

THINK ACT

BEYOND MAINSTREAM



ENTREPRENEURIAL RESTRUCTURING

**Crafting tailor-made business models
for sustainable success**

OCTOBER 2014

Roland Berger
Strategy Consultants

THE BIG 3

en·tre·pre·neur·ial

Getting entrepreneurs to restructure enterprises places business models on a firm, new foundation for long-term sustainability.
p. 10

re·spon·si·ble

As though the livelihood of their own company depended on it, the restructuring team becomes co-owner of the transformation challenges instead of merely working through project plans.
p. 11

tai·lor·made

Hand-crafted solutions for strategic realignment enable businesses to carve out, fine-tune and defend competitive advantages with their own inherent strength.
p. 12



Growth
through
restructuring
p. 18

A new take on restructuring. Greater complexity. Less continuity. Two reasons why an entrepreneurial approach to finding sustainable business models is more important than ever.

To do a good job of restructuring a company these days, you need to look at more than just costs and the headcount. Successful restructuring means quickly coming up with a new business model that is convincing and sustainable. Roland Berger Strategy Consultants approaches the task from a strictly entrepreneurial perspective. On behalf of our clients, we moderate what are often conflicting demands. We also manage the transformation process as though we were handling our own business. Responsible, energetic and rigorous decision-making is at the heart of this "entrepreneurial restructuring" approach.

We first established our reputation as a market leader over 25 years ago. **F** And to this day, rankings repeatedly confirm our position as the undisputed leader in both restructuring and implementation expertise. **A**

Very early on, we set the standards for rescuing companies by combining analytical skills with methodological knowledge and proven experience across a variety of industries. In the 1990s, restructuring then acquired an operational aspect, which above all involved straightening out the income statement. Financial restructuring added a further string to our bow around the turn of the millennium as clients' balance sheets became the focus of attention, alongside their income statements. We thus helped companies redesign their assets and loans, restructure their debt and equity capital, and realign their equity investments.

For the past ten years, our work has also featured a significant strategic component. While the tools of the trade we grew up with have lost none of their validity, our core competency today is placing entire business models on a new economic foundation. In doing so, we take our clients a step further. Our job is to foster trust between the stakeholders – primarily between the client and its financial backers. Restructuring is a special situation for every company, one that demands proven expertise. It also requires consultants to work with clients to first develop a concept and then effectively underwrite implementation. Mediation skills are equally vital in this context, because a company in a state of restructuring must make due provision for a broad spectrum of interests.

The majority of managers have long since understood that adapting their organization is the rule, not the exception. It is a permanent, ongoing challenge. Of the 11,000 or so German companies that post annual sales of more than EUR 50 million, some 2,000 are in an acute crisis situation in terms of earnings, liquidity or on a strategic level. And far more than this number are having to brace themselves for radical changes in their market environment.

Running and leading companies is becoming ever more challenging, because top managers today operate in what has been called a VUCA world: They are confronted by volatile markets and geopolitical risks.

A

RANKING THE RESTRUCTURERS

Having been recognized as a market leader for many years, Roland Berger tops the rankings not least for its implementation skills.

Top 5 restructuring consultants over time



Turnaround and restructuring [2014/2015]¹⁾

Roland Berger	401
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McKinsey	397
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KPMG	381
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BCG	367
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PwC	361
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Implementation skills²⁾

Roland Berger	375
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Accenture	352
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Oliver Wyman	348
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McKinsey	339
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A.T. Kearney	335
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1) Index points: 100 = very poor skills; 500 = very strong skills

2) Roland Berger ranked top in implementation skills for six years running, starting in 2005

Source: Roland Berger; WGMB – Wissenschaftliche Gesellschaft für Management und Beratung, Prof. Dr. Dietmar Fink

They are also constantly having to make decisions within uncertain conditions. Unlike mere risk and unpredictability, uncertainty means that we neither know what might happen, nor how probable it is that any given set of events might happen. This creates complex problems, leading to trends that are inconsistent and often ambiguous – trends that can no longer be understood on the basis of conventional quantitative models alone. As a result, stable companies can find themselves in need of restructuring at any time. Whole industries, indeed, can unexpectedly plunge into a crisis as the conditions within which they operate change suddenly and significantly.

