
Restructuring Operations in Europe

A European challenge for the 16th largest
industrial company in the US

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Prologue: 3,000 miles away

Restructuring is not easy, but over the years you have gotten to know the priorities. Plan carefully. Get layoffs over as quickly and cleanly as possible. Manage communications. Focus on the future. Every restructuring is different, of course, but you have a basic framework that gets you results. Then you try to apply it in Europe.

The first shock is the bureaucracy. Consultation periods of months before anyone can be let go? And then only if government officials agree? Then there is the European style of business agreements. Back at home, a contract is a contract, but over there a lot of things are unwritten and subject to change. More red tape and legal fudging than you can believe.

The second shock is the attitudes. Europeans do not seem to have the same view of business as Americans. No one takes personal responsibility. Every decision is taken by committee. People seem to believe the business owes them a living, or that no restructuring is necessary so long as the numbers stay above break-even. It is not just a question of language – though working through interpreters is hard enough. When you talk about corporate priorities or business values or financial accountability, your European audience nods but takes away a very different message from the one you intended.

The worst shock is just how much is different. You thought you knew an industry, but over there it is far more centralized or regional or just plain differently organized. You thought you were familiar with markets, but now you are faced with different kinds of buyers with different needs. You thought you understood purchasing and supplier relationships, until you found your profit margins slipping away as negotiations drag on. You thought you could work within over-arching European law, and then you saw a supposedly common European directive interpreted in different ways in different countries. After a while, you wonder whether anything you have learned about restructuring will be useful in this new environment.

Restructuring in Europe does not have to be such a nightmare. The key is to understand exactly what is – and what is not – different in Europe, and to adopt strategies that manage the different cultures, business processes, structures and legal environments. US companies who master these details can and do get the same kind of results they are used to back home. Among those successful companies was McKesson, America's 16th largest industrial company.

McKesson Inc. and McKesson UK

McKesson, Inc is the world's largest healthcare services and technology company, and the 16th largest industrial company in the USA. It has operations in Canada, France, the Netherlands, Puerto Rico and the UK, as well throughout the United States. Annual revenues are \$69 billion.

McKesson Provider Technologies (MPT) is the technology arm of the firm. With annual sales of \$1.17 billion, it is the smallest of McKesson's three main divisions. Based in Atlanta, GA, MPT provides industry-leading software, hardware and technology solutions to hospitals, physicians' offices and homes to help improve patient care and healthcare efficiency. In the US, MPT has a dominant market position: number one in revenue, number one in Earnings Before Interest and Tax, number one in margin. Its market share continues to grow. McKesson UK is a wholly owned subsidiary of McKesson, Inc, and part of MPT. The British business was started by a US software company, which grew by acquisition and was then acquired by McKesson in the late 1990s. McKesson UK's main business is providing outsourced IT services, in particular to the UK National Health Service (the NHS) and other public sector buyers.

**\$7 million budgeted loss
was turned into
\$2 million profit in less
than two years**

By the early 2000s, McKesson UK appeared to be building a powerful business. The firm was the market leader in community and child health products, and the second largest supplier of financial services and Patient Care Solutions. The public sector market for IT was set to grow by 16% a year, and the market for Patient Care IT by 25%. At the end of 2001, the company won a \$535 million outsourcing contract with the NHS. By 2002, bidding on part of a \$6.1 billion contract for a national IT program was under way. If successful, this would transform McKesson UK from a \$100 million into a \$700 million business.

However, sales had reached a plateau and total costs were rising. McKesson, Inc.'s leadership became increasingly concerned that the UK subsidiary was running out of control. The danger signal came when UK managers asked for an urgent financial provision to be made against one contract. There was incredulity that this had not been foreseen. Senior managers from the UK were summoned to Atlanta to explain themselves. It was clear they had done a bad job – the Managing Director did not even bother to make the trip and resigned shortly afterwards.

Jeremy Chandler accepted the job of UK Managing Director and set out from the US to investigate. He was tasked with sorting out the mess and with restructuring the business so that the same thing could not happen again. The first thing he did was to look at the four most recently signed contracts. It was immediately clear that there was going to be a lot to do.

The restructuring turned out to be one of the most successful McKesson had undertaken. The UK team achieved a turnaround more quickly and at less cost than anyone had expected. The \$7 million budgeted loss was turned into profits of \$2 million in less than two years. McKesson, Inc got those results because they realized restructuring in Europe required a different approach. Not less ambitious or less thorough, just different.

Why is Europe so different?

