

## Imbalances System Enterprise in Italy Case Study: Main Features of Yomo's Crisis <sup>[\*]</sup>

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### Abstract

*This article presents the most relevant Italian scientific teachings and an itemized analysis of the crisis of an important company: Yomo spa which, despite the fact that it first introduced yogurt in Italy, mismanaged strategies, marketing plans and production choices. The objectives of this paper will be achieved with some theoretical considerations based on a qualitative approach including an updated conceptualization of the literature review and references to one case study (Yomo spa). It describes some possible mismanagement of a medium-sized company and offers useful reflections to prevent new corporate crises. There are some practical and social implications: prevention of new corporate crises. prevention of depletion of economies, unemployment, reduction of the gross domestic product and the lowering of the living standards of the people.*

**Keywords:** Mismanagement, Crisis Enterprise System, Imbalances System Enterprise.

### ***1. Introduction, hypotheses and research questions: aims and structure of the paper***

For many years the dramatic international crisis has been affecting the major economic powers and perhaps Italy is slowly emerging; this event revives the theme of corporate instabilities. As a result of globalization, the current years are involved in the reorganization of the production sector because of the implications of the vast international crisis. The article points out the importance of economic and financial balance and, at the same time, specifies the possible causes of the looming decline that sometimes in the initial stages escapes the attention of top management bodies, but then appears suddenly when the crisis is already deep and has already caused irreparable damage. This paper investigates the Italian situation: first, there are references to thoughts of the best national doctrine, and then it focuses on a specific case which stimulates reflections.

This paper aims to answer the following questions:

- What are the most frequent causes of a corporate crisis?
- Has the external environment any impact on the balance of a company?
- What function can be due to a disruption?
- How you can predict and prevent a crisis?
- What are the most significant measures derived from the experience of Yomo spa?

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\* The paper is the result of a collaborative work. However, it is possible to attribute to Pietro Pavone: Yomo Spa: the company and its history; Yomo Spa: the crisis; Yomo Spa: strategies for the redevelopment and relaunch. The other sections are of Guido Migliaccio.

In particular, the objectives of this paper are:

- to emphasize the importance of a proper and balanced production of a productive, economic and financial management;
- to highlight how the environment can have a relevant impact on corporate goals;
- to spread imbalances, decline and crisis;
- to stress that the information system can constantly monitor the operating trends to predict and prevent imbalances, decline and crisis;
- to propose the control of individual business functions that prevent malfunctions which can spread throughout the productive organism;
- to encourage the spread of a beneficial management monitoring system for the general results of operations, and therefore to avoid situations of instability;
- to facilitate this process considering the negative experiences of those companies that have closed their business due to their careless attitude.

In the first section, this paper discusses the Italian literature review and some notes relating to the most important scientific theories which build the basis for the interpretation of the company crisis. Subsequently, it will highlight the methodology used inside this article: the explanation of a real Italian company case useful for learning some crisis factors. Furthermore, it will explain the importance of the informative system crisis prevention.

Finally, the paper will reach its conclusion: with an efficient informative system, constantly updated and with an expert staff inspired by ethical values, honest and devoted to the company you can identify imbalances and solve the situation before the decline becomes critical.

## **2. Research Approach**

The objectives of this paper will be achieved with some theoretical considerations based on a qualitative approach (Maylor and Blackmon, 2005; Yin, 1994 and 2003), including an updated conceptualization of the literature review and references to one case study (Yomo spa).

The decision to propose conceptualizations based on qualitative research proposals from the Italian literature derives from the social and economic characteristics of the analyzed subject. Qualitative research proposals are designed to help researchers understand the social and cultural contexts within which people live. One of the key benefits of qualitative research is that it allows an understanding of the context in which all decisions and actions take place (Myers, 2013). It is often the case that human decisions and actions can only be understood in context because the context helps to 'explain' why someone acted as they did. This context (or multiple contexts) is best understood by observing the evolution of technology, the economy and culture, which greatly influence people's behavior.

This paper, therefore, offers results from a specific case study and instead proposes a number of critical considerations taking into account the latest developments, as described by the best International and Italian bibliography. This work offers interdisciplinary value because it originates from the combination of technical, general economic, managerial, ethical, and other fields.

## **3. International literature review**

A large number of studies are devoted to the general economic crisis and its implications on companies. Giesecke *et al.* (2014), using an extensive data set on corporate bond defaults in the US from 1866 to 2010, study the macroeconomic effects of bond market crises and contrast them with those resulting from banking crises: corporate default crises have far fewer real effects than do banking crises. These results provide empirical support for current theories that emphasize the unique role that banks and the credit and collateral channels play in amplifying macroeconomic shocks.

