



# 2009 restructuring survey for Germany

The financial and economic crisis – Impact and opportunities

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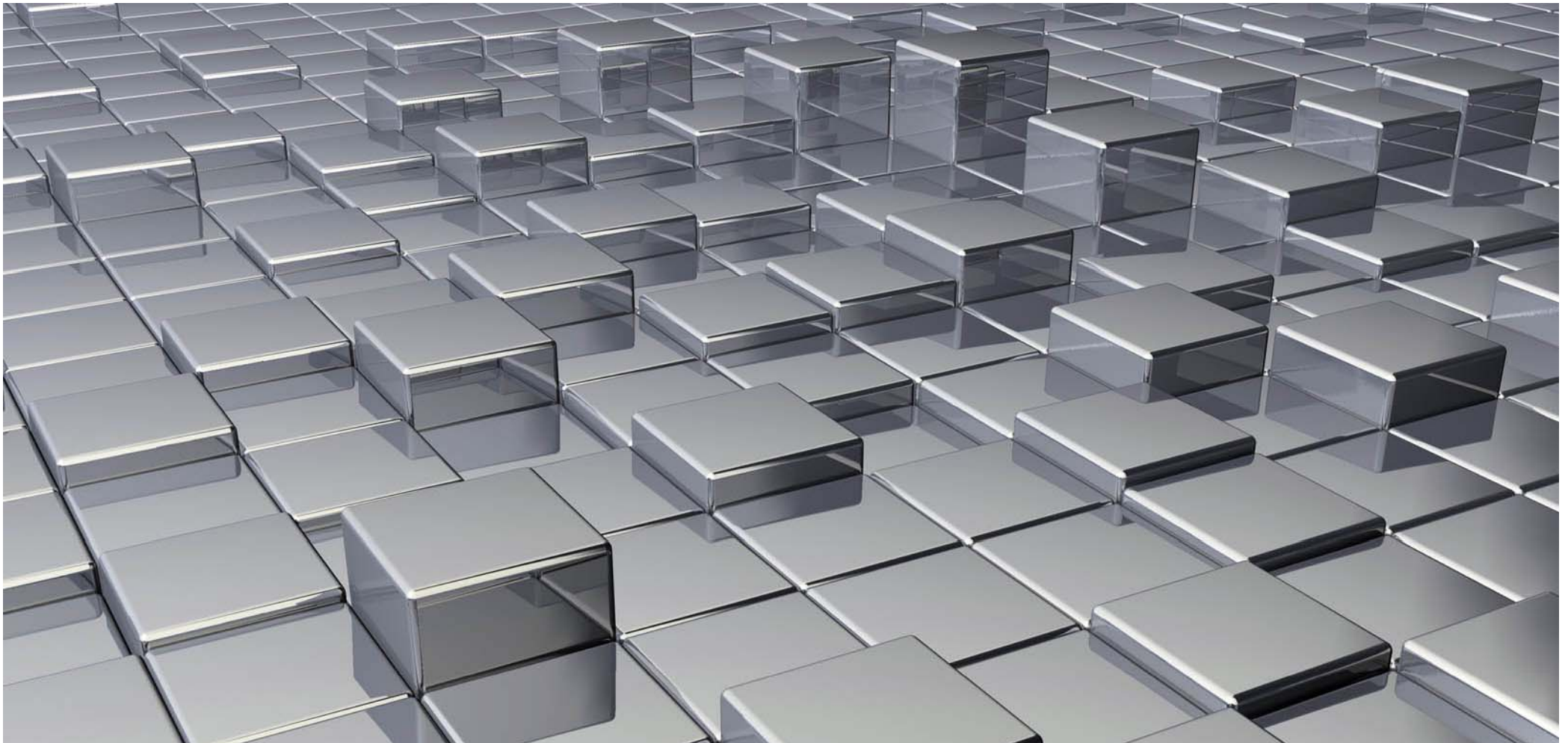
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# A Objectives and methodology

# Our survey

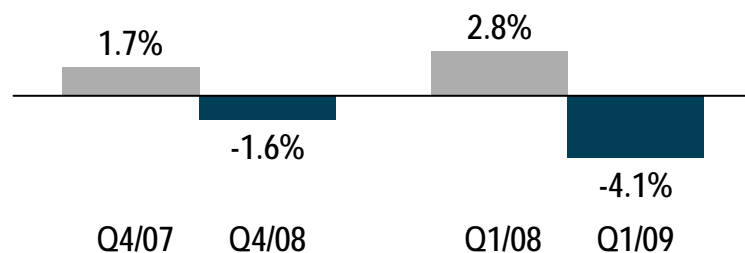
## Introduction

- > In March and April 2009, Roland Berger Strategy Consultants conducted its fifth survey on the development of the restructuring market. The study was carried out worldwide. This document focuses on the key findings for Germany
- > In Germany, approx. 900 board members and CEOs from different industries were surveyed (13,2% replies)
- > The objective of the survey was to identify to which extent and in which areas these companies were affected by the worldwide crisis. Another focus was to analyze where executives see opportunities and risks and how these are impacting restructuring activities
- > In order to make statements about general trends, the study's findings were compared with the findings of previous studies

# The worldwide economic crisis served as the study's starting point – Negative growth forecasts for the near future

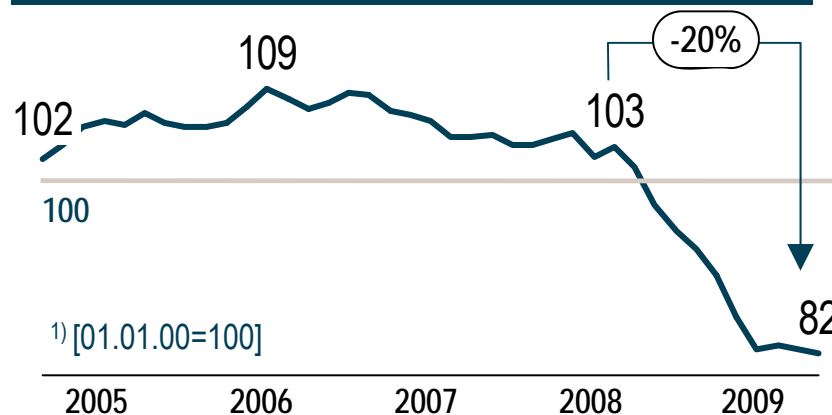
## The current economic environment

### GDP growth in Germany [%]



- > Huge drop in economic activity compared to last year – Record-breaking recession in Germany
- > Cautious forecasts for upcoming quarters
- > Strong decline in the development of value creation in Germany

