TURNAROUND STRATEGIES ADOPTED BY UCHUMI SUPERMARKET LTD: UNDER RECEIVERSHIP

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DECLARATION

This management project is my original work and has not been submitted for a degree in any other university.

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This management kport has been^ubmitted for examination with my approval as the University Supervisor. - — ^ r x

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DEDICATION

To my parents, Charles and Grace Kiarie for uieir love, inspiration, support and encouragement and to whom all began.

To my brothers, Chris and Joram Kiarie who brought me immeasurable joy and helped me develop patience to different views.

To God almighty for the grace, mercy and blessings that have seen me through this program.

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ABBREVIATIONS

Kenya Commercial Bank

Preferential Trade Area

Uchumi Recovery Plan

ABSTRACT

Uchumi Supermarket limited was a public limited company incorporated in 1975 under the Companies Act. In early 2000s it started to experience financial and operational difficulties which resulted in a marked diminution of the Company's resources consequently it was unable to meet its financial obligations. On 31 st May 2006, the Board of Directors resolved that the company ceases operations and on 2nd June 2U06, the Debenture Holders placed the Company under receivership. Following a framework agreement between the Government of Kenya, suppliers and debenture holders, the company was revived and commenced operations from 15th July, 2006 under Specialized Receiver Manager and interim management. By the end of 2008 financial year, Uchumi returned a profit of Kshs 106 million against a loss of Kshs 257 million the previous year marking a turnaround of Kshs 356 million. This study was set out to establish and document the turnaround strategies adopted by Uchumi Supermarket Ltd (under receivership). The objectives of this study were to determine the main causes of business decline at Uchumi Supermarket Ltd. and to establish the turnaround strategies employed by Uchumi Supermarket Ltd (under receivership). The research was a case study which utilized primary data collected through personal interviews. Secondary data also was used to supplement the primary data. Content analysis was used to analyze the data collected. The analysis showed that the company had faced by various problems ircluding high amounts of unpaid debts, unplanned expansion projects, conflict of interest among the board members, cash flow imbalances, corruption, lack of operating capital, low price competition and monopolistic mindset. The interim management team put together Uchumi Recovery Plan which included a combination of turnaround strategies to rescue the company from total collapse. These strategies included recapitalization, cost management, improved customer service, maximization of sales revenue and business reorganization and restructuring. The study concluded that for a successful turnaround to occur a combination of turnaround strategies should be implemented together depending on the causes of business decline. Company stakeholders play a major role in the revival of the business and when a firm is faced by performance crisis it should consider replacing the existing top managers and hire an experienced managerial team to steer the turnaround process.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholders' expectations (Johnson, Scholes & Whittington 2005). This definition brings fourth a number of pertinent issues. Firstly, strategy guides the organization to certain known direction which has specific boundaries. Secondly, strategy is long term in nature therefore it has a higher percentage of risk due to uncertainties related to the future. It also ensures that a company position itself correctly by having a strategic fit between its resources, competences and a changing environment. According to Johnson et al (2005), a company's performance declines when strategy progressively fail to address the strategic position vis-a-vis the environmental changes. The definition captures the importance of fulfilling the stakeholders" values and expectations because they have power to influence the running of a company.

1.1.1 Turnaround Strategies

Turnarounds are type of strategies required in cases where firms worth rescuing go into crisis and they are experiencing drastic performance decline (Thompson and Strickland, 2003). Strategic managers believe that such firms can survive and eventually recover if concerted effort is made over a period of time to fortify its distinctive competences (Pearce II and Robinson Jr, 2002). Situ- a (2006) ascertained this fact by pointing out

that turnaround strategies form a basis of coordinated and sustained efforts directed towards achieving long term business objectives for firms in crisis.

Although turnaround tactics are seen as 'rategies they reverse the normal time horizons of corporate business strategies. Insect of identifying long-term goals first then itemizing short-term goals needed, the firm implements short-term strategies to give it ?. chance of having the long- term strategies implemented. In a turnaround strategy the emphasis is on speed of change where pid reconstruction is required and with its absence a business could face closure, enter terminal decline or be taken over (Johnson et al. 2005).Therefore turnaround strategies are short-term guidelines for a firm to check the declining performance and re-direct the firm to a positive growth.

Firms undergo performance decline due to various reasons which may be internal or external to the firm. Economic recession, production inefficiencies, unplanned investment, fraud and poor financing are some of the factors which can put a firm in crisis (Situma2006). According to Aaker (1998) many strategies are available to a firm to revive itself from decline in performance depending on the firm's strengths. Companies have in the past focused on downsizing, restructuring, redeploying assets and reducing costs as measures of improving performance but most have or will soon come to the point of diminishing return. Aaker (1998) points out that emphasis on growth strategies instead of cost reduction is the most reliable way to revive a company from its death bed.

Growth can be achieved by increasing market share, increasing product usage and developing or improving the product f'or an existing market. A key consideration in

product or market expansion is determined by whether synergy within the company business environment can be created (Aaker 1998).

The role played by the chief executive is crucial in any successful turnaround. Khandwalla, (2001) points out that most successful turnarounds are where the chief executive creates consensus for change vis-a-vis major stakeholders setting the direction of change through the diagnosis of the sickness, creating momentum for change by actions that galvanize the staff and catalyzing numerous levels in the organization.

Turnaround in mature and competitive business environment is not an easy task and not all turnaround cases are successful. Actually after studying two hundred and sixty cases of turnaround trials, Hambrick and Schecter (1983) noted that only fifty six had managed to recover over a four year period. Turnaround failures present harsh realities of liquidation of firm's assets in an effort to return some capital to shareholders, creditors and financiers.

1.1.2 Retail Industry in Kenya

The retail industry comprises of establishments engaged in retailing goods or services, generally without transforming the physical nature of the product except bulk breaking. The role of retail traders in a market-based economy is to serve as "middlemen" between the suppliers of goods and those who purchase the goods for final consumption ("Trade Sector Report" 2008).