Even Gonzalez (2015) study the financial crisis and corporate debt maturity. This paper analyses the influence of the financial crisis on corporate debt maturity for 39 countries during the period 1995-2012. The results reveal the importance of the dependence of firms on external finance and the banking structure of the countries on debt maturity during the financial crisis. The financial crisis had a stronger negative effect on corporate debt maturity in countries with less bank concentration, while the debt maturity of larger firms decreased less as a result of the financial crisis than the debt maturity of smaller firms in countries where banks play an important role in the financing of the private sector.

De Fiore and Uhlig (2015) present a model used to explain the evolving composition of corporate debt during the financial crisis of 2008-09. Authors show that the flexibility offered by banks on the terms of their loans and firms' ability to substitute among alternative instruments of debt finance are important to shield the economy from adverse real effects of a financial crisis. The serious crisis in the international financial system has also stimulated new depth studies on the causes of the crisis are attributable to management errors.

Pirson and Turnbull (2015), for example, focus the responsibility of corporate governance. Contrary to popular opinion the principal cause of the crisis was not sub-prime mortgage defaults but a failure of corporate governance. Authors thus examine the systemic shortcomings of Anglo-Saxon corporate governance that arise from too much power being vested in a single board. Examples of alternative models provide evidence that managers can design governance architectures that significantly reduce the risk of systematic blind spots, and the ensuing massive wealth destruction. In the international literature there are also specialized studies on crisis management. Morel and Chauvin (2016) identify four methodological challenges: modelling and analyzing the crisis management activity of a collective, capturing the flows of information and interactions between actors; identifying the deficiencies in information management; and choosing between on-site and simulated analysis. After, Authors indicate the benefits and inadequacies of the techniques and methods traditionally used in ergonomics to meet the challenges related to the analysis of the management of a crisis.

Topper and Lagadec (2013) aim to clarify why the crisis management world has profoundly changed and how the current understanding of crises and theoretical frameworks is becoming increasingly less adequate. Then, Authors contribute to elaborate the building blocks of a theory of crisis management: they propose a new theoretical framework, through the use of a fractal approach.

Article of Sapriel (2003) is always current. She outlines a good approach to crisis management, as forming an integral part of business contingency planning. To address effectively the variety of risks and complex issues that corporations face today, crisis management must be mandated from the top of the organisation and driven and implemented by all key business functions jointly. Crisis management needs a corporate custodian that ensures plans and skills are up to date throughout the organisation.

The topic of corporate crisis demands the need for an ethics of the economy (Janssen *et al.*, 2015) that must be taught to future managers (Simola, 2014). The theme of relations between crisis management and planning is also widely developed in Pang *et al.*, (2006): the purpose of this paper is to capture the decision-making processes that practitioners at a regional centre faced as they nurtured their master plan from conception to implementation. The qualitative method is used. This is a case study of a Fortune 500 company with plants in every continent. Even corporate communications and advertising, and thus the reputation and image of a company, may have an important role before and during corporate crises, as shown by the studies Ho *et al.* (2016) and Coombs and Holladay (2006).

Finally, it is necessary to mention the studies relating to specific sectors of the economy and those related to situations of some States. Among the first, there are articles related to the automotive industry crisis, and in particular the Toyota (Jim and Shinde, 2015; Falk, 2014). There are also considerations related to tourism (Apostol *et al.*, 2015; Paraskevas, 2006), air transport companies with regard to Alitalia (Valentini and Romenti, 2011), frozen food with references to Findus Nordic (Falkheimer and Heide, 2015) the international air express industry (Milenković, 2001), etc. The crisis management has taken on particular aspects in some continents and in some countries, as shown by experience in Europe (Dimitras, 2015; Cimini, 2015), China (Yang and Jiang, 2015), Russia (Iwasaki, 2014), Canada (Kieschnick and Rotenberg, 2016), Peru, Mexico and the United States (Parnell, 2015).

#### **4. Causes of enterprise crises in Italian literature**

The causes of the crisis are many: it is therefore necessary to investigate all the management to understand where the main reason of instability lies. The causes can be divided into external and internal. Among the first are those arising from environmental and sectoral situations. Among the internal causes: the possible problems of each business function and especially the information system that did not show malfunctions promptly. In this article, there is no proposal of:

- theories considering the crisis caused by imbalances of the entire company system;
- An analysis of the errors of each corporate department.

