

SURVEY

## Restructuring in Europe 2008

Effects of the subprime crisis on Western vs. Central and Eastern European companies' restructuring needs

Munich, August 2008

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# A. Objectives and methodology

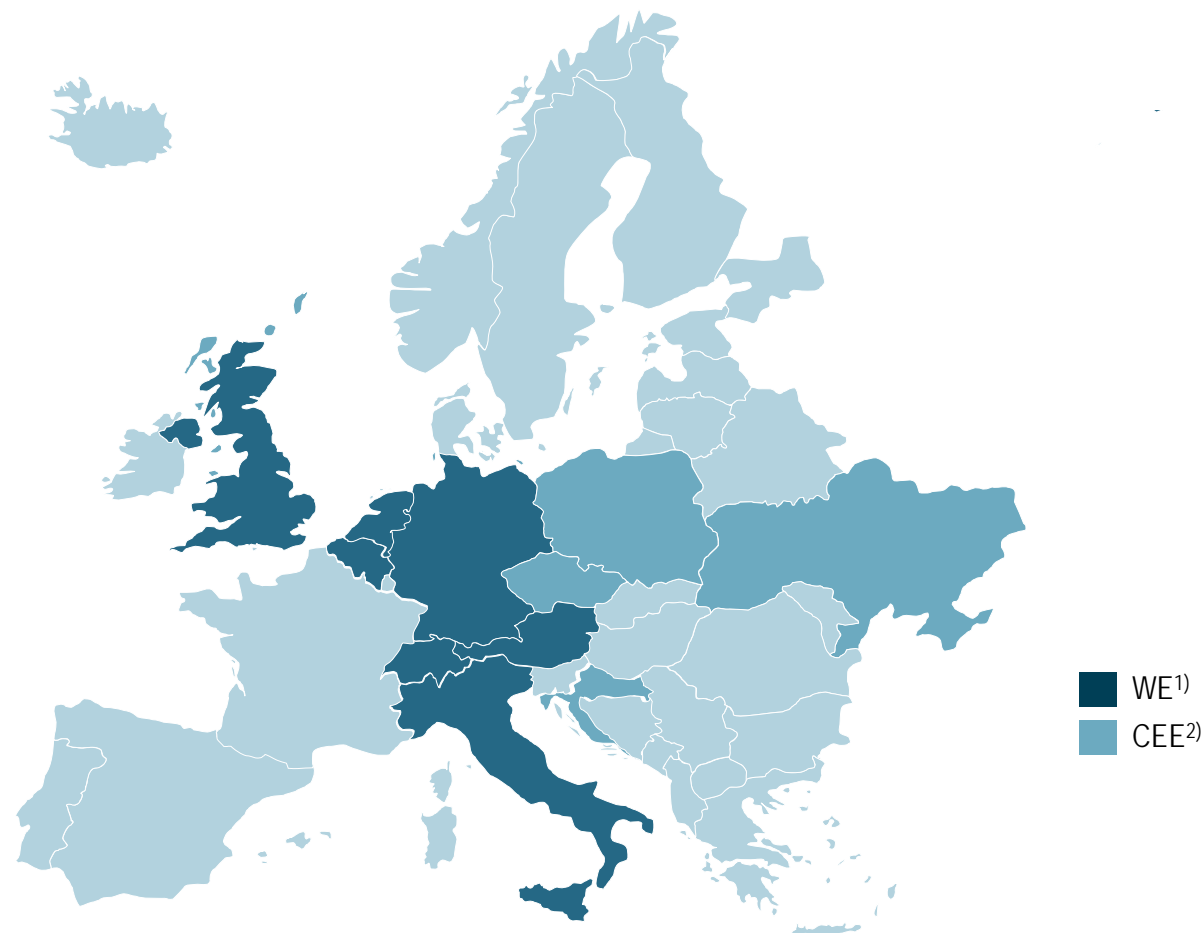
**Roland Berger**  
Strategy Consultants



## Preliminary remarks

- > In **spring/summer 2008**, Roland Berger Strategy Consultants conducted, for the fourth time since 2001, an **extensive survey on the development of reorganization projects**
- > **Board members and managing directors** of more than **2,000** companies in Europe were surveyed
- > The majority of the companies surveyed have conducted a **reorganization** program **within the last three years**
- > The **objective** of the survey was to **determine the causes of corporate crises** and identify the **key success factors** in **resolving** them. This year, one focus was on the **effects of the subprime crisis**
- > This presentation **focuses** on comparing the results of surveyed companies from **Western Europe (WE)** and **Central and Eastern Europe (CEE)**

# 11 participating countries in Western Europe as well as in Central and Eastern Europe



1) WE: Western Europe 2) CEE: Central and Eastern Europe

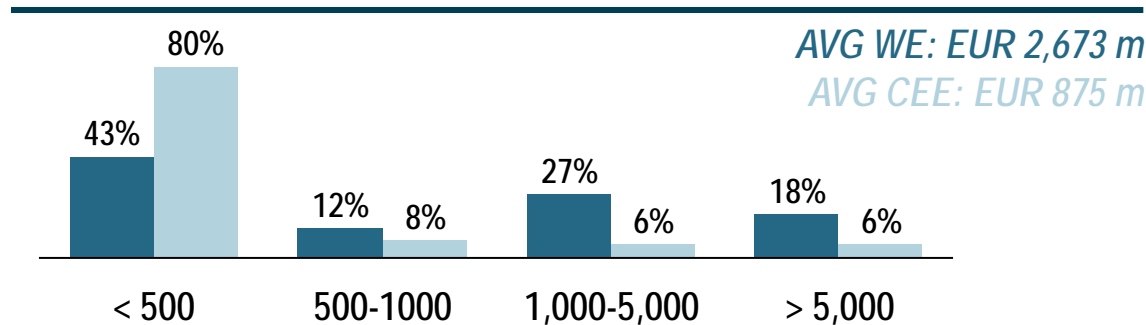
## COMMENTS

- > WE<sup>1</sup> includes 7 countries:  
Austria, Belgium, Germany,  
Netherlands, Italy,  
Switzerland and the UK
- > CEE<sup>2</sup> includes 4 countries:  
Croatia, Czech Republic,  
Hungary and Poland

