

# **Restructuring in Europe 2005 – Study**

**Roland Berger Strategy Consultants**

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**A.**

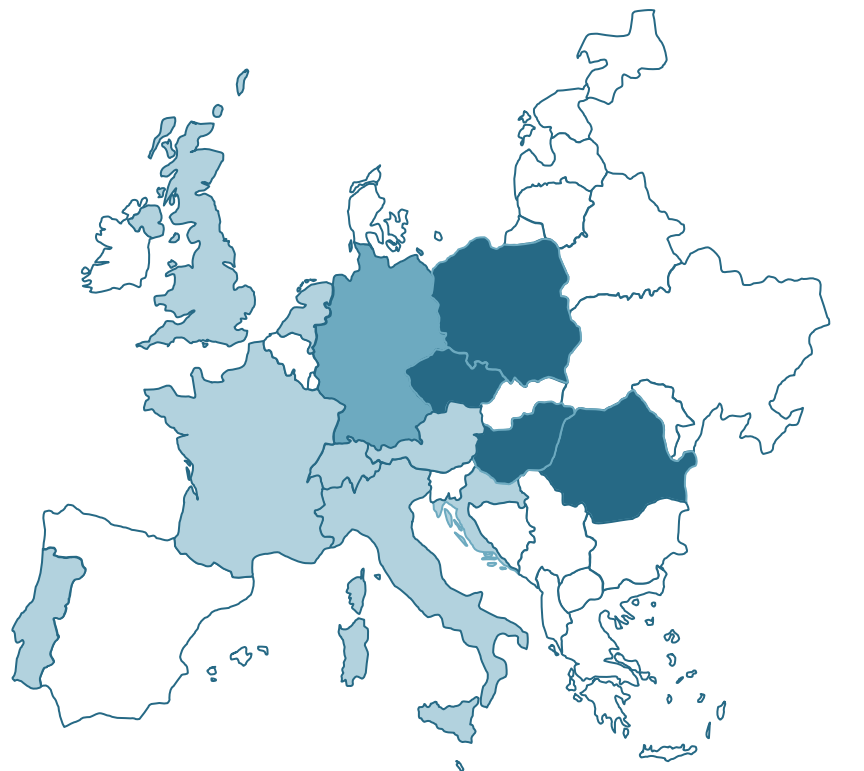
Methodology

## Introduction

- > In late **2004** and in **2005**, Roland Berger Strategy Consultants conducted an **extensive study on the reasons and success factors for restructuring projects in Europe**
- > The current **European restructuring study 2005 builds on the studies regularly conducted in Germany**. We **interviewed CEOs and general managers** of a total of some 2,600 companies in various industries in **European countries**
- > The analysis **included companies** that have **carried out a restructuring project** in the **past three years**

## 2,575 companies in Europe were interviewed

### Overview of the restructuring study 2005



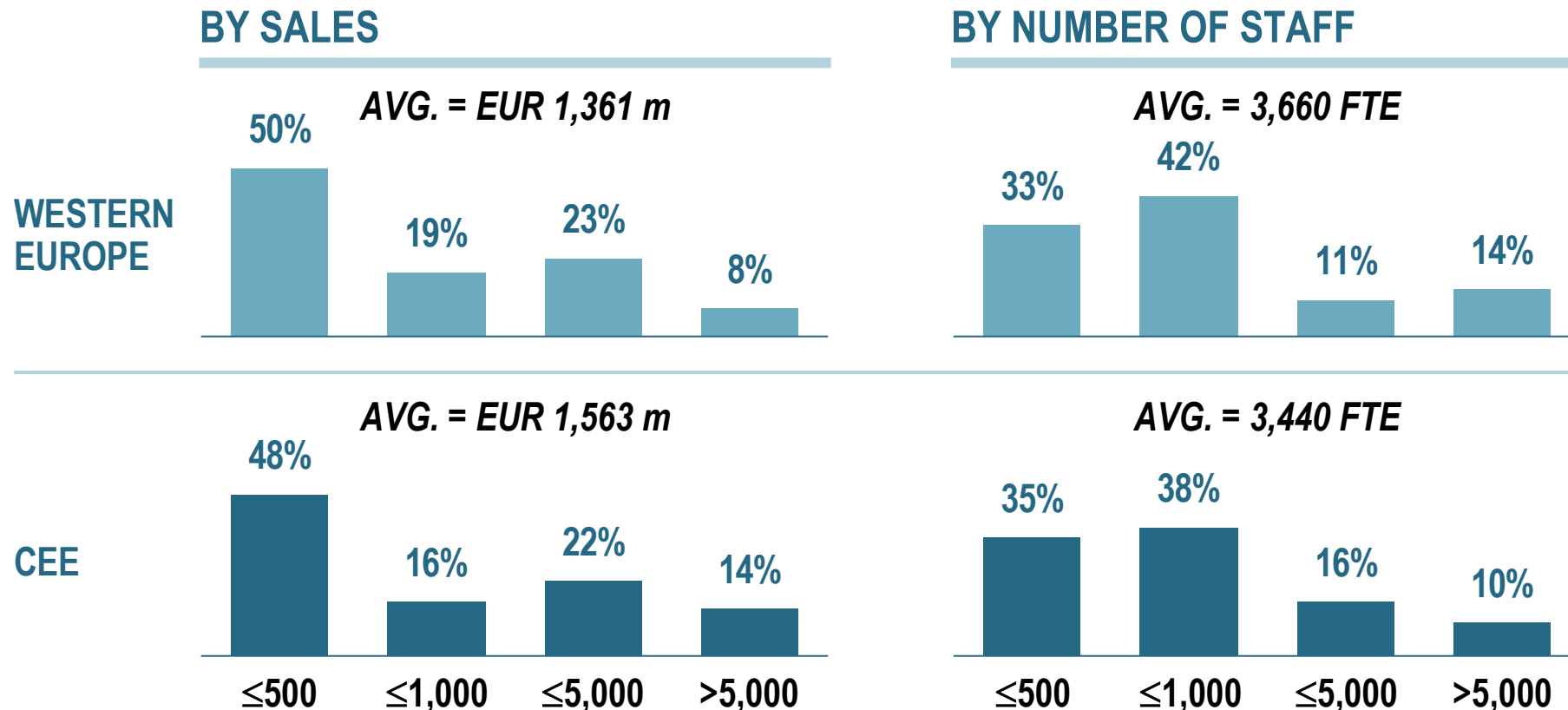
Western Europe    Germany    Central and Eastern Europe (CEE)

### NOTES

- > CEOs and general managers of 2,575 companies in 12 European countries were interviewed on the topic of restructuring
- > Of those,
  - 675 are located in Germany
  - 750 in Western Europe
  - 1,150 in Central and Eastern Europe (CEE)
- > The response rate was as high as about 13%. Overall, it came to 10.3%

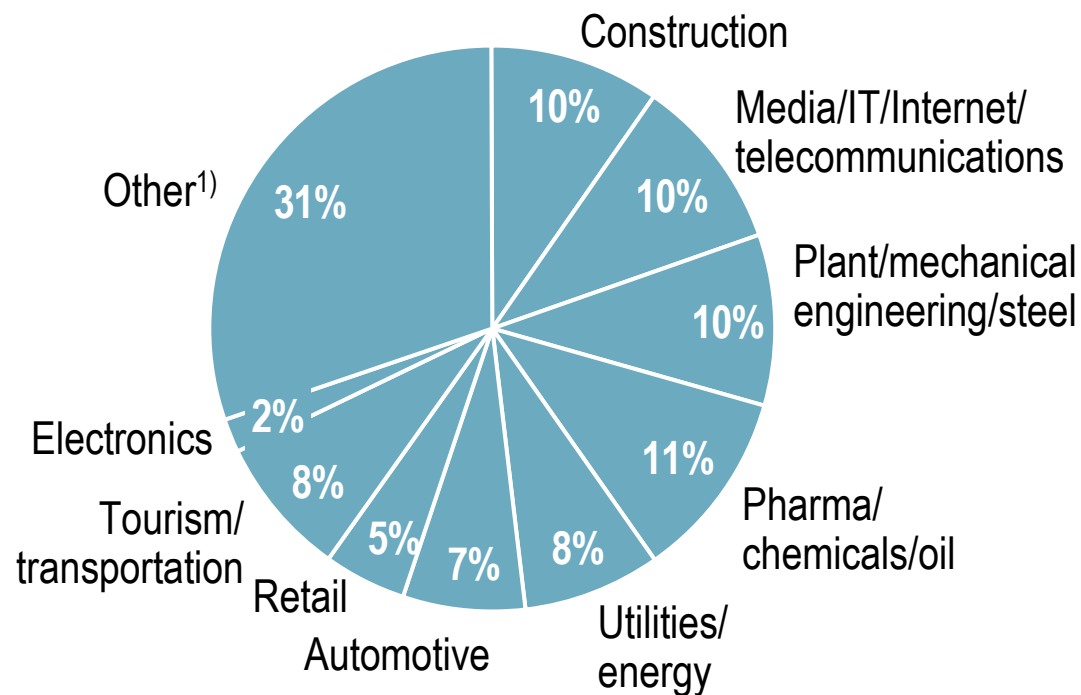
## The present Europe 2005 study includes both SMEs and major corporations