The Italian theories considering the crisis caused by imbalances of the entire company system are numerous (Migliaccio, 2012 and 2015).

A first theory (Riparbelli, 1950) attributes the crisis to insufficient adaptation of the company to the economic and social environment that leads to the alteration of internal co-ordinations and external relations. This may be due to errors in the perspective of future phenomena, and / or the low elasticity of the company. There are several reasons why errors in predictions or a rigid structure cause an inadequate adaptation of the enterprise to the environment. First, the differences in perspectives and achievements and the rigidity of enterprise, then, does not allow continuous variations of internal structures to adapt to the constant mutability of the environment, for inertia of management, or even because they are constrained by technology, staff recruited etc.

A second approach (Prosperi, 2003) completes the previous theory, with further considerations. There are three aspects of the order total, in relation to the structure, dynamics and relations with the environment:

- a) The first is the “combined” order between the production factors that must be consistent and adequate processes;
- b) The second is the “systematic” order, connected to the constant search for an optimal coordination between operations;
- c) The third is the order of “composition” referred to harmony between internal and external forces, for and against.

In summary: the business purposes are achieved more easily if you get an optimum degree of order dynamic internal and external, closely related, favouring a financial and economic balance sheet. Dysfunctions, which are often in preparation for the crisis, are the effects of a disorder caused by lack of cohesion between inputs, by badly systematized operations or by disharmony between internal and external forces.

A third hypothesis (Vergara, 1987) arises from an interpretation of the system company-according to which two groups of factors can be identified: the first consists of goals, decisions and actions; the second, however, structures, procedures and institutionalized relationships, processes and flows. This system interacts with the surrounding environment. The crisis could arise from failure of the balances in these reports.

Another hypothesis (Canziani, 1986) studies the origins of the crisis: the companies taking excessive global profile of risk than management skills. This thesis distinguishes the risks borne by the business in two categories: dynamic or involuntary risks and static or voluntary risks. The thicken and the overlap of the two types of risk can generate crisis, especially when the company does not have adequate capacity to measure, predict them and face them.

Another theory (Vergara, 1988) is developed by identifying the first business purposes: they can not be limited only to economic dimensions, but must extend to the competitive and social dimensions that are distinct, even if they are closely related to the first. In other words, the “motion” of the company can be represented by a spiral symbolically linking the economic dimension to the competitiveness of the company and the satisfaction of all stakeholders: one where the dynamic is increasingly setting up a positive synergy tending to balance business development. The synergies between the objectives may, however, operate in the opposite direction, starting a company motion representing the descending imbalances, decline, crisis and instability.

You must also consider the argument (Sorci, 1987; Viganò, 1996; Confalonieri, 1995; Poddighe 2006), that the origin of every crisis is man's responsibility and, therefore above all, the responsibility of the entrepreneur. The entrepreneur is responsible in large and small companies, even if the property is distributed among a large number of members. The crisis can be generated by the alteration of the relationship between the logical categories in constant osmosis that characterize the dynamic business (Paolone, 2008): the system of conditions of economic and financial balance which underpins the convenience to make the initiative sustainable over the years, and the system of the factors of life and development, which affects the balance keeping, improving it or restoring it.

The crisis originated in the possible discrepancies that jeopardize the beneficial relationship transforming, in severe cases, in a vicious circle. Limitations in the availability of inputs and / or dysfunction in the relations supply/demand, an unfavourable legislative framework, the unavailability of necessary technologies, could cause operational difficulties upsetting the balance, up to break point.

The company consists of three structures: the owner, the business summit and the operating system (Moliterni, 1999; Passeri, 2011).

- A) The *ownership structure* consists of shareholders who hold venture capital. They take the main decisions and perform functions guidance and control.
- B) The *entrepreneurial attitude*, however, centralized decision-making power, choosing the formula management and strategies to implement it. The entrepreneurial attitude must also organize and govern the operating system.
- C) The *operating system*, finally, held concretely productive activities in different forms and content in relation to the technical aspects, by product, industry, etc.

Each of the three described structures is a complex system in which are relevant three connected elements:

- a) the ability to trim, which defines the operation reached and its potential;
- b) processes/behaviours, a set of operations related to the existing capacity and the acquired input, distinguishing the processes of self-structuring and functioning;
- c) results / objectives, outcome of processes/behaviours, synthesis of each structure.

In order for the enterprise, complex system, to be able to last it is necessary that the interdependence between its different elements are coherent to achieve the goals.

The complex system of coherence therefore qualifies company balance. We distinguish internal and external consistency, that is, between the elements of the enterprise or the subject of its relations with the environment.

