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Case study

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Mr Michał Siwek - the CEO of a small sized production company in Poland, was hardly enjoying his winter holidays in Cortina d'Ampezzo. Trying to focus on the breath-taking views of the Italian Alps he could not take his mind off the poor financial indicators of the last year. Suddenly, during one of his extreme down-hill rides, he came up with a brilliant idea. He was so thrilled that he instantly stopped in the middle of the slope, nearly causing an accident. Grabbing his smartphone, he rapidly dialled his assistant's number.

- Mary, I've had a brainwave...

- I bet you have Michał, sir, but weren't you supposed to enjoy your stay in Italy and leave all the problems in Poland?

-Yeah, yeah, but listen, I know what we should do to get the business back on track. Organize a board meeting next week so we can discuss everything after my return. Also, please contact Mr Kubiak and send him our financial data, especially the structure of our customer accounts payable. I will text you his contact details immediately.

- Ok boss, consider it done and please try to relax, at least for the rest of your stay.

Just after Mr Siwek had finished his conversation with Mary, he called Mr Kubiak and briefly presented the situation of the company. Mr Kubiak had tentatively accepted the offer, but he pointed out that first he must take a look into the company's data, not only financial but also, considering the competitors, the value chain and the company's customers.

This will be the HAMMER! thought Michał, smiling to himself and resuming the halted ski run.

On his return, Mr Siwek met Mr Kubiak and his team at a workshop organized by the local Chamber of Commerce. The subject areas of the workshop covered topics for exploiting historical financial data to discover future management scenarios and action plans. The case studies presented at the workshop by Mr Kubiak included some interesting examples, which in Mr Siwek's opinion could help regain the company's impetus.

Mary, Mr Siwek's assistant, had prepared all the data that Mr Kubiak had asked for, and sent him the information structured as follows.

Company introduction: WYKROPOL.pl

WYKROPOL.pl is one of thousands small companies (employing up to 50 people) situated in the Wielkopolska (Greater Poland) administrative region. It is a typical firm belonging to the SME sector with 18 full-time employees. The firm operates in the printing industry, manufacturing customized blanking dies for cardboard goods production lines. It was established in 1998 as a Polish-German enterprise. In 2006, the Polish side bought out the foreign capital and changed the company's name to WYKROPOL.pl.

Although the name "WYKROPOL.pl" could suggest that the establishment described is a dot-com enterprise, the company's activities are not based on e-business concepts at all. The firm possesses an information web site, well positioned in the Google Search Engine (in cooperation with an interactive advert company). Although the site contains a contact form, which clients can use to place orders, it is never used however - customers prefer to communicate by using standard email.

When it comes to other IT solutions, the firm uses an invoice generation system. It has also implemented a production management system connecting all the work stations within the production line. There is no bar code support yet (all information requires manual input), but the management is preparing short-term plans to purchase such a solution.

The company's structure is composed of three divisions:

- Management,
- CAD office,
- Production line.

There are 4 people employed in management; the Chairman of the Board, the CEO, the sales manager and one secretary. The Chairman of the Board is at the same time the company's owner. The CEO is an experienced manager having run the business from the start. The sales manager is responsible for winning new contracts. His main job is to drive around the country and visit as many potential customers as possible, and the Chairman has stated that he is quite pleased with the results of the sales manager's activities.

The CAD (Computer Aided Design) office is responsible for preparing technical sketches for the blanking dies, based on the descriptions provided by customers. The CAD team is composed of 4 qualified engineers.

Ten other people work on the production line. Two out of the five work stations require skilled, experienced personnel. These stations are the laser (used to prepare the outlines of the dies) and the knife bender. Both devices require extremely precise handling - the overall product quality largely depends on the outcome of these activities.

The industry, understood as blanking die manufacturing, is a tough one. Competition is huge compared to the overall demand - more or less 15 direct competitors in the SME sector and 2 large enterprises. The big ones are Marbach - an international producer of blanking dies (employing over a 1000 people), as well as the specialized knives for such products; and Chespa - also a big player offering complex solutions for the printing industry, from blanking dies to package design and paints. There are also a large number of private manufacturers called *garagers* (which obviously produce dies in their garages) which distort the market by offering dies at low rates.