Restructuring in Europe is, as the British say, a different kettle of fish from turning around a US business. Just consider the following situations turnaround executives have faced:

"Our entire market is going through a fundamental restructuring following a ruling on EC competition law."

"We found deep cultural prejudices against making any redundancies unless the company was actually making a loss. There was hostility from the workforce, trades unions, the press and politicians. 'Lock-ins' were the least of the intimidations."

**Manage the differences,
and you can get
the kind of results you
are used to**

"Layoffs have to be managed in total consultation with unions and Works Councils. There are very strict procedures and if you miss a deadline, it's back to square one."

"When we looked at cutting headcount, we realized it would take us 18 months. The business would be broke by then."

"Every country used different accounting standards. When you looked at gross margin, for instance, you had no idea what went into it."

Treat a European turnaround like a US restructuring and you risk burning up time, money and talented executives. But, if you approach it in the right way, you can get the kind of results you are used to at home. McKesson managed it, as have other companies. Indeed, all the above restructurings achieved or exceeded their aims. The first step in getting that kind of success is to understand exactly how and why Europe is different.

Culture

A culture of entitlement?

Europe can seem a lot more than 3,000 miles away from the US. Even Jeremy Chandler, a native Englishman, experienced what can only be described as culture shock when he took over McKesson UK.

"I was stunned when I first came in. I had been working in the US for so long that I had forgotten how much there is a culture of entitlement in the UK. It was expected that the company should increase salaries and pay bonuses regardless of how productive you were, how hard you worked or whether you actually achieved what you said you were going to achieve. People felt the firm owed them a living."

Jeremy remembers one particularly vivid example of unrealistic expectations. *"I was asked by one manager whether people who had been laid off could still come into the office and use their computers, because they do their entire internet banking on it and they don't have a computer at home. It was that entitlement culture again. And it was worst among the most senior managers. It made me so angry, I sometimes had to remove myself from the process."*

Some firms think that putting in the right systems is the answer. Unfortunately, systems are often not enough. McKesson UK had performance management and reward systems in place, just as in the US, but the European culture overrode them. Under the system, every employee's performance was rated twice a year on a scale of 1 (excellent) to 5 (unsatisfactory). Anyone rated 1 or 2 got a pay increase. In the UK every employee had for some time been rated 1 or 2. At the same time, the gain sharing system had mutated. In the US, up to 5% of salary was paid to each employee if the company made or exceeded annual targets. In the UK, the full gain share was paid even in years when the company made a loss. There was also a management incentive scheme, designed to pay a bonus of 10-30% of salary to exceptional performers who made a real difference to the business. By the time Jeremy Chandler arrived, the scheme was bloated and people who had little impact on the business were getting significant percentages as bonuses.

At DCS Group, another turnaround chief executive, Steve Yapp, found an outright refusal to acknowledge any financial realities. *"A certain thing struck me in all the presentations from the MDs of the divisions. Nobody ever talked about cash. Nobody produced any balance sheets. All I wanted to know was what the facts were..."*

DCS Group plc

DCS Group is a \$97 million Europe-based company quoted on the London Alternative Investment Market. DCS has offices in Belgium, France, Germany, the Netherlands, Spain, Switzerland, the UK, and the USA. It comprises two business divisions:

DCS Automotive is Europe's leading provider of software solutions to the automotive retail sector. Customers include Audi, BMW, Citroen, Ford, Fiat, Nissan, Renault and VW.

DCS Transport and Logistics Solutions is a software solutions provider to the international transport and logistics industry. Its products have over 25,000 users in 72 countries.

American and European business cultures are rooted in fundamentally different philosophies. McKesson's UK operations had their roots in state run enterprises. Most employees had joined the firm from IT departments in the UK National Health Service (the NHS). Many had been government employees their whole lives. Job security had been absolute. They had been used to annual salary increments, pay-for-seniority and a focus on collective rather than individual responsibility. Accountability was something that happened to other people.

In Jeremy's words: *"Some of the long-standing members of the management team saw their jobs as being all about service levels. They really struggled with being managed from a financial perspective. They took this old school attitude that the fact that the UK was losing money and expected to lose much more wasn't their problem. My attitude was: I didn't expect this to be so difficult."*

Some employees – especially those who had worked in the public sector for longest – never managed to bridge the cultural divide, even when layoffs were announced in mid 2003. *“People would sit in front of me,”* Jeremy recalled, *“and say they disagreed with being made redundant. ‘What part of it do you disagree with?’ ‘All of it.’ ‘Well, do you think your manager gave you a fair assessment?’ ‘Yes.’ ‘Do you think that you were singled out for any discriminatory reason, your age or something?’ ‘No.’ ‘So, what part of it don’t you like?’ ‘I just don’t agree with it.’”* Jeremy ended up letting six of the management team go in his first four months.