Dimensions of the companies included [sampling rate in %]



## Europe's key industries were included in the study

Industry breakdown[%]



1) "Other" includes banks/insurance companies and the food industry, among others

Source: Roland Berger, Restructuring Survey 2005

### NOTES

- > The data sample comprises a **diverse selection of industries**
- > **Pharma and chemicals/oil companies** constitute the **largest single group (11%)**

**B.**

Management summary



## Summary of key findings in six focus areas (1/2)

- 1. Management commitment is the most important success factor for successful restructuring projects – success factors are not yet being implemented sufficiently**
  - > At the same time, companies that implement the success factors to a high degree see significantly higher increases in earnings following restructuring
  - > Sales-up programs are an important part of restructuring
- 2. Companies are slow in responding to crises – only 50% respond within 12 months**
  - > Companies in Western Europe tend to respond to crises more quickly than those in CEE
  - > In CEE, liquidity problems are much more frequently the cause of crises than is the case in Western Europe (25% vs. 9%)
- 3. Early warning systems are considered important, but they are often not implemented**
  - > Early warning systems are not implemented sufficiently, particularly in CEE
  - > Rolling liquidity forecasts are too neglected in Europe (especially CEE), particularly in companies with liquidity problems

## Summary of key findings in six focus areas (2/2)

- 4.** **2/3 of the companies require additional liquid funds for restructuring**
  - > Most companies cover restructuring costs through internal group financing
  - > Bank loans are particularly important in CEE
  - > Taking on new partners (e.g. private equity) and capital market actions are currently important in only 10 to 20% of cases
- 5.** **Reducing personnel expenses is the most important cost-cutting action**
  - > Job termination is the most common action used for reducing personnel
  - > To date, company labor agreements have been used more frequently in CEE than in Western Europe
- 6.** **Restructuring as an ongoing task**
  - > In Europe, only about one in ten companies see restructuring as completed
  - > For the most part, restructuring is seen as a continuous process
  - > Sustained competitive pressure and generally reserved economic expectations are key drivers for the future need for restructuring

**C.**

Key findings

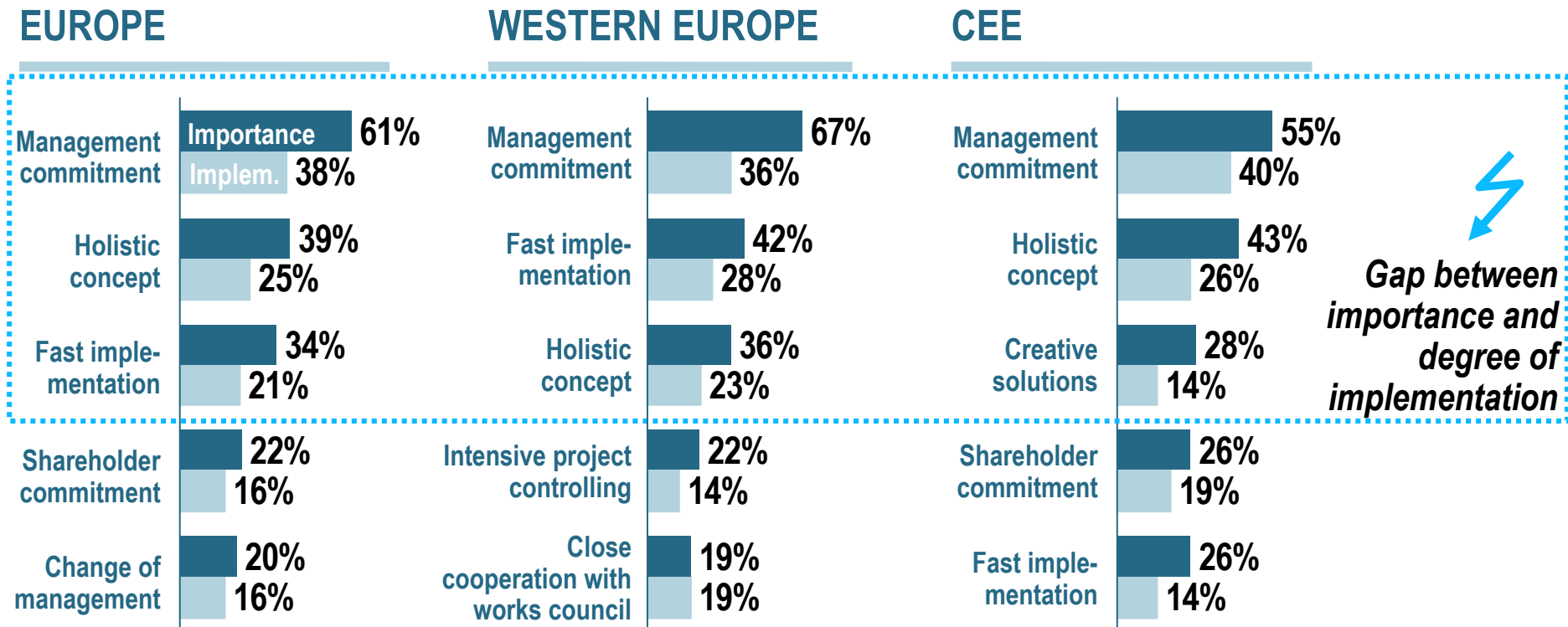


- 1. SUCCESS FACTORS**
- 2. CRISIS RESPONSE TIME**
- 3. EARLY WARNING SYSTEMS**
- 4. RESTRUCTURING FUNDS**
- 5. HEADCOUNT REDUCTIONS**
- 6. RESTRUCTURING AS AN ONGOING TASK**

**1. SUCCESS FACTORS**

# Management commitment was identified as a key success factor – but implementation lags behind importance

Key success factors in restructuring projects, top 5 [% of mentions]<sup>1)</sup>



*Gap between importance and degree of implementation*

1) Multiple answers possible

■ Factor rated "very important"

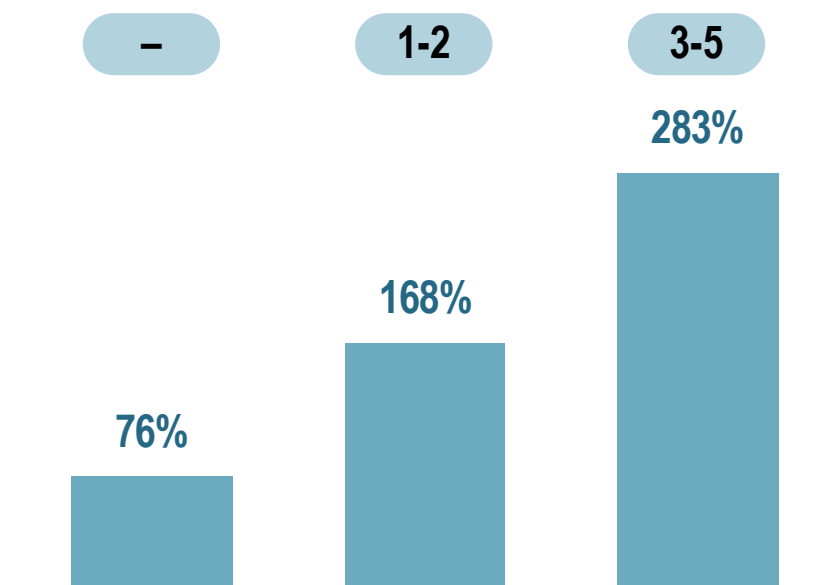
■ Implementation rated "very successful"

**1. SUCCESS FACTORS**

# Rigorous implementation of as many success factors as possible leads to EBIT increases of as much as 283%

Change in EBIT/key success factors implemented<sup>1)</sup>

*Number of success factors implemented*



■ Avg. change in EBIT [%]

1) Companies rated these success factors as "very important" and "implemented very successfully"

