Cookies
- Subscriptions
- Multilingualism
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- Eurofound style guide
- Management Board extranet
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