Restructuring and Recovery
How BCG Ensures Success in Restructuring and Turnarounds
The Boston Consulting Group (BCG) is a global management consulting firm and the world’s leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 81 offices in 45 countries. For more information, please visit bcg.com.
What is not widely known is that this southern German city is the site of some of the world’s fiercest competition for providing health care services. Along with the city’s municipal hospital group, there are two large university clinics, several medium-sized hospitals, and a wide variety of small and specialized clinics; all in all, there are more than 70 hospitals in the greater Munich area. Within the city’s municipal hospital group, and just a few miles from each other, are four providers of maximum care and one specialized clinic.

The Munich Municipal Hospital (Städtische Kliniken München)—the largest hospital provider in this hotly contested market—was under severe pressure. Bankruptcy was imminent: the hospital ran a deficit of about €40 million in 2013, and the media were reporting that it would face illiquidity by the end of 2015.

The hospital group’s leaders and the municipality asked BCG to help them develop an ambitious turnaround plan and a sustainable financial concept—with the precondition that, as required under European Union law, investment by local government would be allowed. Their goal: to establish financial independence from regular public cash transfers inside eight years.

BCG began by helping the hospital’s executive team identify the main causes of the crisis. We developed a sustainable medical strategy that consolidated medical departments across facilities, strengthened the profiles of those departments by grouping them in intra-disciplinary centers, and invested in growth areas such as specialized rehabilitation services for elderly patients. We also defined the measures needed to cut costs to competitive levels, weaving those metrics into the group’s integrated business plan. The idea was to optimize business structures and processes to allow for increased staff productivity.

Within three months, we had helped develop an overall restructuring concept, and a new medical strategy, for the group’s turnaround over the planned eight-year span. We provided the necessary support for “Private Investor Test” calculations as a key condition of green-lighting major investments by local government. We also supported the group’s new chief executive during his initial months in office. And we assembled a coherent, concise communication strategy to convey the restructuring concept to political parties, unions, and the public.

The Munich hospital group is seeing value already. The restructuring initiative has illuminated a pathway to financial sustainability. The plan calls for a positive EBITDA averaging about 7 percent annually—typical for such organizations. It requires adjusting the provider’s structure to reflect actual demand, consolidating less critical departments, and boosting the capacity usage of the departments that are currently providing valuable services.

The adjustments will mean shuttering one of the group’s five sites, increasing labor productivity by 20 percent, and boosting asset utilization—use of beds, medical equipment, and so on—by more than 10 percent in the same period. More immediately, the initiative has
paved the way for the hospital to make investments of €650 million to renew and expand its facilities.

From the patient’s perspective, the Munich Municipal Hospital now has a sustainable strategy with which to increase quality of care. It is now better placed to provide the entire health care “chain,” offering high levels of care from birth to old age.

That’s How We Helped Städtische Kliniken München. Imagine What We Could Do For You.
BCG Helps Throughout the Entire Cycle of the Crisis: From Strategic Deficit to Liquidity Shortfall

It would be nice if it were otherwise, but the fact is that many companies find themselves in crisis at some point. The crisis may be temporary and easily identifiable, limited perhaps to one business unit or function. Or it may be far more serious and far-reaching, involving persistent, unplanned, and unintentional threats to the entire company.

Regardless of the scope or duration of the crisis, BCG is here to help. We understand the burden that any crisis places on stakeholders’ shoulders—not only the management team, but financing parties, for instance. We know all about the demands on stakeholders’ time and about the impact of time-consuming restructuring activities on the quality of the decisions that must be made. Our suite of services is designed to ease those burdens—and whenever and wherever possible—to remove them entirely, with services tailored to the needs of each stakeholder group.

**Much more than just cost-cutting**

Unlike others, we don’t start from a tactical perspective of quick wins or resort to default tools such as cost-cutting. We restructure strategically, evaluating the organization’s status in light of market and competitive circumstances, within the context of earlier management decisions, and with a clear understanding of previous restructuring efforts. We then close the loop by combining industry know-how with our deep, practical experience in successful restructuring initiatives across a wide range of industries. We match our efforts to the pertinent stage of the crisis, whether it’s an incipient slippage in market share, the leadership team’s need to explain subpar performance figures, or an urgent liquidity crisis curtailing the organization’s room to maneuver.

