

COFFEE Break

How dangerous can paradigms be in a crisis?

Can an industry-wide paradigm lead to business blindness? Under what conditions has a paradigm developed?

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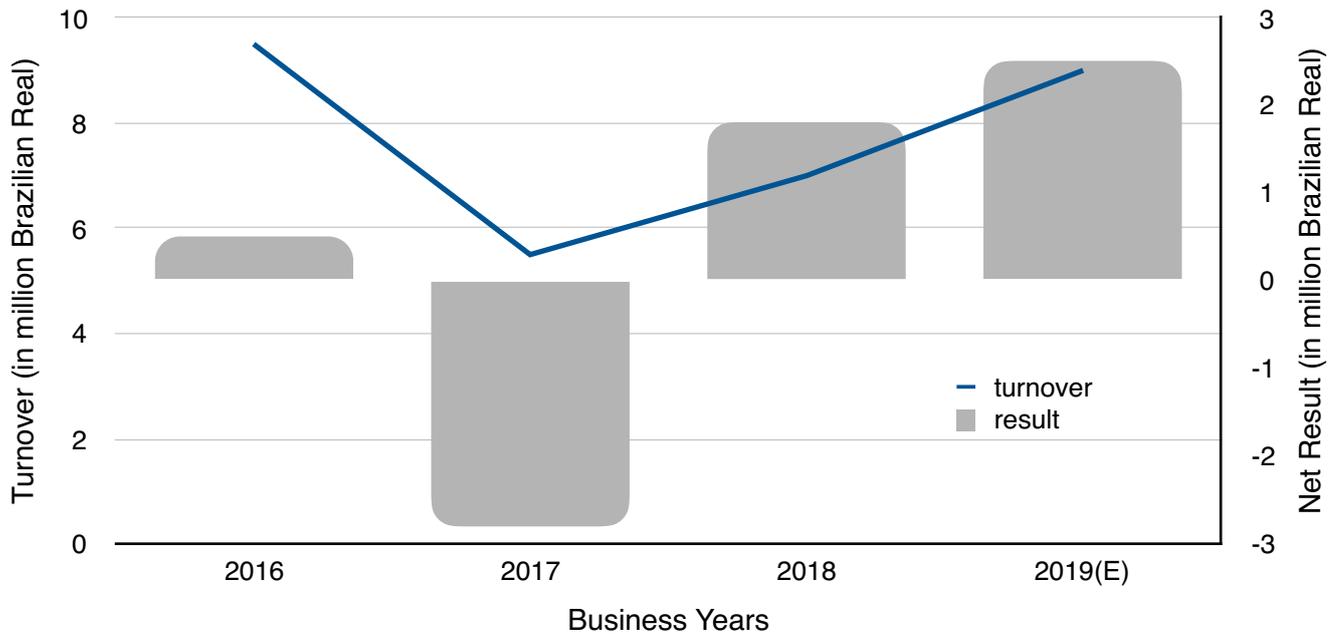
Preface

If you think about costs too late, you ruin your company. Those who always think about costs too early kill creativity. Cost-cutting measures must be taken when you are earning a lot of money. Once you're in the red, it's too late. Many years of experience can sometimes narrow the view. There are people who think they know the bird very well because they have seen the egg from which it crawled out.

Initial situation. In 2006, a South American franchise chain opened its first store in the city of São Paulo. The local store was operated by an independent partner and within a short period of time further restaurants were set up in other shopping centers in the city. In order to raise the economies of scale in this business model, a central large-scale kitchen was set up in the southern zone of the city to prepare the ingredients and dishes. In order to make maximum use of the large kitchen, daily catering for medium-sized and smaller companies in the region was provided in addition to supplying the company's own restaurants.

Paradigm questioned - too late? With the outbreak of the crisis in Brazil, the financial result began to stagnate. As a result of the never-ending crisis, sales fell by 40% in the following years, and at the same time debt began to grow proportionally. At the beginning of business year 2017, an ad-hoc analysis by our iManagementBrazil team cast doubt on the value chain. In addition, very poorly balanced business models were found in the catering sector and in the original restaurants.

Historical flashback. The business model followed the well-known process paradigms of the industry. First and foremost was the extreme standardization of the ingredients supplied: potatoes in slices, tomatoes as sauce or cut into quarters, pre-cooked meat. The company grew at an annual rate of about 20%. On the eve of the long-lasting Brazilian crisis of recent years, the crisis also began for the South-American chain in Brazil. Sales in the company's own restaurants declined constantly. Food prices for raw materials also fell by 35%. Due to the process of extreme standardization, however, it was not possible to pass on the price reductions.



The result was not long in coming and at the beginning of the outbreak of the Brazilian crisis the drop in sales was almost 40%. The local and international management decided to act immediately and not to hope for improvement.

iManagementBrazil team deployed. The idea: the entire business model should be turned upside down and, without exception, all paradigms should be tested for their viability.



The first measures were based on a classic reorganization - massive cost-cutting - in which 70% of all managers were replaced or the positions were completely eliminated.

The analysis of the catering contracts opened up a frightening picture. Rather, the company was focused on achieving pure sales growth instead of contributing to real economic success. 50% of all catering contracts presented constant losses. All contracts were renegotiated immediately and half of them had to be cancelled.

The analysis of the industrial paradigm of extreme standardization brought massive doubts to light. The franchise company had a sea of just over 60 suppliers, all of them top service providers in the individual sectors. However, due to the relatively small size of our client, it was not possible to achieve such purchasing volumes that a bargaining power could arise.

And if we do it in the other way round? The reorganization team of iManagementBrazil came up with a very unconventional idea: everyone talks about outsourcing and standardization to the extreme. What if we went the other way round to insourcing?

The team assumed that the food ingredients would be purchased raw and processed in the canteen kitchen. It quickly became apparent that the additional wage costs and depreciation on additional equipment would be quickly compensated. An additional profit resulted from the greater agility, so that new catering orders could be concluded. The creativity to develop new dishes and to offer them to customers in the own restaurants and to catering customers also increased.

Lessons from the downfall. First - inefficient customers. About 20% of all dishes offered in restaurants were loss-making. In the catering area, 50% of contracts were loss-making. Catering contracts were re-negotiated. Restaurant prices were not adjusted because the insourcing process and the redefinition of the value chain presented significant gains to make each dish offered profitable.

Second - excess of suppliers. Our customer had more than 60 suppliers and didn't get discounts with big purchases. The number of suppliers was reduced by 45% and the average price fell by 38%.

Sometimes you have to pull out trees to see if the root is still there. After many years of the paradigm of uncompromising outsourcing of all functions, we realize after many projects that this way has to be decided anew in every case and has to be checked at regular intervals for its still existing advantages. Paradigms must not be retained for convenience. (FN, ASdS)