Germany's energy market is a good example. In 2011, the Fukushima disaster triggered a political volte-face on energy policy when the government an-

nounced its withdrawal from nuclear energy. More or less overnight, the traditional power utilities' business model was turned on its head. One particularly striking factor is the decline in margins on power generation, which has lately experienced radical change: Since capacity to produce energy from renewable sources has been ramped up sharply, it now hardly pays to market energy from conventional sources. This situation in turn raises strategic questions about the future viability of entire business lines.

These days, restructuring has become more complex not only because the issues addressed have a stronger strategic focus. **B** At the same time, continuity is disappearing from the boardroom as the duration of top managers' tenure decreases. **E** Additionally, as more and more demands are placed on companies,

NEW DEMANDS PLACED ON RESTRUCTURING

MORE STRATEGY, A COMPLEX STAKEHOLDER STRUCTURE,
MULTILAYERED FINANCING, LESS MANAGEMENT CONTINUITY

B

RISE OF STRATEGIC ISSUES

What areas form the focus of the measures to be taken?

[percentage of mentions]

76%

cost-cutting/efficiency
enhancement programs

80%

growth/sales
initiatives

61%

cost flexibility programs
(to reduce fixed costs)

65%

strategy/business model
adjustment

47%

optimized liquidity
management

44%

optimized risk
management

33%

material acquisitions/
disposals of corporate
entities

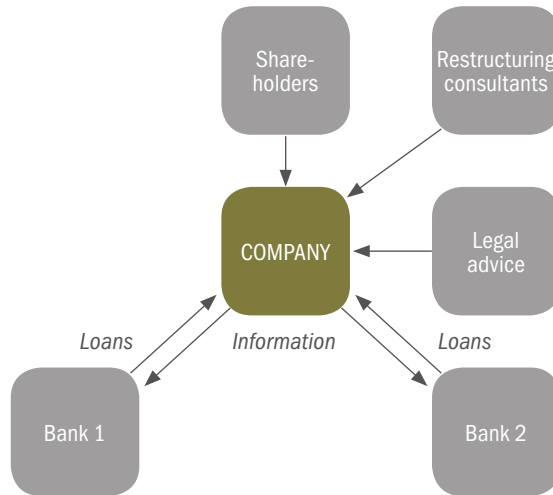
Source: Roland Berger

C

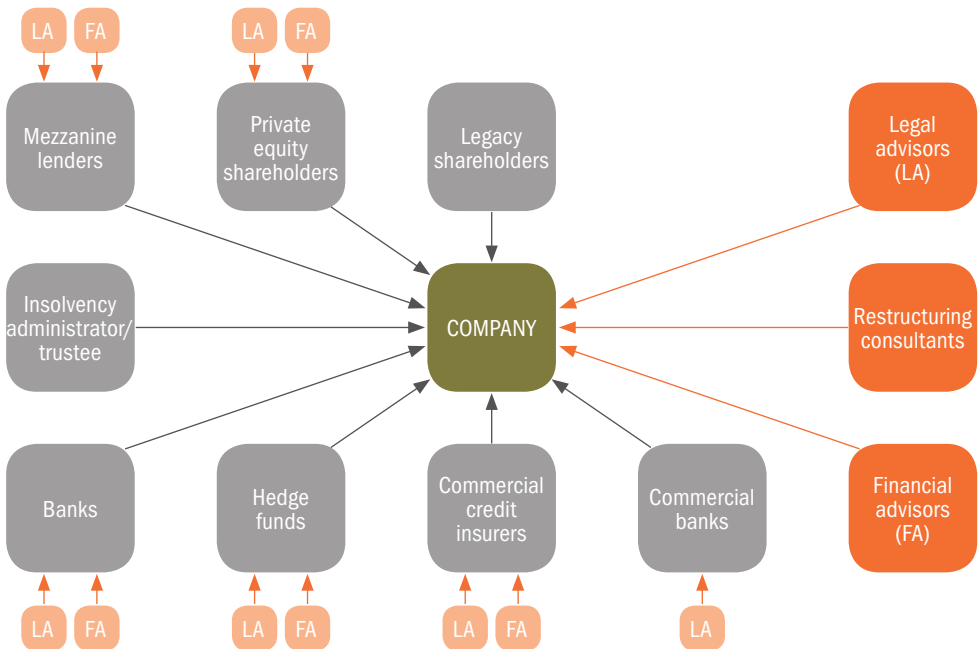
EXTENSION OF COORDINATION EFFORTS

The number of stakeholders and external influences on companies is increasing

PAST/ TRADITIONAL MODEL



TODAY



Direct advice to the company

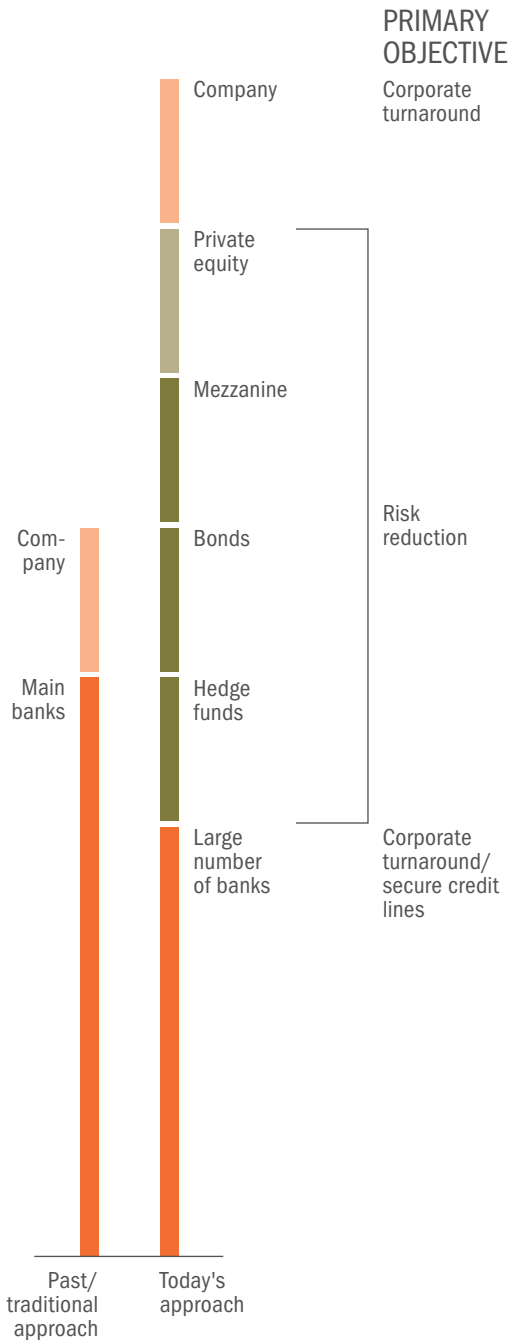
Indirect advice to the company

Source: Roland Berger

D

COMPLEX CAPITAL STRUCTURES

The concept of a "main bank" is losing ground, risks are being spread

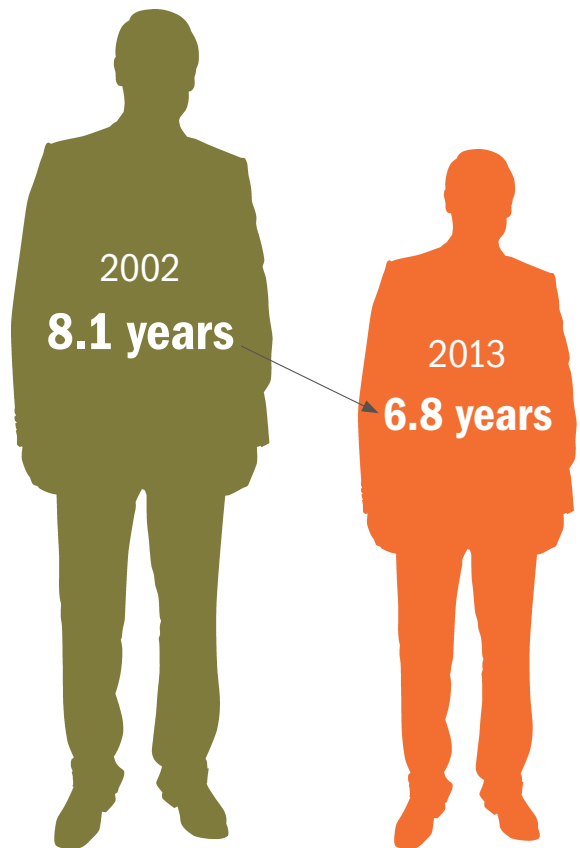


Source: Roland Berger

E

INCREASING TOP MANAGER CHURN

Staff continuity is on the wane
[tenure of CEOs in German-speaking countries]