However it can happen that some mutations, especially if unexpected, can generate situations of inconsistency, physiological (if temporary and solvable); pathological (if sustained). Because of inconsistencies the crisis begins (Moliterni, 1999).

The permanent inconsistencies denote the inability of the company to adapt to the new situation: the company is stiffened on previous consistencies that are inadequate to deal with the current situation, or it is crystallized on new consistencies unsuitable changing situation. The theory of Vitale Systemic Approach (SVA) (Golinelli, 2002, 2006 and 2010) delivers the business crisis in a different light (Piciocchi, 2005): it interprets reality with a business model of the anatomy (as is done) and physiology (how it works). The main purpose of the company would survive, that can generate value for the “over systems” to which it is connected, improving the competitive advantages.

The crisis would then be due to the decrease in the time of the vitality of the enterprise as a result of low efficiency and effectiveness of government (systemic crisis) and/or operational structure (structural crisis).

The Italian theories considering the crisis caused by errors of each corporate department identify crises arising out of errors in strategy, marketing, finance, production, organization, function research and development, in the information system.

The main strategic errors are caused by forecast errors or by the setting of unrealistic and impossible objectives disproportionated to the investments or unshared by the company structure<sup>[1]</sup> (Canziani, 1984; Sanguigni, 1994; Guatri, 1995; Ricci, 1996; Viganò, 1996; Guatri and Sicca, 2000). When a company chooses the wrong strategies this proves inability to take on new challenges and inability to understand environmental changes. Even when there are market mutations, growth in size and qualitative development imbalances may occur (Caroli and Fontana, 2003). These phenomena happen more frequently in family-run business during generational changes (Gallucci, 1999).

The strategic errors are related to those of marketing, often caused by incorrect predictions on the development of demand and on the wrong product / market combinations. Sometimes companies made little investment in commercial structures, ineffective advertising campaigns, risk concentration on a few products (perhaps with low margins), deficiencies in pre and post sales services. As a consequence the company may lose its image and credibility.

*Financial* faults may reflect the errors of other functions and they derive from deficient relations with the financial system or are due to a combination of poor energy sources and uses. The economical financial crises, the economic and monetary mistakes, the instability of the financial market trends, the regulatory imbalances and the dysfunctions of the credit system have negative effects on the structure and interior of a company and on its financial flows as well. The deficient flows may also result from errors of individual management and are due to low profitability and lack of equity. *Production* errors relate to the product-market-technology combinations, lack in technical skills or mismanagement (Sciarelli, 1995). Unsuitable layout generates technical and economic inefficiencies, especially when the plants are oversized or undersized, worn-out or obsolete.

The organization is often linked to the inability to meet the expectations of the participants, creating discomfort for excessive centralization, errors also in the allocation of tasks, confusion of roles, the tense work climate, nervous, rancorous even for the unjust privileges that do not compensate the actual productivity of individual (Preti, 1996; Daccò, 2004; Coda *et al.*, 1987; Tedeschi Toschi, 1993).

Other reasons for crisis: falsifications, sabotages, internal intrigue, sexual harassment, rumours, corruption, fraud (Piattelli Palmarini, 2012) and, above all, the inability and incompetence of weak entrepreneurs and managers absorbed by the routine. This also leads to the absence of research and development function. Consequently obsolete and conservative business policies are adopted and limited just to imitative strategies. As a consequence the research is modest, not supported and unproductive. Sometimes one of the reactions to symptoms of crisis is to diversify into new strategic business areas on distant markets, and so, assuming unbearable risks. The information system never signals the incoming imbalances instantly and so is the main reason for the crisis. The control systems are inadequate, bureaucratic, expensive and generate late alarms making impossible to start the reconversion process. It often happens that apical organs are unable to read the information, and therefore to underestimate the signs of the information system, even if it's analytical and timely.

### 5. Yomo Spa: the company and its history

Owned by the Vesely family, Sitia Yomo Spa was the company that created the yogurt market in Italy. It has operated since its establishment, mainly in manufacturing and marketing of yogurt to which, later, were added productions and tradings of milk, cheese and other dairy products distributed throughout the national territory.

Yomo was born in 1947 when Leo Vesely created the homogenous yogurt (hence the name Yomo), after several attempts and laboratory experiments on the properties of lactic acid bacteria.

