

Solutions

Management Consultants Ltd

Case Study – PROCESSOR OF STARCH-RUBBER INSOLES

Business Turnaround and Sale

The Company

MANUFACTURE OF FOAM INSOLES FOR THE SHOE AND LAMINATING INDUSTRY AND PROCESSING OF RECLAIMED STARCH TO BE USED IN A RANGE OF CHEMICAL BASED PRODUCTS INCLUDING DRILLING MUD FOR THE OIL INDUSTRY AND ADHESIVES FOR THE PAPER INDUSTRY. THE COMBINED TURNOVER WAS £8 MILLION.



The Business Problem

The Company was part of a medium sized plc, had a turnover of £8 million losing £300k, with little synergy between two major products. The brief was to return to profitability and consider a disposal of the company or propose a long term development plan.

The Solution

The first stage was to try and identify the profitability of the two main businesses, and after analysing that their contributions were very similar; it was clearly not just a case of closing the unprofitable business and progressing the other business. However, it was persevered by the group that one business was more profitable than the other as they did not allocate all direct fixed costs to both. The first stage was to obtain the support of the group, to the acceptance of the analysis and the support documentation, which was completed with the Finance Director.

The next stage was that we had to in the short term increase costs and appoint business managers (from existing staff), and add additional staff in certain areas; we also had additional expenses to move certain capital equipment so we could obtain separate operating businesses in separate factories. However, long term we knew that once separated, the savings that would be obtained by having direct control and ownership, would give us increased profitability. We would also be in a position to dispose of the two businesses separately, thus attracting more purchasers in each individual sector and obtaining maximum price.

These proposals were put to the board with the analysis and the long-term gains in the individual areas, budgets for the next two years were included, and the logic of the significant gains on the sale of the businesses which was substantiated by external accountants.

The Benefits

Within an 18 month period we produced profits of £500k generated £800k without significantly increasing turnover, but mainly by increasing efficiency and cost reduction, most of which was in the reductions in purchase cost. The businesses were alternately sold for £1.8 million excluding cash to one buyer, but offers were obtained as separate businesses which allowed us to negotiate the maximum price.