Source: Strategy&

F

SKILLS, METHODS, EXPERIENCE

Roland Berger established its reputation as a market leader over 25 years ago



the complexity of stakeholder relationships naturally increases too. **C** By no means least, the forms of financing and capital structures are becoming more and more diverse. Whereas businesses used to simply borrow money from their main bank, the latter now have to compete with other financing forms: mezzanine capital, private equity, hedge funds and corporate bonds. **D** Even the lines between debt and equity are becoming blurred, and foreign capital backers too are increasingly gaining a foothold. The latter expect certain performance levels and regular reporting in compliance with international standards. In a restructuring scenario, excellent links to all these sources of finance can ultimately determine whether a turnaround succeeds or fails.

The government too has provided powerful stimulus for a new understanding of restructuring. The German Insolvency Code, for example, was reformed in March 2012, and its scope was widened by the Law on the Further Simplification of Corporate Restructuring (ESUG). **G** The core element of this code, broadly based on the provisions of US insolvency law ("Chapter 11"), is the new option of self-administered financial recovery which, in effect, allows firms to be restructured under the protection of insolvency. Under the supervision of a trustee, the company's owners are given three months in which to take the fate of the business in their own hands and draw up an insolvency plan. The aim of the ESUG law is to simplify corporate restructuring and help more companies to avoid being either wound up or broken up.

As companies seek viable alternatives to liquidation on the basis of the new Insolvency Code, there is growing demand for 360° consulting. A paradigm shift in favor of preserving the substance of the company has also breathed new life into the role of the Chief Restructuring Officer (essentially, an experienced and – above all – independent manager). All of which goes to show that the time is ripe for a fresh approach to restructuring.

G

UNDER PROTECTION

MOSTLY POSITIVE EXPERIENCE OF THE GERMAN LAW TO FURTHER
SIMPLIFY CORPORATE RESTRUCTURING (ESUG)

FIRST STEPS TOWARD A NEW INSOLVENCY CULTURE

Roland Berger/Noerr survey of 2,100 legal experts, managers
and investors with a wealth of practical experience

MORE INSOLVENCIES

The number of insolvencies in Germany is edging up. The number of applications for self-administration is increasing at a (slightly) faster rate.

APPLICATIONS

Stricter documentation obligations and insufficient legal certainty make the application process a complex task.

NOT QUITE THERE YET

90% of respondents believe the government's aims have largely been fulfilled – 6% more than in 2012. However, it will take time for people's mindset to adjust to a new culture of insolvency.

LEGAL REFORM

Companies are gaining experience of the reformed Insolvency Code. Well over 80% of respondents have applied ESUG, mostly in the role of creditors, but also as insolvency administrators/trustees or CROs.

SELF-ADMINISTRATION

Creditors are more critical than insolvency judges: Preliminary insolvency committees reject 11% more applications for self-administration than judges (45% in total). Even so, the majority of applications for self-administration meet with success.

PROCEEDINGS UNDER PROTECTION

A third of self-administration proceedings take place under the protection of the new law. These cases reach a successful conclusion more frequently and more quickly than other processes. The time spent under protection is thus put to good use.

INDEPENDENT MANAGEMENT

The most important aspect of self-administration is to engage experienced, independent management. This requirement gives a major new boost to the Chief Restructuring Officer.

The Roland Berger approach: **Getting entrepreneurs to restructure enterprises.** A new philosophy, top-flight capabilities and a comprehensive perspective.

Companies in crisis situations have widely varying needs. Small and medium-sized firms often make mistakes when internationalizing, are short of adequate management capacity or lack the necessary transparency about key performance indicators. Clients such as these need a lot of help implementing new strategies. Larger companies tend to struggle more with complexity and/or diffuse strategies. They need more support in the form of "conceptual consulting". Every restructuring situation is, of course, unique, and this breakdown is very rough at best. Yet even for clients themselves, it is often hard to judge which consultants and what services might really help.

The way we tackle restructuring assignments enables us to find the right combination of conceptual design and implementation. Drawing on our proven network and close contacts with legal advisors, banks, investors and other sources of support, we can provide one-stop shopping to meet every need. For this reason, we have improved on our tried and trusted approach, fine-tuning it and anchoring it even more deeply in our own unique strengths: entrepreneurship, empathy and excellence. 