Following several acquisitions, which made it possible to incorporate key brands and to extend the offer, which was originally not including cheese and dairy products, the industrial activities of the group came to be “detected” from Sitia Yomo spa, from subsidiaries “Torre in Pietra spa”, “Istituto Italiano Fermenti spa”, “Centro Sperimentale del Latte spa”, “Caseificio Pasquale Pettinicchio spa”, “Caseificio F.lli Merlo spa” and the subsidiary in fact “Leo Marven System spa”.

By judgment of the Court of Pavia, filed on May 31, 2004, the company was admitted to the agreed group estimate procedure which involved, in addition to Sitia Yomo, the subsidiaries “Caseificio Pasquale Pettinicchio spa” and “Leo Marven System spa”.

Simultaneously, the Court authorized the lease of Yomo companies, Pettinicchio, Merlo and Leo Marven System to the vehicle Yogolat, specifically established by the Granarolo Group to manage the operation. Therefore, in 2006, the company took part in the transfer of receivables, relating to investments and properties of Granarolo, and then Yomo Group, was sold on the 22nd of July 2008.

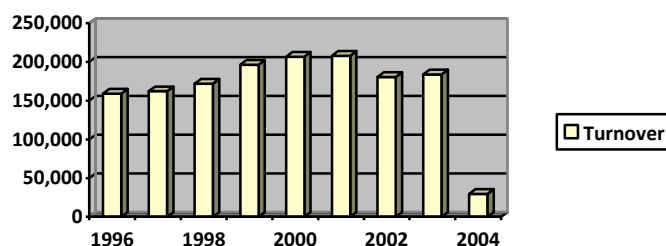
With the acquisition of Yomo, even Centro Sperimentale del Latte spa became part of Granarolo group.

The table and chart provided below shows the amounts (in thousands of euro) of Yomo turnover from 1996 to 2004. It is represented in the charts how the Yomo Group has always made most of its turnover in the mass distribution channel; the least share of turnover resulting from the catering and restaurant sector.

**Table 1. Sitia Yomo Spa turnover from 1996 to 2004** (values in thousands of euros)

1996	1997	1998	1999	2000	2001	2002	2003	2004
159.035	162.221	172.076	196.390	206.720	208.044	180.809	183.857	29.781

**Graphic 1.**



## 6. Yomo Spa: the crisis

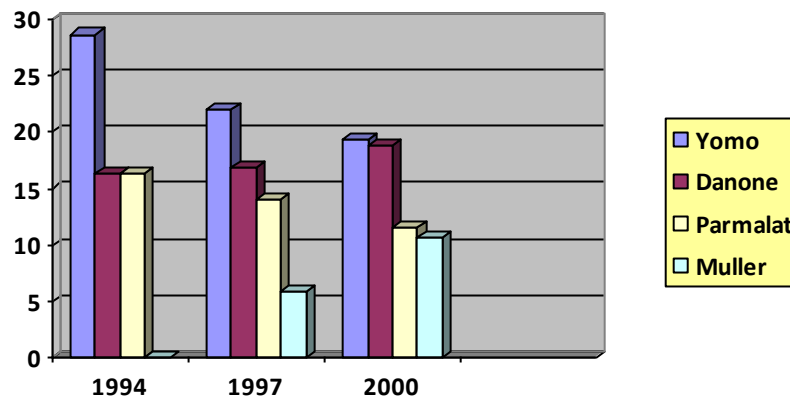
To understand the crisis of YOMO it is necessary first to understand the competitive dynamics of the industry of yogurt in the years preceding the crisis.

**Table 2. Market shares in the yogurt industry**

COMPANY	1994	1997	2000
Yomo	28,7	22	19,4
Danone	16,3	16,9	18,8
Parmalat	16,3	14	11,5
Muller	-	5,9	10,6
Nestlé	4,4	4,4	4,3
Milkon	2,5	3,6	4
Granarolo	1,6	1,6	3,1
Others <sup>[*]</sup>	30,2	31,6	28,3
Total	100	100	100

The following chart sets a comparison in terms of market share between the four main players in the yogurt market from 1994 to 2000.

**Graphic 2.**



In particular, the yogurt market in Italy during 2000, had a value of over 750 million Euros and cooperated with about sixty manufacturers of yogurt, the majority of which were multi-product companies, constituting the yogurt just one of multiple managed business. 60.3% of this value was achieved by the first four companies: Yomo, Danone, Parmalat and Muller, with the market share referred to in the above diagram. The loss of market share of Yomo is clear; the graph draws attention to the growth of Danone, the stability of Parmalat and the rise of Muller, which emerged in the late nineties. The Italian yogurt market set entry barriers<sup>[2]</sup> in order to protect itself from new possible competitors.

