

CASE STUDY
[ENERGY TECHNOLOGY]

**REORGANIZATION OF A
PRODUCTION SITE**
PROJECT MANAGEMENT AND
SUPPORT IMPLEMENTATION



Task

REORGANIZATION DURING PLANT CLOSURE IN FRANCE

The customer company specializes in construction of facilities in the sector of energy supply. Despite a slight recovery in the markets, the Group, active globally, was confronted with declining market shares and falling profitability. Intensified competition from Asian suppliers has noticeably increased cost pressure, especially in the area of production. In order to be able to offer competitive prices and to counteract further loss of market share, the client's management decided to relocate selected production volumes from Europe to Asia. As a consequence of this decision, a French plant with low competitiveness level was to be closed down.

The company wanted this step, which affected 400 jobs, to be socially acceptable and to prevent lasting damage to its image. This was a difficult undertaking due to strict legal requirements and the high level of public and media interest. An enormous challenge was posed by timely processing of order backlogs – otherwise there would have been the threat of high contractual penalties. Strikes and the resulting losses in productivity and product quality had to be avoided at all costs. The complexity was also increased by existing framework agreements, the duration of which extended well beyond the date of plant closure. Furthermore, new business activities were to be developed in order to create employment prospects for as many of the employees concerned as possible.

To carry out such complex tasks, the client company's management relied on external support: Even before the announcement of the planned shutdown, Haselhorst Associates was commissioned to accompany the plant closure and to provide operational support for project management. Within the scope of the project, seven work packages were defined for the consultants (see text box on page 3).

Approach

PROJECT MANAGEMENT AND IMPLEMENTATION SUPPORT

First, the consultants worked out a project structure plan in close cooperation with the client and established a viable project organization. At the same time, relevant stakeholders were identified and a communication concept tailored to the target group was developed. At the same time, a social plan was drawn up and implemented in accordance with the French law.

In order to complete the production on time, a production plan was drawn up together with the plant management, covering all aspects of the planned closure. Apart from the effects of the social plan (e.g. availability of personnel), orders

Background

ASIAN COMPETITORS GAINING GROUND

The worldwide demand for energy supply systems and components has been growing in line with global primary energy consumption for years, rising by 14 percent between 2005 and 2011. This increase was driven mainly by the Asia-Pacific region. There, primary energy consumption has increased by almost 36 percent since 2005, while in the EU countries there has been a decline of around 6 percent. The demand for energy technology is correspondingly differentiated regionally. In Europe, the market is rather saturated. The focus here is primarily on conversion and modernization of existing plants. By contrast, the Middle East has long been considered the largest growth market. Meanwhile, demand is shifting more and more into Asia. In the emerging markets, especially in China and India, strong economic growth and increasing energy demand are expected over the next few years, and consequently Asia offers considerable potential for energy technology in the medium to long term.

On the supply side, few "big players" dominate the market. European producers find it hard to tap into Asia's highly price-driven sales markets due to high development and production costs. By contrast, Asian providers are increasingly conquering international business. Increasing market penetration, especially by Chinese and Korean producers, intensifies price pressure on local companies. In order to ensure competitiveness in the medium and long term under these conditions, many suppliers are relying on a gradual shift of production from Europe to Asia as part of their organizational strategy.

and contracts as well as the sales requirements were taken into account.

At the same time, Haselhorst Associates worked with managers on the German and French sides to develop innovative and sustainable business models in order to create new structures. Numerous activities were analysed, evaluated and checked in terms of their marketability.

With the above described tasks in mind, the necessary project budget was calculated as an overarching work package, and all economic risks were mapped. The budget was continuously updated with the progress of the project.

Framework agreements constituted a particular challenge, since their duration extended beyond the closure date. The consultants of Haselhorst Associates identified, quantified, evaluated and compared various options, ranging from in-house production – and thus postponement of plant closure – to internal transfer scenarios (carve out).