Entrepreneurial: A coin with two sides

An entrepreneurial take on restructuring is the core of our approach. The first step is to clarify why the market needs the company, and whether management can

meet the given requirements. This question can only be answered by adopting an entrepreneurial approach: Not until agreement has been reached on the company's strategic realignment does it make sense to think about appropriate measures. For us, there are two sides to the entrepreneurial coin:

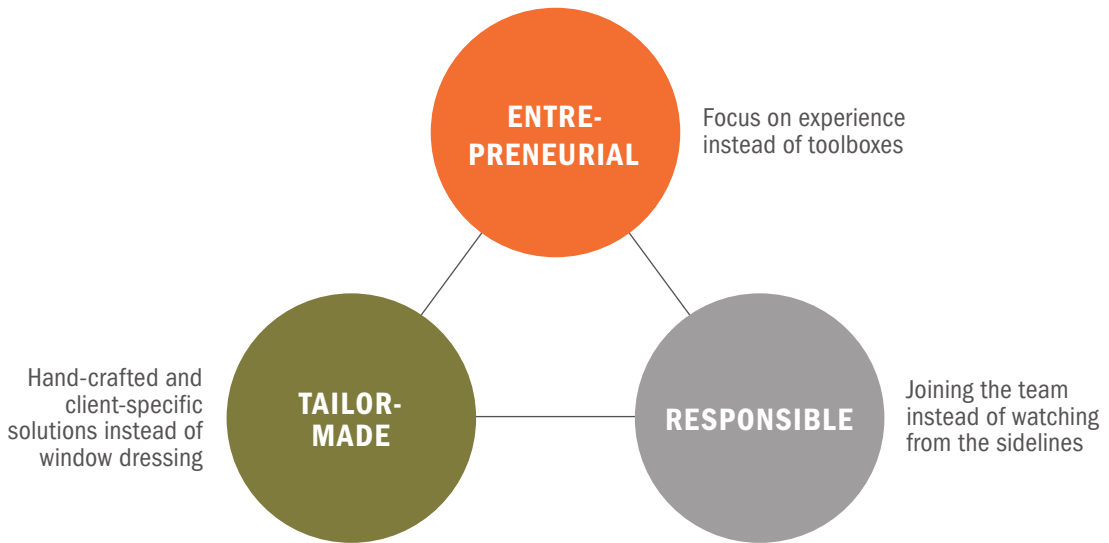
ENTERPRISES. Restructuring that relies solely on methodological approaches focuses on cutting costs. That can help improve the earnings situation and ward off the threat of insolvency in the short term. It is of no value in the medium to long term, however, because it is highly likely that precisely those skills and capabilities that are vital to get the company back on its own two feet will no longer be there. That is why, whenever we think about restructuring, we always begin by looking at the long-term perspective for the company and its business model. We examine its strengths and weaknesses and explore the options for a new strategic model. That does not necessarily mean that restructuring an imbalanced enterprise as an entity fits the bill. It might be inevitable that a healthy core has to be separated from units that have no future. And it is this strategic decision on which the restructuring concept must be based.

ENTREPRENEURS. We systematically staff our teams with experienced consultants who have run a business or held an executive position. This policy yields a number of advantages: First, it means we can contribute greater knowledge and draw on our consultants' valuable practical experience. It also helps the

H

GUIDING PRINCIPLES OF THE ROLAND BERGER RESTRUCTURING APPROACH

A successful blend of entrepreneurship, excellence and empathy



Source: Roland Berger

client, stakeholders and consultants to work together as partners, as equals – which makes communication and acceptance so much easier in difficult situations. The outcome? Realistic expectations about what is feasible and how quickly it can be implemented.

Responsible: Co-ownership of transformation challenges

In restructuring situations, it is crucial to find the right way to roll the concept out throughout the company. Implementation requires not just technical expertise and an understanding of the methods, but also years of hands-on experience – not to mention excellent social skills. If all you do is tick off the milestones on a project plan, you don't see the whole picture of the progress that is happening. You can easily overlook the social dynamics that are at work, psychological issues,

decision-making structures and the balance of power. Yet successful implementation often depends on precisely these issues. A modern approach therefore gives the restructuring partner a wider role: If you want to implement a concept and breathe life into it, you need to spend as much time as possible on the ground with the client, demonstrating empathy, establishing yourself as a partner and being accepted as such. It takes experience and a sensitive touch to lay a foundation and foster a constructive mood in a company that is under severe pressure. And that can only work if the restructuring partner "co-owns" the client's transformation challenges and shoulders responsibility for finding and applying a solution.