European Culture? European Cultures?

Europeans celebrate their cultural differences, while the American ideal remains a single, strong enterprise culture. US firms might recognize cultural differences, but they rarely see them as insurmountable. In Europe, everyone expects business to be done very differently in Spain from in Germany. Some of the most successful pan-European firms come from Scandinavia or the Netherlands – countries that have always had to be international in outlook.

In some ways, though, Europeans are alike. There is a tendency to assign responsibility to large and sometimes ill-defined groups rather than to a particular individual. Foreign as this is to American eyes, there are some advantages. Having to obtain consensus can give greater legitimacy to sensitive or controversial decisions. In the end, it matters more that accountability is understood than that it takes the particular form we are used to in the US.

Cultural differences seem to matter more for larger than for smaller companies. Research¹ has shown that small companies can transfer their home procedures without objection, but larger firms such as McKesson are more likely to be influenced by the culture of the country they are operating in.

Of course, many of the problems and confusions Jeremy and Steve encountered could have happened in a US restructuring. And some were clearly the legacy of poorly-managed mergers and acquisitions. But Jeremy maintains that his job would have been easier if he had realized from the start that there were important differences of philosophy and culture between the UK people and what he was used to in the US. *“Looking back”,* he said, *“I had little understanding of what I was getting into.”*

The view from Europe

Of course, the culture clash was not just one-way in either McKesson or DCS. Steve Yapp recalls coming away from his early conversations in France realizing that business success was viewed as more than just meeting sales and profit targets. Top managers saw themselves as responsible not just to their shareholders but also to their workers. Layoffs and other cost cutting measures were seen as unwarranted while the company continued to make even a modest profit. If the price for such stability was 5% instead of 10% return on sales, so be it. The leaders of DCS’s French business had different expectations, a different outlook on life. And their relations with clients were close, almost personal relationships. *“Elsewhere things are black and white. In France it’s a little more subtle.”*

“I had been working in the US for so long I had forgotten what Europe is like”

¹ Michael Muller, *Human Resource and Industrial Relations Practices of UK and US multinationals in Germany*, *International Journal of Human Resource Management*, 9.4 August 1998

Many people in McKesson UK characterized the US approach as brutal and short term. One minute the US wanted nothing more than top and bottom line numbers. The next they were sending over firefighting squads from Finance and a new MD who was letting people go and demanding a completely different way of running the company. Many managers felt beleaguered and resentful.

Even Jeremy Chandler found the import of American ways of working a challenge at times: *“Here in the UK, we went from no oversight from the US to the most intense oversight you could imagine. It got to the point where there was so much going on it was almost overwhelming.”*

McKesson recognized that they needed to soften the shock. They got Jeremy some good support to help him interpret, and manage, the culture. Jeremy felt he needed the help. *“I had been working in the US for so long that I had forgotten what it’s like over here.”*

Different kinds of business

Different work

Jeremy Chandler believed he was familiar with the business of MPT. He had been with the company for fourteen years, eight of them spent in the US. When he returned to the UK in late 2002, however, he found a very different kind of business.

MPT in the US sold hardware and software.

MPT in the UK ran outsourcing contracts.

MPT in the US has a wide range of products and services. Three-quarters of the business is focused on software products, professional services and technology. Only 25% involves outsourcing. It has a dominant market position, with higher revenues, margins and Earnings Before Interest and Tax than its rivals. It continues to grow both operating margin and market share in an essentially mature market. Customers range from individual doctors’ clinics to large healthcare delivery systems.

McKesson UK, in contrast, specializes in services and solutions for healthcare and other public sector markets. Most of its contracts are at the complex end of technology services – the outsourcing of entire technological systems. *McKesson UK was involved in a fundamentally different business, in fundamentally different markets, from its US parent.*

Outsourcing IT is very different from providing software or hardware, Jeremy Chandler explained. *“Many of our deals in the UK involve taking over data centers full of people and specialized hardware and software that handle IT for a string of hospitals or primary or ambulatory care services. We take over the data centers, train the staff and provide the service for the facility – the hospital or healthcare center – according to terms set out in a detailed contract. It is completely different from the usual US model.”*

Different markets

Even if a US parent and its European subsidiary operate in the same business, it does not mean their markets are necessarily similar. 90% of British healthcare, for example, is provided by the state funded National Health Service. Healthcare is dispensed through NHS Trusts, local administrative

**90% of UK healthcare is provided by the state...
... but every European country, and market, is different**

groupings of hospitals and healthcare centers. Until the 1990s, the NHS managed IT and processing internally. The public sector outsourcing market is only just over a decade old.

