



Restructuring in Germany



Collinson Grant



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Introduction

Collinson Grant has substantial experience of restructuring in Germany and other mainland European countries. This includes assignments to reduce costs, close factories, manage redundancies, reconfigure operations and improve operating performance. Our work in Germany has been for well known, multi-national companies. For example:

- BASF Polyurethanes – support to optimise the network of manufacturing sites for basic products and polyurethane systems for the regional businesses in Europe, North America (NAFTA) and Asia
- Belden Wire and Cable – restructuring, sale of part of the business and partial factory closure (Villingen) and transfer of operations to the Netherlands
- Cambro - improving efficiency in the European supply chain (Moerdijk and Wendlingen)
- Carrier Refrigeration UTC - supporting the restructuring of human resources and reconfiguration of the logistics networks - in the Czech Republic, Germany and Hungary
- Coats – an evaluation of the options for the manufacturing site at West Rhauderfehn
- Federal Mogul - reduction of overhead costs (Nürnberg)
- FKI/DeWind – business reorganisation, partial site closure and managing redundancies (Lübeck)
- Rizla (Imperial Tobacco Group) - factory reorganisation (Stuttgart)
- Rolls-Royce Deutschland - reducing overhead costs (Oberursel and Dahlewitz)
- Rockwood Pigments - profit improvement and factory controls (Walluf)
- Thorn Licht - restructuring European operations and interim management (Neheim).

Some short case studies

Belden Wire and Cable

Belden is an American corporation, based in St Louis. It manufactures high-speed electronic cables in Asia, Europe and the United States. Sales are around \$2 billion a year.

A subsidiary, Belden Wire and Cable, recognised that it had excess capacity in Europe. It decided initially to close the plant in Germany and to transfer some, but not all, of its production to the company's main European factory in

Venlo in the Netherlands. 180 jobs were under threat. During the planning of the closure, the company allowed its managers to propose a Management Buy Out (MBO). This led to their successful purchase of some of the remnant business. But it complicated the consultations with the Works Council and might have caused delay and additional cost. We led the whole restructuring process and facilitated the timely transfer of production - on time and within budget.

We provided local, expert advice on German employment law and custom and practice. Our consultants drew up the social plan and supporting documents; worked out the cost of redundancies; dealt with sensitive communications; and led the negotiations with the works council and trades unions. The company's American managers, in the US and in Europe, needed considerable help in understanding the terminology and approach necessary to effect the redundancies without incurring legal sanction and high additional costs. We acted as an important bridge between the local and American managers. Although the original financial provision made in the US turned out to be wrong, the whole exercise was concluded satisfactorily, within the revised budget and on time.

Coats

Coats has an international reputation as a manufacturer of sewing threads and related products. It makes and supplies the world's favourite high performance corespun, general purpose spun polyester threads and other speciality threads. The company employs 22,000 people in 71 different countries.

The factory in West Rhaderfehn makes zips for garments, it had declining sales and was losing money. There was little prospect of any significant improvement in trading conditions. We were asked to review the business and evaluate different options for the future. The possibility of a two-stage exercise to close the plant had already been considered – but this would have been difficult to achieve operationally as well as requiring significant additional investment. Our work concentrated on three inter-related work streams – Operations, Human Resources and Financial Modelling. The copious data were examined in the context of five potential options from 'Do nothing' to 'Reconfigure the business and put it on a sustainable footing'. We prepared a financial analysis for each case and sets out the risks and potential opportunities. Additional models of costs, activities and processes provided a fuller picture. It allowed us to show projected trading performance in five years' time and a Net Present Value for the derived benefits and necessary investment for each option.

Our findings were a mix of the options under review. They presented a viable alternative to closure with a staged approach to restructuring and investment – and a potential return to modest profitability.

FKI/DeWind

FKI is an international engineering group, now owned by Melrose PLC. It is a world leader in its specialised businesses - Lifting Products and Services, Logistics, Hardware and Energy Technology. There are over 14,000 employees, principally in Europe and North America.