We always have a listening ear for the needs of our clients. We base all communication on the principle: "Don't lecture – leverage!"

We don't tell you what is going wrong or what should be done better. We talk to you as partners and

trusted advisors, discussing how each client can make better use of their specific potential. We then work with you to improve the situation together – just as a true entrepreneur would do. We become co-owners of your issues. Our primary focus is not on getting the project done and the invoice out, but on delivering solid, sustainable solutions. Along the way, the team has to be flexible enough to deviate from the charted course if this seems the best way to reach the client's goals. Despite all the extra work it involves, it might, for example, be best to swap a preferred investor for another interested party.

Tailor-made: Hand-crafted solutions

At the end of a turnaround or restructuring project, the client company should walk away with a hand-crafted solution that lets it do business successfully again with little or no outside support. "Hand-crafted" is indeed the operative term, reflecting the necessary mix of a solid mastery of the tools of one's trade with creative design skills. We identify three key quality criteria that such a solution needs to satisfy: It must be accepted by the parties concerned, be tailored to the needs of the company, and deliver lasting success on the market. Window dressing helps no one: A sustainable solution is vital, and the easy road is seldom the best one. The scope of change that is needed, the number of legacy business units that are retained, whether a radical shift is needed in the asset portfolio – or even in the company's governing bodies: All these questions are naturally essential to any successful restructuring exercise. On their own, however, they are not enough. Restructuring can only be deemed successful if, at the end of the day, a verifiable transformation is clearly visible in the company's strategic positioning, its profitability and – by no means least – its culture. How do you achieve this kind of solution?

Successful turnarounds are possible only if the teams called in to provide assistance fully master the standard aspects of restructuring: strategic, opera-

tional and financial restructuring. The consultant must see the big picture and appropriately tackle all three aspects if value is genuinely to be added for the client.

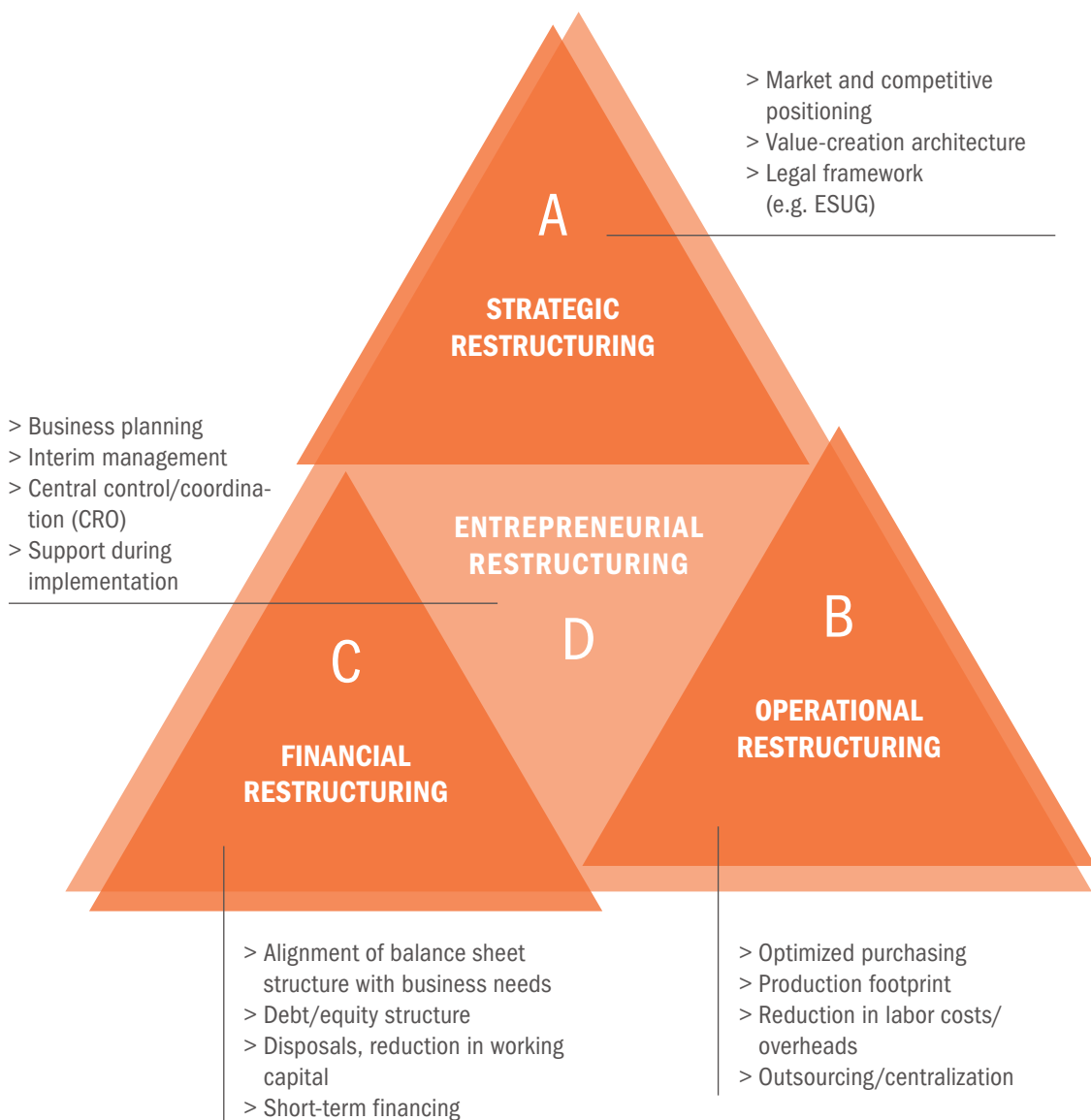
Based on a healthy balance sheet, the company must stand on the solid foundation of a robust shareholder and financing structure, and its income statement must be back in the black. These are the traditional cornerstones of financial restructuring. However, improving the financial situation alone does not determine how the project is to proceed. Top priority must be given to identifying the healthy core that is worth preserving and for which a solid, positive outlook exists. Exactly what constitutes the basis for this healthy core will depend on the company's potential in terms of its knowledge, people, markets and products. How this potential is mobilized, how resources are allocated and how the organization is adjusted are all part of operational restructuring. The sustainable success of restructuring activities is rooted in this integrated perspective: Successful strategic realignment – an improved value-creation architecture and optimized market and competitive positions – is imperative if operating performance is to be boosted and operating cashflow is to be positive in the long run. Working on this basis, the financial restructuring that is usually necessary can be realized by striking the right balance between debt and equity. 