### IFO business climate index<sup>1)</sup>

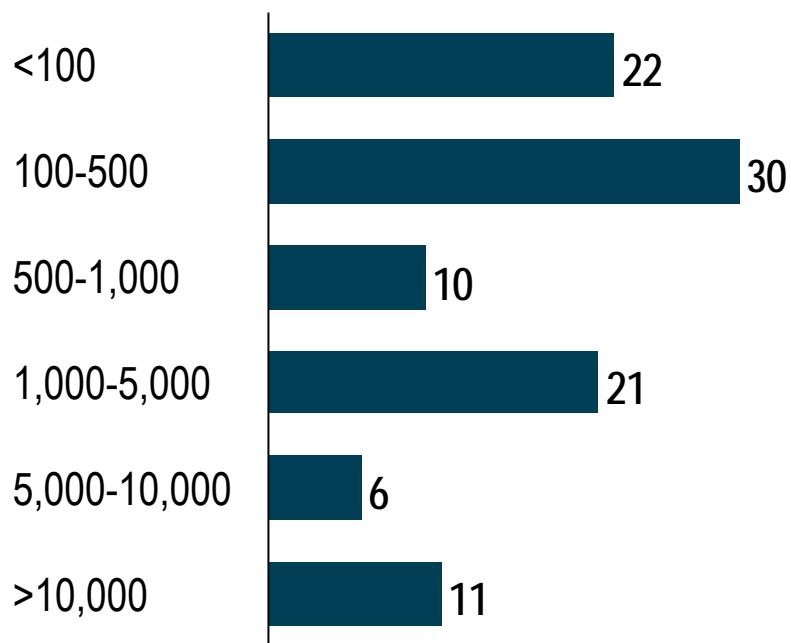


- > The IFO business climate index serves as an initial indicator of economic development and currently shows negative expectations towards future business development
- > Future quarters are expected to be on a similar level as in Q1/09

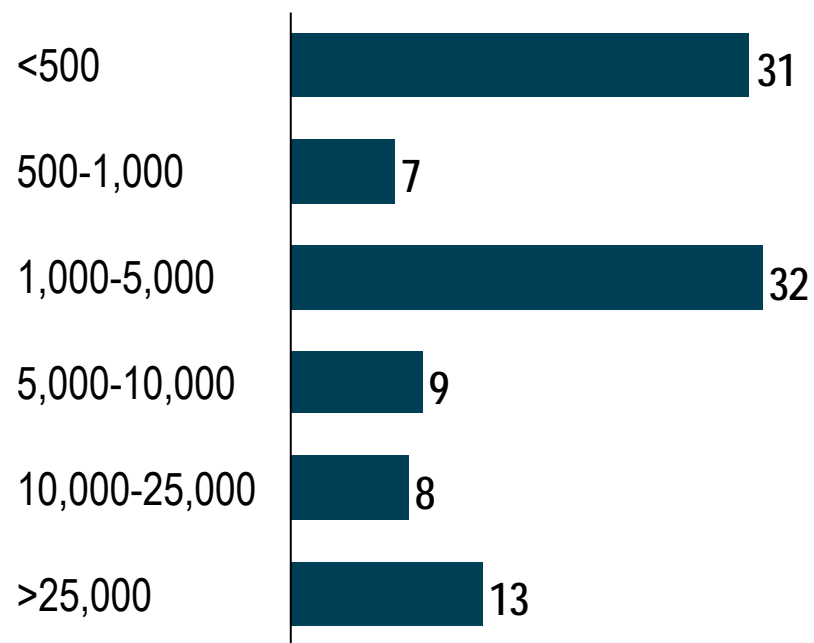
The restructuring survey includes companies of all sizes –  
From mid-sized companies to global players

## Size of companies surveyed in Germany [%]

### Sales [EUR m]



### Number of employees



# The diversity of the participating industries ensures the validity of the results

## Participants in Germany classified by industry

### <5%

- > Logistics
- > Tourism
- > Construction
- > Chemicals
- > Pharma & healthcare
- > Media & entertainment

### 5-10%

- > Financial services
- > Retail & wholesale
- > Machine & plant engineering
- > Automotive & suppliers

### >10%

- > Energy & utilities
- > Consumer goods, electronics & textiles

- > Companies from over 12 different industries participated
- > The diversity of the participating industries allows for the generalization of results
- > With a share of over 10%, the energy & utilities, consumer goods and electronics & textiles industries are strongly represented

*NOTES*



# B Executive summary for Germany

# The global economic crisis has arrived, but rock bottom has not yet been reached – Major financing problems as a result

## 1 The subprime crisis has developed into a worldwide economic crisis. In Germany, rock bottom has not yet been reached – Recovery not expected before mid-2010

- > All regions around the world are strongly affected, especially North America, Europe and Japan
- > Three quarters of German companies already felt impacts of the crisis in 2008
- > Over 50% of the companies expect rock bottom to be in Q3 or Q4 of 2009; one third even in 2010
- > A majority of companies expect economic recovery in mid-2010 – One fifth even in 2011

## 2 Especially financial services, automotive and engineered products are feeling the effects of the crisis and do not expect a fast recovery – Pharma, energy and retail more optimistic

- > Above all, financial services, automotive & suppliers and engineered products are being hit hard by the crisis and are going to recover only slowly – Forecasts indicate fast recovery in the logistics sector despite considerable crisis-related damage
- > Sectors remaining largely untouched are pharma & healthcare, energy and retail
- > 98% expect the world economy to shrink in 2009: Once again, the automotive & suppliers sector will be hit hard – The energy & utilities sector maintains a cautious to positive view of its future development

## 3 Financing problems for companies caused by deteriorating credit terms and conditions, difficulties in obtaining new loans and a drop in commercial credit insurance lines

- > 53% of the participants report deteriorating credit terms and conditions, 46% are having difficulties obtaining new loans
- > 46% of the companies interviewed noted a reduction in commercial credit insurance lines for customers (27% for suppliers)
- > In 16% of the cases, credit lines were cut, 37% reported a negative effect on other forms of financing