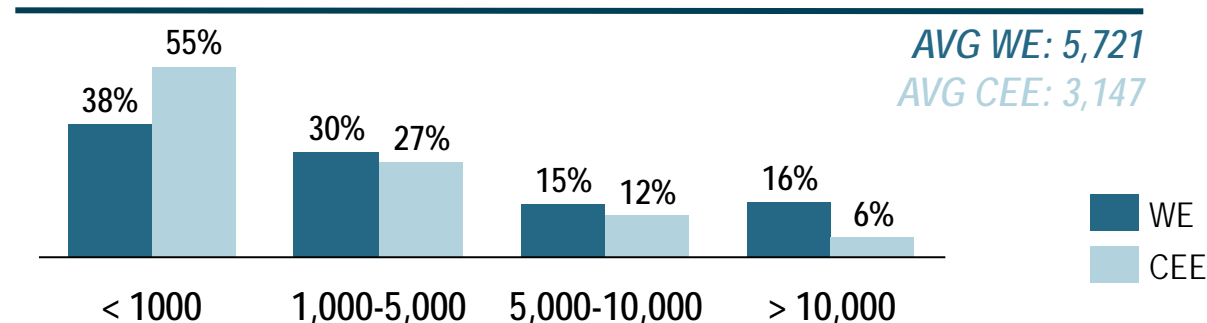
# This year's restructuring survey includes both medium-sized businesses and major corporations

Size of the enterprises surveyed [%]

Revenue in EUR m



Number of employees



## COMMENTS

- > Survey covers enterprises of all sizes
- > On average, the WE companies have a revenue of EUR 2,673 m and 5,721 employees
- > The CEE companies have a revenue of EUR 875 m and 3,147 employees on average

# The variety of industries represented ensures generally applicable results

Participating companies by industry [clusters in %]

<5%

- > Construction
- > Retail
- > Textiles
- > Tourism
- > Technology
- > Electronics
- > Telecommunication

5-10%

- > Wholesale
- > Consumer goods
- > Transportation
- > Pharma & healthcare
- > Chemicals
- > Machine/plant engineering and construction
- > Automotive and suppliers

>10%

- > Financial services
- > Energy

## COMMENTS

- > **Broad distribution** of the survey across a variety of industries
- > **Findings are generally applicable** due to wide industry coverage
- > Overall, **companies from 16 different industries** participated
- > Only companies in the **financial services and energy sectors** have a share of 11-14%

## B. Brief summary

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# Less than 20% of respondents in WE and CEE expect to experience an impact from the subprime crisis instantly ...

- 1. Effects of the subprime crisis are regarded as being weak – only 17% and 12% of respondents in WE and CEE, respectively, expect a strong impact on own company**
  - > 34% of the respondents in Western Europe (WE) and 24% of those in Central Eastern Europe (CEE) consider the subprime crisis a major problem for their domestic economy
  - > Conservative granting/extension of loans, economic slowdown and worse credit terms are expected

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- 2. The most important success factors are deemed to be management commitment and quick implementation**
  - > CEE judges a single, all encompassing program as second most important factor, whereas this comes fourth on WE's list
  - > In both cases, there is a gap between importance and success of the factors – the importance has generally higher values than the success, especially in CEE

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- 3. Successful reorganization efforts lead to significant improvements in both operational and financial figures**
  - > Almost 45% of all polled companies have achieved profit and cashflow improvements by more than 15%
  - > Even 48% in WE and 80% in CEE achieved a reduction of bank loans by more than 15% as a result
  - > 51% of all surveyed companies in WE and 33% in CEE reduced working-capital by more than 15%

## ... and more than 75% of all polled companies expect to see a need for restructuring in the medium term

- 4.** In all areas, concentration on cost savings is important for successful reorganization – boosting sales top measure in CEE
  - > Cost savings in the areas of personnel, material and overhead costs rank very high among the most important restructuring measures – boosting sales is top measure in CEE but only on ranks 3 in WE
  - > Generally, polled companies place more emphasis on operational rather than structural measures

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- 5.** Personnel reduction is a measure used more frequently in WE – in CEE the layoffs hit a higher share of the workforce
  - > 70% of the WE companies compared to only 50% in CEE reduced personnel in the process of their restructuring program, but in CEE, 17% of the workforce were laid off, compared to only 12% in WE
  - > Lay-offs and fluctuation play a more important role in WE – in CEE, more use is made of partial retirement plans and cancellation agreements

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- 6.** 81% of companies in WE and 76% in CEE expect to see a need for restructuring in the medium term
  - > They expect a need for restructuring within the next 2-3 years, or regard restructuring as a permanent task
  - > The dominant external factor by significance are: greater competition, economic slowdown, and globalization