So BCG’s approach to restructuring focuses on providing all the relevant information early in the process to strongly support the basic strategic
We span the range of clients’ needs, from counseling on robust restructuring concepts to hands-on implementation.

Restructuring concept
The restructuring concept describes the way forward out of the crisis. This detailed document is the keystone for negotiating a suitable solution with pertinent stakeholders—for example, with employee representatives or financing parties. The restructuring document covers six major areas:

- **Structure of business activities:** This includes a description of the company’s history. It clarifies the type of business—by customer, geography, channel, and so on—and explains the product and service offerings.

- **Market environment and competitive landscape:** Provides context for the markets in which the company is active, and the competition it faces in each of those markets. The resulting insights about industry developments and competitor trends provide key questions about strategic alignment, such as: How should the organization engage with tomorrow’s markets, what needs to change about the business model, and what are the key success factors.

- **Recent business history and causes of the crisis:** Provides the basis for the points to be addressed by the restructuring measures. It explores the last three to five years of financials, uncovering early signs of distress and identifying the causes of the crisis. It takes into account both internal and external catalysts.

- **Restructuring concept, including measures:** The core part of this section sketches out the guiding principles of the restructuring efforts and outlines the program of detailed measures needed to achieve a successful turnaround. It spotlights the strategic needs in terms of future business activities, the operational requirements (the metrics program), and the structural concept (the company’s organization and its business processes).

- **Business, liquidity, and cash flow plan:** Translates the restructuring concept into a business plan and gives a three-year outlook on the development of profitability as well as cash flow.

- **Financing concept:** Clearly communicates to all stakeholders (employees, shareholders, banks, etc.) the clear, actionable proposals for identifying the financial needs of the restructuring program and the proposed sources of funding to meet those needs. In effect, this section outlines the negotiation phase.
For several years, sales at Görtz Shoes had been in decline—the consequence of unclear market positioning and an inconsistent assortment strategy. The company’s woes were exacerbated by its high fixed-cost base, due to the large store network and number of store workers on the payroll, and by the financial problems in non-core operations such as IT development. Görtz found itself in the middle of a major liquidity crisis, facing the real possibility of insolvency.

The management team was in a bind: confidence in restructuring had been sapped by the failure of an earlier attempt at restructuring.

BCG took Görtz back to basics with a strategic perspective that was fundamental to the company’s eventual turnaround:

- The successful restructuring concept was derived from a strategic perspective that drew from the expertise of BCG’s consumer goods experts
- The push was for short-term cost optimization while simultaneously highlighting the investments needed to reenergize the top line
- We focused squarely on the strategic changes required for a successful restructuring—store closures, for instance, and divestment of non-core businesses

BCG acted quickly and collaboratively:

- Quickly established liquidity as an issue that was transparent to all
- Negotiated a “standstill agreement” with the financing parties
- Developed a comprehensive restructuring concept, including a three-year financial business plan (based on legal standard “IDW S6/BGH” as required by the financing parties)
- Implemented a comprehensive monthly system of reporting to the financing parties
- Prepared an equity story on the basis of the strategic restructuring concept for an initiated M&A process
- Provided full sell-side M&A support until successful closure
Liquidity planning and management

Liquidity planning and management provides transparency about the company’s cash position and liquidity situation. It answers questions such as: how much cash do we have and where is it? What kind of cash outflows and inflows might we expect over the next couple of days or the next few weeks? Liquidity management primes the company to respond effectively when stakeholders want answers to those kinds of questions.

This offering enables leadership to actively manage cash flow to better navigate rough economic weather. It can give the team the opportunity to free up cash to finance other restructuring measures.

BCG breaks down liquidity planning and management into three phases: create transparency, perform targeting, and enable implementation. The actual timeframe and sequence of steps differs depending on how elusive liquidity really is. When cash is very tight, these three phases take place in parallel.