To add to the confusion, every country in Europe has subtly different markets in virtually every sector. A true European Single Market is still a long way off, so doing business is very different in France, say, from in England. DCS's customers were car dealerships throughout Europe. The UK was becoming dominated by multi-franchise dealers. The French market was more diffuse, ranging from large groups of dealers affiliated to the major car companies to small, independent, single-franchise operations. As a result, DCS UK served a market of around 5,000 customers, while DCS France had to reach 25,000.

When companies manage operations in several countries across Europe, the market differences are compounded. From 2000-2002, the UK market for DCS's auto dealer software was steady in the wake of overspending on Y2K updates. In Germany and France, however, business continued to boom. Customers needed updated software that could handle Euros as well as Deutschmarks or French Francs or other local currency, in preparation for the advent of the common European currency. US parent companies trying to make decisions about 'Europe' often find it very hard indeed.

Different processes

Purchasing procedures are also, unsurprisingly, often unlike those in the US. The NHS has only in the last decade and a half abandoned centralized purchasing, and many features of traditional government procurement remain: tendering processes are often cumbersome; decisions are made by committee rather than by accountable individuals. Such bureaucracy is encouraged by EU regulations aimed at bringing harmonization and transparency to government procurement. Implementation of regulations, however, is less thorough in those countries where many business relationships still follow the traditional lines of family, locality and education. Bidding on government contracts in Italy is a very different matter from in Germany.

Whether the process is heavily bureaucratized or not, it can be frustrating for someone used to doing business the American way. Jeremy put it this way: *"I find the US a really good environment to work in because you know that the people sitting across the desk are as accountable as you are. So, when someone says they are going to move forward with a deal or an installation, chances are it will happen. Regardless of whether a healthcare organization is run for profit or not-for-profit, it is run as a business in the US. But in the UK, because it's social medicine, everything is done by committee. It's a very different model and it's very difficult to get things moving."*

**In America, even non-profits are run as businesses...
...In Europe, the buck stops at a committee**

As well as differences in sales processes, there will almost certainly be important variations in how the business is managed internally. At DCS, each European country reported revenues and costs according to different accounting conventions. For example, in accounting for overheads, some would combine establishment costs on one line, others would allocate them as part of the gross margin. The multiple conventions made it difficult if not impossible to compare and assess and to know what was happening in terms of US margins.

Jeremy Chandler had arrived at McKesson UK expecting to have access to the kind of management information he was used to in the States. What he discovered in his first week was a lack of any internal analysis on contracts, or their profitability. Information from the management accounting systems McKesson had inherited went only to the highest level. Individual business unit and project managers were left completely in the dark. *"None of the business unit managers in the UK was given any financial metrics whatsoever. So at the business unit or divisional level they didn't see anything. They didn't see how any of their products was performing, in terms of either revenue stream or profitability. They had no visibility as far as expenses or headcount was concerned. The result was that no one, apart from me, was actually held responsible or accountable. It was unbelievable."*

The structures were in place. The problem was nobody used them. *"I dug deeper and deeper into things to try and understand how this could have happened. How can we have contracts that have gone on for years that no one understands and are running at a loss? It is just not the way you do business. At least, not the way I'm used to doing business in the US."*

Legal differences

Employment law, not employer law

Jeremy's restructuring plan called for one in six of the McKesson UK workforce to be laid off. He knew he could not expect the process to be as legally simple as in the US, with employment at will the norm. In fact, he thought that in some ways it was a good thing that European law made for a much more open process. *"From what I've experienced in the US, it can be very cloak and dagger. There'll be an announcement that there's going to be a reduction in the workforce, and then the next thing you see is people shuffling out with little boxes of personal stuff."*

Then he got down to the realities of cutting headcount. Trying to decide who to lay off was complicated by the lack of credible performance data. *"We would have a conversation and agree that someone was completely unable to do his job properly. But then, of course, because of the fudging on grading people, all of a sudden, a file would come out where his performance over several years is described as excellent as he's always scored a grade two. Eventually, though, we managed to agree on a process to reassess all the staff."*

In the UK, it is the job that is cut, not the person. An employer making layoffs must demonstrate that there is less or no demand for that kind of work. If an employee believes that he or she has been laid off "unfairly", a claim for unfair dismissal can be made to an Employment Tribunal. Any compensation awarded will be increased substantially if the employer has failed to follow the statutory dispute resolution procedures.