This belief was confirmed by the failure of the attack in 1992 by one of the most important worldwide companies: Yoplait<sup>[3]</sup>, part of the French Kraft Group. In 1996 there was a second attack by Muller, a German company very strong in the field of yogurt and dairy products in Germany and Britain. This time the experiment was successful: table (2); as a consequence, the market became sensitive to a specialized market niche. During the same years, Yomo invested economic efforts in terms of marketing and advertising, without reaching the desired effects. A significant example is the Yomo advertising campaign of the late nineties, “as Yomo you can find only Yomo”: while Danone communicated the importance of a health-conscious yogurt, Parmalat a quality yogurt and Muller considered yogurt as a hedonistic pleasure, the slogan of Yomo was an empty message: apparently the company had nothing to communicate. The crisis that Yomo has gone through has thus been a crisis of economic and industrial nature, revealing the financial imbalances that led to negative economic results. 2000 was the most critical year for Yomo and marked a clear break with the past. In spite of very adverse balance sheet data Yomo, still remained the company holding the largest share of the yogurt market.

The turnover, although declining, was still in line with the principal direct competitor: Danone Italia. The sales volume in 2000 was accounted for by approximately 81% of sales of yogurt and 19% for cheese sales. This explains why Yomo has suffered the rise of Muller in more than its competitors: because their offer was more vast and so they were less exposed to the only yogurt market risk. This difference played a crucial role: the preponderance of the business "Yogurt" that has always been the main source of revenue for Yomo, became one of the major causes of decline.

The management wasn't able to read the competition strategy implemented in the market where Yomo operated<sup>[4]</sup>. Guatri (1986) states that the methods based on intuition "are based on the recognition of the external factors of crisis". Working in declining sectors, progressive loss of market share, production or sales inefficiencies are external elements indicating a state of decline of the company. As shown by Muller, Yomo has not been able to interpret the evolution of the market or innovate in a market where product innovation meant success. The brand still enjoyed absolute prestige in 2000 and decisions about Pettinicchio and Yomo made by Granarolo were a proof. Dairy products preserved Pettinicchio brand and yogurts kept the Yomo brand even after the control acquired by Granarolo. These choices can be identified in a strategy of maintaining a strong market position, which the two companies already enjoyed before the acquisition and so before the crisis. However, from the quantitative point of view, the data resulting from the balance sheet, recorded discontinuity precisely since 2000: The following table (3) shows the data of the fiscal year closed on the 31st of December 2000 compared with those of 1999<sup>[5]</sup>.

**Table 3. Main balance sheet items in 1999 and 2000**

	1999	2000
Current assets	40.763	77.365
Net fixed assets	105.111	93.591
Current liabilities	70.828	131.741
Long/short term liabilities	51.760	27.629
Net capital	23.286	11.586

In 2000 a prompt action was required to reduce the debt of the company by injecting capital and the reorganization of several cost components was necessary, already constantly monitored by management. Current liabilities within a year had almost doubled: in 2000 the amount of assets was not sufficient to cover maturing liabilities. This constituted an important first alert of lack of liquidity. The net working capital deficit of -40.861, an increase compared to 1999 when it amounted to 37.881, showed a clear short-term financial imbalance, indicative of a precarious enterprise solvency; in 2001 the net working capital deficit widened further and stood at -47.877.

**Table 4 Comparative analysis of the main financial indicators in 2000**

	Yomo	Danone	Parmalat
Return On Sales	-3,48%	10,08%	9,82%
Return On Investment	-4,93%	25,94%	2,35%
Return On Equity	-50,24%	56,24%	6,33%

Table (4) is extremely significant because the comparison with similar entities underlines the economic difficulties. If it is true that in 2000 the yogurt market showed a decrease compared to the previous year by 3.4% in value and by 0.3% in volume<sup>[6]</sup>, the data for the indicators ROS, ROI and ROI, in a comparison between the main competitors, it doesn't seem to leave room for assumptions of merely cyclical crisis, confirming, however, an internal inefficiency.