**BCG ADDS VALUE WITH OFFERINGS THAT FACILITATE EACH PHASE:**

- **Creating transparency:** We set up a “cash office” to make it easier for the company to get out of its tight cash situation. In the short term, the cash office is the hub for clear cash forecasting. It aggregates the forecasts to a group level, reconciles them with cash calls, implements short-term cash release measures (by calling overdue debtors, for instance), and handles standard cash reporting.

In the medium term, the cash office helps manage working capital. It provides an organizational project structure, develops the required tools and processes, uses a program management office toolset for tracking progress, and handles standardized management reporting.

Overall, the cash office can quickly improve current liquidity and cash flow and provide a 12-month forecast.

- **Targeting:** The focus in this phase is on improving working capital in the medium term. BCG assembles a ready-to-implement program of short-term cash measures and identifies the net working capital targets and the levers to activate in order to reach those targets.

- **Implementing:** The emphasis now turns to effective management of the company’s working capital processes. We work proactively with the client company to generate cash-on-hand and to enable the organization to sustain positive liquidity and cash flow far into the future.

**REAL DEALS—REAL RESULTS**

**BCG HELPED NOKIA SIEMENS NETWORKS IMPROVE ITS LIQUIDITY PLANNING AND REDUCE WORKING CAPITAL NEEDS**

- Imminent danger of EBT and liquidity crisis
- No systematic approach for forecasting and managing liquidity and working capital
- High need for cash generation in order to fund large-scale transformation program and to avoid liquidity shortages

**Value driver logic and clear responsibilities were key.**

- Liquidity and working capital statements were seen as mere reporting duty, not as a management instrument
- Generation of cash was not a focus of the organization
- Heads of business functions had very limited transparency on and accountability for actual cash in/cash out

**What BCG did**

- Developed an operational notion of working capital with a true and fair view of the cash baseline
- Set working capital reduction targets and implemented transparent performance tracking
- Helped develop measures to reduce working capital by about €2 billion within one year
- Set up direct semi-automated cash-flow forecast with clear accountability along the operational functions
- Revisited legal entity cash forecasting process and funding approach
- Greatly improved cash forecasting and funding accuracy
Restructuring concept execution

Now the restructuring concept must be put into action. Implementation of the different elements of the concept determines whether a restructuring effort is successful or not. This stage can take anywhere from 6 to 18 months. BCG provides a clear and efficient approach to implementation—with the 360° view that ensures that stakeholders continue to buy in. We identify two execution phases:

- **Preparation**: This phase outlines the set-up of the restructuring project organization, delineating the necessary tasks, providing a timeline, highlighting the interdependencies among project phases, naming those responsible for implementation, clearly defining and communicating their roles, and describing the project reporting cycle and format.

- **Implementation**: Specific process steps are laid out in detail in this phase. The implementation task force is assembled, assigned, and equipped with the appropriate tracking and steering tools to ensure that the management team and all stakeholders are kept fully informed of the progress of the restructuring initiative. This is very much a hands-on approach; the task force is running the implementation from the base of operations, not remotely from headquarters.

BCG ADDS VALUE TO THE EXECUTION PHASE IN THREE WAYS:

- **Breaking** down the restructuring concept by business area and business unit, deconstructing overarching activities into single tasks, and deep-diving into the broader metrics to create discrete task-centered metrics on which middle managers can take action.

- **Organizing** by enabling disciplined project management across all of the company’s business areas and market segments. This activity is, of necessity, independent and separate from the company’s ongoing operations. It sets out clear rules and guidelines to help managers balance the priorities of restructuring with day-to-day operating demands.

- **Quickly developing processes and tools** using our metrics experience to gauge the progress of discrete restructuring tasks as well as overall initiatives. We use our proven project-tracking and steering tools to monitor the overall status of implementation. And we provide a standardized layout to make it easy for those driving the restructuring to make “apples to apples” comparisons. These tools align with the specific and often very different needs of the various stakeholders.

REAL DEALS—REAL RESULTS

BCG PUT IMTECH DEUTSCHLAND’S RESTRUCTURING CONCEPT INTO ACTION

After uncovering large-scale fraud and misstated financial documents, the new management team at Imtech Deutschland GmbH & Co.KG—a division of a Dutch construction giant—launched a comprehensive restructuring program.

