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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 initiated, however, was one in the organization structure of Exide's business.

Changing the Organization Structure: Product or Geography?

When he arrived at Exide, Lutz found a structure that was based on geography with ten different country organizations. The genesis of this structure was rooted in history. Many of the country organizations had previously been independent businesses that Exide had acquired in its rush to gain global market share. After being acquired, the majority continued to function as self-contained operations with their own brands, manufacturing facilities, and distribution systems. Exide managed the different subsidiaries on an arms-length basis, setting profit goals for each and awarding local executives big bonuses if they exceeded those goals.

It soon became apparent to Lutz that this structure was causing problems for Exide, particularly in Europe. When Lutz arrived, Exide's European business was losing money. The various country managers in Europe blamed the losses on significant price discounting. After talking to competitors and customers, Lutz found that there indeed was significant price discounting in Europe, but in many cases this was because different Exide subsidiaries were competing against each other for major customers. They were exporting into each other's territories or competing aggressively for a share in third countries. Thus, for example, the British subsidiary was gaining share in Australia from the German subsidiary by underselling the latter by 10 to 15 percent. Part of the blame for this competition could be laid at the feet of an incentive system that rewarded country managers for increasing the performance of their unit, irrespective of whether that was at the expense of another Exide unit.

Convinced that the structure had to change, Lutz held five management retreats between June 1999 and January 2000. "Where does our future lie?" Lutz asked the thirty senior executives assembled for the first meeting. "Does it lie in country management or in global business units?" Many of the country managers reacted with apprehension to the question. Several argued that their regions were in good shape and that any problems that existed were due to weaknesses elsewhere or to general industry conditions.

Between retreats managers working in teams were assigned to grapple with the various dilemmas confronting the company, using existing and alternative models of the organization as solutions. In a typical assessment, one team looked at Exide's Asian expansion strategy. It concluded that the geographic focus encouraged construction of manufacturing plants in each country Exide entered, even though it was not profitable to keep putting up plants like that. On the third retreat, the teams started to report their findings, and it quickly became apparent that many were concluding that only a product line structure could cure Exide's ills. After a vigorous debate, Lutz stood up and announced, "We don't have consensus yet. . . . But I'm going to make a decision, and we are going to a global business unit structure."

Under the proposed structure that Lutz revealed at the next meeting, six global business units replaced the geographic organization. Each business unit was built around a distinct product line, such as network power, industrial motive power, and so on. It was the global business units that were now given responsibility for major strategic and operational decisions, such as what to produce where, how much to charge customers, and selling to major regional or global customers. Country managers were given a coordinating role and the responsibility for local sales efforts and distribution.

Although by now expected, the announcement was a severe blow for many country managers. Effectively, it meant a demotion. When one country manager frowned at the announcement, Lutz looked at him and asked, "Why don't you give this a try?" "No," the manager replied, "I'm out of here!" Another country manager told a consultant: "Being a country manager is my life. It's something I've worked for my entire life. I don't see how I'll have a role going forward." Subsequently, the manager was given the option of moving from Naples to Frankfurt, for less money, or leaving the company. He chose the former option, but his family refused to move and stayed in Naples. Other country managers came out of the process quite well. Albrecht Leuschner, the head of the German unit, found himself promoted to lead the global network power business unit, which was to be headquartered in Germany.

The Acquisition of GNB Technologies

Leuschner found himself in this position for just six weeks. In May 2000, Exide acquired GNB Technologies for its fast-growing network power business and industrial motive power businesses. The acquisition gave Lutz a problem; he feared that Mitchell Bregman, the well-regarded president of GNB's operation, might leave once Exide folded his industrial battery business into its global network power and industrial motive power business units. Instead, Lutz approached Bregman and told him that after the acquisition he would retain control over the North American industrial battery business. In effect, after only six weeks, the global business unit structure was being amended. There was now a European business unit for network power headed by Leuschner, a European business unit for industrial motive power that was run out of the United Kingdom, and a North American industrial battery business headed by Bregman.

Initially, the decision gave rise to a turf battle between Leuschner and Bregman. The point of contention was over who should run China for Exide. Bregman wanted to form and direct a Chinese subsidiary, because China represented his unit's fastest-growing market. Leuschner lobbied to form a joint venture in China that would be under his command. Bregman was finally persuaded to give in to Leuschner, but only after he had been given control over South American operations and had been guaranteed control over operations in Korea, Japan, and Taiwan.

Now all parties claim that the structure is working well. The company still maintains separate industrial battery sales forces in North America and Europe, in what has become a de facto regional structure. However, teams from the European and North American units have begun making joint pitches to global customers such as Ford and Lucent.

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