The management of the client company decided for an internal carve out to another division of the Group. Our consultants played a leading role in implementing this

option and mediated between the parties involved. The object of the carve-out, i.e. the contractual obligations as well as the personnel, facilities, stocks, know-how etc. required to fulfil the framework agreements, was quantified and evaluated in numerous rounds of negotiations. The Haselhorst Associates team also actively supported, in close coordination with the relevant legal departments, the preparation of internal transfer agreements, service agreements and letters of intent as well as the commercial execution of the transaction.

Benefit

SUCCESSFUL RESTRUCTURING AND FULLFILLMENT OF CURRENT CONTRACTS

Due to their extensive restructuring experience, the consultants of Haselhorst Associates were able to provide targeted support for the client's stakeholder and communications management and – from the outset – contribute to de-escalation. There were no strikes. Effective production control in conjunction with continuous risk management were established to ensure that delivery dates were met, the ramp-down was completed on time and conventional penalties were avoided.

Sustainable new business models have made it possible to create over 200 new jobs. Additionally, social consequences of the plant closure were cushioned by implementation of the internal carve-out to fulfil the framework agreements. In addition to production, long-term prospects in the after-sales business were also created, for example for maintenance services, spare parts supply and local handling of possible warranty claims. These measures also fostered customer loyalty, enabling existing customer relationships to be expanded.

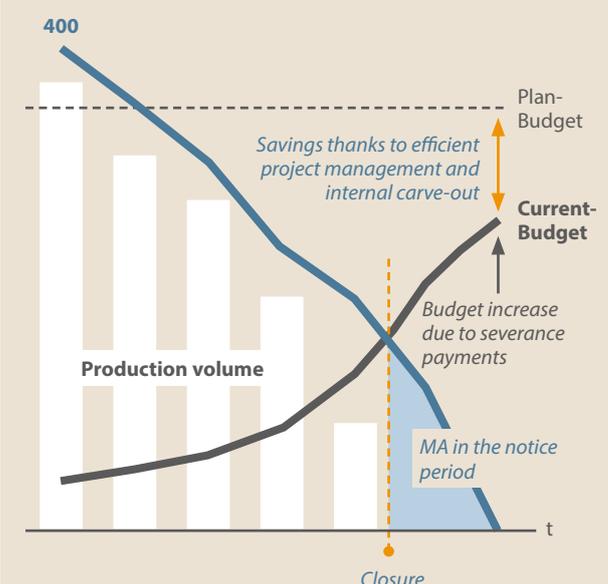
In conclusion, it can be said that the closure of the plant, neither from the client's nor the employees' point of view, led to a loss of image for the company. All objectives of the project were achieved. Successful targeted project management can also be seen in figures: The planned budget was considerably undershot. The funds actually spent are a two-digit percentage lower than the sum originally budgeted (see figure on the right).

In detail

THE SEVEN WORK PACKAGES

- 1. Project and stakeholder management**
Project planning and organisation, identification of interest groups and targeted communication
- 2. Agreement on a social plan**
Development and coordination of the social plan taking into account local legal requirements
- 3. Development of sustainable business activities**
Idea generation, business planning and evaluation, integration of new activities into the organization
- 4. Sales and customer management**
Evaluation of the order and contract situation, risk assessment and customer management
- 5. Production planning to the ramp down**
Timely processing of order backlogs, coordination of personnel requirements up to closure
- 6. Fulfilment of current contracts (Carve out)**
Comparison of alternatives, detailed drafting of the target scenario "internal carve out", implementation
- 7. Budget and controlling**
Planning of costs, provisions, one-off effects, etc., budget reconciliation and updates

DEVELOPMENT OF PERSONNEL AND PROJECT BUDGET UNTIL RAMP DOWN





Dr. Jörg Schumacher – Partner

j.schumacher@haselhorst-associates.com

Haselhorst Associates GmbH

Schiffbauerweg 1
82319 Starnberg

Phone: +49 8151 65040-0

Fax: +49 8151 65040-20

info@haselhorst-associates.com

www.haselhorst-associates.com



WE MASTER CHANGE.
TOGETHER.