Teaching Case in Entrepreneurship:

Turnaround Management in the craft Industry
The Butcher Cochon Case

1. Summary: Teaching Notes

This case presents a turnaround case in a typical craft business in Germany. The problem of the case covers several teaching areas as the analysis of accountancy data, the development of strategically and operational turnaround strategies, marketing and revenue planning, organisation redesign, generating of new funding, using market information, benchmarking and human resource issues. In addition, the case offers also an evaluation in the light of the current insolvency legislation in Germany.

The target group of this case are final year students after completing marketing, finance, human resource and strategic management classes. They are asked to apply their knowledge and skills in the context of a family business. The embedded field of the case is the core of entrepreneurship: making decisions in uncertainty as well as maintaining the equity of a family business during a crisis. The students are asked to take the role of a turnaround consultant in order to advice the owner to redesign the business and to give a business plan. The results should be presented in a situation of a bank meeting in order to seek new funding for the enterprise.

In addition to the case, the students will be supplied with the following materials:

- Branch reports of the butcher industry
- Bench marks of the industry
- Cost Accounting data for price calculation purposes
- Excel Sheets to allow revenue and financial planning

The case has been used by the author of the case on turnaround management and entrepreneurship.

2. The Case

The Butcher Cochon is situated in a small village near Hamburg, Germany. He is a well recognised butcher in the town due to his good quality of sausages, meat, dishes and services. The company is a private company and owned by the manager of Herbert Cochon and his wife. The enterprise employs 2 full-time and 6 part-time employees. The building of the enterprise is situated in the middle of the town city and the market value of the building is estimated by 350,000.00 Euros.

The turnover of the enterprise is based on three major lines of business as the butcher retail shop, catering services as well as a canteen branch in a closed by chemical plant with more than 400 employees. In the past years the retail section of the enterprise noticed a negative trend due to a cut-throat competition by the nearby main food supermarkets. They offer also a good variety of sausages and meat. Nevertheless, market reports indicate a trend towards a return to the tradition butcher craft knowledge due to several meat scandals and an awaking attitude to healthy food in Germany. Despite the higher price, customers seem more to appreciate the quality of the meet, sausage products as well as the associated services. The catering section is noticing a steady small development although the profitability of this section is not satisfactory. The main customers are enterprises as well as private persons seeking assistance in their various events. As the accountancy figures suggest, the canteen has a doubtful role in the enterprise. Although the selection of food is limited, however there is a lot of criticism towards the quality of the food. Due to a special contract with the plant, the butcher pays no rent for the canteen. This is due to the fact, that the management of the chemical plant values higher the provisioning of their employees and suppliers rather than receiving any

profit out of the canteen. Recognizing this special arrangement, the management of the chemical plant controls the prices of the food. This results for the butcher into a low pricing strategy and small profit margins. However, the turnover of the canteen is currently essential in order to cover the operating cost in particular in winter months with a low turnover. In addition, the chemical plant orders also supplementary catering services for special occasions in the company.

The building itself demonstrates a lack of maintenance due to financial problems of the last years. The production capacity is not fully occupied and is able to supply further branches.

Although the balance sheet of the company indicates a negative equity capital, however, due to a bank moratorium there are at the moment no further financial restraints. Currently, the enterprise is not paying any interest and amortisation towards a long term loan of 395,000.00 Euros. All other current liabilities towards the Inland Revenue, social security agencies and suppliers are paid in time. Due to this critical situation the financing bank made an offer that in case of a new funding by a new bank, they will be prepared to give a debt relief by 195,000.00 Euros.

In order to take advantage of this offer, the owner of the butcher shop hires you as a turnaround consultant. In particular, he is requiring the consultant to establish a turnaround business plan including a new strategic and operational alignment. The required documents by the prospective bank include a complete marketing plan as well as a profit and financial forecast for the next 3 years. In addition, the consultant is also required to evaluate the chances of the new insolvency legislation in Germany as a tool for organisational and financial reorganisation.