Like many other developing markets, the retail industry in Kenya is highly fragmented with an estimated 120,000 shops. It is estimated that the three quarters of all retail shopping is transacted through small single shops and kiosks spread across the country

while the remaining quarter is covered by numerous supermarkets ("As Merali Snaps," **2006).**

1.1.3 Uchumi Supermarket Ltd: Unde. Receivership

Supermarkets in Kenya have grown from a tiny niche market in 1990 to 20% of urban food retail today. According to Nielsen (2002), supermarkets are self-serving stores handling predominantly food, drug and fast moving consumer goods with at least 150m of floor space. By use of the above parameters there were two four hundred supermarkets in Kenya as of 2007 (Kamau, 2007). The major supermarket chains in Kenya include Nakumatt, Uchumi, Tuskys and Ukwala whose outlets are concentrated on major towns such as Nairobi, Mombasa, Nakuru, Kisumu and Eldoret. Uchumi estimates its market share to be 5 per cent of the entire retail industry and 20 per cent of the supermarket market share (Neven et al, 2005).

Uchumi Supermarket Ltd.is a public limited company incorporated in 1975 under the Companies Act. Its main objective was to have an enterprise for equitable distribution of essential commodities, affordable prices whilst creating an outlet for the local manufacturers. In 1976 under Standa SPA management Uchumi opened three branches with the Market Branch being the first. In the 1990's Uchumi spearheaded the hypermarket concept in Kenya with specialty shops within the supermarket floor. It also emphasized growth away from city center focusing instead on the residential shoppers.

In early 2000s Uchumi started to experience financial and operational difficulties occasioned by a sub-optimal expansion strategy coupled with weak internal control systems. This resulted in a marked diminution of the Company's resources which

culminated in its inability to meet its obligations on an ongoing basis. Initial restructuring of Uchumi did not forestall the deteriorating performance of the Company. As a result, on 31 st May 2006, the Board of Directors resolved that the Company ceases operations and on 2nd June 2006, the Debenture Holders placed the Company under receivership. Simultaneously, the Capital Markets Authority (CMA) suspended the Company's listing on the Nairobi Stock Exchange (Uchumi Supermarket Ltd 2008a).

Following a framework agreement between the Government of Kenya, suppliers and debenture holders, the company was revived and commenced operations from 15th July, 2006 under Specialized Receiver Manager and interim management. By the end of 2008 financial year, Uchumi returned a profit of Kshs 106 million against a loss of Kshs 257 million the previous year marking a turnaround of Kshs 356 million. (Uchumi Supermarket Ltd 2008 b)

1.2 Statement Of The Problem

A firm may be said to be in decline when it experiences a resource loss sufficient to compromise its viability (Cameron *et al.* 1987). In counterpoint, turnaround may be considered to have occurred when a iirm recovers adequately to resume nonnal operations, often defined as having survived a performance crisis and regained sustained profitability (Barker and Duhaime 1997; Pearce and Robbins 1993).

Uchumi Supermarket ltd, one of the leading retail chain in Kenya faced both internal and external challenges which resulted to financial and operational difficulties occasioned by a sub-optimal expansion strategy in the early 2005. This led to depletion of company

resources to the extent that it could not meet its obligations to the stakeholders. However following a turnaround effort commencing in July 2006, significant growth has been noted. According to the company biannual financial report for the year 2008, Uchumi Supermarket posted a profit of Kshs 106 million against a loss of Kshs 257 million the previous year marking a turnaround of Kshs 356 million.

Although various turnaround management studies have been done in other countries, very few have been conducted on Kenyan companies. Yawson (2005) studied the performance shocks, turnaround strategies, and corporate recoveries: the Australian experience while Falkenberg, Chong, and Prinz (2005) focused on asset and cost retrenchment in turnaround strategies -a large-sample study of corporate responses to the Asian crisis in Singapore. Rasheed (2005) studied turnaround strategies for declining small business: the effects of performance and resources concentrating on United States of America. In Kenya, Situma (2006) studied the turnaround strategy adopted at Kenya Commercial Bank but no research has been done on turnaround in supermarket sector. Pearce and Robinson (2007) noted that strategy employed should be sensitive to contextual factors and time.

This study was therefore set out to establish and document the turnaround strategies adopted by Uchumi Supermarket Ltd (under receivership). The research answered the following critical questions. What were the main causes of business decline at Uchumi Supermarket Ltd? What strategies were employed to turnaround the decline?

1.3 Objectives Of The Study

The objectives of this study were:

i) To determine the main causes of business decline at Uchumi Supermarket Ltd.

ii) To establish the turnaround strategies employed by Uchumi Supermarket Ltd (under receivership).

1.4 Significance of the Study

The study was significant to Uchumi Supermarket Ltd management as a monitoring tool to measure the succcss of die various turnaround strategies employed.

It was of importance to other retail industry players who may be experiencing decline in their organizations and would like to borrow ideas from the Uchumi Supermarket ltd turnaround process.

To the academic fraternity the study added knowledge to the fields of strategic management and for the researchers it ga^ e an insight on areas for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter looks at the theoretical and the academic works that have been written by various authors on the subject of turnaround management. It focuses on the literature about turnaround strategies proven to revive companies from crisis. It discusses a range of causes and signals of business decline. Finally the chapter concludes with the stages of turnaround process.

2.2 The Concept Of Turnaround Strategy'

Khandwalla (2001) defines turnaround as the recovery to profitability from a loss situation. The overall goal of turnaround strategy is therefore to return an underperforming or distressed company to normal in terms of acceptance levels of profitability, solvency, liquidity and cash flow. However Meridian Group (2007) points out that a turnaround should be pursued when the value of the turnaround is more than the value of liquidation or the value of the business on a distressed sale basis. The nature of change in a turnaround process is described as a big bang by Johnson, et al. (2005) where emphasis is on the speed of change and rapid cost reduction accompanied with revenue generation.

According to Corporate Renewal Solutions Limited (2007) turnaround strategy is based upon three major components namely managing the turnaround, stabilization of the distressed company and funding or recapitalisation. Managing the turnaround is divided into stakeholders' management and turnaround project management. Without a leader and aligned leadership team who can mobilise the organization around a compelling

turnaround ambition and enforce the strategy, the turnaround is unlikely to get off the ground. Johnson, et al. (2005) points out that the turnaround leader ideally should be new backed with turnaround management experiences enabling him or her to win stakeholders confidence and bring in a different approach to the way the organisation operates. Stakeholders' management en;oils advocacy to retain or regain stakeholders support through proper communication and consultation. While turnaround executions remains part of managers day to day job, it is best managed as a project so as to focus attention on the task at hand (Corporate Renewal solutions limited 2007). Rigorous project management is required to ensure that work streams meet their cost, time and resource targets.