DeWind had been acquired by FKI in 2002. Its staff of 244 designed and assembled wind turbines in Germany. Trading conditions changed rapidly after the acquisition, exposing a relatively weak market position. Prospects for profitable performance declined. We were asked to devise and then assess options for the business. These included the prospects for trading back into profitability, downsizing to restore equilibrium between costs and revenues, and a number of different scenarios for withdrawal. One complication in all of these options was the contractual obligations for warranties, remedial engineering work and maintenance contracts. A clean 'closure and walk away' option was not possible.

We evaluated an agreed sub-set of the possible options, and recommended a restructuring plan that closed for new business but which retained a residuary service organisation. The company accepted our advice and asked for our help in scaling back the operation. We prepared the social plan, managed the negotiations with the works council and local officials, and handled the subsequent programme of redundancies. The aim was to achieve a satisfactory balance between the length of time taken to get agreement and the cost at which it was achieved (a key consideration in Germany). During the later stages of the reorganisation, we provided transitional managerial support to improve the performance of the service business and some other internal functions. This was successful and improved the position significantly enough that FKI was able to achieve a trade sale of the rationalised business.

Thorn Licht

Collinson Grant has had a long relationship with Thorn Lighting, which is now a division of Zumtobel (Austria). The Group markets commercial and architectural lighting throughout Europe and South-East Asia. We worked with the senior management team to implement a new manufacturing strategy throughout the European plants – in France, Germany, Scandinavia and the UK. At Thorn Licht, we restructured operations and improved profitability by:

- re-configuring the layout of the factory floor to reduce costs and non value-added activities
- re-designing jobs to eliminate the old demarcations between direct and indirect activities
- flattening the management structure and creating greater accountability.

We acted as interim managers for a period of nine months to support local managers in consolidating the necessary changes.

Carrier Refrigeration UTC

Carrier Refrigeration is part of United Technologies (USA). It had acquired the commercial refrigeration business of Linde AG, which had plants in Hungary, Germany and the Czech Republic. After a review of performance, managers decided to close the German sites and move their operations to Beroun and Myto in the Czech Republic and Jászberény in Hungary. Collinson Grant provided support to the restructuring, focusing particularly on the management of human resources and the improvement of logistics systems

and operations. There was an urgent need to support the management team in Jászberény, as the inbound logistics processes were failing to match the needs of lean manufacturing methods that had been recently introduced. As a consequence, output was significantly below target and customers' requirements. We provided 'hands on' support on a day-to-day basis and improved the capabilities of the supply chain organization to meet the new demands placed on it.

Some other restructuring experience in the United Kingdom

KION Group

The KION Group is an international provider of forklifts, warehouse equipment and other industrial trucks, and the market leader in Europe. It is based in Wiesbaden, Germany. The British subsidiary is Linde Material Handling (UK), which has 2,800 employees and sales of around £550 million. There is a head office, two manufacturing sites, twenty-three regional service centres and nine national sales and service companies. Our work centred on two distinct projects:

- Creation of a new shared service centre (SSC).
- Improving the performance of the sales and service companies.

We reviewed the effectiveness of all 'back office' operations, compared performance at different sites and pinpointed examples of good practice. By consulting widely and thoroughly, we established a consensus for change. The implementation of the SSC was phased over two years and cut the staff by 20% in Finance and 15% in HR. The work in the sales and service companies consolidated the regions, reduced the number of service staff by 12% and found opportunities to improve profit by £3.3 million.

Thorn Lighting – Spennymoor

The Zumtobel Group provides professional lighting equipment under its Zumtobel and Thorn brands. Thorn Lighting employs 3,000 people in Europe, Asia and Australia and has sales of €500 million. It is the market leader in the UK. Thorn's sprawling main plant in County Durham suffered from too many manufacturing halls, large internal distances to cover, and poor process-flows.