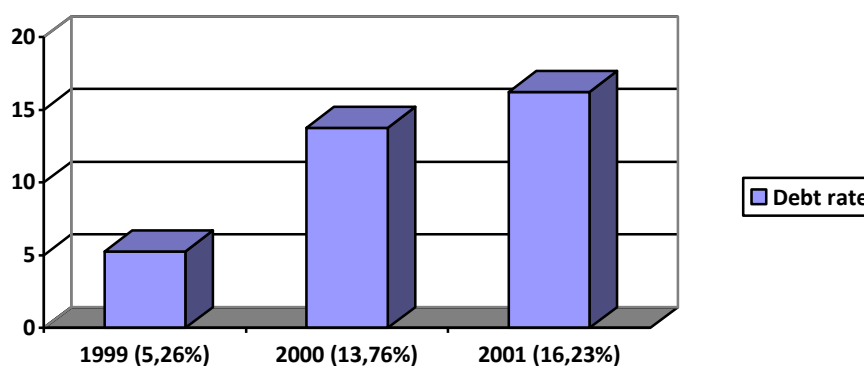
The following table summarizes the main balance sheet items of Yomo 1999-2000<sup>[7]</sup>.



**Table 5. Main items and financial ratios 1999-2001**

	1999	2000	2001
<b>Current assets</b>	40.763	77.365	65.252
<b>Net fixed assets</b>	105.111	93.591	93.822
<b>Total assets</b>	145.874	170.956	159.074
<b>Current liabilities</b>	70.828	131.741	120.679
<b>Long/short term liabilities</b>	51.760	27.629	29.162
<b>Total liabilities</b>	122.588	159.370	149.841
<b>Net capital</b>	23.286	11.586	9.233
<b>Balance</b>	145.874	170.956	159.074
<b>Return On Sales</b>	1,12%	-3,48%	-3,52%
<b>Return On Investment</b>	1,42%	-4,93%	-4,28%
<b>Return On Equity</b>	0,03%	-50,24%	-19,45%

A progressive growth in debt is obtained:

**Graphic 3**

Especially from 2000, the negative trend of Yomo determined financial consequences: as reinforcing the debt in respect of credit institutions and extending the term of payment with suppliers. In 2003 the company's ability to recover a convenient management and the inability to obtain new equity in the company structure, resulted in the further stiffening of the main financing institution of society and this led to block the activity and sales. In 2000, Yomo had to dramatically increase the rate of borrowing but the economic trend was negative even before.

**Table 6. Evolution of net and operating result from 1996 to 2004 (in thousands euros)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net result	124	-3.490	-10.765	8	-11.700	-2.353	-10.921	-76.899	-4.717
Operating result	5.410	2.384	-17.027	2.198	-7.190	-7.319	-8.946	-42.248	-11.168

**Table 7. Return On Sales from 1996 to 2004**

1996	1997	1998	1999	2000	2001	2002	2003	2004
3,4%	1,46%	-9,89%	1,12%	-3,48%	-3,51%	-4,95%	-22,98%	-37,5%

It is clear that the painful economic dysfunction of Yomo, which started in 1998 and became permanent in 2000, is another confirmation of a crisis that has its causes in persisting income gaps.

Since 2000 we continuously evidence a lack of support for sales combined with an increase in production costs, both productive and commercial. In 2001 the decrease in the total volumes of sales of the products of Yomo Group, caused a logistic activity superstructure with costs not covered, and in 2002 a further reduction in sales volumes and turnover.

<b>1999</b>	<b>2000</b>	<b>2001</b>
4.595	-4.309	-3.920

The productive inefficiency is made evident by the collapse of the gross operating margin and has affected several areas of management: first of all the trading one. The advertising investments, which characterized the action of Yomo, have gradually reduced trade margins, only in 2000, they fell by about 3 percentage points from the previous year. In detail, the costs for advertising and other promotional activities amounted during 2000, to 65.7 billion (old Lira) compared with 54 billion during the previous year<sup>[8]</sup>.

### **7. Yomo Spa: strategies for the redevelopment and relaunch**

The crisis of Yomo was known as “stiffness crisis”<sup>[9]</sup> and had commercial and industrial nature features with financial consequences. In an evolving and dynamic market, with rules and structures far from the original ones, Yomo was forced to pay for its mistakes. This paper highlights the rigidity of structures and the processes that brought “the inability to adapt, quickly and timely, the company in times of crisis or to the market change (Sirleo, 2009)”. The delay and the inability of the management to oppose the economic decline, allowed the control to fall “in the hands of external actors” - funding agencies in this specific case – “often carriers of partial objectives (the debt rescheduling) (Danovi and Quagli, 2012)”.

The gradual decline in total sales volumes of Yomo Group's products caused a superstructure of the logistics which involved only Yomo, without revealing other events in the sectoral level. In such situations - declares Sirleo - «the only chance to avoid the crisis is a cost adjustment process (Sirleo, 2009)». Yomo started to adjust its costs from 2000. As mentioned, the operating model of the company was totally inefficient; therefore, in addition to the need to offset the negative net financial position<sup>[10]</sup>, it was necessary to undertake a reorganization of cost components. The analysis of consolidation strategies implemented by Yomo management for the revitalization of the company was carried out from the fiscal year closed on the 31 of December 2000. Since 2000, the income statement presents settings which are not directly comparable with those of the previous years. Moreover, it is since 2000 that it was possible to notice a change, not just in the management but also in the whole cultural group, with the renewal of different positions.