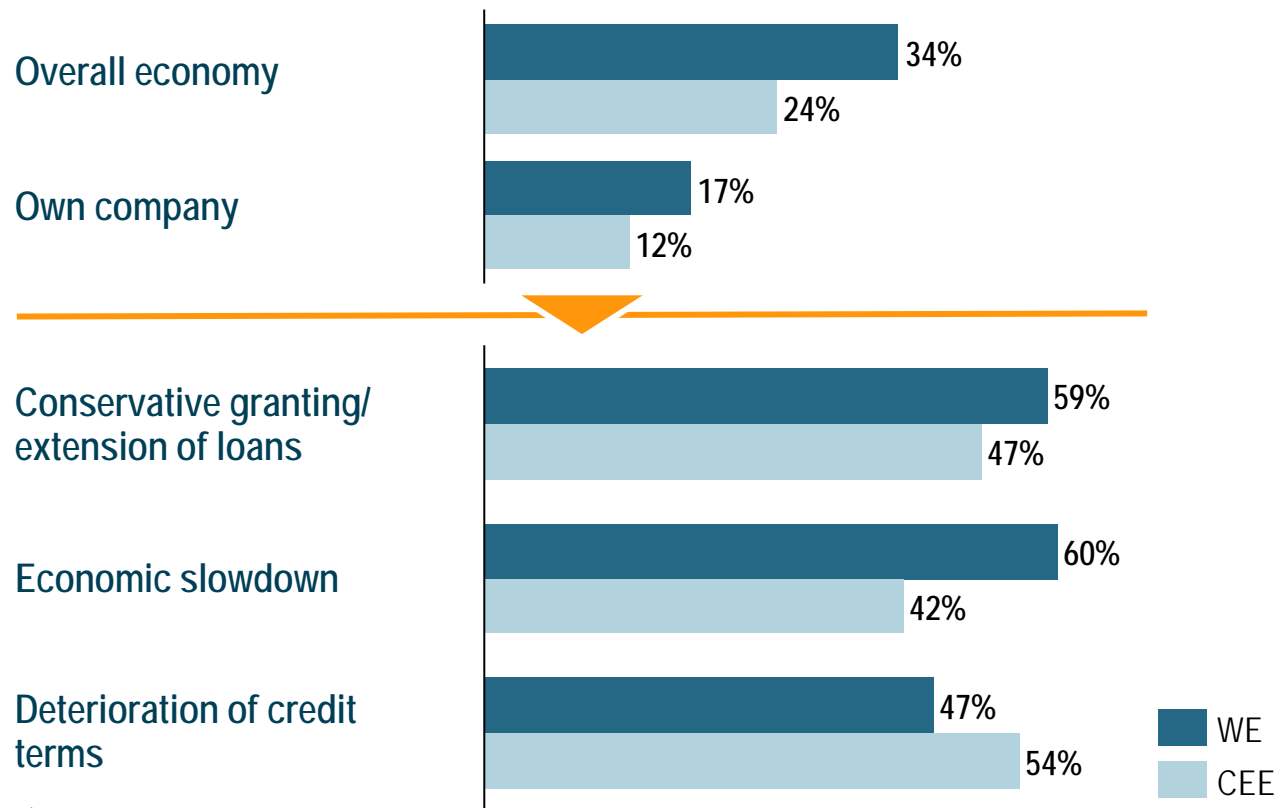
## C. Main findings

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# Few companies fear direct consequences of the subprime crisis – The indirect consequences are regarded as more dangerous

Effects of the subprime crisis [% of mentions]<sup>1)</sup>



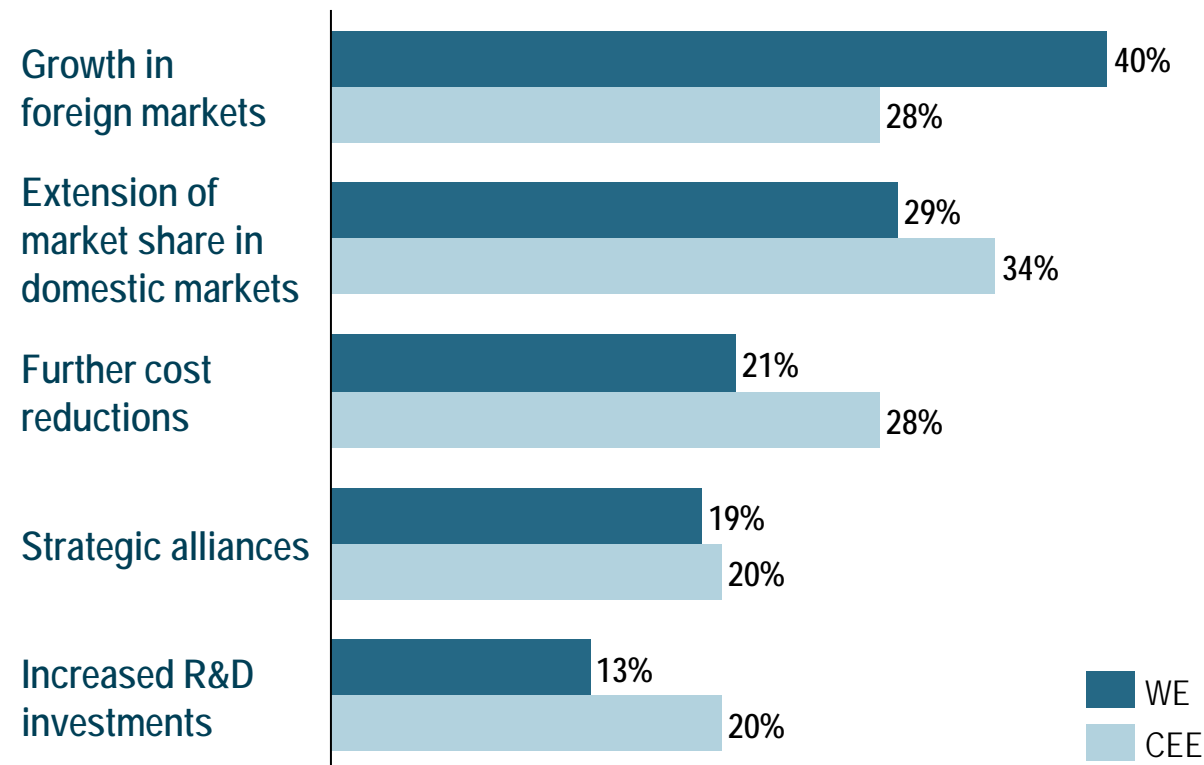
1) Multiple answers possible

## COMMENTS

- > Companies in both WE and CEE see **own company** as considerably less affected by the crisis than the national economy
- > Though, **higher awareness** in WE
- > On the financing side, companies expect **conservative granting of loans** and **deterioration of credit terms**
- > On the revenue side, **respondents fear an economic slowdown**

# Growth both in foreign and domestic markets are top issues of the future – Further cost reductions follow

Top 5 future topics [% of mentions]<sup>1)</sup>



1) Multiple answers possible

## COMMENTS

- > Growth in foreign markets tops the list in WE
- > Extension of own market share in the domestic market tops the list in CEE
- > Next future topics are cost reductions and strategic alliances

# Companies misjudge the true threat to their growth by the effects of the subprime crisis

## Effects of the subprime crisis vs. future topics

### Effects of subprime crisis

1. Conservative granting/extension of loans
2. Economic slowdown
3. Deterioration of credit terms
4. Weak import/export business
5. Conservative investment behavior



### Future topics

1. Growth in foreign markets
2. Extension of market shares in domestic market
3. Further cost reductions
4. Strategic alliances
5. Increased R&D investments

*Expectations of subprime crisis effects stand in contradiction to the top issues of the future*

