CASE STUDY

SCOPING AND IMPLEMENTING FOOTPRINT OPTIMISATION PROGRAMMES

Executive summary

The companies:

Two multinational manufacturers with turnovers of €1bn and €850m

The challenge:

Simplify processes and enable more efficient consolidation of sites

A&M's impact

1. **Turned -€100m EBITDA positive**
2. **Helping move EBITDA margin from 9% up to 15%**
3. **Took -€200m cash flow to breakeven**

Introduction

An organisation's physical footprint is central to its ongoing commercial viability, but a footprint transformation may become necessary for many different reasons. Companies may need to respond to macro trends such as shrinking markets or shifting consumer demand. On the operational side, executives may look to combat production network overcapacity, exploit new manufacturing technologies or drive efficiencies following M&A activity.

Different businesses have many different objectives when contemplating a footprint transformation. A&M is often engaged to assess the implementation of cost optimisation and restructuring programmes where footprint plays a part, or to support the development of new operating models with consequences for footprint. Additionally, optimising footprint may deliver compelling opportunities for value creation following M&A activity.

Suboptimal utilisation of footprint can present dangers for executive teams. If cash flow is restricted due to excessive costs, there may be follow-on consequences for forward-looking business investment. At the same time, when footprint is seen to weigh on a balance sheet, private equity and activist investors may scent the potential for decisive action.

Whatever triggers a programme of footprint optimisation, leaders must negotiate complex challenges before companies can reap the desired benefits.

A&M's approach

A&M has significant experience with footprint optimisations globally, partnering with corporate and private equity clients. Our leadership advisory and operational expertise allows us to support executive teams for the duration of a project, while tactically intervening at critical moments to operationalise improvements.

The following three steps function as a guide to assessing this kind of optimisation programme and quantifying potential improvements ahead of a successful implementation:

1. In-depth assessment of current situation, including analyses of financial and operational performance, asset utilisation, sales pipeline and future outlook by product and customer, as well as a site-by-site evaluation of technology and specialist knowledge
2. Development and ranking of future footprint scenarios, aligned with overall corporate strategy. Includes assessing consolidation potential, alternative site evaluations (low cost/best cost countries), implementation timelines and projected EBITDA uplift as well as one-time cost and capex estimates
3. Detailed implementation planning and executing agreed optimisation strategy. A&M is typically involved in establishing communication plans, transfer plans, ramping up receiving sites, portfolio streamlining at sending sites, and wind-downs of facilities. If required, A&M will also take on interim leadership positions

Two recent example projects showcase this kind of work.

In the wake of an acquisition, a multinational equipment manufacturer and installer needed to find ways to achieve increased efficiencies and stabilise returns. A&M was asked to evaluate the company's global footprint and make recommendations for better-optimised facilities that would help increase the company's competitiveness and improve EBITDA.

With turnover of €1bn and operations in three continents, there were many complex interrelated issues to consider. A&M outlined several alternative options for the business, ranging from relatively small-scale adjustments to a much more significant transformation of operations. The decision was taken to follow a middle ground that entailed the closure of one European site and consolidation of activities among the remaining three facilities in Europe. The plan also covered activities in Brazil, with one site out of two being decommissioned.

Criteria

In both cases, A&M presented the organisations' executive teams with a range of different options and strategies for executing the projects. Common to all such engagements is a set of criteria that serves as a reference for A&M when involved in this kind of transformation project:

Financial

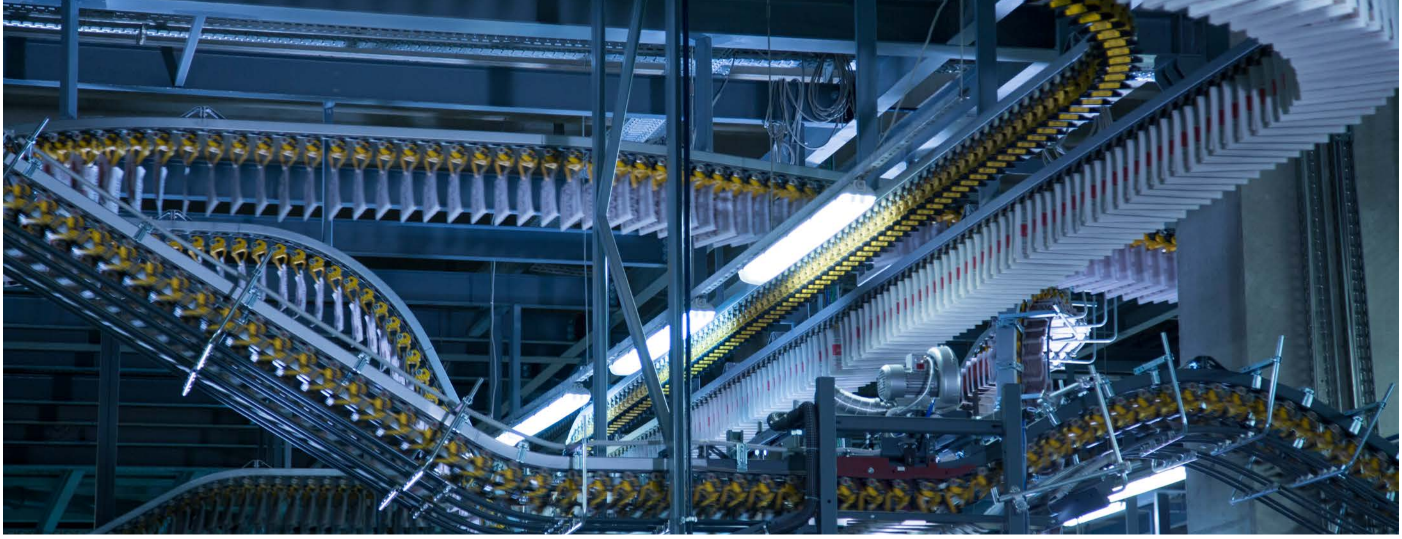
a. Run rate (cash at bank)
b. One-time investment and realignment costs
c. Capex
d. RoI (Return on Investment), RoCE (Return on Capital Employed)