The second component comprise of stabilising the distressed company by securing the short term future of the business. Discipline is require to handle the complexities of timing, resources required and cost associated with the various activities constituting the planning and execution of the turnaround. The third component consists of funding. A distressed company typically faces a number of financial issues. It requires funding to met both its short term commitments during the crisis time and also to cover turnaround restructuring cost. Such funding may Include working capital for trade creditors, reconstruction costs for professional services and retrenchment. The balance sheet has to be restored to avoid insolvency and some of the excessive gearing need to be correctcd. Refinancing therefore involves not only the injection of new funds in the form of loan or equity finance but also changing the existing capital structure per se (Corporate Renewal Solution Ltd 2007).

2.3 Causes Of Business Decline

According to European Federation of Accountants F.E.E. (2004) causes of business decline may stem from the external environmental and from factors internal to the business. Internal causes of business decline may be foreseen in advance while external causes are not so predictable. Negative performance occurs when external environmental elements change rapidly and the business is unable to react to these changes.

Several authors have identified seven internal causes of business decline. According to Thompson and Shah (2006) when a manager cannot face up company issues promptly, then the business will be overwhelmed and eventually decline. This can be attributed to the management lack of skills, experience and competences to make specialised decisions. Failure of the management to ensure that problems are identified promptly and the correct solutions applied may lead the company to crisis.

Poor accounting and decisions based upon inaccurate financial information can actually cause problems which may threaten the solvency of the business. Misleading accounting information blinds the management to the problems a company is facing or recognise them too late. Decision made from this information would be inappropriate causing a decline in business performance (Corporate Renewal Solutions Limited, 2007).

Substandard cash flow management is the imbalance between the payment terms taken by debtors to those given to creditors due to inadequate management of inventory and work in progress. The most common outcome of a defective cash flow management is a

decline in liquid assets thus the business is unable to pay its obligations such as loans and suppliers of goods and services. Eventually the firm lacks the working capital to run to day activities (European Federation of Accountants F.E.E. 2004).

Bibeault (2006) points out that weak financial function may appear throughout the company as a general phenomenon, resulting in inadequate financial and accounting control. An extreme reliance on loan finance can test the company's cash flow position leading to excessive obligations for the firm to repay capital and associated interest. Unsuitable financing options results in *au>* inconsistency between the liquidity of assets and the sources of financing; that is financing short-term asset with long-term loans instead of short-term debt.

Excessive reliance on only one customer or one supplier poses very high risks to a business. In the event the only customer withdraws orders the gross margin will drop drastically and whole future of the businc .s is put at risk as there may be no market for its products. Sudden supply failure will put the business in danger because there may be no alternative source of supply ("Management Turnarounds," 2003).

Market research is required to help businesses to identify their customers and inform them of the potential of the customer base. It suggest how demand for the product and services offered will change according the price change. Without such information the business may ran into a risk of producing the wrong products or in the wrong qualities leading to major loses in both cases (Bibeault, 2006).

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Corporate Renewal Solutions Limited, (2007) identified fraud and collusion as a cause of significant financial loss and reduction of business performance. Falsifying expense reports, collusion with suppliers to deliver lower qualities than indicated by the invoice or even supplying the major shareholders with inside information to give an advantage over others are all types of fraud which may force a business to crisis.

External causes of business decline cannot always be predicted since they involve extraordinary or unusual events happening in the region where the company operates: events over which the business has no influence. There three major external causes of business decline; economic recession, natural or manmade disasters and government policies (Boyne 2006).

A recession in the economy may lead to a sudden decline in the specific field of activity of the business. This can be indicated by decreasing purchasing power of customers leading to lower sales. Recession would load to low price competition thus loss of market share to the competitors. Substitute products often amount to change in buying patterns and preferences of customers thus loss of business (Boyne 2006).

Natural disaster such as fires, floods, terrorism and earthquakes may damage the business cash flow before the company obtain the indemnity from the insurance companies
Strict governmental measures may affect sectors of business activities and impose stringent burden on companies. International development may have similar effects (Jas & Skelcher 2005).

2.4 Signals Of business Decline

Early warning signs are generally abundant, however, human nature gets the better of us and business owners convince themselves that next year will be a better year without determining the root cause of the declining profits.

The first thing the managers notice is that the business bank account is on a steady decline and customers may start taking longer to pay back. The gross profit margins start to shrink and the net cash flow declines normally between nine and eighteen months before total business failure (Meridian Group 2007)

Another sign that a firm is heading to a crisis is the shortage of cash. This is characterised by late payments to creditors and suppliers so the vendors start having the company on cash-on-delivery basis. The bank account is overdrawn and the line of credit becomes exhausted. Payrolls go unpaid for a period of time which leads to an increase in the employee turnover. Managers start departing at a higher rate and there in an upsurge in employee tardiness and day offs. The quality and quantity of work decreases accompanied by unmet deadlines (Murphy and Meyer 2007).

The company's facilities appear to be run down and the overall cleanliness diminishes. The quality and standard of the tools an the equipments fall below the norm. On hand inventory levels exceed the normal supply levels and more importantly do not reflect the mix of product lines at the retail (Murphy and Meyer 2007).

2.5 Turnaround Strategies

Two categories of turnaround strategies are distinguished: operational vs. strategic turnaround strategies. Strategic turnaround strategies should be used to solve external problems, while operating strategies should be applied in the case of internal problems. Operational strategies focus on improvement of firm efficiency and therefore are closely related to retrenchment of non-performing assets and overly high cost factors. Both types of turnaround responses, however, may include asset- and cost-cutting elements, which are assumed to positively influence performance if closely tied to the assessment of current operating and strategic health of the firm (Hofer, 1980).

2.5.1 Operational Turnaround Strategies

The operational turnaround strategies are associated with the value chain. The Hofer model for selecting turnaround strategy (Appendix 1) indicates which operational turnaround strategies to employ with reference to how far the turnaround situation is from breakeven (Hofer 1980).

If the distressed company is operating in any of corridors A, B or C it needs a turnaround strategy to reach corridor D where returns at least equal the opportunity cost of capital. However, if the distressed company is operating in corridors B or C, it needs revenue enhancing strategies in addition to cost reduction. Finally, if the distressed company is operating in corridor A, it needs asset reduction strategies in addition to revenue enhancing and cost reduction strategies.