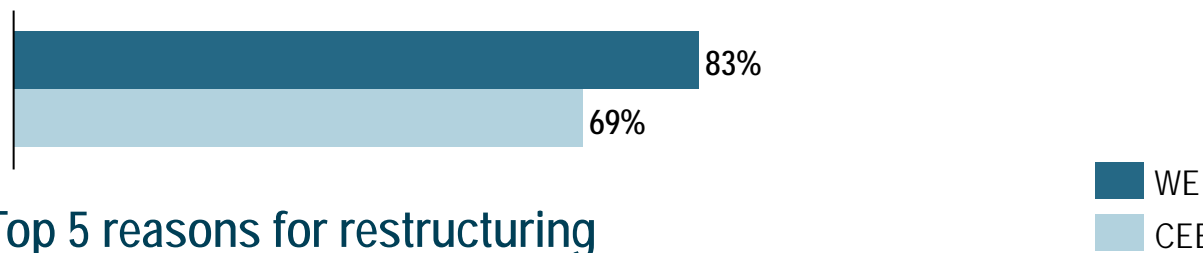
## COMMENTS

- > The majority of respondents expect the **subprime crisis** to have a **strong impact on revenues**
- > **With financing hindered**, growth needs to be called into question
- > **Cost reductions/reorganization** to secure **solvency** are **major issues**

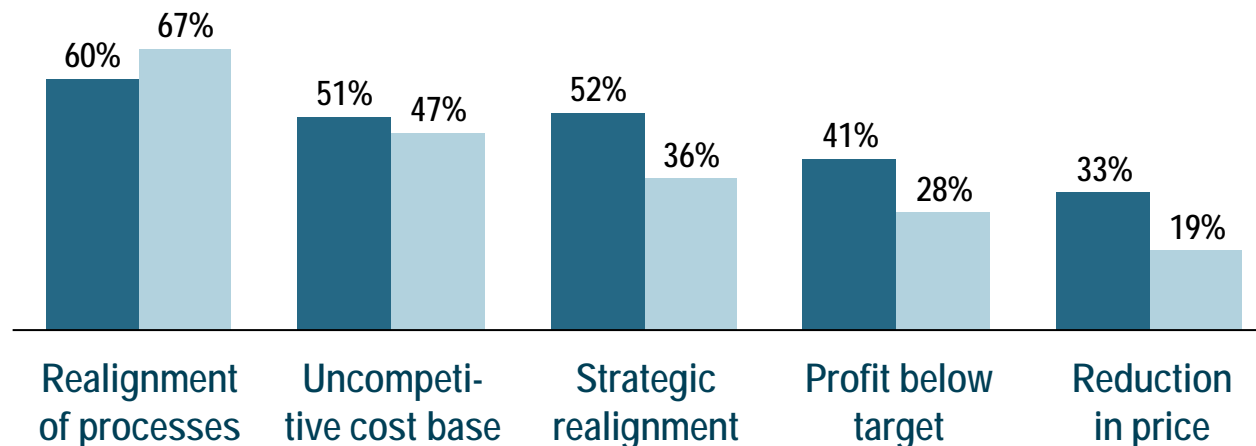
# Realigning the organization/processes and an uncompetitive cost base are the main reasons for restructuring

Share of and reasons for restructuring [% of mentions]<sup>1)</sup>

## Share of restructuring



## Top 5 reasons for restructuring



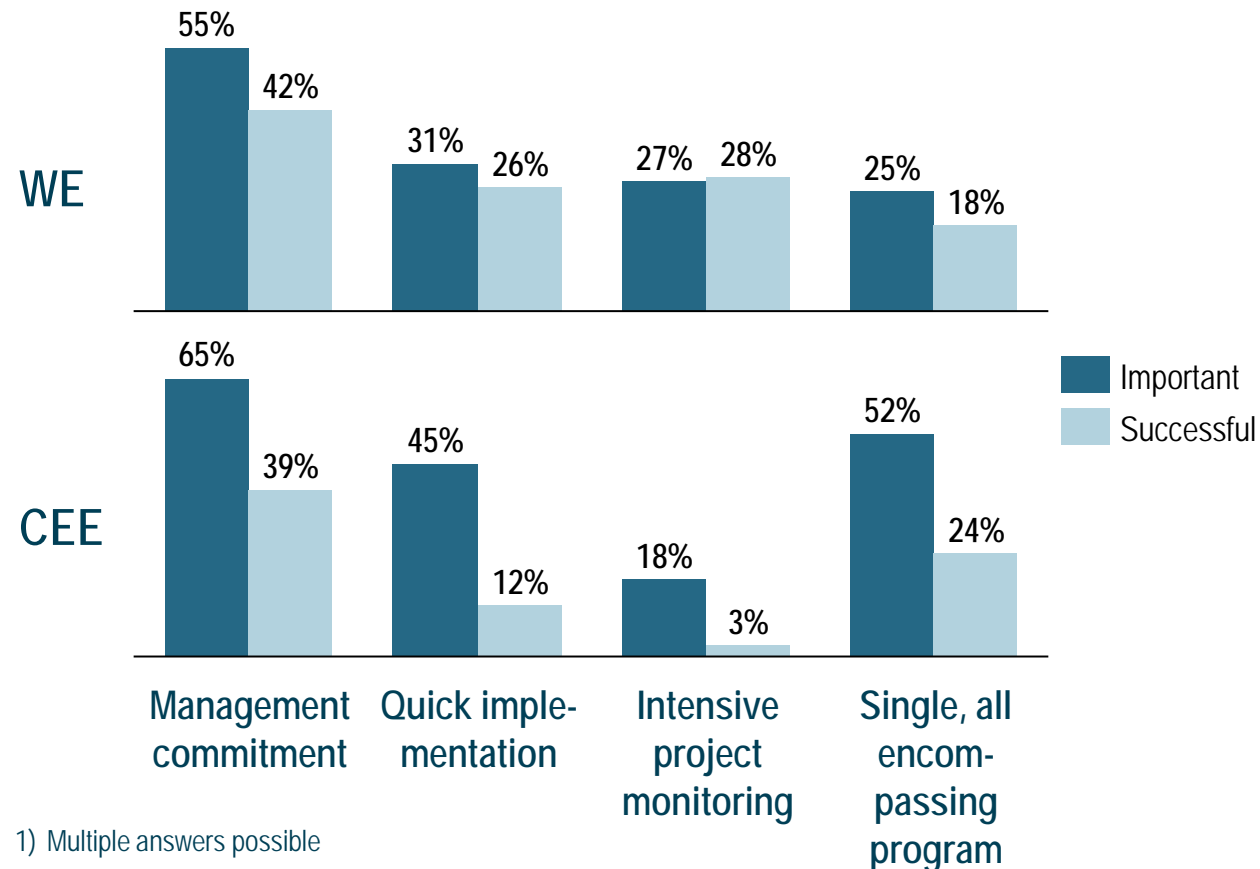
1) Multiple answers possible

## COMMENTS

- > During the last 3 years, **83%** of the **WE** and **69%** of the **CEE** companies **underwent restructuring**
- > Realignment of **processes** and an uncompetitive **cost base** are the **major reasons** for restructuring