Transfer risks

a. Loss of critical knowledge from workforce
b. Reputational damage to brand
c. Maturity of different sites
d. Customers' acceptance of changes

Potential long-term consequences

a. New complexities in supply chain
b. Talent availability across functions and levels
c. Increased complexity in organisational structure
d. Suitability of sites for planned future growth



A&M was also engaged by a connector manufacturer looking to execute a similar optimisation programme after acquiring a number of smaller competitors over the past five years. The company turns over €850m and operates four sites in Europe as well as facilities in India, China, Mexico and the US. A&M was asked to review the organisation's European footprint: of the four sites it operated, none was running profitably.

A plan for transferring work was required. The company wanted to weigh the benefits of moving work to a new location or consolidating profitable divisions within existing sites. While a new location may have presented opportunities for savings, it may also have had a negative impact on customer experience, affecting delivery times and overall satisfaction.

A&M's solutions

A&M was able to help bring about a meaningful upward lift in EBITDA for the first manufacturing company. EBITDA, which had previously been in excess of -€100m, is now positive. In addition to realigning footprint, A&M also scoped and helped execute a product transfer programme to focus the organisation on its more profitable products and consolidate the firm's core competencies.

A&M also helped the second manufacturer stabilise costs and improve EBITDA margins. After evaluating the costs and benefits of all available options with the help of A&M, the company decided to close two sites in Europe alongside the partial transfer of profitable products to existing sites. The changes are part of the company's goal to take EBITDA margin up from 9% to 15%, which is now on track. Today, A&M is supporting the company's transfer of products with an acceptable margin to lower-cost sites, as well as its shift away from unprofitable products. Activities include refining customer communications, planning production of last time buys, for building stock to cover transfer times, preparing the transfer of equipment and of know-how to the receiving sites.

Key pitfalls

A&M's practitioners have observed several important challenges faced by organisations looking to optimise footprint:

- Reducing the impact of deep-dive analyses due to a lack of clear operational strategy, placing upfront limitations on exercises ('sacred cows'), and/or by excluding potential scenarios and outcomes
- Overly focused on financials and not thinking about the impact of intangibles like talent, effective local leadership and existing specialist knowledge
- Underestimating the complexity of the optimisation programme and relying on local leadership to execute complex transformations (eg plant closures, consolidations)
- Thinking about core functions (eg the factory floor) without considering support services
- Being overly optimistic on timelines for transferring work, negotiating with new and existing suppliers, etc
- Failing to consider the long-term effects of talent availability, supplier relationships and wage costs at potential new sites
- Insufficient communication with customers, suppliers and employees ahead of and during transformation projects

Summary

When designing plans for footprint changes, companies must take into account the demands of three stakeholder groups:

What does the customer want?
(Eg: low costs, high quality, reliable delivery)

What do shareholders want?
(Eg: optimal margins, long-term sustainable performance, regular dividends)

What do internal stakeholders want?
(Eg: smooth transfers of work, clear long-term planning, access to senior leaders)

Decisions on footprint transformations should weigh immediate impacts against long-term efficiency gains. Some near-term disruption to supplier agreements, for example, may be worth it if the result is long-term improvements in customer satisfaction.

Reimagining organisations' footprints requires 'hard' operational and 'soft' leadership expertise. A&M's practitioners help executives make good decisions at each stage of these complex projects.

To learn more about A&M's corporate transformation work (pre- and post-M&A), please visit our website.

"We were very pleased to work with A&M on this project. A&M helped us grow EBITDA by over €100m – equivalent to 15% of sales. In 12 months, the business has moved from a negative cash flow of €200m to now approaching breakeven."

CEO, multinational manufacturing company

KEY CONTACTS

Roswitha Tertea
Managing Director
+49 173 323 3331
rtertea@alvarezandmarsal.com

Reuven Lehmann
Director
+49 171 205 3341
rlehmann@alvarezandmarsal.com

Felix Schweigger
Director
+49 174 246 5924
fschweigger@alvarezandmarsal.com

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Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to drive change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 4,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

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