Mission (almost) impossible: The successful restructuring of a FMCG retailer in Poland:

Patryk Filipiak reports on the difficult but not impossible restructuring of a retail chain

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It is extremely difficult to continue doing business while displaying an "under restructuring" banner

The successful restructuring of an insolvent Fast Moving Consumer Goods (FMCG) retail chain in Poland is a rarity. For various reasons, brands such as *Alma, Real, Billa, Hit, Géant, Leader Price, Bomi and MarcPol* have not survived the competitive race and have ceased operations. Further-more, after 25 years in Poland, *Tesco* sold its 300 stores in 2020 to *Netto (Salling Group)*. The Polish retail market may be tempting (€60 billion/2019, PMR), but it is also highly competitive with strong consolidation trends.

Nonetheless, the recent successful turnaround of the *Piotr i Paweł* retail chain has made two things apparent: it is extremely difficult to continue doing business while displaying an "under restructuring" banner and, furthermore, that restructuring an FMCG operation in distress cannot be carried out without serious support from an external financing entity, preferably a strategic investor. What may also be needed is a huge amount of luck!

Case facts and turnaround scenario

Historically, *Piotr i Paweł* was a well-known delicatessen brand in Poland. The company started just after the transformation in 1990 with one store in Poznań founded by the Woś family. The brothers Piotr and Paweł Woś gave their names to the chain. It grew rapidly with a mixed model: over time, owned stores gave way to franchise stores, reaching at its peak in 2019 150 supermarket stores of an average 1200 m^2 each, with €430 million of revenue per year, 1,200 employees and 14,000 products on the shelf. It was in the upper price and quality segment; the basket prices were the highest in Poland.

Nevertheless, for the past few years, the business model became progressively broken, through migration to smaller cities, where cheaper large discount and post-discount chains reigned supreme: *Biedronka* (owned by *Jerónimo Martins*) (3,000 stores, €11 billion in sales in 2018), *Lidl* or *Dino*. The expansion pursued a short-term revenue model of selling incubated stores into the hands of private franchisees. Trends were also changing: customers were less and less attached to the brand, choosing other stores if they gave them the expected values (price, proximity, less - comfort of purchase and variety). Additionally, Sunday trading was banned in 2018.

This led to deepening unprofitability of the core business. A delayed transaction process was launched but it was not successful: only a dozen or so locations were acquired by competitors (*Biedronka* and *Carrefour*).

Procedural steps

As a result, after a delay of a year, in September 2018, court restructuring proceedings (*post powanie sanacyjne*) were initiated against 3 main operating companies from the group. The chain entered the process with more than half of its stores unprofitable.

Restructuring proceedings that have been available in the law since 2016 can provide for airtight protection against enforcement and termination of certain agreements, including the key ones for *Piotr i Paweł*: lease agreements. Additionally, it is possible to:

- rescind unprofitable contracts without having to pay contractual penalties;
- reduce employment with the exclusion of employee protective regulations; and
- sell redundant assets with the release of mortgages and other encumbrances.

Obviously, the proceedings are aimed at concluding an arrangement with the creditors and restructuring the liabilities.

These recovery actions are normally performed by a court-appointed administrator, though it is possible for the debtor to nominate a candidate for the position. The *Piotr i Paweł* board selected our company (Zimmerman Filipiak Restrukturyzacja SA). As the administrator, we rescinded 60 lease agreements, sometimes resulting in disputes with landlords. We sold a dozen or so stores and focused on growth only in profitable stores in the largest cities. We reduced employment to a relatively small extent (100 employees in the central warehouse as part of a group layoff). All employees received full severance payments and we were never in default in making remuneration payments.

The most difficult relationships were with suppliers, who – after the withdrawal of insurers and guarantors – stopped selling with extended payment terms and significantly reduced

trade limits. In fact, by the end of proceedings, the suppliers had not restored normal payment terms. As *Piotr i Paweł* could not count on bank financing for almost one year, it was practically deprived of what is most important in trade – working capital. This is the critical issue that determines the failure of most such projects. It was also not easy with franchisees, who were disappointed with the lack of goods in the central warehouses and the lack of well-budgeted marketing campaigns.

It was not until very quick and effective talks with a strategic investor that a breakthrough was achieved. The SPAR Group Ltd. from the Republic of South Africa planned to enter the attractive Polish market, having already had experience in taking over projects during the crisis (Switzerland, Ireland). Despite significant restrictions on the transfer of funds from South Africa (requiring central bank currency approval), it was possible to reach a final agreement with three banks within five months (subject to a 50% reduction of claims) and to support the project financially and organisationally.

After a further three months period, arrangement proposals were presented. They were very strict for Polish conditions: most creditors received 10-30% repayments (however, these creditors would receive nothing in bankruptcy), but the smallest ones and the Social Security received 100% satisfaction. This happened immediately after the approval of the arrangement being final and binding, on a one-off basis. The arrangement was adopted by vote in March 2020. Currently, all *Piotr i Paweł* stores have been rebranded to SPAR. Apart from the 100 employees from the logistics warehouse, no other employee lost his job.

Summary

The success of the restructuring of *Piotr i Paweł* shows that such restructurings, though rare, are possible. In the author's view, the key conditions for success are:

1) where external financing is cut off, it is necessary to cut costs extremely quickly, sometimes brutally, and try to restore cash-flow balances;
2) a review of strategic options to find an investor needs to be initiated immediately; in many cases a reputational downgrade of the brand will be required; and
3) state support schemes for restructuring (credit and guarantees for business in crisis) must be used. ■

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