The value chain

According to M.E. Porter, the primary source of competitive advantage is not only the efficiency of a company's operations as a whole, but also the effectiveness of the different types of activities it undertakes in delivering its products to the market. These activities form the value chain. If a company uses the services of other companies (e.g. in distribution, logistics, marketing, purchasing, production), each entity contributes to the creation of the value that the product carries. The company WYKROPOL.pl purchases specialized knives, mainly from Germany. Other materials for production are bought in Poland, for example laser plywood (birch plywood with defined parameters) as well as metal and rubber elements. The quality of Polish materials is only average, but they are much cheaper than their foreign counterparts.

On the basis of the orders sent by the customers technical sketches for blanking dies are prepared. In the next step, with the use of specialized equipment (benders, laser and milling machines, etc.), blanking dies are manufactured. Finished products are sometimes picked up

by the customers themselves, sometimes delivered by the company's own transportation, and sometimes sent by courier.

Regular customers include companies which are the largest producers of packaging on the Polish market, as well as small family printing businesses and firms from the European Union and beyond. The blanking dies are used to cut a specific shape out of a sheet of material, e.g. for the production of cardboard packaging. This packaging is then sold to manufacturers who place their products, such as sweets, inside.



The financial situation

The company's financial situation is quite difficult. Although sales revenues in previous years have risen by more or less 15% yearly, the firm's Current Ratio did not surpass a level of 1.27 during the last 3 years! The Acid-test Ratio, however, varied from 1.07 to 1.16. Such a minor difference between the two ratios has a serious cause - the majority of the company's current assets are based on short term receivables (about 80%)! This dependency uncovers one of the major problems which the company has to deal with, which is the collection rate of receivables. Many clients tend to force a prolongation of the payment period or refuse to pay at all! Such a situation poses a real threat to the company's financial liquidity.

Liabilities	31-12-2009	31-12-2010
Long-term loans	- zł	187 500.00 zł
Short-term loans	175 000.00 zł	67 857.86 zł
Suppliers	349 280.46 zł	324 630.92 zł
Taxes	369 712.68 zł	732 018.81 zł
Salaries	48 227.44 zł	56 149.42 zł
Other	18 592.42 zł	10 833.40 zł
Total	960 813.00 zł	1 378 990.41 zł

Receivables	31-12-2009	31-12-2010
Customers liabilities	956 681.46 zł	1 284 837.35 zł
Total	956 681.46 zł	1 284 837.35 zł

The bargaining power of customers

Strong competition within the printing industry has distorted the market enormously. Firms are recklessly fighting for each individual customer, ignoring the potential risks and expenditures connected with the fulfilment of each order. The main issues complicating the situations are the following:

- Personalisation – the orders placed are often personalized. This is due to the fact that every manufactured product (packages, puzzles, stands) requires a different blanking die. This fact makes the mass-production of blanking dies nearly impossible.
- Quality differences – it is difficult to compete with high-quality products. There are not many firms in the printing industry which value very high-quality blanking dies. Average quality is good enough for most manufacturers because you cannot really tell the difference between packaging cut out by two blanking dies of different quality.
- Transportation – companies in the printing industry have got used to transferring the responsibility and transportation costs of blanking dies to their manufacturers, thus increasing the operating costs of production.

Due to such ferocious competition, each company tries its best to acquire as many customers as possible. This causes situations in which some clients feel sufficiently powerful that they simply refuse to pay for blanking dies, and others extend the payment period for their liabilities to 6 months or more! Moreover, most of the clients who refuse to pay are those owing relatively small sums. This makes legal proceedings even more complicated because a trial in court against such a customer would be more expensive than the potential gain! All the above mentioned factors indicate that the bargaining power of customers is extremely strong.