Essentially, this combination of an entrepreneurial approach, co-ownership of transformation challenges, hand-crafted, tailor-made solutions, comprehensive methodological skills and hands-on support through every stage of implementation is what our restructuring philosophy is all about.

1

SEEING THE BIG PICTURE – COVERING ALL THE BASES

ROLAND BERGER'S INTEGRATED RESTRUCTURING APPROACH
INVOLVES COMPREHENSIVE SUPPORT FROM BUSINESS PLANNING
THROUGH IMPLEMENTATION



Source: Roland Berger

Roland Berger teams are reliable partners. Time after time, they have proven themselves in turnaround and restructuring situations, consistently delivering solutions tailored to customers' specific problems. That is entrepreneurial restructuring.

We have always adopted a constructive attitude to advising companies that find themselves in difficulties. Our work consistently focuses on the healthy core of each company. Not until we have identified this core do we move on to developing an entrepreneurial strategy for the future. And only then do we think about what the business case might look like and where costs have to be rolled back. Our set of tools and methods has grown more numerous, and more is now expected of the results we deliver. **J** We have observed how influences on management – both inside and outside the company – have changed over the years.

So, what is it that you need? Growth? Or lower costs? What used to be an either-or decision has now become more of a continuum, along which some companies move more in the one direction and others more in the other. This understanding is confirmed by our recent restructuring study. **K** Moderation is just as important as flexibility and far-sighted vision. To accommodate the many and varied demands of this management challenge, we have entered a new phase of restructuring – a phase we explicitly refer to as "entrepreneurial restructuring". This term emphasizes the sense of responsibility that guides our thoughts and our actions.

It takes courage to change, which is why having a strong CEO who can rely on the commitment of execu-

tives and staff alike is of critical importance. Yet change can only come about if swift, comprehensive and honest analysis is followed by focused change that quickly returns the company to liquidity and profitability.