# Management commitment is the most important success factor – Significantly lower achievement in realization of nearly all factors

Top 4 success factors for reorganization [% of mentions]<sup>1)</sup>



1) Multiple answers possible

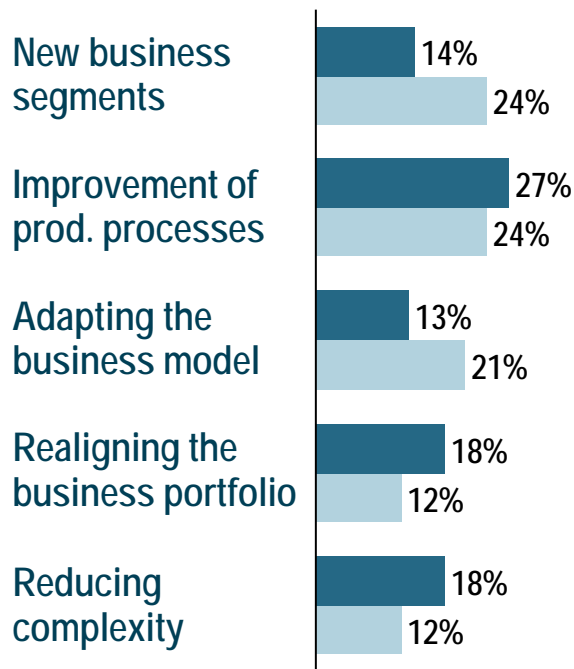
## COMMENTS

- > Management commitment is considered the **most important** success factor in both WE and CEE
- > Quick implementation and especially a **single, all encompassing program** are valued higher in CEE
- > Intensive project monitoring is valued higher in WE than in CEE

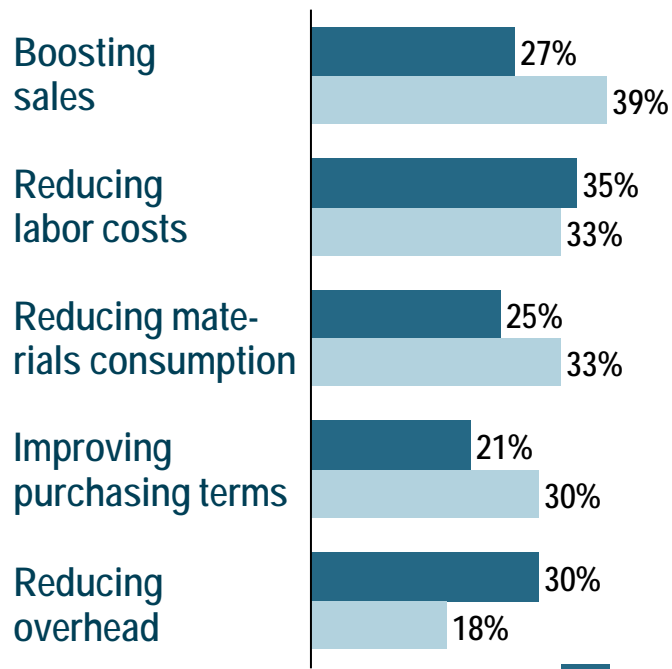
# Boosting sales and reducing personnel costs are major operational restructuring measures

Top 5 reorganization measures [% of mentions]<sup>1)</sup>

## Structural measures



## Operational measures



WE  
CEE

1) Multiple answers possible

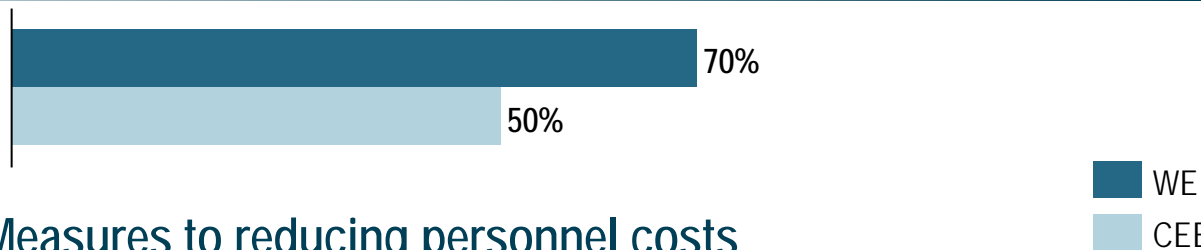
## COMMENTS

- > Operational measures are generally of higher importance
- > Boosting sales and cost reductions are major operational measures
- > Most important structural measure is the improvement of production processes

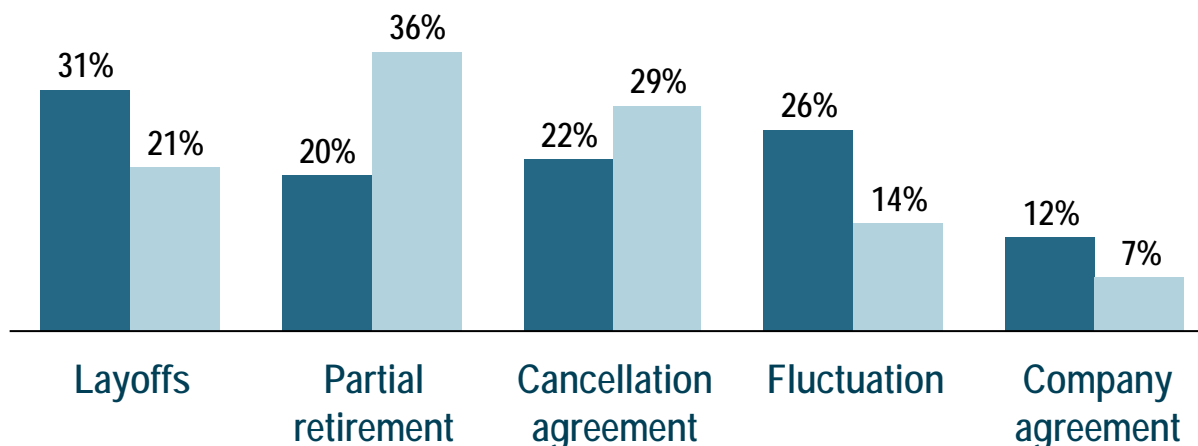
# Personnel reduction is carried out more frequently in WE – While CEE prefers partial retirement plans, layoffs are used more in WE

