Back from THE BRINK

In a rare interview with Kaut-Bullinger, Group Managing Director Robert Brech talks openly about the hugely challenging past few years at Germany's largest independent dealer

Just over two years ago, the future of Kaut-Bullinger looked bleak indeed, blighted by financial troubles, costly legacy systems and a business model in serious need of an update. Add to that a takeover bid from its dealer group Soennecken and you might say the situation was critical.

That's when an experienced restructuring expert was drafted in to grab the bull by the horns and turn around this centuries-old operator. **OPI**'s Heike Dieckmann spoke to the company's Group Managing Director Robert Brech about the current state of affairs, about what went wrong back then and what's now going right.

OPI: Let's set the scene and start with your career background – what is it that qualified you so well for the Kaut-Bullinger challenge in 2016?

Robert Brech: To start with, most of my background is in the retail and B2B business. I started as an apprentice in a wholesale company when I was 18. I then worked for several of the really big retail and department store chains in Germany, including Kaufhof – which at that time was part of the Metro Group – Karstadt and its two subsidiaries Wehmeyer and SinnLeffers, and Woolworth. The latter of these was sold to Cerberus Capital Management in the US.

In most of these companies I worked in the capacity of a director, CEO or COO. I've always reported directly to the supervisory board and was on many occasions involved in the restructuring of the business. This then often led to the ultimate sale of the company or it was launched back into the market in a much better state.

I also founded a small company called RBC Consultants in 2009. I still own that company and am the majority partner, but I'm now obviously engaged full-time with Kaut-Bullinger. RBC also specialises in restructuring activities.

OPI: So you are clearly a turnaround expert, which I guess is what brought you to Kaut-Bullinger in 2016.

RB: Absolutely. I'm always involved in organisations that are struggling and need an overhaul. Nobody ever calls me from a company that's doing well, with growing sales, a nice gross profit, etc. Every company I've worked for was in real trouble when I joined and Kaut-Bullinger was no exception when I was asked to come on board.

OPI: What did you find when you started in August 2016? Your predecessor Johannes Peter Martin had left eight months prior and you took over from one of the remaining managing directors which was Oliver Mathes at the time.

RB: All I can say is that Kaut-Bullinger was in desperate need for a deep restructuring. As soon as I joined, every single aspect of the company came under very close scrutiny – everything from ERP and IT systems, merchandising, logistics, purchasing, sales and finance. The latter was obviously hugely important. Our cash flow and liquidity was terrible and the company was in very serious financial trouble, on the brink of insolvency even.

OPI: When I talked to JP Martin back in 2012, he said that Kaut-Bullinger had been doing ok financially when he joined three years prior, but that plenty more could be done to improve the balance sheet further. Something obviously went badly wrong in the years that followed...

RB: Our consolidated financial statements of 2016/2017 give you a clue: when I started in August 2016, I had to take immediate emergency measures to prevent the threat of insolvency. These involved the termination of external consultancy contracts, the insourcing of certain tasks, and the reduction of stock levels in the warehouse as well as in our stores. We also had to stop all unnecessary expenses.

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These were all things that had been neglected in the prior years, with the consequence that, particularly from the beginning of 2015, Kaut-Bullinger had to cope with an increasingly difficult relationship with its dealer group Soennecken. Confidence in the top management of the company was also dwindling fast, both from our finance partners as well as our suppliers.

The management report at the time also revealed that the replacement of the Managing Director as well as the dismissal of the Chairman of the supervisory board were prerequisites if there was any chance of a successful turnaround, and for trust to be restored with our suppliers and, even more importantly, our remaining investors and new financiers.

OPI: A dire financial performance was also the message that came out of Soennecken in the spring of 2016 when Kaut-Bullinger ultimately had to leave the group. You were one of its biggest members to my knowledge.

RB: We were. And yes, we were in financial trouble among many other things and that contributed to the Soennecken situation because we couldn't fulfil our financial commitments. The reason we left Soennecken in May 2016, however, was because the group tried to take advantage of Kaut-Bullinger's weakness with a takeover bid – in line with its then new 'going direct' route – and that attempt failed.