Source: Roland Berger, Restructuring Survey 2005

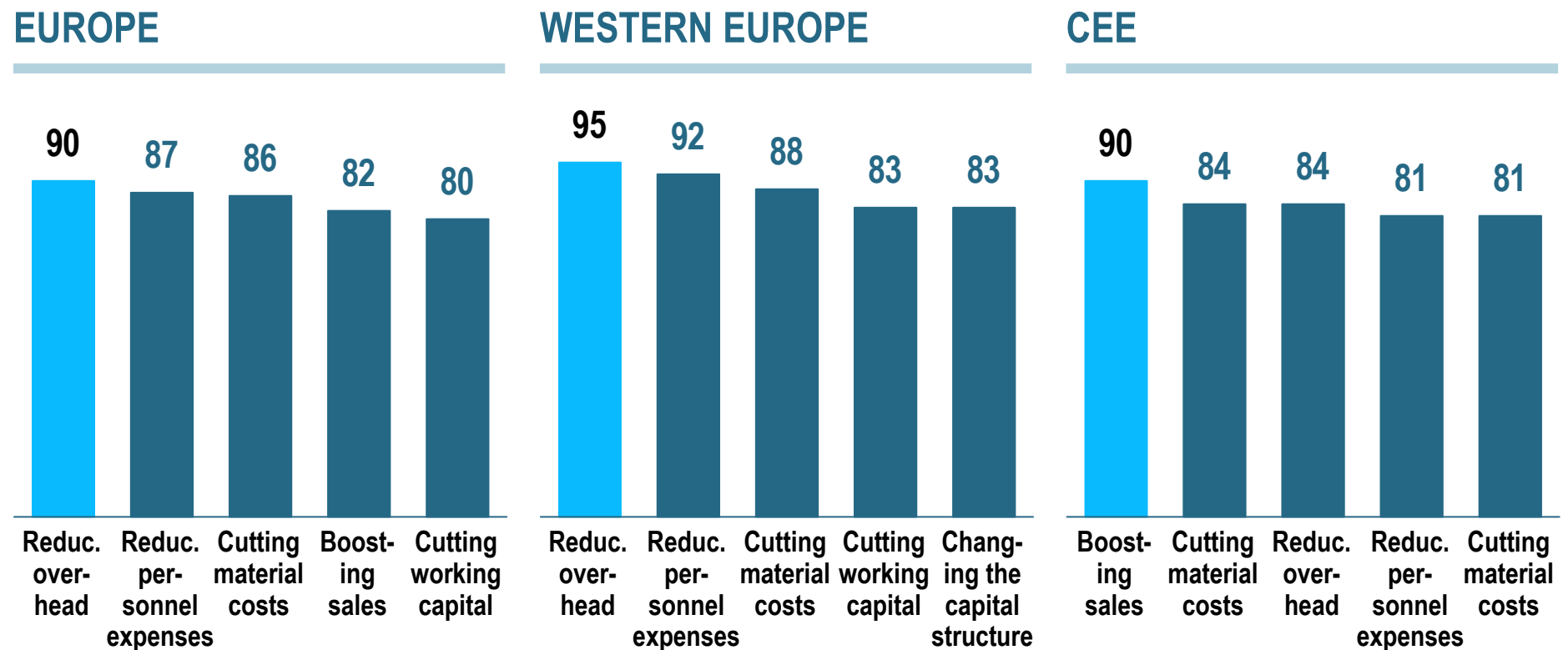
## NOTES

> Companies that had **implemented** many key success factors achieved **average EBIT increases of 283%**

**1. SUCCESS FACTORS**

**In Western Europe, reducing overhead was deemed the most important action – in CEE it was boosting sales**

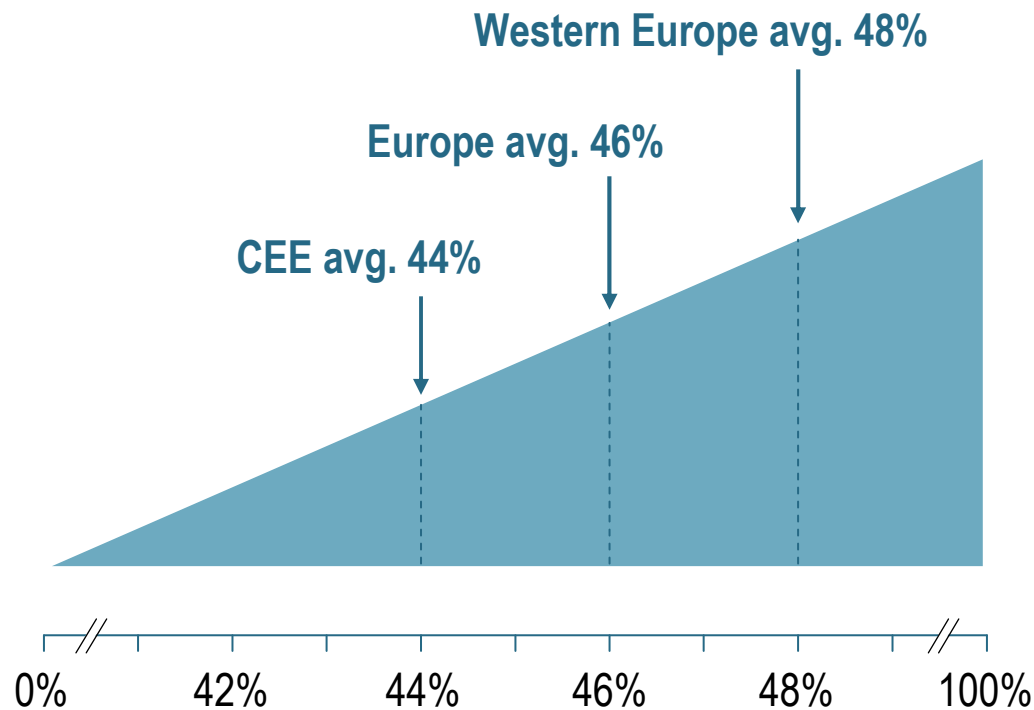
Top 5 components of restructuring projects mentioned [% of mentions]<sup>1)</sup>



1) Multiple responses possible

## Companies plan to improve earnings by around 50% through boosting sales

Sales boosting programs in Europe overall – share of earnings improvement [% of mentions]



1) Planned

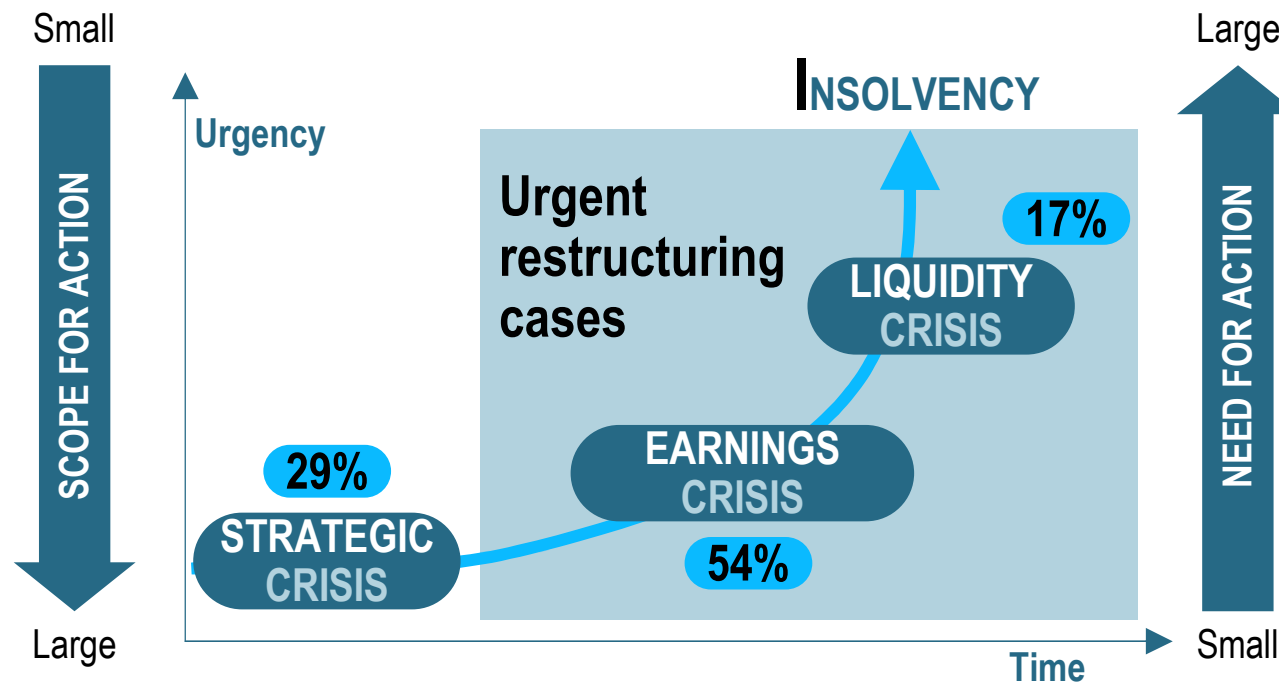
Source: Roland Berger, Restructuring Survey 2005

### NOTES

- > On average, **46% of improvements** are expected to result **from sales actions**
- > **Western Europe** has more **optimistic prospects** than **CEE** (but CEE gives sales-boosting actions higher priority than does Western Europe)

# The majority of companies don't react until there is an earnings or liquidity crisis

Response to crises by cause [% of mentions]