Yomo and its subsidiaries modified the structure of the entire *supply chain* by introducing financial and economic recovery plans. In particular, in order to create opportunities for the development it was decided to generate strategic plans aimed at achieving operational synergies (for example, by centralizing non-specialized activities of its subsidiaries to their attention). From the start of the organizational process, Yomo and its tradition always maintained the leadership.

During 2000, the company maintained the levels of advertising investments chosen in the past and subsequently made new and expensive advertising campaigns. In 2001 new lines of products were planned but were put into effect just in 2002: the increase in advertising and promotional expenditure was one of the points provided for in the business plan pursued. In order to implement the restructuring plan, in the end of 2002, Yomo became assisted by a consulting firm, but the execution of the Business Plan had disastrous effects on the company's results, with a further increase in costs.

The reorganization also concerned the logistics and distribution system, in the direction of achieving distribution and commercial synergies and seeking economies of scale: with the advent of large retailers, Yomo decided to keep following its own distribution network. Therefore, in 2002 the company decided to entrust the distribution and logistics of the entire Group to Leo Marven System, specialized in refrigerated distribution, which was really necessary for daily consumer goods with reduced shelf life such as yogurt. During 2002, the reduction of variable costs, the lowering of the *break-even point* in the industrial and manufacturing costs and the change of managing director were not sufficient for saving the position of the company. In conclusion, “*the most attractive company, thanks to the power of its brand, had the only chance to agree its output*”<sup>[11]</sup>.

### **8. Conclusions**

The dramatic evolution of Yomo, main protagonist of the establishment of the yogurt market, is a significant case study, whereas the undoubted initial competitive advantage was gradually eroded by its competitors. Considering the Italian culture and departing from the description of the evolution of Yomo, there are different interpretative schemes that can be illustrated.

The main error regards the inability to understand the evolution of the external environment and the competitors supply and demand. There are consequent marketing and strategy mistakes that led to a progressive loss of market share. The missing element was an adequate information system which could promptly understand mutations and also a capacity to innovate gradually adapting to the changed economic reality. There were also errors in communication that was weaker than that of the competitors. Therefore there was a mistaken strategy, because the advertising was just focused on one product (yogurt) instead of being differentiated on other dairy products. Obviously, the progressive decline in revenue and profitability was translated into the requirement for cash flow resulting in lacking report sources/uses that gradually generated financial insolvency.

In response to the crisis Yomo took inadequate financial measures, reduced sales support and relied too late on inadequate consultation. In order to have a more detailed analysis, it would be necessary to compare the Yomo case to other company crisis cases. This helps to focus on the frequent errors and causes that happen in different sectors. Every company crisis has its prerogatives! However it's easy to understand and predict that, in many situations, professional shortcomings and ethical values are the basis of the errors that lead to the closure of business activities.

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## Notes

<sup>[1]</sup> «Crisi dell'impresa è solo crisi del management e della sua strategia», (Viganò, 1996).

<sup>[2]</sup> Reference to “milk quotas” introduced at the European level since 1983.

<sup>[3]</sup> The investment in 1992 in advertisement and other marketing activities proved to be about 20 billion lire.

<sup>[4]</sup> «La crisi d'impresa è, di fatto, un fenomeno collegato al dinamismo e all'instabilità dell'ambiente» (Sirleo, 2009).

<sup>[5]</sup> Data in thousands of Euros.

<sup>[6]</sup> Data source: Nielsen.

<sup>[7]</sup> Data source: Aida.

<sup>[8]</sup> Quantitative determination of the increased incidence of costs for marketing area during 2000 derived from the examination of the report on Sitia Yomo Spa's budget management closed on 31.12.2000.

<sup>[9]</sup> Guatri affirms (1986) that all types of crises (crisis by inefficiency, as overcapacity/stiffness, from the decay products, deficiency programming/innovation and financial imbalance), are often present in combination with a plurality of causes.

<sup>[10]</sup> The need for early action to reduce the debt of the company with appropriate risk capital injections comes out, also, from the reports of the Statutory Auditors of Yomo analyzed throughout this work.

<sup>[11]</sup> Balance sheet at 31.12.2003, Board of statutory auditors' Report.