Revenue enhancement focuses on increasing sales through improvement of systems, processes and technology in the primary value chain activities as long as the distressed

company operate below breakeven (Hofer .1980). Customer management processes such as sales and marketing, and after-sales service are an essential parts of value chain to increase turnover through more effective sales force performance, new products, improved functionality and range of products, new markets and better promotion. Operations management processes also will increase performance on quality and lead time, thereby raising customer satisfaction through increased service delivery capability. Innovation processes such as research and development to increase the ability to offer the market new products (Corporate Renewal Solution 2007). Thompson, Strickland and Gamble (2007) indicates that main revenue building option includes price cuts, increased advertising, bigger sale forces, added customer service and quickly achieved product improvements. If customers are not price sensitive raising the prices is quickest revenue building strategy.

Cost reducing turnaround strategies work best when the ailing firms value chain and cost structure are flexible enough to permit radical surgery when operating inefficiencies are identifiable and readily correctable, when the firm's costs are obviously bloated and when the firm is relatively close to its break-even point. Cost can be reduced by pairing administrative overheads, eliminating nonessential and low-value added activities in the firm's value chin, modernization of existing plant and equipment to gain greater productivity, delay of non-essential capital expenditure and debt restructuring to reduce interest costs (Corporate Renewal Solution 2007).

A firm may opt to employ asset-reduction strategy which is essential when cash flow is a critical consideration and when the most practical ways to generate cash are though sale

of some of the firms assets and retrenchment by pruning of marginal products, closing older plants, reducing workforce and cutting back on customer services. Crisis ridden companies sell off non-core assets to raise funds and strengthen the remaining business activities (Thompson et al 2007). However, if the distressed company is too far below breakeven, working capital reduction, revenue enhancement and cost reduction strategies alone will not suffice. In this situation; the turnaround strategy is normally to shrink the business into profitability which involves closure or sale of business units, divisions, operations and assets, and outsourcing of value chain activities in order to focus on the remaining profitable or potentially profitable business units or sections of the value chain (Corporate Renewal Solution 2007).

Reorganisation deals with all the people issues in the business. It entails restructuring, restaffing, reskilling and turnaround leadership revitalisation to yield improved leadership, management, organisational structure, organisational alignment and culture. Reorganisation is invariably required to ensure success of the other turnaround strategies. Depending on the turnaround situation, reorganisation can be limited to leadership alignment, and better management systems for planning and control of the company. Often, however, the extent of reorganisation required goes as far as changes in top management and in the organisational structure (Lohrke, Bedeian and Palmer 2004). Some examples of recent appointments of CEOs are: Louis V.Gerstner Jr. at IBM; John F.Welch Jr. at General Electric; George * \C. Fisher at Eastman Kodak; and the late Roberto Goizuetta at Coca-Cola, all of whom have been performing superlatively with the companies they have joined (Srinivasan 2008).

2.5.2 Strategic Turnaround

Thompson et al. (2007) points out that if the declining performance is caused by bad strategy then strategic overhaul is needed. Strategic repositioning alters the mission and customer value proposition of the distressed company by changing what products are offered to markets and in which fashion. In doing so it changes the revenue - cost - asset structure of the business, yielding improved profitability and return on capital employed. It may execute this by growing, shrinl .ng or refocusing the business. For the single business unit business, strategic repositioning entails a compete rethink of why it is in business and how it is to achieve a sustainable competitive advantage. For the multi-business unit or multi-product line situation, strategic repositioning may additionally entail portfolio disinvestment to focus on the core business.

2.5.3 Grow th Strategies

Rasheed (2005) considered entrepreneurial moves which typically involve growth, as a turnaround approach. Two basic growth strategies are diversification at the corporate level and concentration at the business level. Ramanujam and Varadarajan (1989) defined diversification as the entry of a firm into hew lines of activity, through internal development or acquisition. Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion. Diversification can also be accomplished through external modes such as acquisitions and joint ventures.

Concentration can be achieved through vertical or horizontal growth. Vertical growth occurs when a firm takes over a function previously provided by a supplier or a distributor. Horizontal growth occurs when the firm expands products into new geographic areas or increases the range of products and services in current markets (Rasheed 2005).

Repositioning is an entrepreneurial strategy that emphasizes growth and innovation (Schendel, Patton, & Riggs 1976). This response to failure involves a new definition of the mission and core activities of an organization, by becoming more dominant in an existing market or by diversifying into new markets and products (Boyne, 2004). A strategy of repositioning through product innovation has recently been pursued by Marks & Spencer. In the 1990s it lost market share* in clothing to new high-street rivals that appealed to young shoppers (Bevan, 2002; Mellahi *el al.,* 2002).
Barker *et al.* (1998) find that growth in sales is followed by improvements in efficiency, Thietart (1988) shows that product differentiation and rebranding is associated with a bigger market share, and Stopford and Baden (1990, p. 410) conclude that turnaround success 'came from constant experimentation with new product offerings and new ways of making existing products'.

2.5.4 Combination Efforts

Combination of turnaround strategies is essential in grim situations that require tast action on a broad front. Likewise combination actions are evidenced when new managers are brought in and given a free hand to make whatever changes they see fit (Thompson et al. 2007).

2.6 Stages Of Turnaround Process

There is no standard model of how a cor.pany should respond to a decline because every situation is unique. However in most successful turnarounds situations a number of common features are present in any strategy adopted. They include recognition of need to change, evaluating the current situation of the firm, halting the decline, stabilising the company and recovery (Hill and Jones 2001). Howe (1986) identified five distinctive stages of turnaround process. The first stage is recognised followed by evaluation, emergency action, stability and finally re irn-to-growth.

The first stage of recognition involves the business recognising the full extent of its present problems. According to Slatter and Lovett (1999) warning signs such as declining margins and market share, adverse behavioral signs, loss of working capital and increase in unpaid debt are clear indicators of the extent of the firms problems. Howe (1986) points out that the issues identified have to be accepted as serious rather than minor, permanent rather than temporary and strategic rather than operational. Hills and Jones (2001) recognise that old leadership bears the stigma of failure thus they may not recognise the need of a turnaround hence it is essential to have new management at this stage.

Evaluation being the second stage in the turnaround process is an essential step to take prior to implementation of a new strategy despite the obvious time constrains. It involves as assessment of the difficulties, the dimension of the firms environment and resources which are responsible for the current situation. At this stage the key direction in which

the future potential success of the business lie is identified. According to Hawker (1996), development of turnarounds business pla is done at this juncture. This is a document
A
outlining the changes required to guide the turnaround process. It is also used to inform and persuade all the firms' stakeholders of the need of new strategies.