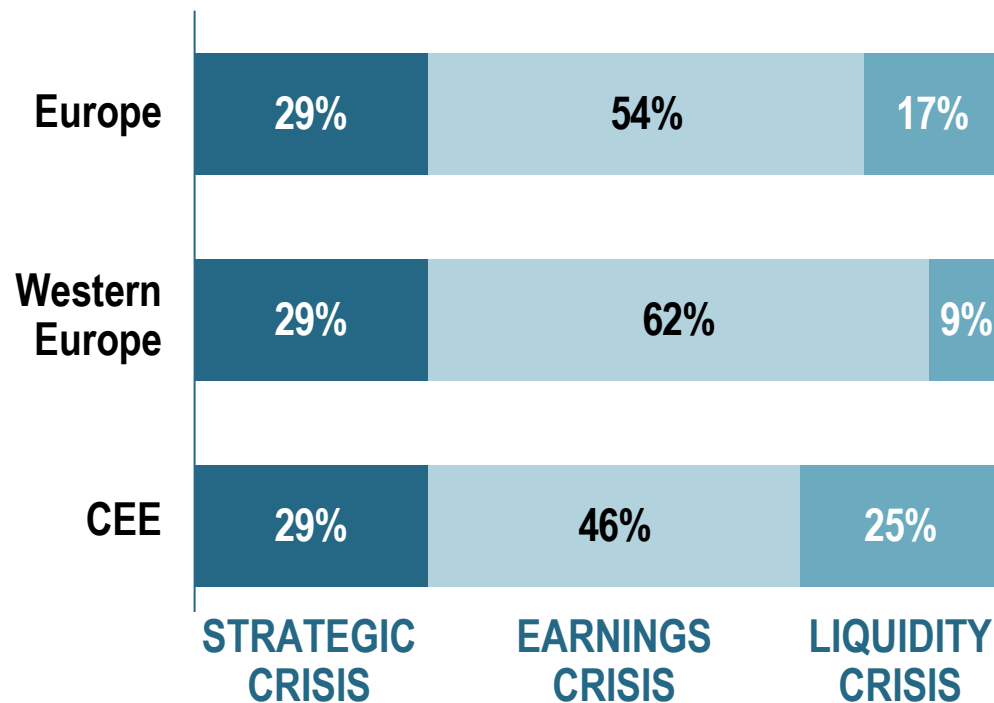


## NOTES

- > **29%** of the companies interviewed **respond** as soon as **strategic problems arise**, or when new competitors or substitutes emerge
- > **71%** of companies do not **respond until** the strategic crisis has turned into an **earnings or liquidity crisis** (leaving a strongly limited scope for action)

## CEE companies are slower to respond than those in Western Europe – 1/4 of companies respond only to liquidity problems

Triggers for restructuring at the companies surveyed  
 [% of mentions]

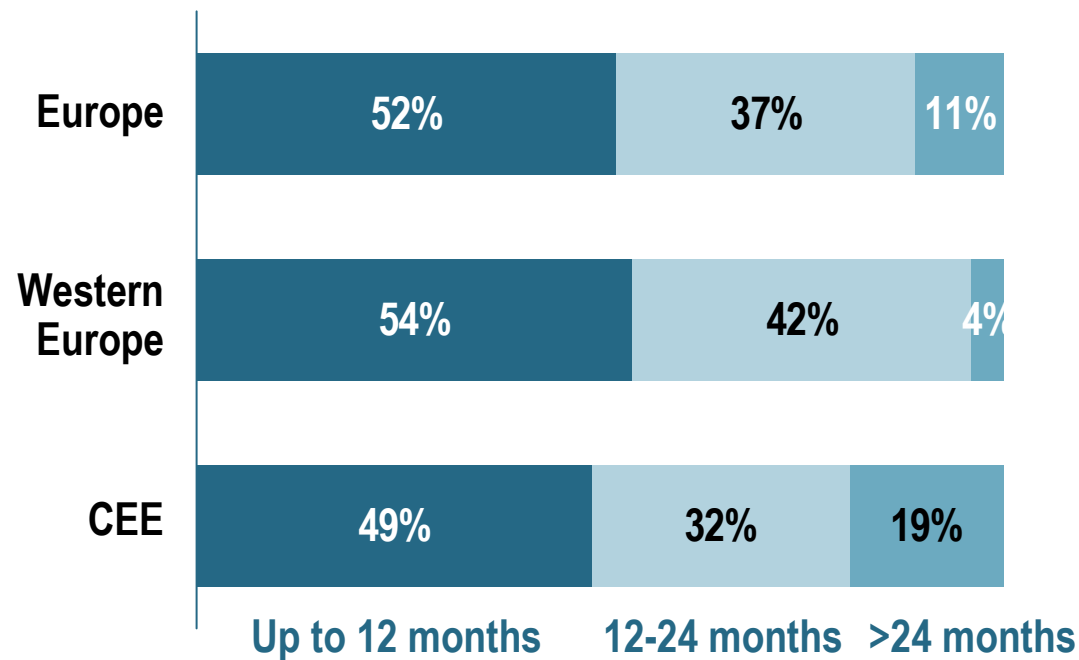


### NOTES

- > The **share of early response** (as soon as strategic problems arise) is **distributed relatively evenly in Europe**
- > **In CEE, one fourth of companies respond only when liquidity crises arise**

## The average response time in Europe is 16 months – but more than 50% respond already within 12 months

Time between recognizing a crisis and starting restructuring [% of mentions]

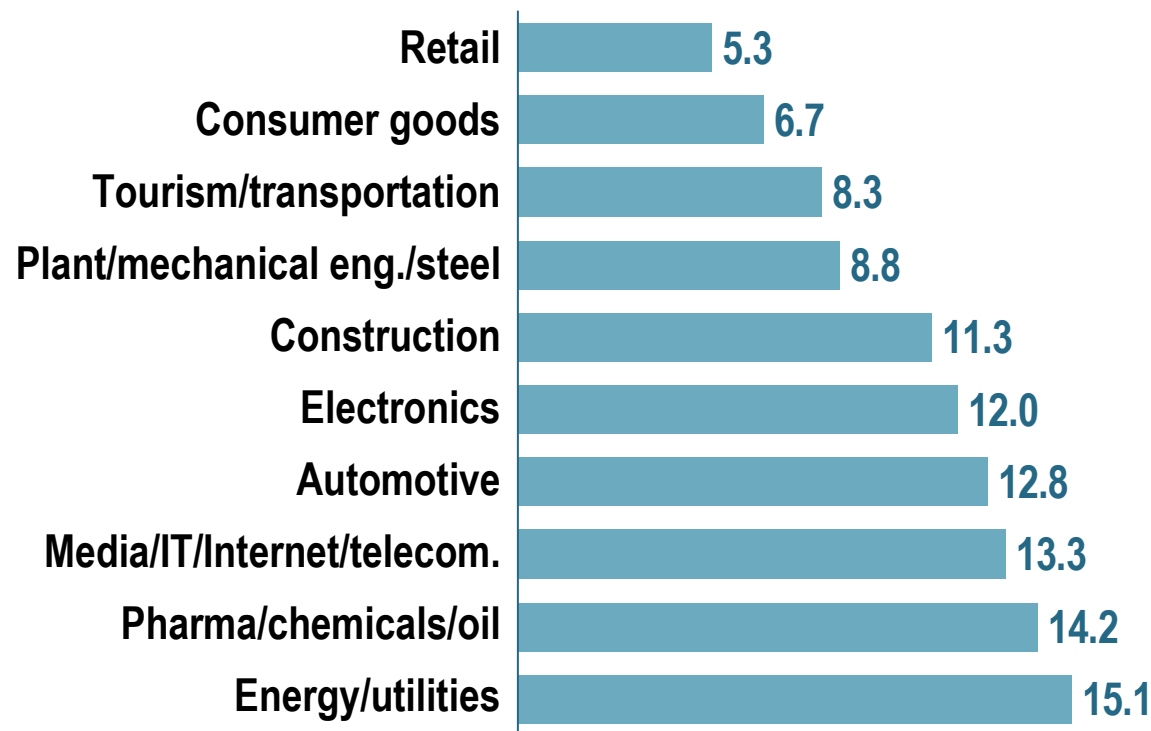


### NOTES

- > The **time** between recognizing the crisis and starting restructuring **averaged 16 months in Europe**
- > **48%** of companies (in Europe) took **12 months or more to respond** before starting a restructuring project

## Retail responds most quickly to recognizable crises, after just five months – utilities are the slowest, at 15 months

Time between recognizing a crisis and starting restructuring<sup>1)</sup> [months]



1) Excerpts; companies with a crisis response time of 6 years or more not included

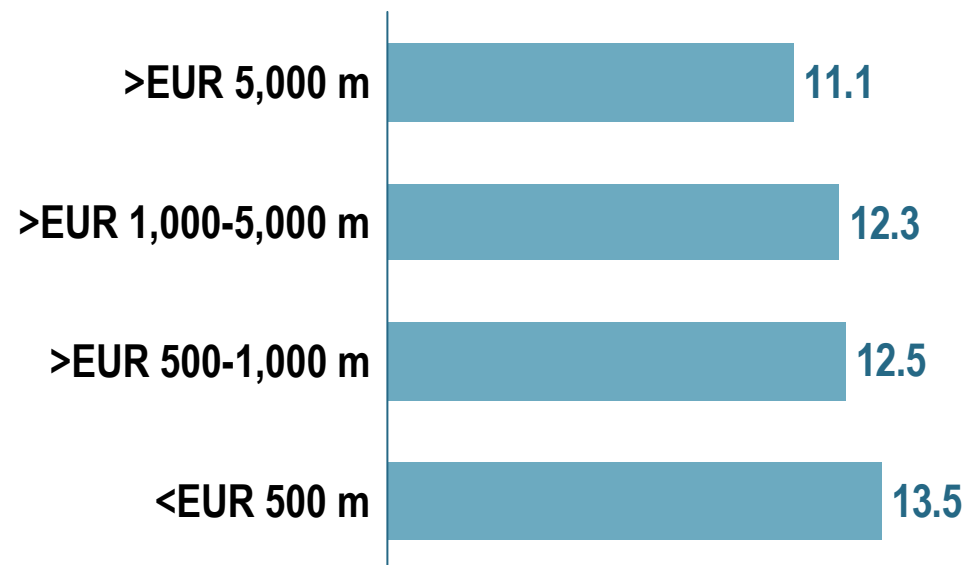
Source: Roland Berger, Restructuring Survey 2005