# Quick implementation of actions is critical – A wave of layoffs expected, but the crisis also provides opportunities

## 4 Successful crisis management against collapsing sales requires quick implementation of actions – A comprehensive program becomes more relevant

- > The critical success factor of *quick implementation* reached its highest point since 2001 with 51% relevance in 2009
- > The significance of *management commitment* has been in decline since 2006, but still constitutes the 2nd most important success factor
- > After a low point in 2008, a *comprehensive program* is once more important and ranks number three with 38% in 2009

## 5 Initiatives concerning costs and liquidity but also growth are being implemented – A wave of layoffs and pay cuts

- > Between 72% and 77% of participants have already launched tough initiatives to cut costs and improve liquidity, or will do so soon
- > At 79%, growth and sales initiatives rank the highest among future actions
- > Personnel costs were cut by more than 10% in one third of the cases – Half of the participants plan to cut more than 10% in the future (one third even expects personnel costs of over 15%)
- > So far, the government-subsidized "short-time work" approach was mainly used to reduce personnel costs; a wave of layoffs and pay cuts are becoming necessary to reach cost cutting targets

## 6 The crisis as an opportunity to reduce the cost base and focus on core business and acquisitions – Government stimulus plans viewed as insufficient

- > 69% of the participants see the crisis as an excellent opportunity to reduce their cost base
- > 64% of the participants see strong opportunities to focus on their core business
- > More than half have identified sound investment and acquisition opportunities
- > Participants are aware of the benefits of government aid plans for the entire economy, but view the importance of these plans for their own companies as minor or even irrelevant

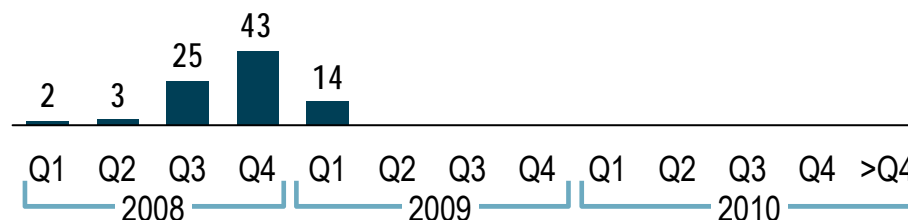


## C Key findings for Germany

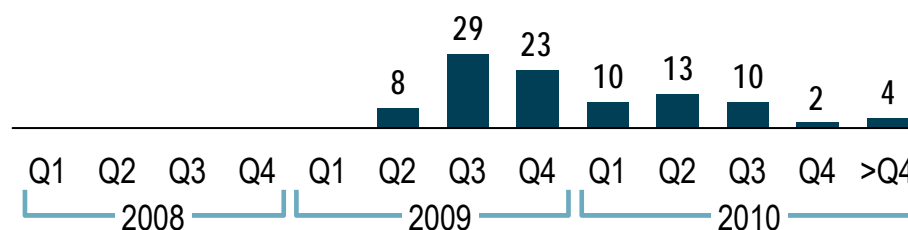
# Companies are facing hard times: Trough reached only in late 2009 and recovery expected only in mid-2010

## Crisis development [% of responses]

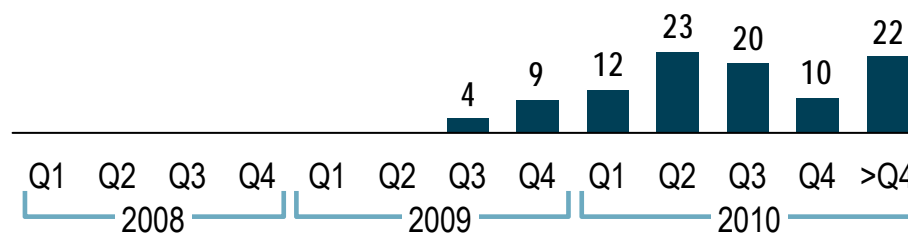
When did your company start feeling the impact of the crisis?<sup>1)</sup>



When will the economic crisis reach its trough?



When do you expect economic recovery to start?

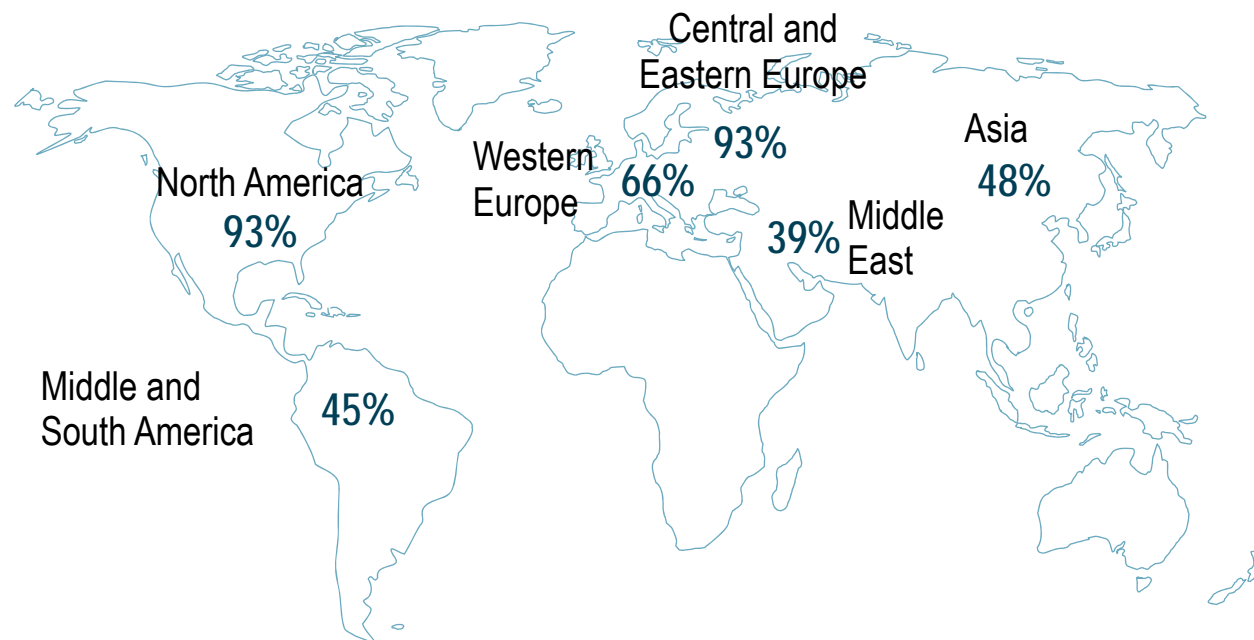


- > The crisis reached most of the companies (73%) by Q4 2008
- > Economic trough still expected for Q3/Q4 2009
- > Economic recovery expected only as of mid-2010 (43%)
- > 22% of the participants expect recovery to occur only in 2011