Reduction of personnel costs [% of mentions]<sup>1)</sup>

## Use of personnel reduction



## Measures to reducing personnel costs



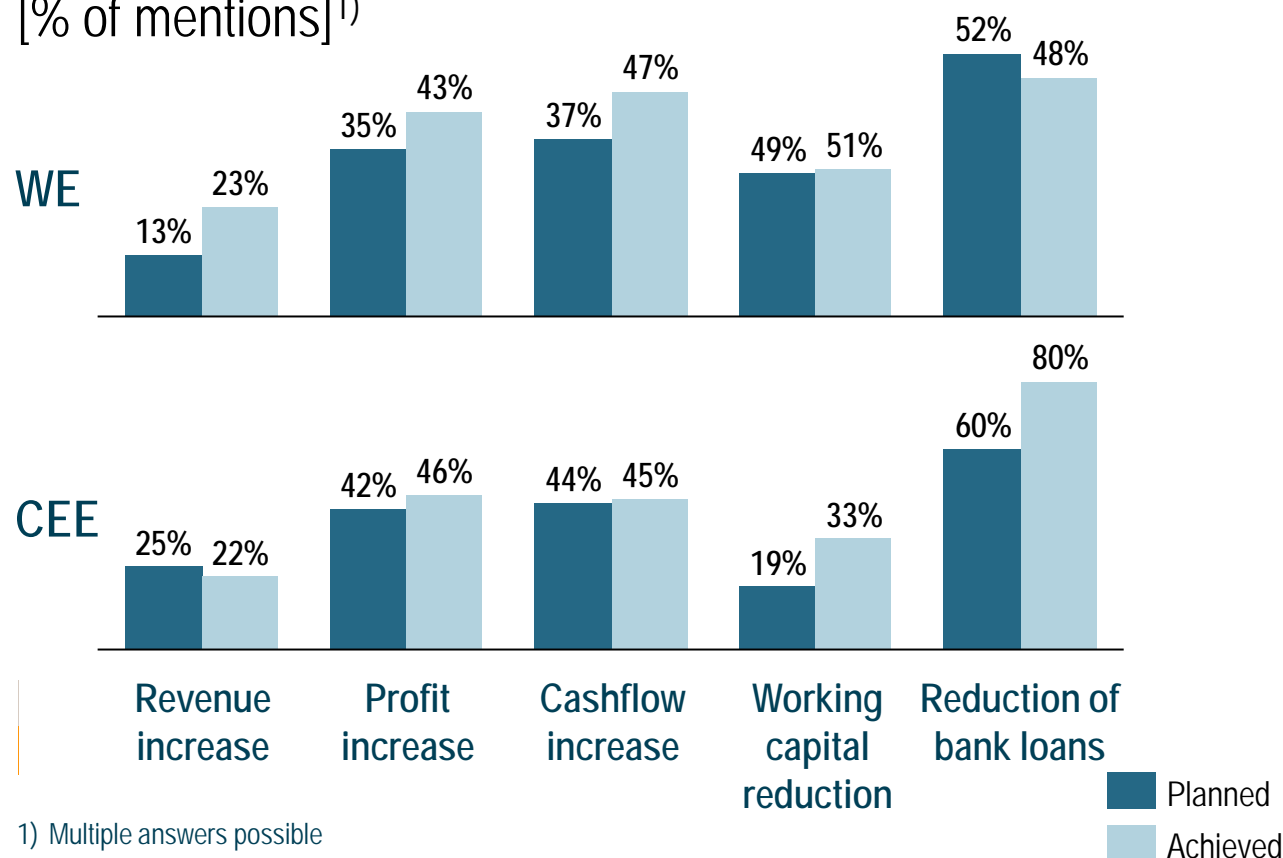
1) Multiple answers possible

## COMMENTS

- > 70% of the WE companies and 50% of the CEE companies reduced personnel in the restructuring process
- > But in CEE, 17% of the workforce were laid off, compared to only 12% in WE
- > Lay-offs and fluctuation play a more important role in WE
- > In CEE, more use is made of partial retirement plans and cancellation agreements

# Companies in WE and CEE mainly increased profit and cashflow in addition to reducing bank loans

Operational/financial improvements of more than 15%  
[% of mentions]<sup>1)</sup>