### NOTES

- > **The energy sector takes nearly three times as long as retail to respond to crises**
- > **Possible explanations**
  - **High level of regulation in the utilities sector** limits flexibility and freedom to act
  - **Companies in the retail and consumer goods industry are experienced in restructuring** (and have learned from past crises)

## Large companies respond to crises only slightly faster than SMEs

Time between recognizing a crisis and starting restructuring<sup>1)</sup> [months]



1) Companies with a crisis response time of 6 years or more not included

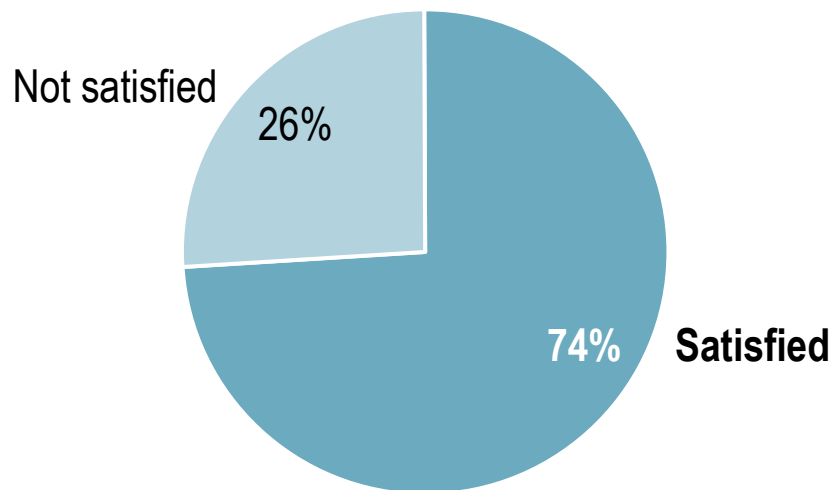
Source: Roland Berger, Restructuring Survey 2005

### NOTES

- > **Minor differences** were identified in response speed
- > **Possible explanations**
  - **Disadvantages of SMEs** compared with large companies, e.g. **limited scope for action vis-à-vis suppliers** and customers, or a lack of diversification options, are **offset by advantages** such as **more flexible structures and shorter decision-making paths**

## Speed brings success – high satisfaction ratings in companies that respond quickly

Satisfaction analysis: success of restructuring projects given a response time <12 months, Europe [%]

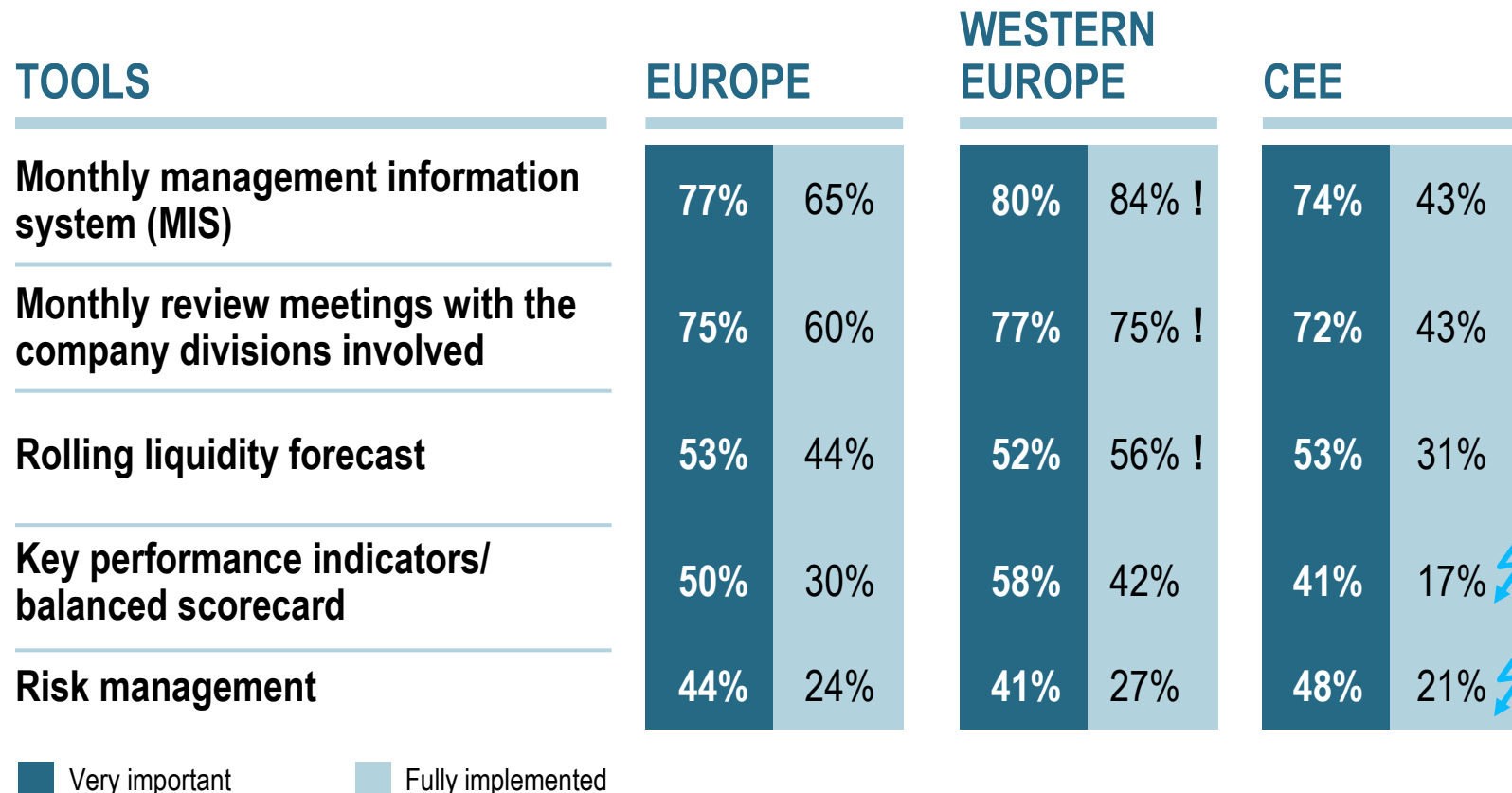


### NOTES

- > The **quick response** to a crisis **contributes** significantly to the **success** of restructuring projects
- > **74%** of "**fast responders**" were **satisfied** with the restructuring project
- > **Possible explanations:** greater **scope for action** when companies respond in a timely manner

# Western Europe has much higher implementation ratings than CEE

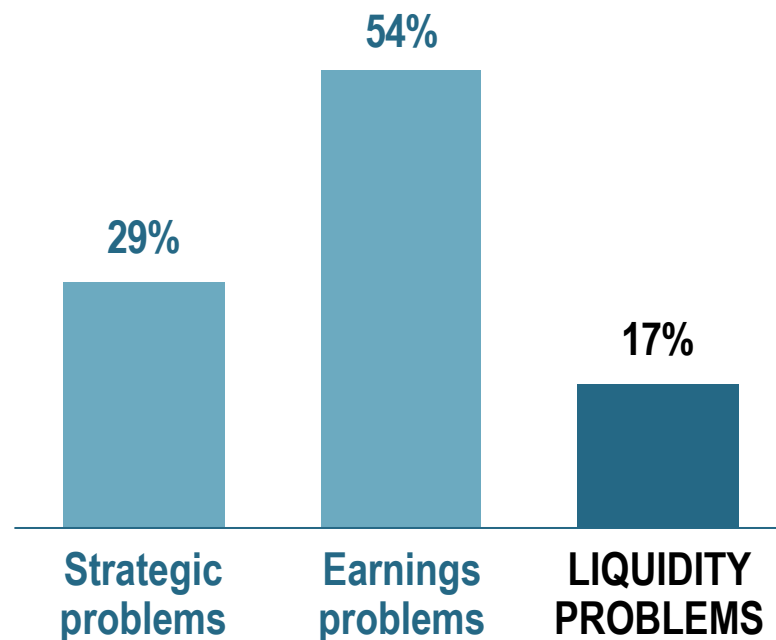
Top 5 tools for early crisis recognition and implementation [% of mentions]



**3. EARLY WARNING SYSTEMS**

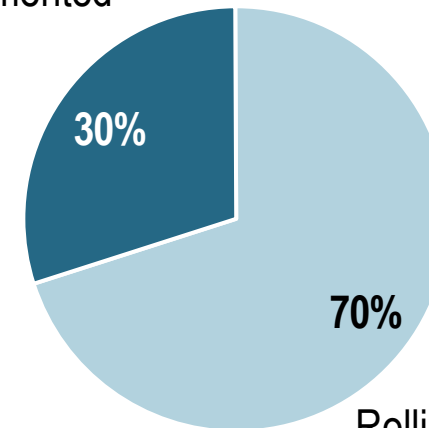
# Only 30% of companies with a liquidity crisis have implemented a rolling liquidity forecast