Jeremy was aware that any assessments had to be non-discriminatory, but he had not realized that discrimination was understood to go far beyond race or gender. *"It seemed that one thing you can't do in the UK is lay people off because they are too expensive, unless you have to choose between two people who are identical in all other respects."*

If a company fails to follow the official layoff process at any point, it can be forced to start over again

One thing you can't do in the UK is lay people off because they are too expensive

That meant, that while some people who had just joined the company might cost just \$5,000 to make redundant, others would cost much more. Many of McKesson UK's workers had joined the company as part of a number of outsourcing deals with the NHS. Complex British regulations governing the transfer of employment rights meant that they retained their NHS terms and conditions. Some workers who had put in over twenty years' service and were over fifty were entitled to redundancy payments of up to \$450,000 each. If McKesson UK had been allowed to make minimum cost redundancies, the costs would have been covered in 7 months. Following the fair and open process prescribed by law meant the payback almost doubled to over 13 months.

It was all so different from the US. *"Back there, unless you have a contract saying we have to pay you six months or whatever, we can say we're very sorry but here's your package and out you go."*

Along with costs come time implications. Jeremy had no choice but to follow the layoff processes precisely as they are set out in UK law. First he had to agree the criteria for selecting people with the unions and the Works Council, as well as with employees. Then he had to follow complex guidelines about the steps to take, whom to notify, and how much consultation period to allow, depending on the number of layoffs involved. If at any stage of the process, Jeremy or his team contravened the law in any way, the unions or the Works Council could force him to start the whole process again, right from the beginning. Steve had the same situation in DCS France. *"I've got this great belief that you should exit people fairly quickly, and I was very worried about costs. But we could not take the risk of derailing the whole process, so at one point we had to go back a step. And luckily I had a very good guy at the top of the French business to see it all through."*

International business sometimes leads to conflicts in legal requirements for layoffs. *"There are GAAP accounting principles to stop companies sliding costs between reporting periods. They applied to us as the wholly-owned subsidiary of a US company. Basically, when you announce a redundancy program you have to name the individuals. It's not a public announcement, but you must have a document where the individuals are named. Those individuals have to have left the business within 60 days from that date. We were at the stage where the document was out there and the clock was ticking."* A compromise was reached just in time.

Jeremy summed up his experience of laying off staff in Europe. *"It is a very slow process and you must make absolutely sure that you understand local employment law in great detail. But if you work carefully and exactly through the process and allow enough time in your planning timetable, then it can be done."*

Contracts without lawyers

Negotiating his way round UK and EC employment law was not Jeremy's only legal issue. As he started investigating the loss-making contracts that had prompted the restructuring, he realized that lawyers have a very different role in Europe.

Employment rights on a cross-border merger

EMPLOYMENT RIGHTS	US	UK	France	Germany	Netherlands	Italy
Consultation in advance of a business transfer	X	✓	✓	✓	✓	✓
Consultation in advance of redundancies*/**	X	✓	✓	✓	✓	✓
Notification in advance of redundancies*	✓	✓	✓	✓	✓	✓
Automatic transfer of employees with business	X	✓	✓	✓	✓	✓
Employee entitlement to receive notice of termination due to redundancy	X	✓	✓	✓	✓	✓
Statutory redundancy payment	X	✓	X	X	X	✓
No termination of employment without administrative/court consent/Works Council vote***	X	X	✓	✓	✓	✓
Right to claim compensation for unfair dismissal****	X	✓	✓	✓	X	✓

* Length varies according to numbers involved.

** In the US, if a union is recognised, good faith negotiations should be conducted with the union.

*** In France, Germany and Italy consent only required for protected categories of employees.

**** There may be defences to such claims.

"In the US, any contract negotiations mean that McKesson turns up to the negotiating table with one business person, someone from Finance and three lawyers. Most of the historical contracts McKesson had in the UK were signed without a lawyer ever having laid eyes on them."

