

Bankruptcy: lessons learned

Good financial relationships are key to surviving

BY MARY TERESA BITTI, FINANCIAL POST JULY 13, 2010

After 18 years of steady, gradual growth -- each month slightly better than the one before -- Warren Werbitt, founder and chief executive of Pazazz Printing, a full-service independent printer in Montreal, had to make the most difficult decision of his life. That decision led to Pazazz Printing's filing a Notice of Intention on March 1, 2010 to give the business a chance to restructure and move forward.

On March 8, Mr. Werbitt issued an open, letter on the company's and on an industry Web site, about the precarious situation he was facing, why he took the decision to file for bankruptcy protection and what he was hoping to do, ending by inviting anyone who had any questions or concerns to contact him directly. On April 20, his proposal to creditors was accepted, and on May 18 the court approved his move out of bankruptcy protection. Through all of this, Mr. Werbitt managed to avoid layoffs and was able to start again -- leaner, more focused and determined, with his reputation and his love of the business intact. Mr. Werbitt believes he has lessons and advice to share with others who find themselves facing bankruptcy protection.

In 1992, he and his brother founded Pazazz at the back of a printing facility where they oversaw production, in exchange for free rent. After 10 months, they moved into their own 3,000 square-foot shop, and business continued to grow. They added label and signage divisions and acquired a 40-year-old printing company -- a first-hand look at the realities of merging cultures.

"We climbed gradually," Mr. Werbitt said. "I used to tell people we are building this company the old-fashioned way, one brick at a time, and building a solid foundation so we could weather most things, should anything happen."

For Pazazz, 2005 to 2007 were very good years, and all indicators showed it was time to consolidate its three locations. Mr. Werbitt went big, moving the company from 39,000 sq. ft. in three locations to a 60,000 sq.-ft. facility and purchasing a KBA 56-inch hybrid UV press that would allow Pazazz to enter niche markets. Pazazz got the press in July 2008, and by November the business was settled in its new location -- just as a global panic set in.

It was the beginning of a slippery slope for Pazazz. In early 2009, companies began taking preventive measures, cutting back on marketing. As a result, sales were dipping at a time Pazazz had expected (an needed) them to grow to help meet its more expensive overhead. As the year progressed, some of Pazazz's customers closed operations.

The move cost more than anticipated, the new technology required training, but Pazazz had to cut back on research and development costs because it was battling a - where clients were spending 20% less than a year earlier and the costs of raw materials were rising. More often customers were asking companies for -- and getting -- longer terms to pay, Pazazz included, for fear of losing business.

Mr. Werbitt shares what he sees -saving graces in a tough situation:

- A willingness to seek outside advice: When he launched the business, Mr. Werbitt had established an advisory board. He had the backing of his chief financial officer, accountants and financial institution when he made the investment in the new location and press.

- A good relationship with his bank:

As sales dropped and costs rose, Mr. Werbitt - his financial institution in the loop. " Every mistake I thought we had made, I put on the table. As 2009 went on and credit got tighter, our bank understood where we were coming from. I learned a long time ago that it is easier to put everything on the table than to cover up."

- A corporate culture based on transparency: "When things started getting tough, I gathered all the -70 people, in the lunch room and told them my plan was to keep everyone but that we needed to make some cuts. Senior management took the largest of the cuts. I then went around and spoke to everyone ... to make sure they fully understood what we were doing and why. The staff was unbelievable and instrumental in helping us find ways to be more productive. They took ownership of the situation. Everyone stepped up."

- Acceptance Despite cutting wages and improving productivity, it got harder to pay the bills. "We finally had no choice," Mr. Werbitt says. "I took it pretty hard. I had spent 18 years building relationships, being honourable with people, and all of a sudden, here I am having to think about this evasive action and the people's lives affected by it. But I knew shutting down would have been worse.

"One thing I recommend is to surround yourself with people you can trust, but be careful. The fees for some of the professionals can be atrocious. My team was considerate. They charged me what they should have charged. Their advice was second to none, and they left me feeling like a human being."

While he described having to file for bankruptcy as "a morally, mentally debilitating process," he says he never doubted Pazazz would succeed. The decision to file for bankruptcy protection was made on a Monday, on Tuesday Mr. Werbitt met with each employee and told them what was happening. The next day he started calling suppliers. "I told them, 'I'm not going anywhere. I want to continue to work with you.'" He did the same with clients, some of whom stepped up and rearranged payment schedules to help Pazazz with its cash flow.

"What did I learn?" Mr. Werbitt said. "You have to watch who you do business with. Be diligent. Make decisions with your head and not emotion. We have to be extremely efficient, and people have to be accountable. When business gets tough, take what you learn and go forward."

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