You need an experienced team that sees the big picture if you want to develop an integrated operational and strategic concept. Once it's been clarified who is responsible for what in the project, mixed teams of client staff and consultants can get together to plan the next steps forward. Project work and deliverables are monitored on an ongoing basis, helping the owners, the banks and the work force to regain confidence in the company. To condense this whole approach into three salient points:

- > We don't say what others are doing wrong, but how we can do it right together.
- > We restructure not just the income statement or the balance sheet, but the whole company.
- > We are uncompromising on content issues, but sympathetic in our dealings with people.

Our clients rightly expect us to deliver tailor-made business models for a successful future. That is why, having taken the constraints out of the restructuring process, we are free to make a bold and confident promise: the promise of entrepreneurial restructuring. ♦

J

JOINING THE DOTS

HOW WE FORGE STRATEGIC LINKS BETWEEN RESTRUCTURING CONCEPTS, PERFORMANCE IMPROVEMENT, IMPLEMENTATION SUPPORT AND M&A – A SELECTION OF PROJECTS

(Selected projects from January through September 2014)

KEY TOPICS	ENTREPRENEURIAL RESTRUCTURING				CORPORATE FINANCE		
	Integration project management/ implement.	Restructuring concept	Performance improvement	Refinancing	Distressed M&As	Investor support	Due diligence
SELECTED PROJECTS							
Automotive supplier A	●	●		●			
Automotive supplier B	●	●					
Automotive supplier C		●			●		
Chemicals company					●		
Consumer goods manufacturer	●		●		●	●	
DIY market	●	●					
Hospital	●		●				
IT company	●		●		●		
Project developer	●	●		●	●	●	
Public transportation company	●		●				
Retailer	●	●		●			
Shipping company	●		●		●	●	●
Solar companies (various)	●		●		●		
Telephone service operator		●			●	●	

Source: Roland Berger



K

DRIVING GROWTH INSTEAD OF MANAGING CRISES

GERMAN COMPANIES ARE OPTIMISTIC –
THE GOALS OF RESTRUCTURING ARE CHANGING

2014 RESTRUCTURING STUDY

Is the financial crisis over? The most important answers at a glance

GROWTH

German companies anticipate further economic growth and, in some cases, significant sales growth in the next two years

DEBT CRISIS

85% of respondents expect Germany to avoid a recession – 85% believe that European monetary union will continue – The public debt crisis is seen as the biggest global threat

MARKET ENVIRONMENT

Geopolitical dangers are keeping the market environment volatile

VIGILANCE

Continuous improvement and foresighted restructuring are a must: Crises and insolvencies are no rare occurrence

BUSINESS MODEL

Restructuring should focus on growth initiatives – Efforts to adjust the business model and cut costs are here to stay

SUCCESS FACTORS

Management commitment remains the critical success factor – Big-picture restructuring concepts are growing in importance

LIQUIDITY

Most respondents are optimistic about the liquidity position – Assessments of the financing environment remain positive

FINANCING

Internal resources are the main source of funding – Working capital should be optimized to add extra leeway

PLANNING

Scenario planning helps to prevent market risks from materializing

Source: Roland Berger

ABOUT US

Roland Berger Strategy Consultants

Roland Berger Strategy Consultants, founded in 1967, is the only leading global consultancy with German heritage and of European origin. With 2,400 employees working from 36 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners. **WWW.ROLANDBERGER.COM**

Further reading



ECONOMIC SCENARIO UPDATE 9/2014

6,200 German companies do business with Russia. More than half of the managers in different industries surveyed expect a protracted crisis and a decline in growth at their companies. These views are also reflected in our recent economic forecast. In light of prevailing geopolitical uncertainties, our general recommendations for action provide valuable decision aids to help companies find tailor-made strategies to help them deal with sanctions.



2014 RESTRUCTURING STUDY

Is the financial crisis over? Our "2014 Restructuring Study" says yes, it is. More than half of German companies rate the current economic situation and financing environment as positive. While expecting to see sales increase, they are still preparing themselves for an uncertain future on their export markets. Growth initiatives and cost cutting are at the core of every restructuring project, but adapting business models too is becoming ever more important. (available in German only)



2014 ESUG STUDY

A law passes the test of experience: Legal experts, managers and investors alike are mostly positive about their experience of the Law on the Further Simplification of Corporate Restructuring (ESUG). Roland Berger Strategy Consultants and law firm Noerr asked 2,100 legal experts, managers, investors and creditors for their views. The verdict? The government's expectations have been met, they say, but a new "culture of insolvency" will still take time. Independent management is pivotal to restructuring. (available in German only)

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