Starting point

- Lack of a restructuring concept that improved top line as well as bottom line
- Sales force ineffective and focused on volume instead of quality
- Project management skills and commercial management needing dramatic improvement
- Costly sponsorships of German soccer clubs with little business logic for doing so
- Inefficient decentralized overhead functions of poor caliber
- Lack of workforce confidence due to fraud cases
- Financials public due to ad hoc duty, making distress visible

What BCG did

- Set up project organization to implement a restructuring program
  - Supported the German and Eastern Europe divisions in implementing the self-developed restructuring concept
  - Developed a PMO implementation organization with regional footprint in Germany (four regions plus headquarters)
  - Gave guidance on how to finalize the conceptual work and prepare it for actual implementation
  - Set up task force to ensure continuous supply of construction sites and restore original payment terms
  - Led overall new organization module. Prepared and supported negotiations
- Supported German management team in presentations, Q&A sessions, and negotiations with lenders and credit insurers
Pre-insolvency support

Insolvency does not necessarily mean that initial restructuring efforts have failed. It is a restructuring option that merits consideration, depending on the company’s cost structure and financing options.

BCG enables companies to manage all of the relevant issues in preparing and managing the business side of their insolvency proceedings, working within the pertinent legal frameworks and in cooperation with the relevant experts. (See box: True teamwork with legal counsel.)

In many instances, the central issues are illiquidity and overindebtedness. In most nations, there are well-developed legal frameworks to protect the interests of stakeholders during insolvency. For example, in Germany, a debtor is deemed illiquid when it is unable to meet its mature obligations to pay within three weeks. German law further dictates that illiquidity shall be presumed, as a rule, if the debtor has stopped payments.

BCG SUPPORTS CLIENTS DURING FOUR STAGES OF A PRELIMINARY INSOLVENCY PHASE:

- **Concept development**: BCG quickly evaluates insolvency-based restructuring versus out-of-court alternatives.

- **Operative management**: We develop detailed action plans, call out the risks and roadblocks, and secure ongoing operations after filing (helping to establish protected cash reserves, for instance).

- **Crisis communication**: Our role is to proactively manage trust with stakeholders during this critical time. We help align all relevant stakeholders prior to the actual insolvency proceedings—promoting agreement on the insolvency plan, for example.

- **Transaction support**: BCG pre-screens potential bidders and sets up effective merger-and-acquisition processes, such as a data room.

During actual insolvency proceedings, BCG adds even more value to each of the stages. In concept development, for example, we update and revise the continuing operations concept and set up scenario planning for different stakeholders as a basis for effective decision-making.

In the operative management phase, we provide liquidity planning and management on a rolling basis along with economic evaluations of business decisions—for example, whether certain contracts should be continued or not.

TRUE TEAMWORK WITH LEGAL COUNSEL

BCG is very clear that many aspects of restructuring require highly specialized legal expertise. In insolvency cases, lawyers’ involvement is mandatory.

BCG has a history of highly successful collaboration with insolvency attorneys and financial advisors when client companies become insolvent. We work closely with in-house counsel as well as with the independent law firms hired to handle the many legal complexities of insolvency proceedings.
After a restructuring effort fell through, a leading manufacturer of printing machinery had to file for insolvency. Fortunately, the company had begun working with BCG on a “Plan B.” Working collaboratively with the manufacturer’s executive team and with its insolvency administrator, BCG was quickly able to develop strategic and bidder-specific operational business concepts—concepts that would become crucial to the subsequent M&A process.