## TRIGGERS FOR RESTRUCTURING – European breakdown [% OF MENTIONS]



## FULL IMPLEMENTATION of a rolling LIQUIDITY FORECAST in companies with LIQUIDITY PROBLEMS

Rolling liquidity forecast  
fully implemented

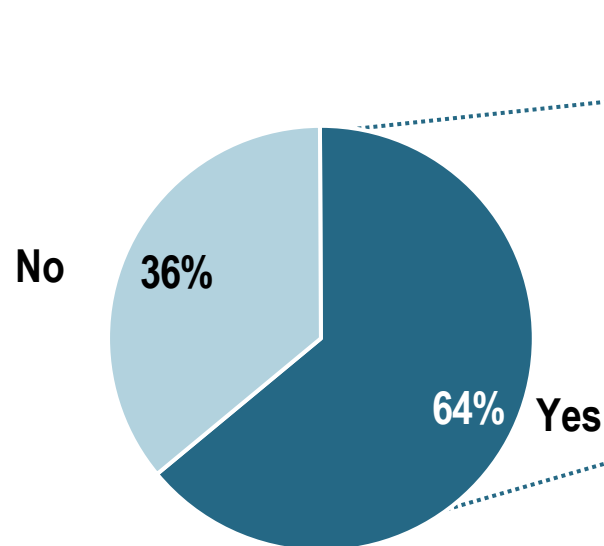


Rolling liquidity  
forecast **not** fully  
implemented

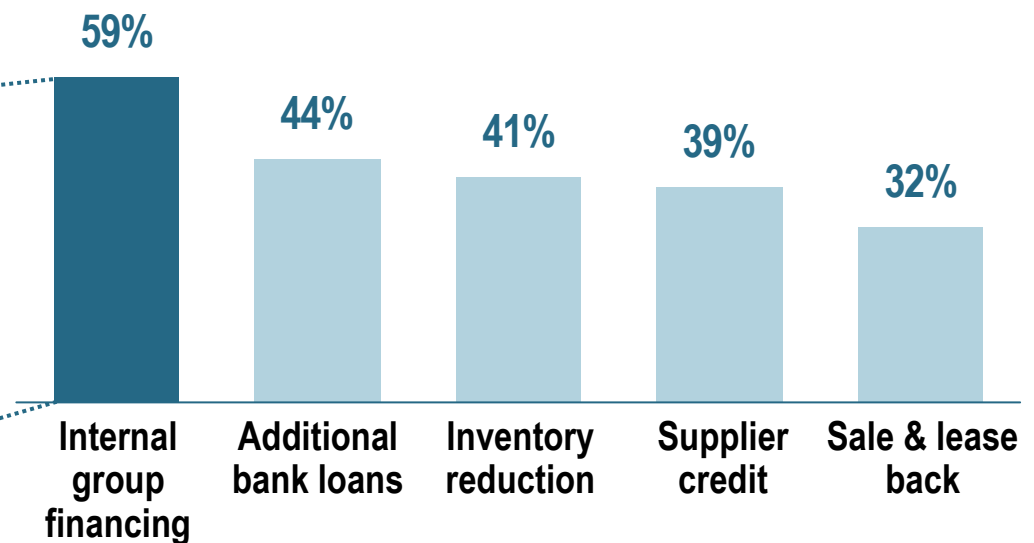
## 4. RESTRUCTURING FUNDS

# 64% of companies require additional financing – preferably through internal group financing

SHARE of COMPANIES REQUIRING additional FINANCING – European breakdown [% of mentions]



KEY ACTIONS FOR PROCURING LIQUIDITY [top 5]<sup>1)</sup>



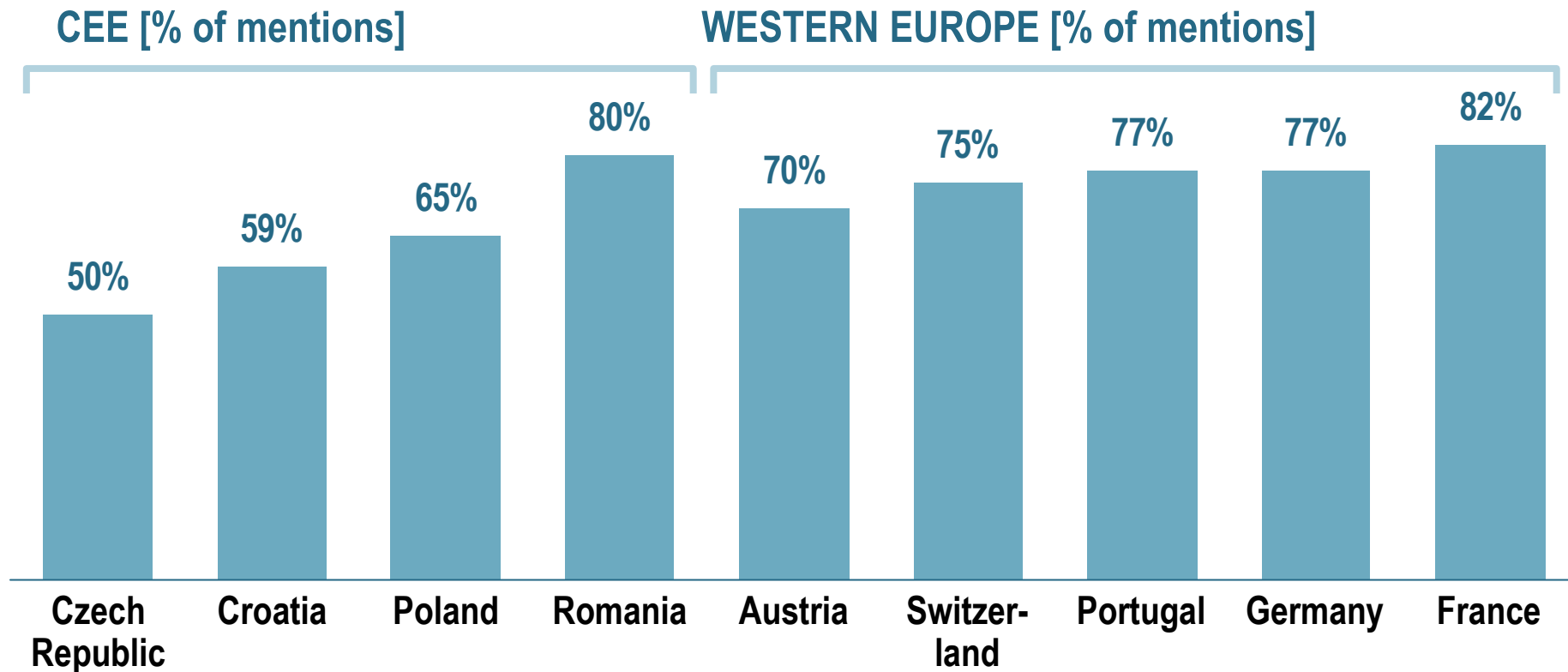
*Alternative forms of financing (e.g. mezzanine, private equity) not in top 5 to date*