Balance Sheet of the Butcher Enterprise Cochon

	2011	2012	2012
Fixed Assets			
Intangible Assets	16.415,00 €	10.430,00 €	4.445,00 €
Buildings	254.843,26 €	245.419,26 €	237.293,26 €
Plant and Office Equipment	17.706,00 €	13.079,00 €	12.408,00 €
Total Investments	288.964,26 €	268.928,26 €	254.146,26 €
Stocks	14.056,32 €	15.780,70 €	14.725,37 €
Accounts Receivable	17.330,77 €	27.946,45 €	13.874,86 €
Other Assets	8.778,86 €	12.663,30 €	7.024,66 €
Cash	550,00 €	550,03 €	550,03 €
Prepaid Expenses	4.107,56 €	1.860,40 €	1.232,40 €
Share Capital	131.759,11 €	179.005,15 €	171.752,87 €
Addition Paid in Capital	- €	- €	- 6.588,13 €
Owners withdrawal	52.768,56 €	51.521,64 €	52.963,21 €
Retained Earnings	- 5.522,52 €	- 58.773,92 €	- 15.975,97 €
Total Assets	**512.792,92 €**	**499.482,01 €**	**493.705,56 €**
Accured Expenses	6.600,00 €	7.000,00 €	7.100,00 €
Long Term Liabilities	431.690,62 €	398.944,21 €	395.086,43 €
Short Term Liabilities	32.458,22 €	38.897,98 €	31.979,22 €
Accounts Payable	31.456,42 €	44.804,81 €	52.680,70 €
Other liabilities	10.587,66 €	9.835,01 €	6.859,18 €
Total Liabilities	**512.792,92 €**	**499.482,01 €**	**493.705,53 €**

Profit and Loss Account of the Butcher Cochon

	2011	2012	2012
Revenue Butcher Shop	293.478,89 €	268.248,35 €	285.442,02 €
Revenue Catering Private Customer	91.554,47 €	113.215,05 €	95.054,41 €
Revenue Catering Commercial Customers	229.714,63 €	243.970,73 €	225.769,01 €
Revenue Canteen	238.921,67 €	305.724,27 €	262.267,67 €
Other Revenue	809,52 €	18.481,76 €	344,30 €
Private Revenue Owner	3.360,00 €	3.464,00 €	3.334,00 €
Subtotal Revenue	857.839,18 €	953.104,16 €	872.211,41 €
Other operating Income	10.897,35 €	10.846,04 €	21.870,66 €
Total Revenue	**868.736,53 €**	**963.950,20 €**	**894.082,07 €**
Materials	390.965,08 €	435.054,38 €	404.185,42 €
Trading Goods	-	846,64 €	228,48 €
Personnel Expenses	246.239,37 €	231.257,28 €	238.459,80 €
Social Security	56.789,97 €	56.839,70 €	61.061,38 €
Depreciation	30.517,50 €	24.906,22 €	18.928,34 €
Energy	45.643,93 €	48.525,16 €	56.287,07 €
Premises Costs	5.694,45 €	5.555,13 €	5.507,26 €
Insurance	5.013,37 €	4.549,08 €	5.056,62 €
Maintenance	6.217,19 €	4.345,55 €	4.906,47 €
Vehicle Costs	8.557,81 €	9.865,34 €	10.182,03 €
Marketing Costs	9.749,85 €	11.173,32 €	6.776,97 €
Packaging Costs	13.734,34 €	11.552,25 €	10.489,61 €
Administration Cost	18.715,05 €	33.036,13 €	29.591,73 €
Other Costs	788,52 €	821,14 €	752,20 €
Total Operating Expenditures	838.626,43 €	878.327,32 €	852.413,38 €
Interest	23.685,16 €	25.328,53 €	24.551,02 €
Other non-operating Costs	177,21 €	179,00 €	-
Extraordinary and non-recurring income	47,79 €	- €	47,79 €
Extraordinary and non-recurring expenditures	- €	62,43 €	316,70 €
Income Tax	- €	454,00 €	- €
Cooperate Taxes	773,00 €	825,00 €	825,00 €
Net Profit	**5.522,52 €**	**58.773,92 €**	**15.975,97 €**