The next stage is activating emergency actions which involve staunching the rapid deterioration of the company performance. Emergency actions include dramatically minimising cash outflow and maximising cash inflow; that is reducing current expenses and realising cash from surplus assets. These remedies however are used in a situation in which the short term has to take priority over the long term. At this stage cash flow is more important than profitability (Howe 1986).

Once the emergency action has ensured its current survival, the business can turn to the forth stage of stability. This is the activity of returning the remaining business to profitability, maintaining pressure on all expenditures and considering the future of the organization. Scherrer (2003) identified two elements of this stage being financial restructuring and customers refocusing. Recreating a budget and strictly enforcing it in the start point of financial restructuring. Standard costing estimates are replaced by actual costs of the business. Bottom up budgeting is needed to determine the actual costs of running the business and to act as an accountability tool to keep management within absolute financial boundary. The second element of ensuring that the firm is stable is identification of the most profitable customer segments and concentrating the company's sales and marketing efforts on them. Howe (1986) indicates that at this stage the firm

realigns itself to its environment in the light of its resource assessment at the same time the turnaround management team should make strategic decisions which will ensure the company is on its way to recovery.

The turn to growth phase in the turnaround process involves strengthening the balance sheet of the organisation and generally preparing for selective additions to the firm's activities designed to enhance profits and sale at an acceptable degree of risk. This stage is characterised by an increase emphasis on cash flow. According to Corporate Renewal Solutions Limited (2007) energy is shifted slowly from saving the organisation to building it. At this point the turnaround management team or leader can pass the baton to someone new to head the stabilised company as it return to normal.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology used to conduct the research. It discusses the research design and data collection method utilized. It identifies the respondents, the type of data collected and how it was analysed.

3.2 Research Design

The research was a case study of Uchumi Supermarket Ltd (Under Receivership). It involved an empirical investigation of the firms turnaround strategies adopted by the company. A case study involved a careful and complete observation of a social unit such as a person, family, institution, cultural group or a community and emphasized depth rather than the breadth of the study (Cothaii 2000). The design was appropriate because it gave an in-depth understanding and deep contextual analysis of the subject. This method was successfully used by Situma (2006), Ndope (2007), Adoyo (2005) and Rukunga (2003).

3.3 Data Collection

The research utilized primary data which was collected by way of personal interview directed by a semi-structured interview guide consisting of open-ended questions. This ensured that the respondents gave as much information as possible and also provided an opportunity for the researcher to pr~.be further. Secondary data from Uchumi Supermarket Ltd (Under Receivership) published financial reports was collected to

supplement the primary data. The respondents were drawn from the interim management team of Uchumi Supermarket Ltd (Under Receivership).

3.4 Data Analysis

Content analysis was used to analyse the data collected. Mugenda and Mugenda (1999) described this analysis method as a systematic qualitative description of the composition of objects or materials of the study. The meaning and implications emanating from the respondents information was presented in the report.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter covers the analysis and interpretation of the data collected. The causes of business decline at Uchumi Supermarket ltd (under receivership) are identified. The chapter focuses on the turnaround plan adopted by Uchumi and the turnaround strategies the company implemented. Finally the indicators of Uchumis' turnaround success and major challenges it faced during the turnaround process are pointed out.

Using content analysis six concepts were indentified within the text of the interview conducted at Uchumi Supermarket Ltd (under receivership). They included causes of business decline, signals of business decline, the turnaround plan, turnaround strategies, indicators of turnaround success and the challenges of the turnaround. Through conceptual interpretation, various aspects were categorized under the specific concepts and they were coded for existence by hand. The coded aspects were examined and conclusions drawn for each aspect. Relevant secondary data was utilized to validate several concepts.

4.2 Respondent Profile

The respondents in this case were the members of Uchumi Supermarkets Ltd (under receivership) interim management team. The team was made up of three specialized members who were appointed through a framework agreement between the Government of Kenya, suppliers and debenture holders of the company. The interim management team was involved in spearheading change and implementation of the turnaround strategies.

43 Causes of Business Decline

Business at Uchumi Supermarket Ltd declined because of a number of reasons mainly internal to the company. Unplanned investment programs were some of the main reasons why Uchumi supermarket Ltd was face' with cash flow problems. The company embarked on botched expansion projects where numerous branches where constructed and opened in the early 2000s. This tied up most of its capital in brick and mortar. Further more, it bought expensive operational technology which required more funds to implement. These two investments forced the company to borrow heavily. By June 2006, Uchumi Supermarket Ltd owed creditors, suppliers and other service providers debt estimated at Kshs 2.2 billion. This large debt portfolio triggered a chain of reactions. The company failed to meet its financial obligations to the creditors and suppliers. The creditors took Uchumi to court and the suppliers stopped to deliver their products. Consequently the outlets shelves started to lack the essential goods which led to I customers opting to shop at other supermarkets thus reduction of revenues.

Conflict of interest among the company's board members played a major part in the decline of Uchumi Supermarkets performance. Some of the board members doubled as major suppliers of the chains merchandise. They influenced the type of stock to be supplied and the prices to favor their interests. This lead to heavy stock holding of imported products contrary to the company main objective of providing an outlet for locally manufactured goods.

Corruption at various levels within the organization contributed to performance decline at Uchumi Supermarkets Ltd. Many branches opened only to facilitate real estate deals in which some board members and management had interest instead of the most favorable

deal for the company. At branch level, heavy losses were as a result of pilferage by the staff.

Monopolistic mindset and culture within the employees of Uchumi Supermarket Ltd also lead to loss of customers. For a long time since its inception in 1975, Uchumi Supermarket Ltd was the market leader with a loyal customer base due to its affordable prices of essential commodities. This lead to employees' laxity when it came to customer service techniques even after other players entered the market. The competing supermarket chains exploited this weakness by training their frontline employees in high level customer service etiquette. Nakumatt supermarkets introduced home delivery services for large purchases and greeting customers as they entered their outlets. As a result, a percentage of Uchumi customers were lost to other supermarkets chains.

Human Resource department faced a number of challenges which contributed to poor performance of the company. Due to an influx of new supermarket chains in late 1990s and early 2000s, many Uchumi Supermarket Ltd highly qualified and experienced staffs were poached by competitors. The high staff turnover rate forced the human resource department to recruit often and had limited time to train hence the quality level of the staff declined rapidly. This also increased the company recruitment and training costs thus reducing the overall profit margins.