So Thorn was ready to move to a new, technically advanced factory on a brown-field site. But in the economic slowdown, big savings had to be made to justify the business case for the move. We were asked to reconfigure the business to save £3.5 million in overheads and staffing, direct and indirect.

We worked closely with the client to create a series of vital projects:

- to design the shop floor to reduce complexity and achieve the most efficient flows of material and information

- to reconfigure roles, responsibilities and competences to get the best from the new layout
- to reduce overheads and analyse variable expenses to uncover costs that could be taken out
- to evaluate the culture of the business and define the changes needed to achieve the ideal model.

We also created and managed, in addition to these projects, a project office responsible for controlling the physical move to the new site. We set milestones and planned resources and accountabilities for all aspects of the move. The structure for communicating with and reporting to all stakeholders was clearly defined.

Thorn Lighting's award winning Spennymoor factory



Thorn saved even more than the £3.5 million originally hoped for. On-time delivery was increased, with fewer variances in labour or materials. And the organisational structure is now the model for the group's other sites. The ultimate confirmation of our success was the award - at the Best Factory Awards run by Cranfield School of Management with the magazine, Works Management - of the accolade, Factory of the Year 2009. Dr Marek Szejczewski, the Director of the awards, said:

'Thorn Lighting stood out for its attention to quality, cost and delivery. Its Spennymoor factory is extremely customer focused and its performance has been so good that it is bringing products back to the UK from overseas plants.'

Collinson Grant

Collinson Grant has been helping large companies to integrate acquisitions and restructure businesses since the early 1980s. We help firms all over Europe and in the United States to reduce costs, improve performance and profit, and manage people. This builds long-term relationships. We have kept some clients for over thirty years.

Our emphasis is on results and value-for-money. We expect to give a first class return on the investment in us. So we do not recommend action unless we are sure that the outcome will be worth it. We are not afraid to give bad news, or to champion ideas that may not be welcome.

Skills – the sort of work we do

Most of our work is on three themes – organisation, costs and people. We use this simple framework to manage complex assignments - often with an international dimension - and to support managers on smaller, more focused projects. We help them:

- to restructure and integrate - following acquisitions or to improve profits. Our work includes: closing sites and relocating operations; drafting social plans; leading negotiations with the staff and its representatives, local politicians and officials; handling redundancies and managing communications
- to improve the supply chain. We examine every process and interface to improve efficiency and service
- to set up financial and managerial controls. We create robust systems to improve decision-making and reduce risks
- to introduce lean manufacturing and refine business processes. We analyse and improve how work is done, and use new ways to create change and make it stick
- to cut costs. We make systematic analyses of overheads, direct costs, and the profitability of customers and products. This helps managers to understand complexity, and to take firm steps to reduce it
- to manage people. We draw up pay schemes and put them into effect, guide managers on employee relations and employment law, get better performance from people, and manage redundancy.

Our skills

Our consultants have very different skills and experiences. But they have all have been senior line managers – many in multinational businesses. They can manage firms and get the best out of processes and people. They offer sound knowledge, fresh angles on old problems, and the personal skills to take hard decisions.

They have various specialisms - in financial/operational analysis, in organisational design and the supply chain, in manufacturing and operational

controls, in managing projects, or in employee relations and employment law. They include American, Dutch, French, German consultants, and several qualified employment lawyers – in the UK and other European countries. Our ability to negotiate agreements directly with trades unions in the UK, France and Germany is an important strength when leading difficult organisational change.

Summary

Collinson Grant's experience in managing the restructuring of European manufacturing sites is extensive – a lot of it has been in Germany. We work with clients in different ways, depending on their preference, the skills available internally and the urgency for action. Our support helps clients:

- to analyse the current situation – and the risks
- to understand the options for change – with associated benefits and costs
- to determine the best course of action
- to complete negotiations with social partners
- to prepare comprehensive plans for implementation
- to manage operations during periods of instability
- to maintain strong cashflow
- to handle redundancies effectively.



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