1) Some answers may be mentioned more than once: No implication of the crisis perceptible (13%)

# The subprime crisis developed into a worldwide economic crisis

Strong implications of the crisis in the various regions [% of responses]<sup>1)</sup>



- > Over 90% of the participants consider North America and Central and Eastern Europe as the regions that are hit the hardest
- > With mentions of 66%, many also believe Western Europe is being/will be strongly affected
- > Asia and Middle / South America are less affected (under 50%)

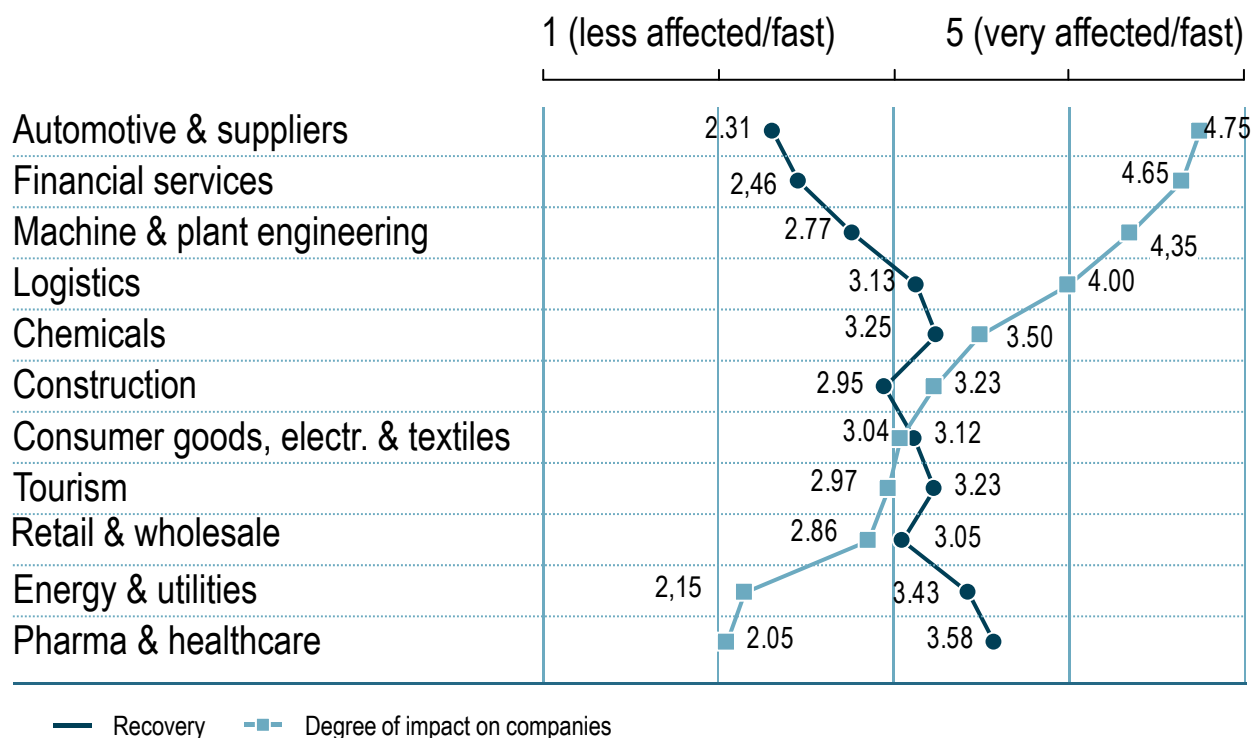
*NOTES*

1) Some answers may be mentioned more than once: Question not relevant

# Industries strongly affected by the crisis will take a long time to recover

## Affected industries and prospect of recovery [% of responses]

Which industries do you expect will be most affected by the crisis and which will recover the fastest?



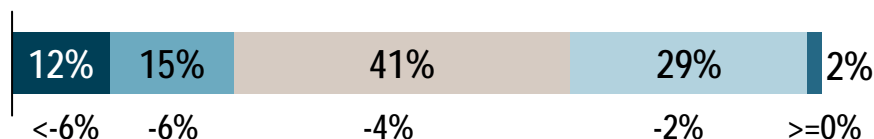
- > Automotive & suppliers and financial services are the most affected and, despite government aid, are unlikely to recover from the crisis in the near future
- > Good opportunities for development in the logistics industry despite being strongly affected by the crisis
- > Crisis winners are pharma & healthcare and energy & utilities

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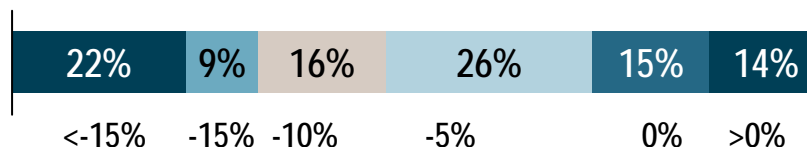
# Despite the shrinking world economy, there are promising industries such as energy & utilities

## Impacts of the economic crisis in 2009 [% of responses]

2009 world economy  
(Change in 2009 GDP compared to prior year)



Own company  
(Change in 2009 sales compared to prior year)



- > 98% believe that the world economy will shrink or stagnate in 2009
- > However, 31% believe that sales in their own company will be stable or even grow