The meeting

It took one week for Mr Kubiak's team to analyse all the data and prepare a brief description of the problems of WYKROPOL.pl. The key issues that needed to be dealt with are mainly

connected with the bargaining power of customers who refuse to pay on time, and the strong competition. The team also collected initial data to prepare an ageing analysis (see Appendix 1) for the past year which could be the basis for further analysis and scenario development. A meeting with the board of WYKROPOL.pl is planned for next week, and you are assigned as a member of Mr Kubiak's team.

APPENDIX 1: Sales to main customers vs. Supplies from main suppliers

CUSTOMERS	<i>January</i>	<i>February</i>	<i>March</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>August</i>	<i>September</i>	<i>October</i>	<i>November</i>	<i>December</i>
Fokal	- zł	20 300.43 zł	- zł	8 094.48 zł	30 579.13 zł	39 187.54 zł	11 178.08 zł	43 299.02 zł	20 171.95 zł	27 880.97 zł	5 524.80 zł	8 608.41 zł
Ramzes	40 472.38 zł	6 167.22 zł	13 876.24 zł	21 585.27 zł	25 953.71 zł	- zł	34 305.16 zł	34 690.61 zł	14 518.66 zł	3 212.09 zł	5 396.32 zł	- zł
Dino	25 054.33 zł	4 753.90 zł	- zł	- zł	6 681.15 zł	21 842.23 zł	- zł	18 244.69 zł	- zł	17 987.72 zł	2 569.67 zł	35 333.03 zł
Printex	6 167.22 zł	256.97 zł	17 602.27 zł	- zł	5 781.77 zł	34 305.16 zł	44 069.92 zł	32 377.90 zł	- zł	- zł	17 730.76 zł	16 959.85 zł
Chocoberry	4 111.48 zł	- zł	5 139.35 zł	36 874.83 zł	10 921.12 zł	39 572.99 zł	29 294.29 zł	42 399.63 zł	9 250.83 zł	12 591.41 zł	41 757.21 zł	14 775.63 zł
Compal	6 038.74 zł	8 736.89 zł	33 791.22 zł	- zł	11 563.54 zł	19 015.59 zł	27 367.04 zł	- zł	21 199.82 zł	18 373.17 zł	3 469.06 zł	30 193.68 zł
Others	6 038.74 zł	32 120.93 zł	- zł	1 413.32 zł	5 396.32 zł	3 212.09 zł	33 405.77 zł	- zł	4 111.48 zł	39 444.51 zł	- zł	10 535.67 zł

SUPPLIERS	<i>January</i>	<i>February</i>	<i>March</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>August</i>	<i>September</i>	<i>October</i>	<i>November</i>	<i>December</i>
Knivex	6 070.60 zł	2 272.42 zł	5 421.34 zł	8 050.85 zł	9 251.98 zł	4 642.22 zł	9 024.74 zł	8 765.03 zł	- zł	- zł	6 265.38 zł	2 824.29 zł
SuperLaser	11 102.38 zł	- zł	- zł	3 181.38 zł	8 829.96 zł	- zł	1 525.77 zł	6 979.56 zł	1 038.82 zł	7 044.49 zł	2 175.03 zł	6 395.23 zł
Drutex	6 914.64 zł	- zł	9 511.69 zł	3 343.70 zł	6 232.91 zł	6 752.32 zł	1 395.91 zł	2 759.36 zł	8 343.01 zł	1 071.28 zł	- zł	5 129.17 zł
MachineR	4 869.46 zł	2 045.17 zł	9 479.22 zł	3 181.38 zł	1 785.47 zł	- zł	3 733.26 zł	- zł	7 141.88 zł	- zł	11 037.45 zł	10 875.14 zł
Tint	10 128.48 zł	- zł	6 005.67 zł	4 804.54 zł	4 934.39 zł	- zł	7 239.27 zł	- zł	2 110.10 zł	7 239.27 zł	9 154.59 zł	- zł
Others	- zł	6 070.60 zł	5 194.09 zł	10 647.89 zł	- zł	7 076.95 zł	- zł	1 785.47 zł	9 803.85 zł	5 421.34 zł	1 623.15 zł	8 927.35 zł