That's the time when the supervisory board approached me to come and restructure the company. It was a hugely critical time in the history of Kaut-Bullinger which, as you know, has been around since 1794, so a very long time.

OPI: What was your first priority when you joined?
RB: To stabilise the company financially, with everything it entails – dealing with banks, credit insurance companies, customers and suppliers. None of them were happy for many different reasons. But I also had to take a very close look at all internal processes and change many of them in a comprehensive cost-cutting exercise.

By the time I started on 8 August 2016, the new contract with Büroring and its associated wholesaler InterES was already signed and in place. That relationship is working really well for all parties which is important. We are a very big partner to InterES with considerable purchasing volumes and we use Büroring's central billing facility with suppliers.

OPI: Ingo Dewitz recently left as Managing Director of Büroring. Will that cause any disruption?
RB: Definitely not, it hasn't so far and I'm sure will not have any impact at all.

OPI: Let's go back to the situation when or even before you started. All of this must have had an impact on staff. Were there many redundancies?
RB: There weren't, but we certainly had some staff turnover. We had quite a few married couples as employees, and because of all the instability and uncertainty, they felt they weren't secure in their jobs anymore and one of them resigned.

We also lost some very high-profile people – employees in leading positions in areas like purchasing, financial control, marketing and so on – and that left some dangerous gaps we've had to fill.

In total, we lost about 20 people in 2016, but we're now back with the right people in all the key roles. It wasn't an easy process because of all the bad press we received at the time. Job security and a good working environment are obviously very important and there was the perception that Kaut-Bullinger couldn't offer either.

OPI: How's Kaut-Bullinger looking today, in terms of its performance?
RB: Our revenues as well as gross profit took a real hit back then, and both are looking much better now. Our total sales in 2017 were €110 million ($128 million).

OPI: Has your broad business model changed in the restructuring period? For the benefit of our readers and as a recap, I believe Kaut-Bullinger is split into several divisions – the office supplies business (Kaut-Bullinger Bürobedarf), the office systems business (Büro-Systemhaus), and the retail stores. Is that correct? And then you have BüroExpress as your online portal.
RB: Fundamentally, it's the same. We have a complex company structure with many different divisions and brands, and we're in the process of simplifying our model, but broadly speaking, you're correct.

All but our retail stores is B2B business. Retail now accounts for about 15% of our total revenues, ie about €16.5 million while the office supplies business is 60% (€66 million), and the office systems division 25% (€27.5 million).

OPI: Which part of the organisation is growing the fastest now?
RB: The only part of the business that's growing at the moment is our office systems division. We've got very high hopes for this business segment which includes MPS, furniture and systems installation, maintenance and repair, as well as our 3D and graphics business as part of our agreement with HP. It's the latter two HP categories that are doing particularly well.

The office supplies business is more or less flat now.

OPI: Let's talk about retail. This part of the company has been struggling for some time I believe.
RB: That's correct, retail is a decreasing channel, not just for Kaut-Bullinger, but for the industry overall. We do what we can to mitigate this, but the decline in retail is just a reality that we have to live with.

We have 11 stores at the moment, but we're not there yet with our retail consolidation. Our intention is to close stores where we're losing a lot of money, so there are probably four more stores that will have to go.

OPI: Is your flagship store in Munich profitable? That seems to be the one where you invest the most?
RB: I wouldn't say it's doing extremely well, but as you say it's our flagship store and we can't touch it because it's our retail face. We have several other stores that are still performing reasonably well and we have no plans to close them or very severely cut down our retail presence. We need retail, but it's a fine line and we can't be losing a lot of money from the stores, of course. As I said, there's some consolidating to be done still.

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OPI: In terms of the overall German market, you are a big player in our industry. Do you consider yourself to be a truly nationwide operator?
RB: From a retail perspective, definitely not, and I think it's wrong to even attempt geographical expansion beyond the south of the country – the general retail climate doesn't support that and nor do our resources.

From a B2B perspective and particularly for the office systems business, we're completely nationwide, yes.