### Selected industries

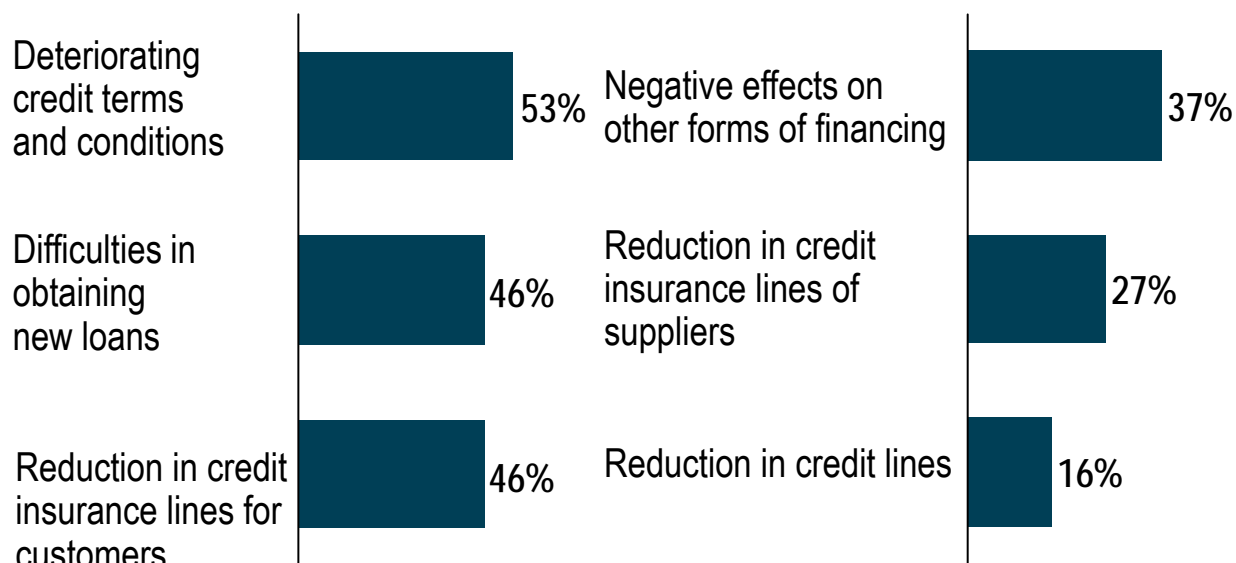
- > 90% of automotive & supplier companies and 75% of engineered products companies expect a strong decrease in sales of 15% and more
- > However, 55% of the companies in retail and 50% of the companies in the energy & utilities industry expect stable sales (0%)
- > 14% of energy & utilities companies even expect growth in sales

NOTES

# Companies are still under financial pressure: Loans are getting more expensive and harder to obtain

## Impact of the crisis on financing [% of responses<sup>1)</sup>]

### Form of impact



- > For 53% of the companies, credit conditions deteriorated
- > 46% have difficulties in obtaining new loans due to the crisis
- > 46% and 27%, respectively, have noticed a reduction in credit insurance lines
- > However, so far no significant credit line reductions are noticeable

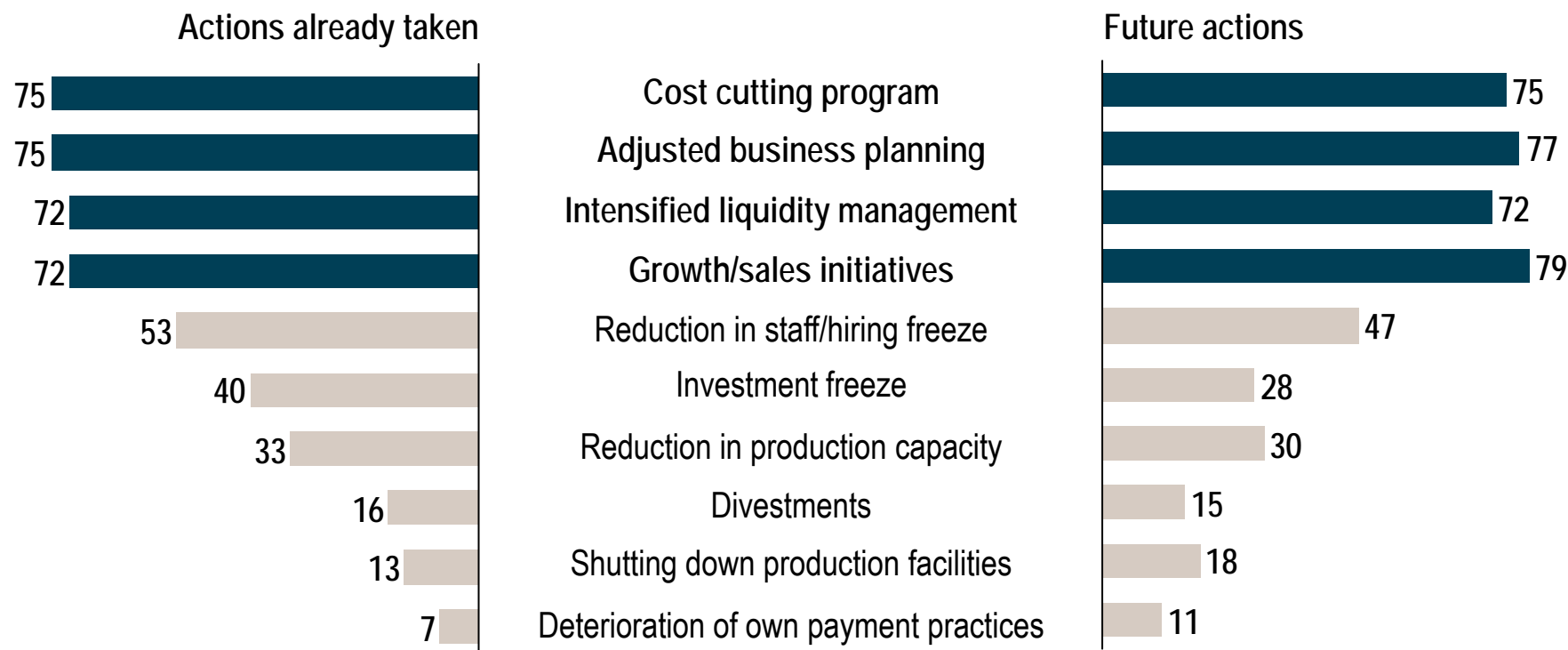
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1) Several responses possible