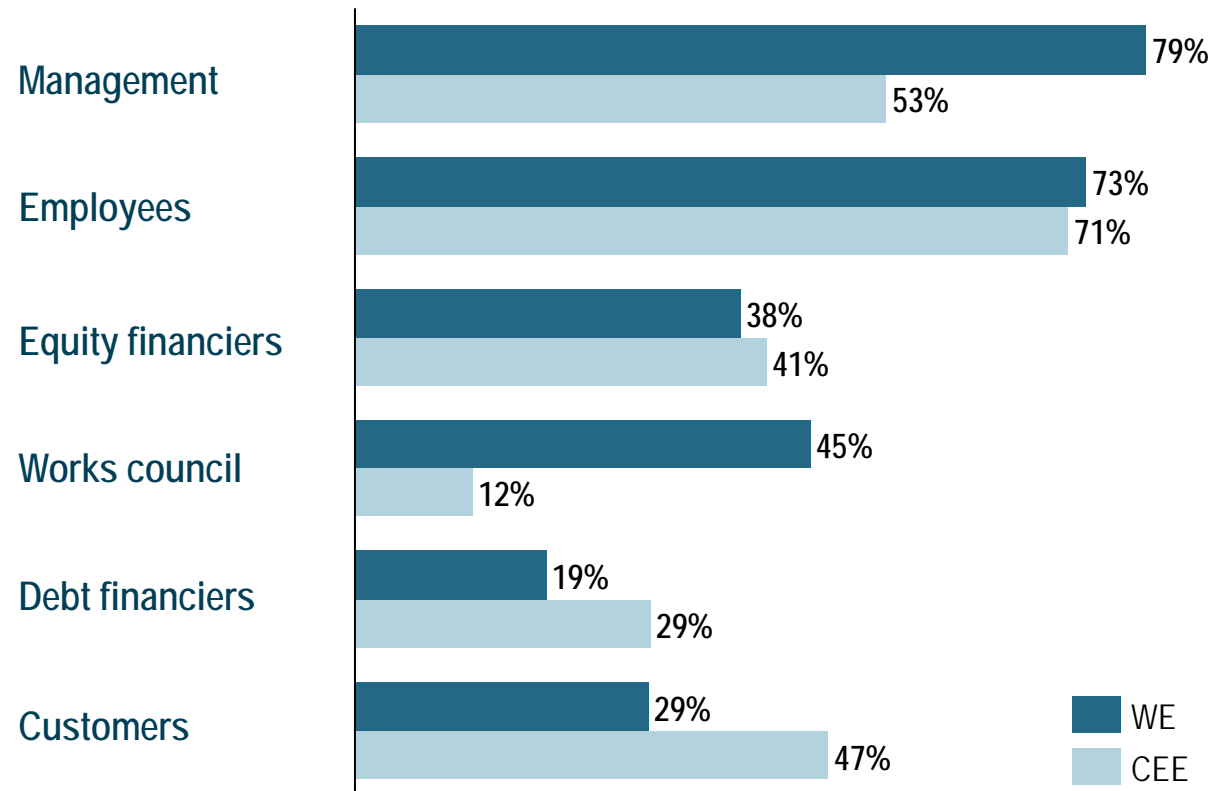


## COMMENTS

- > Reduction of bank loans by more than 15% is the **most important goal** for both WE and CEE companies – CEE with extremely **high** achievement of 80%
- > Increase of profit and cashflow are second and third goal
- > Relative achievement of these goals is even **higher** than planned

# Successful reorganizations see stakeholders as an important factor influencing success

Stakeholders as a success factor [% of mentions]<sup>1)</sup>



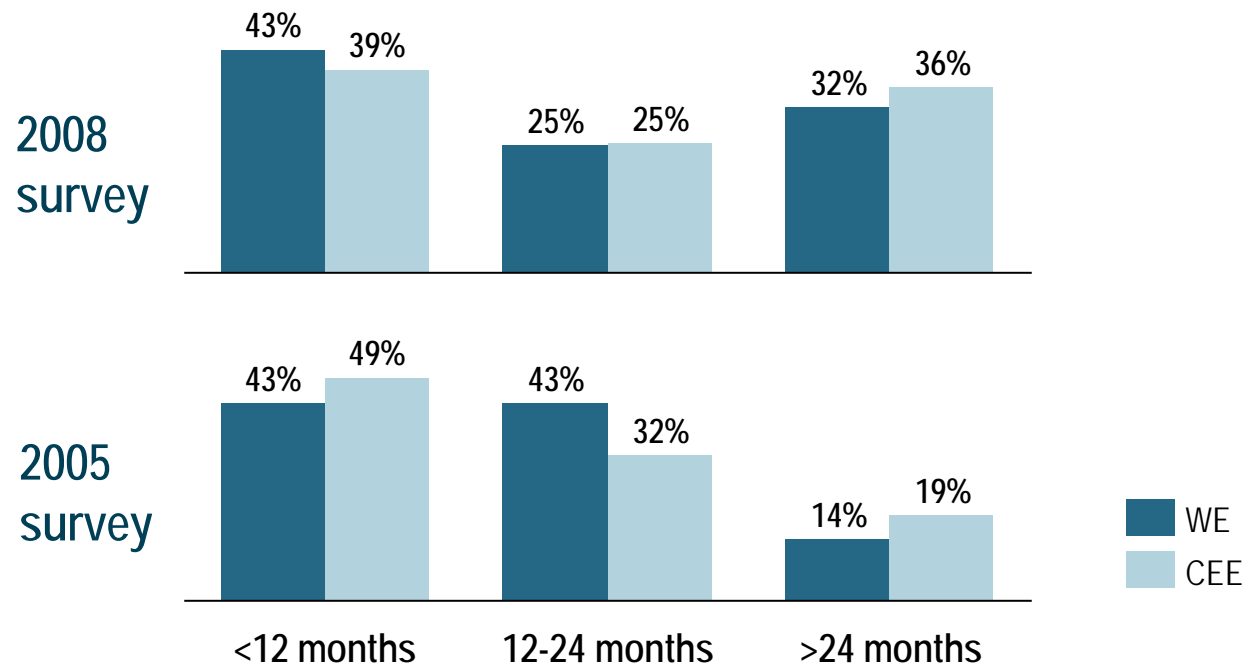
1) Multiple answers possible

## COMMENTS

- > The contribution of a firm's **management** and **employees** is of **highest importance** among the different stakeholders
- > In CEE, **employees** are considered an even **more important success factor** than management
- > The **low importance of debt financiers** especially in WE is **surprising** as only they can grant moratoria on interest and repayments