1) Multiple responses possible

**4. RESTRUCTURING FUNDS**

# Additional funds for restructuring are required primarily in Western European countries

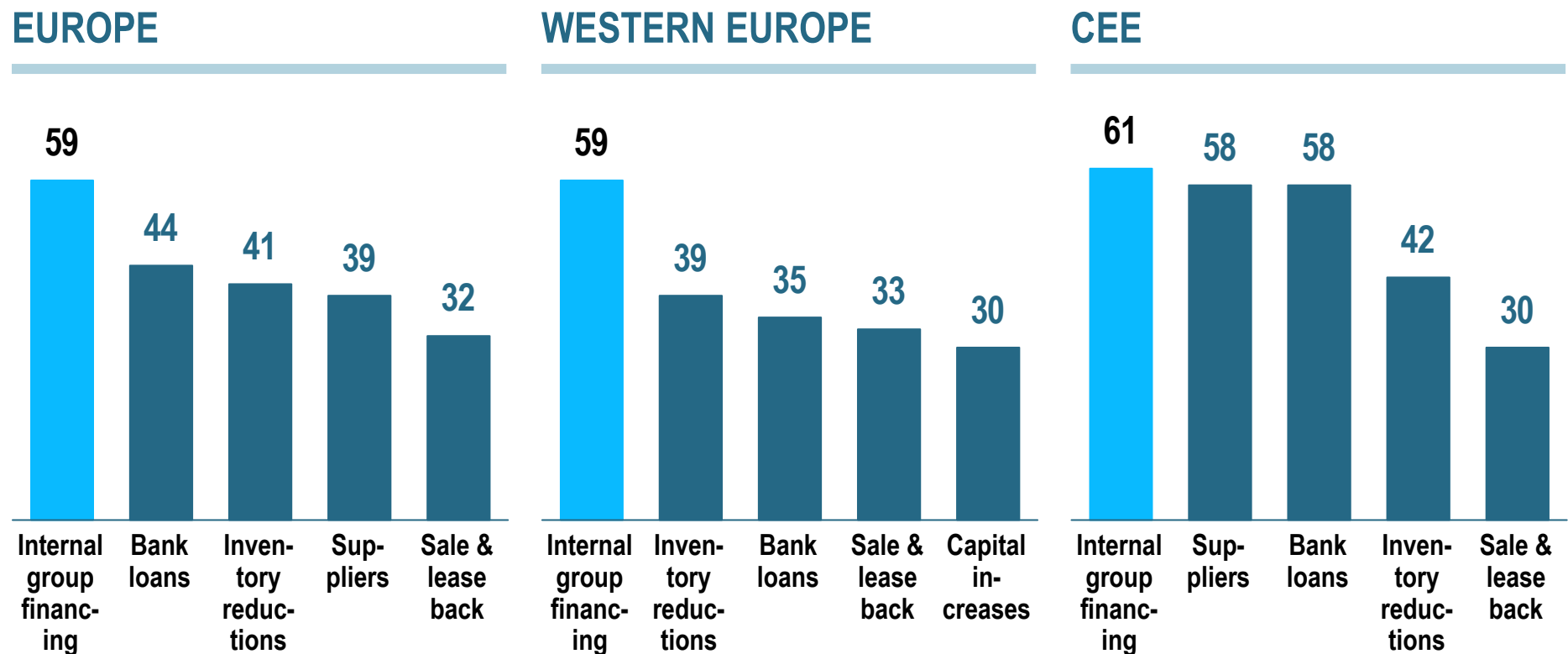
Share of companies requiring additional financing



## 4. RESTRUCTURING FUNDS

**Internal group financing is the most common way of financing – bank loans are esp. important in the CEE growth market (apr. 60%)**

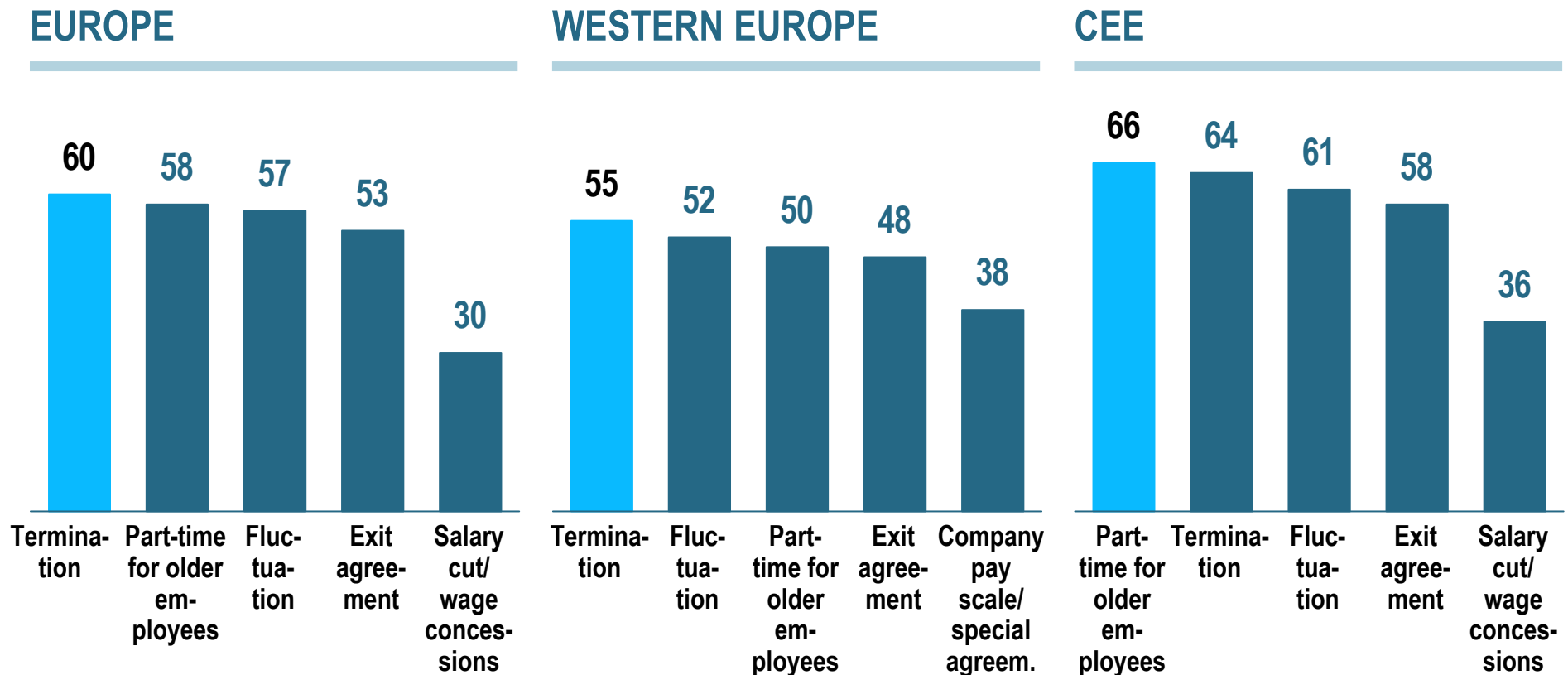
Procurement of additional funds for restructuring [% of mentions]<sup>1)</sup>



1) Multiple responses possible

# In Europe, companies can easily downsize to cut personnel costs

Tools for reducing personnel expenses [% of mentions]<sup>1)</sup>



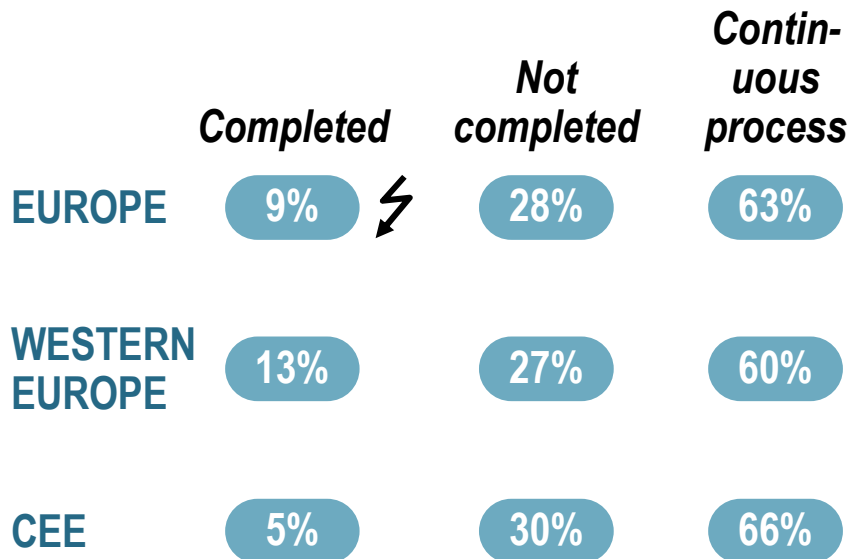
1) Multiple responses possible

**6. RESTRUCTURING AS AN ONGOING TASK**

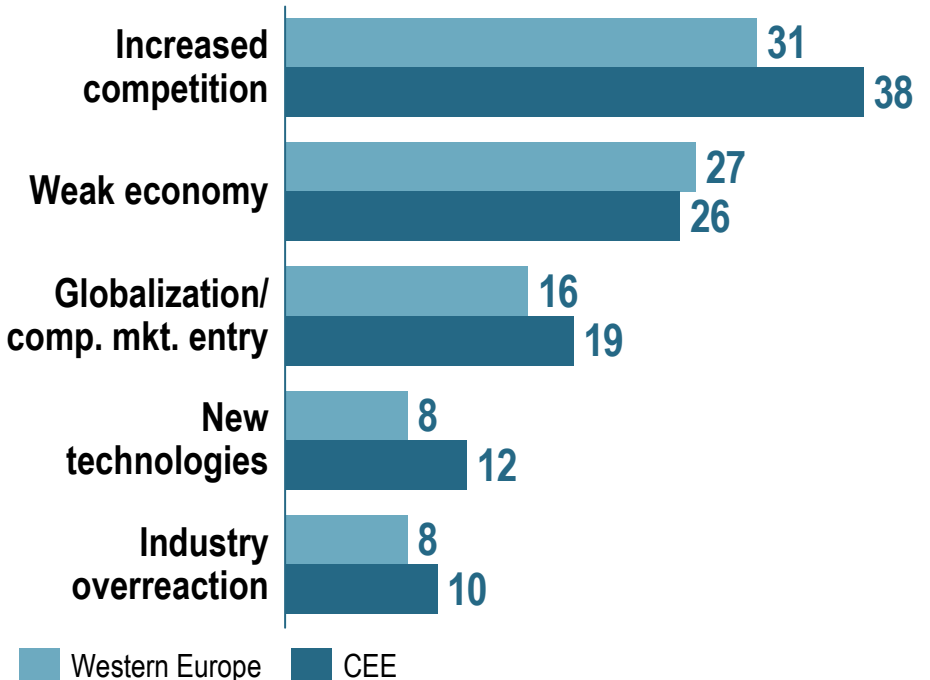
**Only 9% of European companies consider restructuring to be completed – growing competitive pressure is the greatest risk factor**