# Companies are now cutting costs and watching their cash, but they are also keeping an eye on growth

## Relevance of actions [% of "very important" responses]

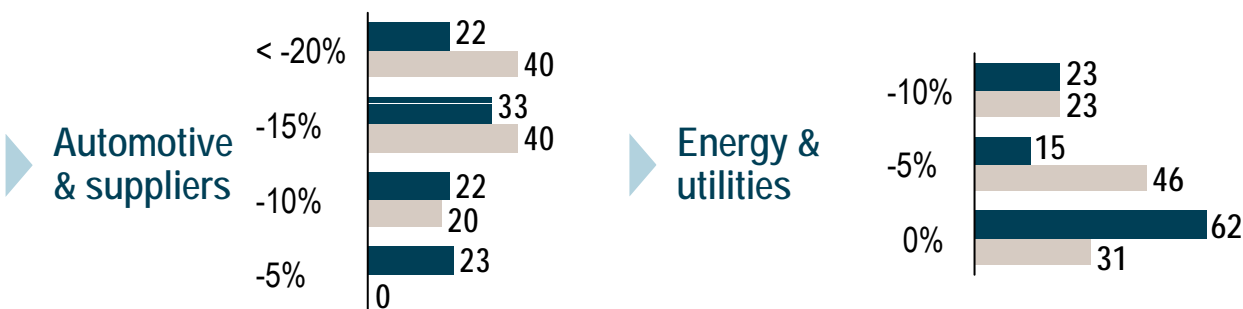
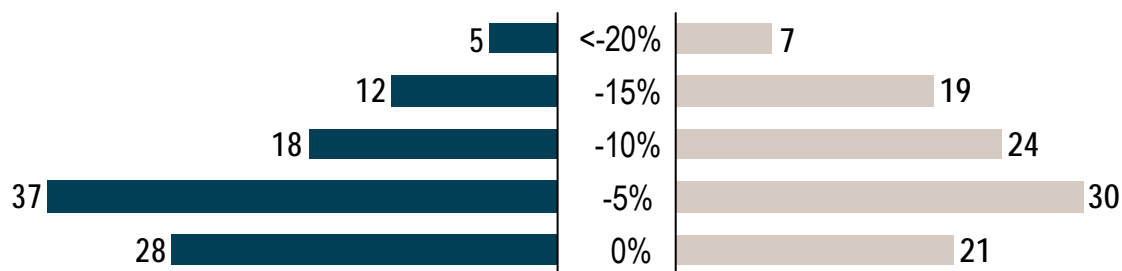
How relevant are actions that have already been taken and those which are planned for the future?



# 35% have already reduced personnel costs by over 10% – A second wave of lay-offs is expected

## Reduction in personnel cost [% of responses]

By how much have you reduced your personnel costs?



Legend: ■ Already reduced ■ Will be reduced in future

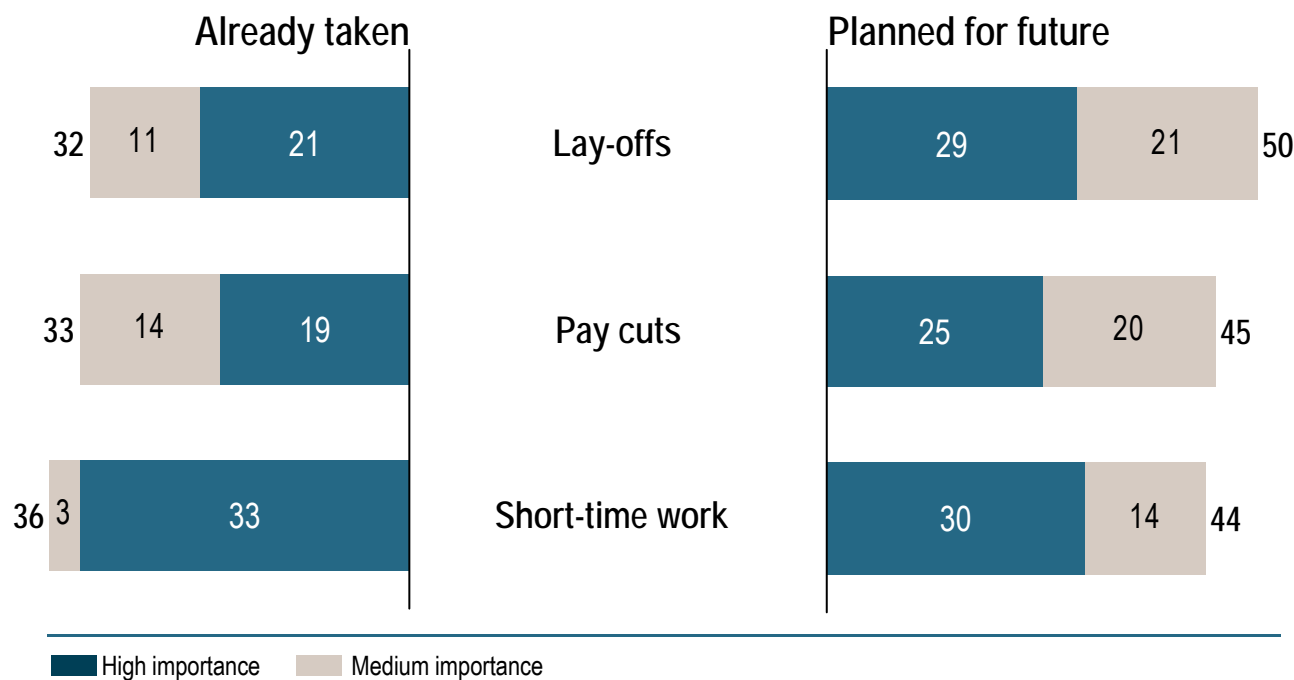
- > 35% of participants have reduced their personnel costs by over 10%
- > All industries are preparing to intensify personnel cost reduction – More than half plan on reducing personnel costs by over 10%
- > Automotive/suppliers have already intensified their actions and carried out further personnel cost reductions
- > 62% of the companies in the energy industry have not yet reduced personnel costs

*NOTES*

# "Short-time work" already common – More lay-offs and pay cuts

## Relevance of personnel cost reduction [% of responses]

### How relevant are the personnel cost cutting actions?



- > Lay-offs so far have been rather selective – But a wave of lay-offs is imminent (high to medium importance for 50% of the companies)
- > Pay cuts will become more relevant in the future (high to medium importance for 45% of the companies)
- > Short-time work is being heavily used with an upward tendency – So far this has been a way to avoid lay-offs