OPI: Who are your customers – what's the core?
RB: In B2B, it ranges predominantly from very small to medium-sized companies. We have 50,000 B2B customers in total and the largest part of our revenues comes from companies that have between 20 and 300 staff. But we also have some of the really big operators – BMW or large insurance company Allianz are just two of them.

OPI: What is the competition for you – other independents or the likes of Staples Solutions, Office Depot, Lyreco, etc?

RB: I'd rather not answer this question. I'm very familiar with Staples' and Office Depot's private equity owners – like I said, I sold Woolworth to Cerberus many years ago. What I would say is that we are totally different to everyone else. Most of our competition comprises very small and local operators and none of them can offer the same broad business model and range of services – we do retail, delivery and contract. Nobody else does that, not to mention our vast product portfolio through the various divisions as well.

The fact that we're so versatile is mostly an advantage, though not always, as we also have the costs and challenges of a multichannel business. But we can compensate. If business is slow in retail, we have B2B; if office supplies is stagnating, we have the systems business with all the service solutions that come with it. That's a real differentiator.

OPI: No conversation is complete these days with talking about Amazon. What's your view on Amazon and Amazon Business?
RB: Well, you'd have to be blind and ignorant to not at least appreciate Amazon for what it's achieved. It's a fantastic business with a model that just works, including its marketplace.

OPI: You are an Amazon Business marketplace operator, aren't you?
RB: Yes, we're trialling this at the moment from a retail perspective and for office supplies, and we are keeping a very close eye on it. I know that Amazon is often regarded as the enemy, but the sales figures for us are certainly looking good, and they are increasing all the time. That's about as much as I can say.

OPI: Let's talk about products. Where are the biggest opportunities for you?
RB: The office supplies focus obviously remains one of our core competencies, but there's no growth there because of digitisation and decreasing demand. The real opportunities for us currently are in the specialist niches such as 3D and graphics in the office systems business.

Under the office supplies umbrella, we are looking at safety and workwear products, but it's still in its infancy. An excellent sub-category for us in this business segment is promotional materials – it's growing very nicely and there's plenty of potential.

OPI: What is your prediction of the future for independent dealers in Germany?
RB: For the small operators, it's not looking good and I don't believe they really have a future, certainly not a bright one. You have to have a certain size, be competent in many – and often new – areas and have an international outlook.

OPI: Excuse me for being so blunt, but Kaut-Bullinger doesn't have an international outlook as far as I'm aware. Am I wrong?
RB: Not entirely. We don't have any plans internationally for the retail business and I don't think there's a lucrative long-term future anyway. But it's different for our office systems division – there's definitely international potential.

Of course, several of our agreements, like the one with HP, restrict us to German distribution only, and the same is true for our furniture installation solutions. But in the long term, there's potential I'm convinced, and I'm cautiously optimistic about our international role in this industry.

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OPI: Talking of the long term, you refer to yourself as a restructuring guy. Doesn't that imply a somewhat short-term outlook?
RB: That's a very easy 'no'. Restructuring is my remit in all the companies I've worked for – I'm the person who carries the water to put out the fire.

But it's about more than just putting out the fire; it's about knowing when you can start rebuilding and optimising the company for the future. My tasks at Kaut-Bullinger were set out to me very clearly by the supervisory board and the management team, and they are definitely long-term tasks.

My plan for the turnaround of the company was three years from when I started and it looks as if it's going to be a few months longer. The total process will be finished at the end of the next business year, ie at the end of March 2020.

But phase one is done – simple survival. Phase two is also very nearly done – optimising workflow with customers, suppliers, employees and products.

As of 1 April this year, we've switched from the brutal restructuring that involved a huge amount of cost-cutting to the beginning of phase three, a 'smooth' restructuring, whereby we talk in more detail about the strategic future of the company – in terms of retail, our branding, our company set-up, etc.

Overall, we've come from a really critical situation and we're not in that situation anymore. We are comfortable where we are at the moment and we've come a very long way. It's a different company now, with mostly the same people, many of the same suppliers and customers, but with a changed mentality. The focus is to grow and earn money, make a profit and be really successful again – long-term – and we're getting there.