The following concepts were key:
- Strategic and bidder-specific concepts have been developed for the company’s two key business lines
- Understanding the market landscape, having the deep company expertise from previous restructuring efforts, and knowing potential bidder groups, enabled BCG to develop tailor-made bidder concepts, each with a clear value proposition
- The insolvency situation paved the way for assembling the companies based on the expected market development as well as product adjustments—similar to a greenfield approach
- Focusing on market and deal rationale and future potential were intrinsic to the new company design

What BCG did:
- Quickly developed bidder-specific operating models, including fully fledged business plans
- Developed and wrote a strong equity story for potential bidders based on market development and asset characteristics
- Managed negotiations with multiple stakeholders (for example, insolvency administrator, management, labor unions)
- Supported the M&A advisor during preparation of the information memorandum
BCG’S CORPORATE DEVELOPMENT PRACTICE ENCOMPASSES:

• More than 130 partners and 700 trained professionals across all seniorities, all with significant experience in corporate development and corporate finance.

• Teams that always combine a specialist’s in-depth knowledge with our proven industry expertise, bringing strategic know-how to all industries and geographies.

• A “solution first” mindset that means we help to constructively manage the deal-making process while not missing the strategic view or the devil that’s in the details.

Meet Our Team

Our dedicated task force of restructuring and turnaround experts has more than 100 years of combined experience. They bring significant functional expertise that spans multiple companies and industries, and are supported by a seasoned team of principals, project leaders, and consultants. Our team has successfully led more than 200 restructuring cases.

Dr. Ralf Moldenhauer
Senior Partner and Managing Director, Frankfurt
Ralf Moldenhauer helped establish BCG’s restructuring business. He has specialized in restructuring and turnaround management for more than 20 years.
moldenhauer.ralf@bcg.com

Wolfgang Herrmann
Partner and Managing Director, Stuttgart
Wolfgang Herrmann helped establish BCG’s restructuring business. He has more than 20 years of experience in restructuring and turnaround management.
herrmann.wolfgang@bcg.com

Uwe Johnen
Partner and Managing Director, Berlin
Uwe Johnen has more than 20 years of experience in restructuring and new orientation.
johnen.uwe@bcg.com

Jochen Schönfelder
Partner and Managing Director, Cologne
Jochen Schönfelder has ten years of experience in restructuring and turnaround management.
schoenfelder.jochen@bcg.com

Joerg Matthiessen
Senior Partner and Managing Director, Atlanta
Joerg Matthiessen leads BCG’s Operational Transformation topic globally and has extensive experience in end-to-end performance improvement programs for clients in asset-intensive industries.
matthiessen.joerg@bcg.com

Lars Faeste
Senior Partner and Managing Director, Copenhagen
Lars Faeste is the global leader for BCG’s Transformation practice and has extensive experience with large-scale transformations and turnaround work.
faeste.lars@bcg.com
Read All About It

Our clients operate in nearly every industry and region around the world and they come to us for fresh approaches to the issues that matter most to them. Through a rigorous analysis of each client’s individual situation, we develop customized solutions that meet the organization’s specific needs. The case examples here illustrate how we help clients sharpen their capabilities, create value, and deliver sustainable advantage.

A Light Breeze or the Perfect Storm?
Assessing the Risks for European Automotive Suppliers

So far, many European automotive suppliers have come through the most recent downturn in the continent’s automotive industry relatively unscathed. For some, the downturn may seem like merely a light breeze, but the perfect storm may be gathering, as more suppliers are feeling the impact of measures that struggling automakers are taking in response to the crisis. Suppliers are facing greater pricing pressure and declining order volumes in Europe, as well as more intense competition from rivals based in emerging markets. Small and medium-sized suppliers are confronting greater risk of financial distress than large suppliers.

Gauging the Chinese Threat to European Machinery Makers

The competitive landscape for European machinery manufacturers—makers of traditional machinery (such as engines and turbines) as well as optical products and electronics—is changing rapidly. Chinese challengers are increasing their presence in developed markets and growing their businesses throughout the value chain. Once dismissed as low-end upstarts, Chinese machinery makers have built up their capabilities and now compete head-to-head with multinational companies on their home turf as well as in emerging markets. To avoid being overrun by aggressive challengers from China, European machinery manufacturers need to understand the new competitive landscape and develop an effective response to the emerging threats.

Restructuring projects we’ve helped with recently

In all, BCG has helped with more than 500 restructuring cases worldwide.
“When written in Chinese, the word ‘crisis’ is composed of two characters. One represents danger, and the other represents opportunity.”

— John F. Kennedy