42 Restructuring Exide

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Introduction

In March 1999, Exide Corporation announced that Robert Lutz, the flamboyant sixty-seven-year-old former Chrysler executive who helped turn that company around in the early 1990s, would become chairman, president, and chief executive officer of Exide. Lutz, an outspoken former marine known for his love of good cigars, fine wine, and flying jet fighters, would have his work cut out for him. Exide was a company in trouble. The world's largest manufacturer of lead acid batteries, the company had reportedly sacrificed profitability in its quest for market share leadership. For the financial year ending March 1999, Exide lost $9 million on global sales of $2.37 billion. A series of bank-financed acquisitions during the 1990s had left the company with a weak balance sheet, including $1.3 billion in debt that cost $100 million in annual interest payments to serve. Moreover, a price war in the lead battery industry was squeezing profit margins.

Exide's Business

Market Segments and Customers

Exide manufactures batteries for customers in two broad areas: industrial and automotive. The industrial area, which accounts for around 37 percent of Exide's revenues, is broken down into two segments. One, the motive power business, is engaged in the manufacture of batteries for electric vehicles, including fork lift trucks, golf carts, wheel chairs, and electric floor cleaning equipment. The other industrial segment, network power, makes standby batteries used for backup power applications, to ensure continuous power supply in case of main (primary) power failure or outage. The largest customers here are manufacturers of telecommunications equipment, who incorporate the batteries in their equipment to ensure that it continues to function in the case of a power outage (which is why you can still make phone calls, even if you do not have power at home). A second customer group is businesses that use standby batteries in computer installations so that the computer system stays up even if the power goes down.

In the industrial motive power business, most of Exide's batteries are sold through independent lift truck dealers or sold directly to large users of lift trucks, such as Wal-Mart and Kroger. Exide's customers in the industrial network power business include manufacturers of telecommunications equipment, as well as telecommunications service providers. Customers include Lucent, Motorola, and Nokia, all major global producers of telecommunications equipment, and AT&T, British Telecom, China Telecom, Deutsche Telekom, GTE, and Nippon Telephone and Telegraph, all service providers.

The automotive area of Exide's business, which accounts for 67 percent of global rev-

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enues, is composed primarily of the manufacture and sale of lead acid batteries to automobile manufacturers and to "aftermarket" distributors. Principal OEM customers include Daimler-Chrysler, for whom Exide is the primary global battery supplier, Ford, Toyota, Mack Trucks, John Deere, Volvo, the Renault Group, Volkswagen, and BMW. Aftermarket batteries are sold principally though retail automotive parts chains and mass merchandisers. Customers in the United States include NAPA Distribution Centers, Wal-Mart, Kmart, and Les Schwab Tire. Customers in Europe include large national distributors such as Kwik Fit in the United Kingdom. In the United States, Exide batteries are sold in the aftermarket under the Exide and Champion brand names. In Europe the brand names in the aftermarket vary from country to country and include Exide, Fulmen, DETA, Tudor, SONNAK, and Centra.

Competition

Exide is the global market share leader in both the motive power and network power segments of the industrial area. Major competitors include U.K.-based Invensys's Hawker battery group, C&D Technologies (another U.S. firm), and Yuasa of Japan. In the automotive area, Exide again leads with a 36 percent share of the global market for automobile batteries (both OEM and aftermarket). Exide's largest competitors in the United States automotive segment include Delphi Automotive and Johnson Controls. In Europe, Exide faces a number of strong local competitors, including Varta, Fiamm, and Hoppeke. Price competition has long been intense in all markets, with major customers using their buying power to bargain down battery prices. Exide's financial troubles in the late 1990s, however, were due in part to an outbreak of extremely aggressive price competition in Europe.

Manufacturing, Employees, and Facilities

Lead is the principal material used in the manufacturing of batteries, accounting for about one-fifth of the cost of goods sold. Exide operates a number of lead recycling plants in both the United States and Europe. It reclaims lead from used batteries that end users returned to distributors. Exide fulfills most of its lead requirements from its recycling plants. Other key raw materials include lead oxide and bulk chemicals.

Exide employs some 20,000 people, 8,500 in the United States and approximately 10,900 in Europe. The company operates some fifty facilities, the bulk of which are in Europe and North America, where most of the company's sales are concentrated. Exide has some fourteen manufacturing facilities in North America, sixteen in Western Europe, two in Australia, one in New Zealand, and one in Turkey. In Western Europe, there are manufacturing and lead recycling facilities in each major national market.

Lutz's Changes

Lutz moved rapidly to make a number of changes in Exide's business. One of his first decisions was to pull out of a supply agreement with Sears. Exide sold over 4.5 million batteries per year to Sears, but to get the agreement the company had to slash prices. The result was that Exide was making less from the Sears deal than it was from deals one-fifth the size. Lutz also pushed the company to shift demand from low-priced battery models to higher-priced branded products, particularly in the automotive segment. Consistent with this theme, in June 1999 Exide introduced a new lead acid battery, the Select Orbital battery. While the battery cost $125, Exide claimed that it was based on a radically new design and would retain its charge for over a year, substantially longer than a conventional battery. Moreover, while a conventional battery has a life of around thirty to forty months, Exide claimed that the Orbital would last five years and stand up to far more abuse.

Lutz also pushed the company to quickly solve its legal problems. The company was being sued in the United States for recycling old batteries and selling them as new through distributors such as Sears. Under Lutz's direction, instead of fighting the lawsuits, Exide quickly settled them for a few million dollars and took a one-time charge against earnings.

Within some fifteen months of his arrival, Lutz had replaced the entire board of directors and the majority of senior executives in both Europe and North America. Worldwide battery product capacity had been cut by some 20 percent through plant closures, the company's debt load had been substantially pared back by issuing additional stock and using the proceeds to pay down debt, and Exide had made a major acquisition, paying $368 million in stock and cash for GNB Technologies, a major supplier in the fast-growing market for standby batteries in telecommunications and computer equipment. Perhaps the most difficult change Lutz