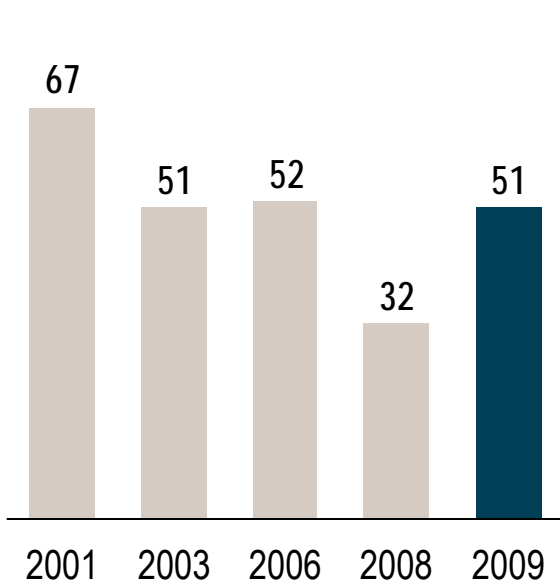
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# Crisis handling requires a quick implementation of actions – Comprehensive programs are becoming more relevant

## Top success factors for restructuring [% of responses]<sup>1)</sup>

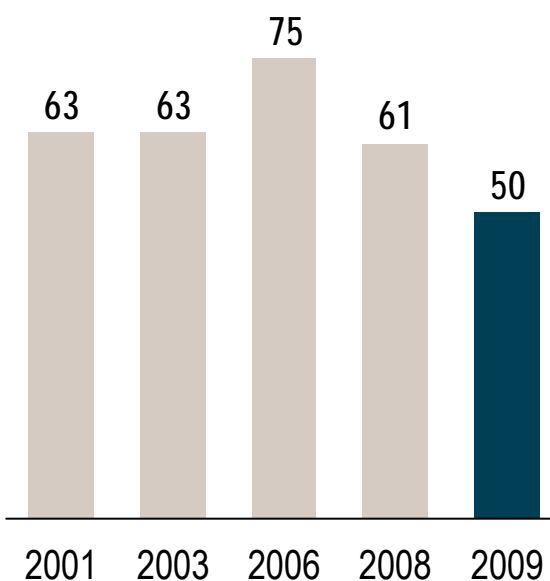
### TOP 1

Quick implementation



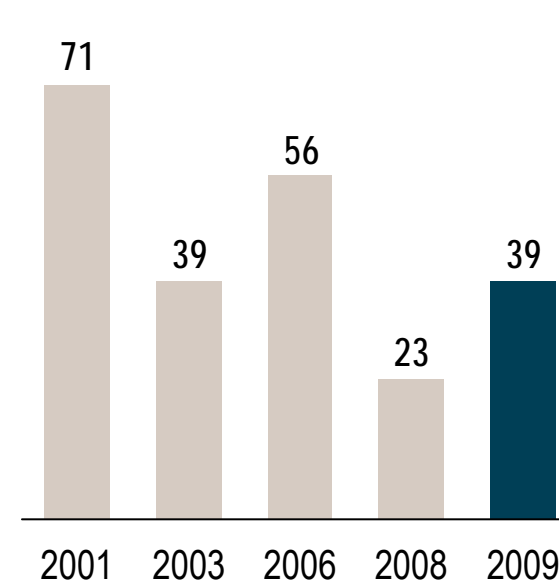
### TOP 2

Management commitment



### TOP 3

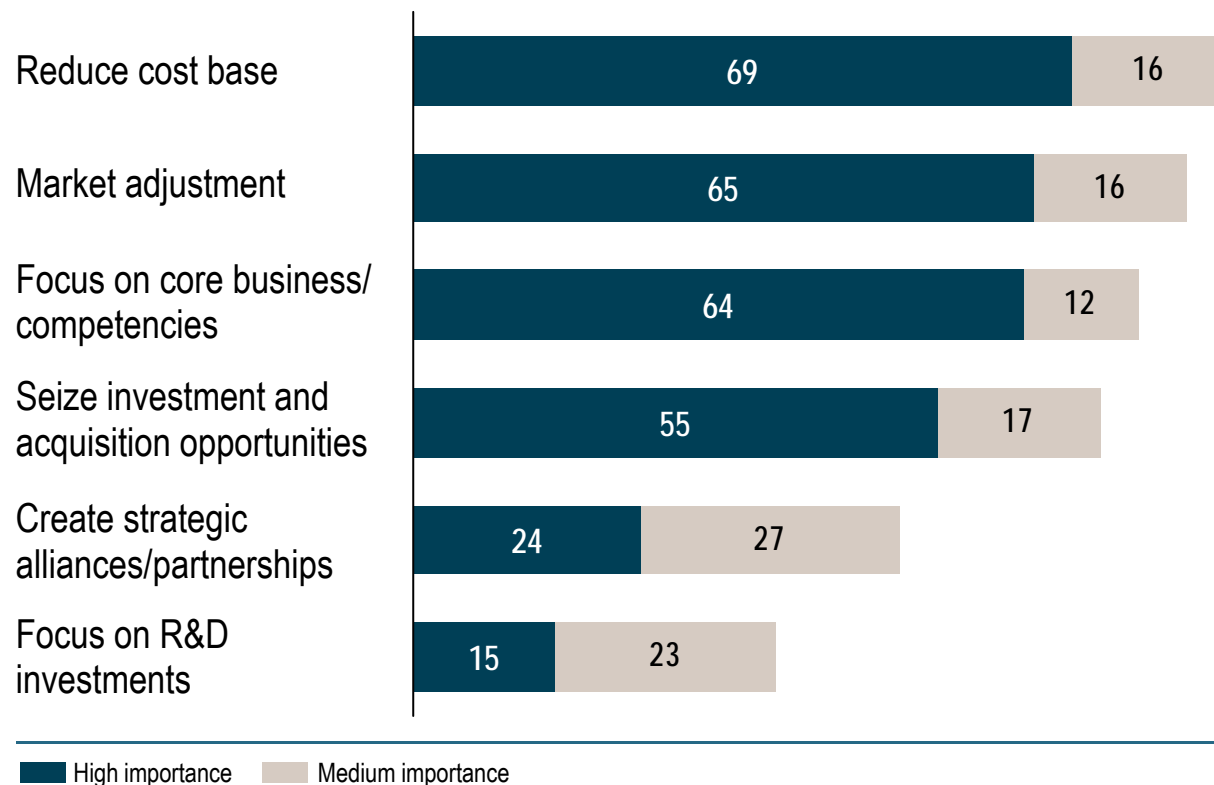
Comprehensive program



1) Several responses possible

# Companies view the crisis as an opportunity to focus on their core business and reduce their cost base

## Opportunities of the crisis [% of responses]<sup>1)</sup>



- > 69% of the participants are using the crisis to reduce their cost base
- > 69% of participants view the crisis as an opportunity to focus on their core business
- > More than half are benefiting from investment and acquisition opportunities, but financing is unclear due to the current environment