Low price competition was one of the external factors which influenced negatively Uchumis' performance. Competing supermarket chains stocked cheaper imported products hence their prices were significaiitlv lower. An example given by the Managing

Director was that of rice one of main commodities sold at its outlets. Other supermarkets imported cheaper rice from Asia while Uchumi stocked locally produced rice whose cost was higher. This enabled the competitors to sell at a lower price thus attracting some of Uchumi's customers.

Change of customer buying behavior took Uchumi by surprise. The customers wanted an outlet which could provide most of the products under one roof. Uchumis' rivals took advantage of this behavioral pattern and stocked a wide range of products in their outlets which attracted large numbers of shoppers. Uchumis' main objective was to stock essential products therefore this change worked against the company. Kenyan shoppers were spending more hours in supermarkets so the competing companies realized this and provided lighting, ambiance and attractive presentations to convince shoppers that they were having a good time.

Several signs of business decline at Uchumi Supermarket Ltd were noted since the 2001. The company recorded loss for five consecutive years from 2001 with a Kshs 1.2 billion loss incurred in the year ending June 30th 2005. Uchumis' inability to meet its financial obligations to suppliers, lenders and other service providers was also an indicator of cash flow problems. By May 2006, Uchumi Supermarket owed K.C.B and P.T.A. bank Kshs 956 million, suppliers Kshs 975 million and others Kshs 246 million. Other signs of business decline at Uchumi supermarket Ltd were high employee turnover rates, decrease in the number of customers and the closure of its ten branches countrywide by May 2006. The final indicator of poor performance was when the Capital Markets Authority suspended the company's listing at the Nairc-d Stock Exchange on 3 1^{sl} May 2006.

4.4 The Turnaround Plan

Uchumi supermarkets Ltd (under Receivership) turnaround was managed through an interim management team consisting of a specialized receiver/ managing director, operations manager and a purchasing manager. The three were responsible for computing a turnover plan and leading the company 'throughout the receivership period. In July 2006, the interim management team unveiled a five stage turnaround plan titled Uchumi Recovery Plan (U.R.P) whose implementation timeline was three years. In this plan, the first stage was revival followed by survival, then synergy, profitability and finally the growth stage.

The main objectives of the revival stage vere to generate cash and to open all Uchumi outlets within three months. To attain these objectives, Uchumi supermarket Ltd (under Receivership) secured a Kshs 675 million loan from the Government of Kenya as a rescue fund. The interim team mobilized supplies worth Kshs 500 million from sixteen branches to enable it to restock five branches within Nairobi which were opened on 15th July 2006, one weak-after the team took over the management. Employees were recruited and hired while suppliers were issued with local purchasing orders.

The second stage of survival was aimed at stabilizing the company's financial position through negotiations with the main stakeholders. Uchumi Supcmiarket Ltd (under receivership) came to an agreement with 'ts lenders to reduce the corresponding rate of interest and reschedule the repayment of loans to a more favorable time frame. They agreed to give a 12 month moratorium to the principle loans held by Uchumi. The suppliers also agreed to stagger the payment plan for the amount owed to them on

condition that new supplies were paid on time. The shareholders were expected to inject Kshs 300 million through debenture sak bui it only raised Kshs 134 million in 2007.

The synergy stage of Uchumi recovery plan concentrated on pulling together the inputs of various stakeholders to check the business decline and steer the company to positive performance. All employees were involved in the atomization of the plan by development of measurable and tangible targets related to their areas of work. The branch managers monitored and measured the performance in short intervals where small wins were recognized and celebrated. Communication of the U.R.P progress was done frequently through meetings, press releases and regular reports to gain support from the parties involved. In an effort to regain customer loyalty, Uchumi re-launched itself as a patriotic brand where Kenyans where called upon to save the company by choosing to shop there. Profitability stage itemized plans to increase the revenue and reduce costs. To attain maximum revenue, Uchumi drew up sales targets for each branch which were continuously monitored. Strict cost management regime was implemented with the aid of new cost control systems. At this stage all internal resources were to be stretched to gain more value. The profitability stage had been attained by December 2008 when the company recorded a profit before tax of Kshs 69 million. (Uchumi supermarkets Ltd under receivership 2008)

The final stage in U.R.P is growth stage where the interim management team planned the restructuring of the balance sheet through equity. The company debt carrying capacity was to be lowered by implementing alternative financial options. Uchumi is

implementing this stage by appealing the debenture holders to convert their debentures to equity.

4.5 Turnaround Strategies

Several strategies were adapted by Uchumi Supermarket Ltd (under receivership) with the argument that for turnaround to be successful the turnaround battle should be fought at all fronts.

Recapitalization was the first and the most crucial turnaround strategy to enable Uchumi survive and grow. By June 2006 the company had no operating capital. According to the Managing Director Mr. Jonathan Ciano, when they started the rescue plan the company was in such bad position that they could borrow money to give change to customers. The first step towards recapitalization was the Kshs 675 million loan the company received from the Government of Kenya as a rescue fund. This enabled Uchumi open five branches, recruit staff, pay a percentage of the suppliers' dept and started to restock.

There were three options to recapitalize Uchumi supermarket Ltd (under receivership). First option was to request the debenture holders who included K.B.C, P.T.A, Government of Kenya and suppliers to convert their debentures to equity. This received negative response since they were not certain of the viability of the company at that moment. The second opinion was to bring on board a strategic equity partner. This alternative was confronted by the prevailing global financial and economic crisis. The company found it difficult to attract an investor with strong financial input of at least one million dollars and sufficient experience in retail business. The third capitalization option was to invite the stakeholders to inject more funds through debenture sales. An attempt in

2007 raised Kshs 134 million and currently the company is in the process of raising additional equity through 10% converts b.e shareholders debenture which is expected to raise Kshs 400 million. The funds raised would simultaneously address the negative shareholders fund of Kshs 125 million and settling the remaining long-term debt. During the shareholders meeting on 28lh July 2009. it was agreed that if the shareholders will not able to raise the required Kshs 400 million, then the Government of Kenya will convert its loan to equity.

Reorganization and restructuring of Uchumi were also turnaround techniques used to yield improved leadership and management. New highly qualified departmental and branch managers were hired. The company also embarked on restarting, reskilling and continuous employee development training program to enhance positive performance at different levels of the organization. The interim management team introduced a new business model where the branches were viewed as distinct business entities that were expected to stand on their own. This ensured that branch managers were fully responsible for the outlets performance and were answerable to the interim management committee. The new model enabled the management to identify the most profitable outlets.