Probability of additional restructuring actions [% of mentions]

**Additional restructuring actions EXPECTED IN THE NEXT TWO YEARS**



**FACTORS THAT INCREASE the probability of restructuring [TOP 5]<sup>1)</sup>**



1) Multiple responses possible

**6. RESTRUCTURING AS AN ONGOING TASK**

# The European framework has changed – and the subdued economy in Europe is causing continued pressure

Outlook: Future development

## DRIVERS

- > EU enlargement is increasing competitive pressure, and pressure to increase productivity and efficiency is rising continuously
- > The overall economy in Europe has grown around 2% p.a. since 2004 – but it lags behind the US (about 3% p.a.) and especially Asia (China at around 8% p.a.)
- > Rising raw materials prices, especially oil

## GROWING NEED FOR RESTRUCTURING

## ACTIONS

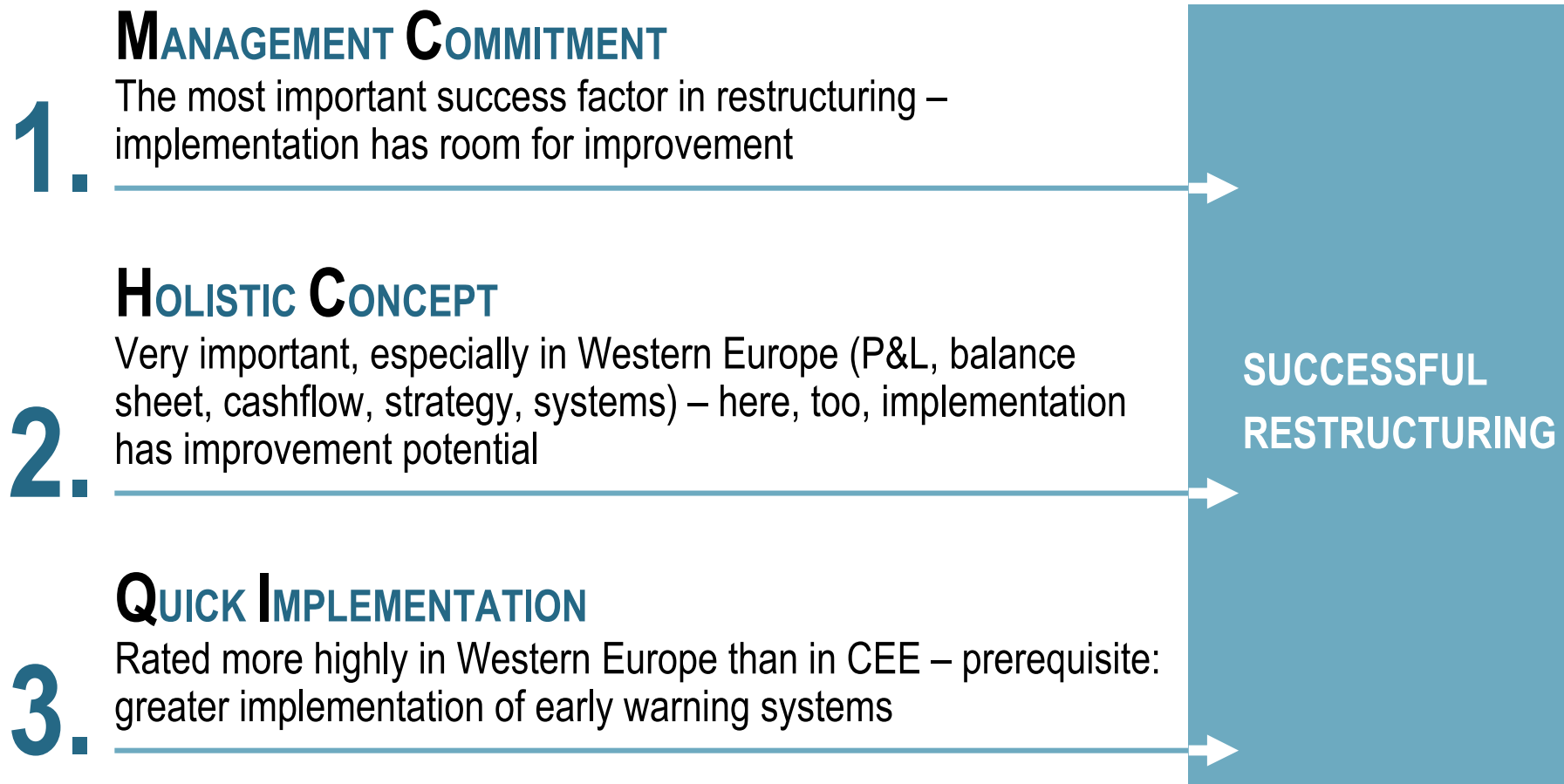
- > Restructuring the product range, securing and tapping sales and possibly price-boosting potential
- > More efficient structuring of operational processes
- > Identification and realization of cost-cutting potential
- > Efficient management of cash and working capital

**D.**

Conclusion

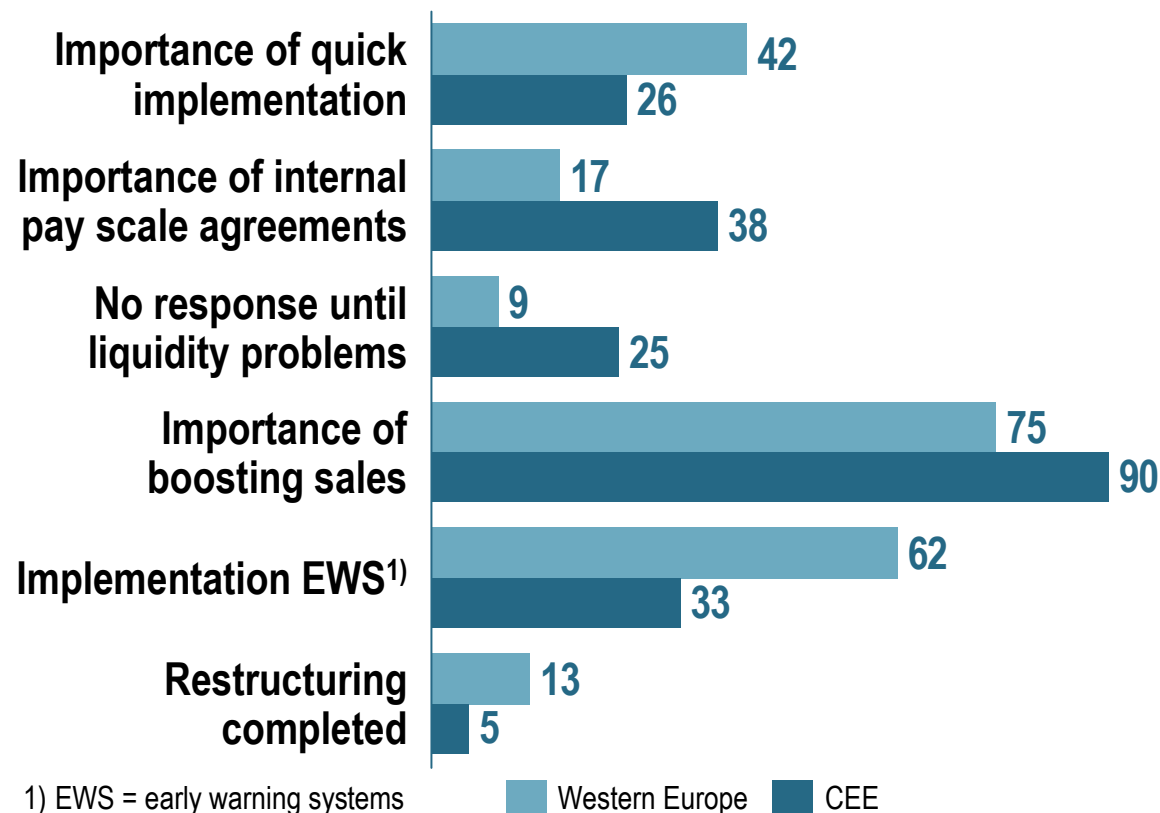


# Successful restructuring projects are fast, require management commitment and affect the entire company



## Western Europe vs. CEE: CEE takes longer to respond, relies on boosting sales and has other means of financing

Comparison of key differences between Western Europe and CEE [%]



Source: Roland Berger, Restructuring Survey 2005

### NOTES

- > There are major **differences** between Western Europe and CEE in terms of the **importance of quick implementation of restructuring strategies** and the **role of company pay scale agreements** for reducing personnel costs
- > There are also gaping differences in **response speed** and in the **implementation of early warning systems**
- > **Common features**, however, are the **importance of management commitment and holistic concepts** as success factors of restructuring
- > Likewise, both groups attribute **high importance to internal group financing** when raising additional funds for a crisis

**E.**

Contacts



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