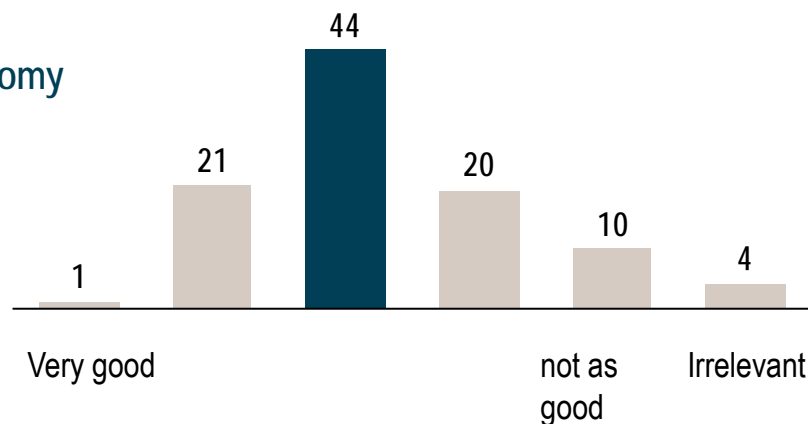
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1) Some answers may be mentioned more than once

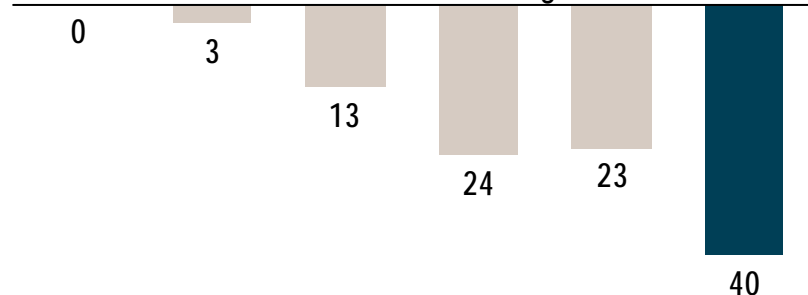
# Perceived benefit of government stimulus packages for the entire economy – Importance for own companies is irrelevant

## Assessment of government stimulus plans [% of responses]

For the entire economy



For own company



- > There is a discrepancy concerning the perceived benefit of government stimulus plans
- > The benefit for the whole economy is perceived as positive
- > However, the benefit for own company is perceived as not as good or even irrelevant
- > Reasons could be the terms and conditions of these plans and duration of the application process

*NOTES*

# Highly affected companies are using cost cutting initiatives – Less affected companies are benefiting from opportunities

## Varied interpretations of initiatives [% of responses]

	Companies affected by the crisis <sup>1)</sup>	
	Strongly	Less strongly
<p>&gt; More rigorous initiatives in companies that are strongly affected by the crisis (when sales are down 15% or more) so far and in the future</p> <ul style="list-style-type: none"> <li>▶ - Relevance of cost cutting initiatives so far</li> <li>▶ - Relevance of cost cutting initiatives in the future</li> </ul>	<p><b>91%</b> <b>69%</b></p>	<p><b>55%</b> <b>55%</b></p>
<p>&gt; Companies with solid sales development (<math>\geq 0\%</math>) that plan to reduce personnel costs in the future; however to a lesser extent</p> <ul style="list-style-type: none"> <li>▶ - Share of companies that plan to reduce personnel costs of <math>\leq -10\%</math> in the future</li> </ul>	<p>80%</p>	<p><b>15%</b></p>
<p>&gt; Companies with solid sales development are using the crisis to benefit from investment and acquisition opportunities, but at the same time reduce their cost base</p> <ul style="list-style-type: none"> <li>▶ - Relevance of investment and acquisition opportunities</li> <li>▶ - Relevance of reducing the cost base</li> </ul>	<p>43% <b>74%</b></p>	<p><b>61%</b> <b>58%</b></p>
<p>&gt; Companies with solid sales development have a worse perception of government stimulus plans than companies that have recently experienced plummeting sales</p> <ul style="list-style-type: none"> <li>▶ - Government stimulus plans are "not as good" or "irrelevant" for own company</li> </ul>	<p><b>57%</b></p>	<p><b>64%</b></p>

1) Expected year-on-year change in 2009 sales (cf. page 15): strongly affected: decrease in sales  $\geq 15\%$  - less affected:  $\leq 0\%$

# Efficiently setting priorities ensures the company's positioning during the crisis

## Recommendations for surviving the crisis

1

### Ensure short-term liquidity

- > Firmly monitor liquidity
- > Use all available leverages to improve the cash position: working capital, investments, financial restructuring
- > Closely collaborate with banks and credit insurers to allow companies to act early in case of liquidity shortages and required loans

2

### Strongly promote restructuring activities

- > Validate margin losses resulting from a decrease in sales and define the demand for restructuring activities with the help of scenarios
- > Define counteractions for all categories and divisions
- > Adjust structures to reduce fixed costs (imperative!) – Purely operational actions are no longer sufficient

3

### Use opportunities

- > Use the crisis as an opportunity to realize new strategic positioning – Evaluating possible consolidation opportunities as an important part
- Develop and enforce growth scenarios for a future "after the crisis"

# How do the participants view the crisis in their own words? Positive prevailing mood: Don't panic, use the crisis!

## CEO quotes

"Vorwärts denken,  
nicht nur Kosten  
senken" ("Think ahead  
and not only cut costs")

"Watch your cash  
und durchhalten"  
("Watch your cash and hang on")

"Vorbereiten auf  
die Zeit danach"  
("Prepare for the time after")

"Ruhe und  
Besonnenheit"  
("Stay calm and prudent")

"Rasches und  
konsequentes  
Handeln"  
("Take quick and consistent  
actions")

"Nerven behalten"  
("Keep cool")

"Augenmaß"  
("Maintain a sense of  
proportion")

"Alternativszenarien  
entwickeln"  
("Develop alternative scenarios")