Uchumi supermarket Ltd (under Receivership) also implemented cost reduction as a turnaround strategy. The first step was to close down six franchised branches including Kisumu, Railways, Market, Taveta road. Temple road and Kahawa wendani. Mombasa, Nakuru and Kisii branches were also sh. down due to high operational costs and low sales. The workforce was reduced to three quarters of pre-receivership level of one thousand five hundred. According to Uchumi supermarket Ltd (under receivership)

2008/2009 commentary, the management implemented strict operational cost control measures which enabled the operating cost: net revenue ratio to improve since receivership. In 2006/2007 the ratio was 23.7%, 2007/8 it was 18.8% and 2008/9 was 17.2%. As a result of prudent cost management, profit after tax increased from operating loss of Kshs 257 Million in 2006/7 to profit of Kshs 95 million in 2007/8 and Kshs 421 million in 2008/9. (Uchumi Supermarket Liti under receivership 2008). The agreement to restructure the loans from Uchumis' creditors, resulted in reduction of corresponding interest costs.

The Uchumi interim management team agreed that customer service was their greatest strength. They therefore implemented improved customer service strategies to win back their customer loyalty. The company re-teunched the Uchumi brand as a Kenyan "child" and based it on the theme of patriotism in a bid to attract all Kenyans. It used slogans such as "Buy Uchumi Build Kenya" and "Tujenge Uchumi Yetu, Asante Wakenya" to cultivate the feeling of ownership among its customers. Front line staffs like floor stewards were trained on modem custom,.' service techniques like knowledge of all stocked items and the layouts of the outlets. The company introduced smart cards in which customers gained points for the purchases they made. This enticed customers to shop at Uchumi Supermarkets so as to redeem the accumulated points.

Maximizing of sales revenue was another turnaround strategy adopted by Uchumi supermarket Ltd (under receivership) The floor stewards developed meaningful and tangible sells targets while branch managers set revenue targets per month which are monitored keenly. Joint marketing promotions with other companies increased sales at a

lower marketing cost. For example, Uchumi held a joint sales promotion with Rickitt and Benkiser where customers were rewarded after purchasing household products. Opening the new branch at Thika road increased he overall sales revenue.

4.6 Indicators Of Turnaround Succcss.

There were various indicators of successful implementation of turnaround strategies. The most notable was the increase of profit after tax from an operating loss before the receivership. In the financial year 2006/7, Uchumi incurred an operating loss of Kshs 257 million, the year 2007/8 it earned a profit after tax of Kshs 95 million and in 2008/9 a profit of Kshs 421 million. Consequently the earnings per share grew from a loss per share of Ksh 1.43 in 2006/7 to Ksh 0.53 in 2007/8 and currently at Ksh 2.34 (Uchumi Supermarket Ltd under receivership 2008).

The customer numbers increased from 1? million in the 2007/8 financial year to 16 million in 2008/9. This lead to increase in sales revenue from Kshs 3422 million to Kshs 4432 million in years 2007/8 and 2008/9 respectively (Uchumi supermarket Ltd under receivership 2008).

The debt portfolio has significantly reduced from the pre-receivership amount of Ksh 2.2 billion. Debt owned to pre-receivership suppliers had been cleared and the current suppliers are paid within thirty days after delivery. The managing director stated that the company had been paying Kshs 10 million every month to its creditors KCB and P.T.A. Bank from the previous Kshs 7 million. Uchumi has paid Kshs 775 million loan plus interest since it re-opened on 15th July 2006.

Current assets grew from Kshs 900 million in 2007/8 to Kshs 1062 million in 2008/9. Of this cash and cash equivalents were Kshs 116 million in 2007/8 and Kshs 128 million in 2008/9 (Uchumi Supermarket Ltd under receivership 2008).

4.7 **Major Challenges to the Turnaround.**

The ongoing global economic and financial recession was a major challenge especially when Uchumi supermarket Ltd (under receivership) was looking for a strategic equity partner. Most potential investors were skittish over the viability of Uchumi during recession and in a market brimming with competition.

Uchumi was also faced by negative image and attitude among its stakeholder and the public in general. This weakened its turnaround efforts since most potential customers were still skeptical on the quality of services and products they would find. The interim team has for the last three years put significant effort to clean up the brands image.

During the Uchumi recovery period, bigger retailers had developed new products and services which are more appealing to the customers. For instance its major competitor Nakumatt Supermarket chain introduced twenty four hours shopping concept and home delivery services but Uchumi lacked the capital to venture into such concepts.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Uchumi Supermarket Ltd underwent continued deteriorating performance since the year **2001** and by May 2006 it could not meat its financial obligation to its creditors, suppliers and other service providers. The Board of Directors resolved that the company ceases operations on **31st** May 2006. Uchumi was placed under receivership with a specialized receiver manager and an interim management team leading the turnaround efforts. The company was faced by various problems including high amounts of unpaid debts, conflict of interest among the board members, cash flow imbalances, corruption, monopolistic mindset, low price competition, lack of operating capital and low stock levels.

The interim management team put together Uchumi Recovery Plan which included a combination of turnaround strategies to rescue the company from total collapse. These strategies included recapitalization, cost management, improved customer service, maximization of sales revenue and business reorganization and restructuring.

The turnaround was a collective effort from all stakeholders led by the specialized receiver manger. The creditors agreed to restructure the payment timetable of the outstanding debt, the Government of Kenya injected Kshs 657 million as a rescue fund and the shareholders agreed to add more capital to the company. The employees worked as a team to increase the sales revenues.

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5.2 Conclusions and Recommendations

The research findings show that Uchumi addressed the causes of business decline and successfully implemented turnaround strategies as they were stipulated in the Uchumi Recovery Plan.

The findings of also suggests that for turnaround to be successful there is need to pursue more than one strategy at any given time. This is attributed to the fact that the causes of the decline are diverse and may be a combination of both external and internal business environmental forces as in Uchumi Supermarket Ltd findings. To check the decline and turnaround the company, Uchumi implemented a combination of different strategies available. I would recommend that for any firm faced with decline due to a number of causes, it should pursue more than one turnaround strategy to redirect company towards positive performance.