# Compared to 2005, the lag between the first signs of a crisis and the start of reorganization has even increased

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

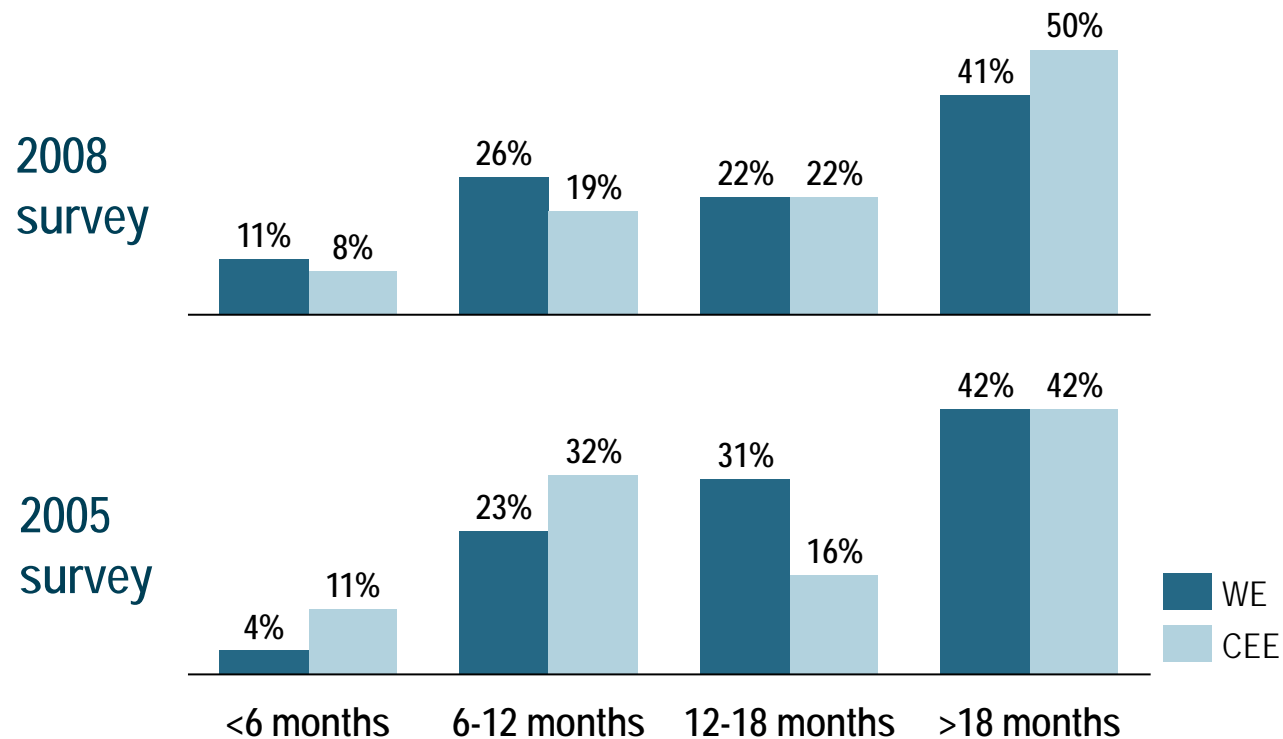


## COMMENTS

- > In both WE and CEE, more than 50% of the enterprises started the reorganization more than 12 months after first signs of a restructuring need were visible
- > Compared to 2005, the response time to first signs of a restructuring need has become even longer in both WE and CEE
- > Especially the percentage of enterprises with a response time of more than 24 months has increased compared to 2005

# In both WE and CEE, the vast majority of reorganization processes take more than 12 months

Duration of reorganization [% of mentions]



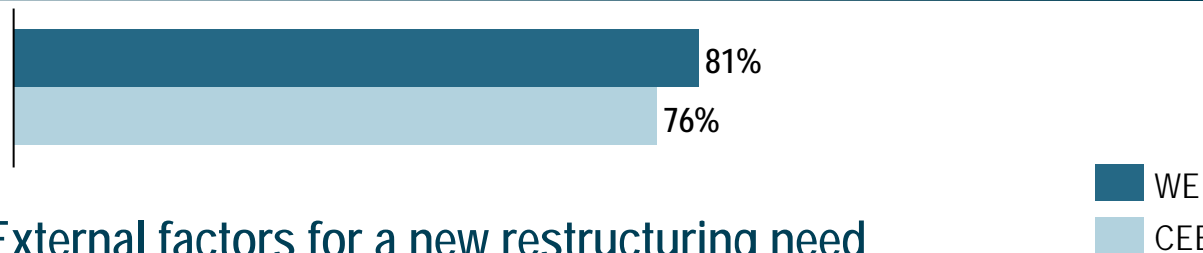
## COMMENTS

- > The vast majority of reorganization processes take more than 12 months in both WE and CEE
- > 41% of the reorganizations in WE and even 50% in CEE take more than 18 months
- > Compared to the 2005 survey, the duration of reorganization has become shorter in WE and longer in CEE

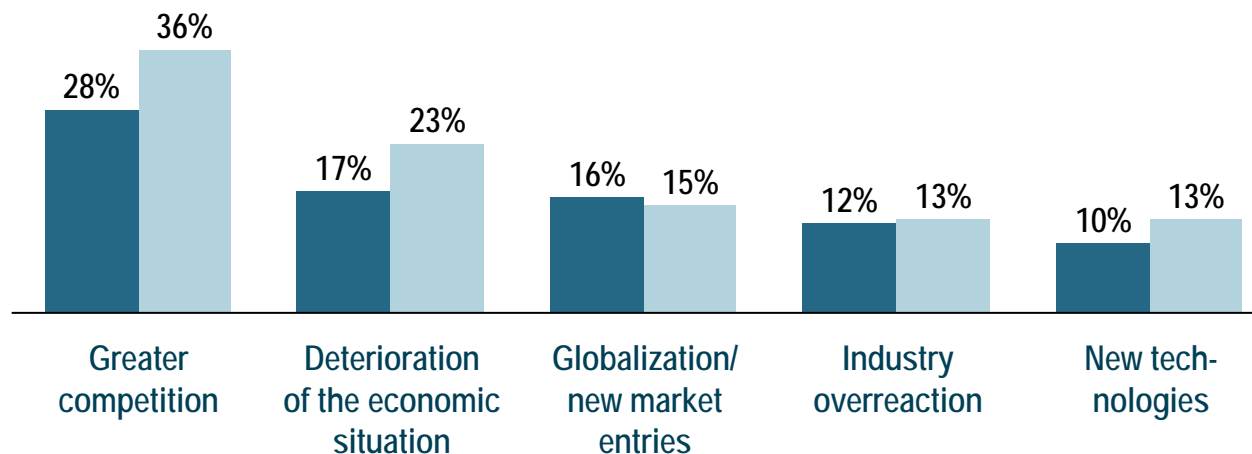
# More than 75% expect restructuring need in the next 2-3 years – Mainly due to increased competition

New restructuring needs [% of mentions]<sup>1)</sup>

## Need for new restructuring in the medium term



## External factors for a new restructuring need



1) Multiple answers possible

## COMMENTS

- > More than 75% of respondents in WE and CEE expect restructuring need within the next 2-3 years, or regard restructuring as a permanent task
- > Greater competition is the dominant external factor increasing the probability of a repeated need of restructuring
- > Respondents view deterioration of the economic situation as a second major factor

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## D. Contact

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## CONTACT

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