

CASE STUDY
[AUTOMOTIVE SUPPLY INDUSTRY]

**CAPACITY ADJUSTMENT OF SUB-
SIDIARIES IN SOUTHERN EUROPE:
CONCEPT AND IMPLEMENTATION**



Task

FINDING A SOLUTION FOR THE FUTURE OF THE SUBSIDIARIES IN SOUTHERN EUROPE

Our client is a leading automotive supplier with numerous production and administration sites all over the world. During the financial year 2012, the company achieved a turnover of approximately 1.5 billion euros; out of this figure, 900 million euros were earned in European countries. A comprehensive programme aiming to increase profitability and reduce costs allowed for an overall improvement and stabilization of the European results. However, the measures included in this programme were not sufficient for all business units. Due to rising overcapacities, some subsidiaries in Southern Europe were unable to cover their costs. This affected mainly businesses in Italy and France.

In the beginning of 2013, the company decided to enlist external support. Haselhorst Associates were asked to devise a concept for restructuring and realignment of these businesses, and subsequently provide operational supervision for its implementation.

Approach

PHASE I: OVERALL ASSESSMENT OF STATUS QUO AND OPTIONS FOR ACTION

The consultant team analysed the company's status quo in close cooperation with the client's management. The analysis focused on assessing if the company in its overall efficiency would be able to adjust to the current and future market expectations. This involved a thorough analysis of the market development with regard to clients and products, as well as of the maximum margins to be obtained. In addition, the consultants analysed the structures and processes of the company in all areas. The maximum potential for adjustment of productivity increases in production and logistical processes as well as in administration was assessed. Five alternative scenarios were compared regarding their restructuring costs, minimum investment and potential expectations regarding turnover and results (see column on the right).

The consultants recommended and subsequently implemented scenario II: "Carve-out and sale of two divisions, and restructuring of the remainder of the company". The decision for this scenario was based on its high probability of a successful restructuring of the remainder of the company at a relatively low cost. In addition to the carve-out of two divisions, the restructuring package included a site closure in order to achieve a realistic and sustainable capacity utilization.

Background

NEED FOR ADJUSTMENT OF CAPACITIES IN EUROPE

While German luxury carmakers and Volkswagen were able to improve their results and expand their market shares, mass manufacturers such as Renault, Peugeot or Opel continue to face multi-billion losses. The difference lies in their dependence on the corresponding markets. BMW, Daimler and Volkswagen benefit from the growth of the export markets, whereas other manufacturers are largely dependent on the European market, which has been declining for several years now. This downturn in Europe is expected to persist in 2013, before bottoming out.

In the medium term, a significant increase of sales figures in Europe is unlikely, especially in the South-East. Currently only an estimated 70 per cent of all production sites in Europe are running at full capacity. This means that the costs of manufacturing cannot be covered. Adjusting the capacities in Europe is thus an important alternative for carmakers, and a logical consequence for automotive suppliers.

In addition to assessing the initial situation and possible options for action, the consultant team devised some immediate measures to decrease costs and stop the drain on liquidity. Thanks to these measures and a close cooperation with local management, immediate savings were made.

FIVE POSSIBLE SCENARIOS FOR THE FUTURE

- I. Carve-out and sale of a division including two production sites, and restructuring of the remaining sites

- II. Carve-out and sale of two divisions including three production sites, and restructuring of the remaining sites

- III. Intensive restructuring, and continuation of the company as a whole

- IV. Sale of the entire company including all projects and production sites

- V. Liquidation or insolvency

PHASE II: INITIALISING PROJECT ORGANISATION AND OPERATIONAL SUPERVISION OF IMPLEMENTATION

For implementation, the topics were grouped into six work packages and assigned (see box on the right). The target scenario required certain steps in order to further proceed with implementation. This included reaching an agreement with potential buyers, and with the trade unions regarding staff changes. The agreement with the trade unions was especially significant in the context of a production site closure.

Thus, the main milestones and corresponding time frames for their achievement were defined. The progress made was continuously monitored in weekly project meetings, and immediate corrective action was taken where needed.

Benefit

EFFICIENT IMPLEMENTATION OF THE TARGET SCENARIO TAKING INTO CONSIDERATION ANY AND ALL RISKS

Over the project duration of six months, a solution for the businesses in Southern Europe was developed and its implementation was initiated and supervised. A detailed and reliable analysis allowed for a unanimous decision in favour of the target scenario and meant that all questions regarding advantages, disadvantages, risks and medium-term development could be answered. This enabled Haselhorst Associates to provide substantial support in reaching a common understanding and goal for executive board, supervisory board and local management. In combination with the reliable line of reasoning in the communication with external stakeholders such as clients, trade unions as well as a potential buyer significantly contributed to the project's success.

Moreover, a precise and well-balanced project organisation helped avoid any undesirable developments; where there was not a plan B already in place, countermeasures were taken swiftly. The purchase price negotiations were based on a previous analysis of the status quo and the assessment of costs as well as of each scenario's prospects for the future.

Details

WORK PACKAGES

1. Communication

- > Internal and external communication with all stakeholders such as employees, clients, etc.
- > Concept/strategy for trade union negotiations

2. Plan B – risk monitoring

- > Evaluation and monitoring of risks in production and production transfer, transfer of plants, contractual risks
- > Development of a plan B for any issues possibly arising during implementation
- > Financial risks in the development of results and liquidity

3. HR-related measures

- > Support for devising a trade union concept; preparation; definition of agreement offers; ensuring compliance with legal requirements
- > Definition of target structure and target organisation of the remaining part of the business and allocation to carve-out
- > Ensuring retention of core competencies and key persons

4. Production: transfer and phase-out

- > Transfer planning: timing, definition of relevant machines and plants; preparation of production layout/adjustment
- > Preparation of site closure; sale of plants, cleaning, etc.

5. Distribution and products

- > Identification/allocation of relevant and/or affected products and clients as well as assessment of outsourcing, shifting and returning options
- > Support tasks regarding production, plan B and communication regarding the transfer timeline and guaranteeing production (buffer stocks); clients must be kept informed at all times

6. Budget for site closure; controlling

- > Drafting a budget for the site closure; esp. planning of restructuring costs, costs for transfer/transportation; investment for layout adjustment, design or extension; extraordinary costs in the context of creating buffer stocks, etc.
- > Goal of maximum cost and monitoring of the evolution of the costs on a weekly basis



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