The role played by the stakeholders is very important for a company implementing turnaround strategies. Being the major shareholder, Government of Kenya helpec Uchumi survive the crisis by injecting a rescue fund which eased the cash flow problem the company was experiencing. Other shareholder agreed to a recapitalization plan through sale of their debentures. K.C.B and P.T.A bank restructured their loan payment time table to give the company time to recover. The employees played the most important role of implementing the turnaround strategies. I would recommend that companies undergoing turnaround should keep a positive relationship with its stakeholders through meetings, training, press releases and reports to cultivate ownership of the process. They should also celebrate small wins frequently to gain stakeholders confidence.

The role of top management in a turnaround is of high importance. Uchumi supermarket Ltd (under receivership) was managed by an interim management team which consisted of the Managing Director and two other members all who had vast experience in turnaround management. This change of top management brought in new ideas and a fresh outlook to Uchumi resulting to a successful turnaround. Therefore I recommend that whenever a firm is faced by performance crisis and it desire to achieve a positive turnaround, it should consider replacing the existing top managers and hire an experienced managerial team to steer the turnaround process. The company can also contract consultants for the turnaround period.

5.3 Implications to Policy and Practice

The study identified causes of business decline and the signs to look out for in order to check negative business performance weli in advance and avoid total collapse of a firm. Conventional financing methods such as bank loans, asset-based deals and strategic partnering do not work for a company in crisis as seen in the case studied because no one will invest in a company that is in freefall. The best place to get financing is from internal operations through cost cuts, and sale of receivables. Stretching suppliers and creditors to restructure their payment plans gives a company in crisis time to stabilize. The study also noted that self financing for companies in distress is a likely option. This was demonstrated when Uchumi Supermarket Ltd (under receivership) called upon its shareholders to raise needed capital in 2007 and 2009.

The research insinuated that for turnarounds to be successful companies should make it a policy to combine various strategies together addressing different causes of business decline.

5.4 Limitation of the Study

Case study design was used therefore the research findings cannot be generalized for other firms.

The study was carried out with the help o^r predetermined questions which would have limited the respondents from freely expressing their views.

The study was carricd out within a short time and with limited resources. This constrained the scope as well as the depth of the research.

5.5 Suggestions for Further Research

A cross sectional survey could be carried out for a longer period allowing the findings to be generalized.

Further research can be carried out on the relationship between different turnaround strategies to come up with a turnaround model which can be applied in different companies.

The role of top management in companies which have implemented successful turnaround can be analyzed to come up with essential characteristics of a turnaround leader.

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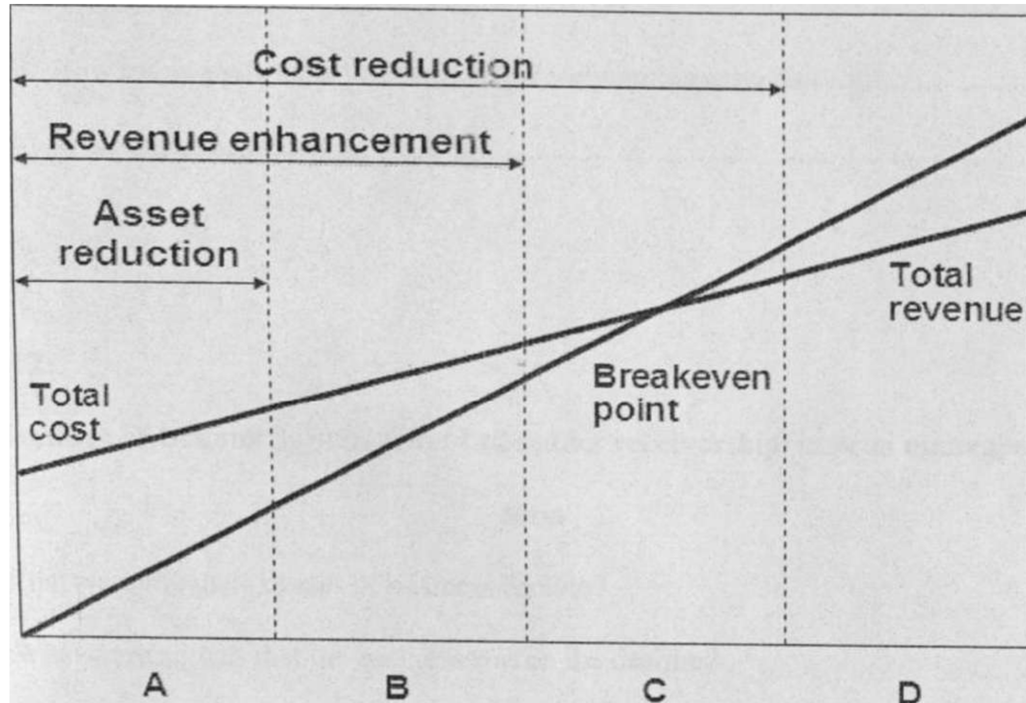
APPENDIX 1: THE HOFER MODEL FOR SELECTING TURNAROUND STRATEGY

Hofer model



Source: Hofer, C. W. (1980). Turnaround Strategies. *Journal of Business Strategy,* vol.**1,** pp. 19-31.

APPENDIX 2: THE INTERVIEW GUIDE

Part 1: General Information

1. The name of the respondent (optional)
2. What is your position in the company?
3. How many years have you worked for Uchumi Supermarket Ltd?
4. What department do you work in?

Part 2:

Members of Uchumi Supermarket Ltd (under receivership) interim management team

a) What were the main causes of business decline?

(b) What were signals that the business was on the decline?

(c) What turnaround strategies did you put in place?

(d) What implications did these turnaround strategies have on the company?

(e) What challenges did the turnaround process face?

(f) How was the turnaround planned?

(g) How were other employees involved in the turnaround?

(h) How was the turnaround managed?

(i) What are the indicators of the turnaround success?

(j) What mechanism did you put in place to ensure continued success of the turnaround?

(k) Where do you see Uchumi Supermarket Ltd in the next five years?

APPENDIX 3: LETTER OJQNTRODUCION

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
A PROGRAM - LOWER KAfIETE CAMPUS

Telephone: 020-2059162
Telegrams: "Vursily", Nairobi
Telex: 22095 Varsitv

p O. o0x 30197
Nairobi Kcnva

DATE........AX?. . . . . a.Q.on.

TO WHOM IT MAY CONCERN

The bearer of this letter ...^.^.^.^M-?.;......^^.iRjj. . . . . .£

Registration No:.............*<?.!LIPp^ hI

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

tWWeHSITY OF NAIROBI

C/<L rUBox 30197
SIAIHOBI

DR. W.N. IkAKI
CO-ORDINATOR, MBA PROGRAM