In Europe, contracts are far less tightly worded than in the US. As a result, lawyers are not involved to the same extent in contract negotiations on standard terms. But the contracts under a new government 'Private Finance Initiative' are significantly different and much more complex. The NHS contracts set out not just the scope of accountabilities but specific service levels – detailed criteria for performance, service and support. They focused not on what the supplier was providing but on the benefit the NHS received. In outsourcing, it is only when the service is provided and the customer is actually gaining benefit from its use that the outsourcing provider actually starts to get paid and can begin to recoup its investment. It was a shock that McKesson's lawyers had not been around when they were signed.

Jeremy found out that McKesson UK had signed several contracts that it could not meet. Sorting out these contracts was the greatest problem of the entire restructuring.

Steve Yapp at DCS found even more striking differences between US and European legal practice. The European operations had a series of contracts with a major customer that appeared to be open to negotiation well after the legal documents had been signed. In practice, these were a form of risk sharing between client and IT supplier. Levels of support and payment terms were constantly renegotiated. Sometimes DCS gained, in that the client required more work than had originally been envisaged. More often, employees were committed to projects only to be pulled at the last moment, or work was undertaken which then the client would not pay for. Managers had not questioned these loose contracts. As Steve Yapp said, *"Some clients dominated our business. We were desperate to get the revenue, never mind the profits."*

EC directives and national law

In Europe, each country has its own sovereign laws, but, under the terms of various European treaties, all countries in the European Union incorporate European 'directives' into their domestic statutes. Often, this can have major implications for a business, even one conducted in only one European country.

For DCS, EC legislation would affect the entire market in Europe. An EC Competition ruling opened up the auto servicing market from the control of the major auto manufacturers. Previously, manufacturers could make warranties on new cars conditional on servicing them through their own dealerships, with their own parts. The new *"Block Exemption"* law opened up the market to independent dealers, who could source up to 70% of their parts from elsewhere, so long as they passed capability tests set by the original manufacturer. To ensure fair market practice, the European Commission would monitor the tests and their application.

Since most of the car manufacturers' profits had previously come from supplying parts, this was a major shake up in the industry. The car manufacturers were responding by reorganizing their dealerships on a European rather than a local basis, and by themselves becoming independent service providers, enabling them to service other makers' vehicles. Increasingly, they were looking to software providers such as DCS for IT help in creating economies of scale and managing the new business. Purchasing was centralizing. Products that supported the management of an entire business were replacing specialist sales software.

In part, DCS's restructuring of its European operations was driven by this legal change. DCS needed to move away from serving a local market with stand-alone products to working on a pan-European basis, developing software in partnership with major business technology firms such as IBM and SAP. Steve Yapp estimated that, if DCS got the strategy right, average sales per dealer could rise by an order of magnitude. Already, pan-European business had risen from 10% of all business in 2002 to 30% in 2004. Steve expects it to be 70% by 2010, when the EC ruling has been fully incorporated into domestic law throughout Europe.

DCS's pan-European work grew from 10% of its business in 2002 to 30% in 2004. By 2010 it should be 70%

Communicating across the Atlantic

"Everyone speaks English now," business people often say. *"There aren't any communication barriers left."* As with so many things, the truth of this varies in Europe. In some countries, and some industries, a US executive can pick up the phone to any Europe-based executive and talk away. But not all European executives are fluent enough in English to avoid misunderstandings. And interpreters may lean toward cultural interpretations of what is being said or written, or indeed have their own bias. Steve Yapp once found an interpreter softened his message, to make it more acceptable to her audience. Another time an executive who was exiting the company brought along his own interpreter – the IT director of a major client. It pays to be aware.

Out of sight, out of mind

Awareness is not only about language, of course. Distance makes close monitoring of a business difficult. Problems can incubate for years.

All reporting to the US was consolidated... the US parent did not have the remotest suspicion they had serious problems

The situation that led to Jeremy Chandler being called in to restructure McKesson UK did not emerge overnight. By the time Jeremy arrived in late 2002, the company was still effectively several separate units, each with its own business processes and reporting standards. In his words, *"The whole structure was confusing."*

As he dug deeper into McKesson UK, Jeremy found one reason why the situation had been allowed to continue for so long: everything was consolidated in the reporting of UK results. As a subsidiary, McKesson UK had been allowed to decide for itself what to recognize in the accounts and what to report to the US.

At the same time, the US was going through a lot of changes. The UK contributed less than 7% of MPT's revenue and only 1% of McKesson's. It just didn't appear on the radar screen. *"As a result,"* Jeremy explained, *"the US office did not have the remotest suspicion that they had run into such serious problems. Once they realized, I spent my first few months in the UK taking daily calls from Atlanta, weekends included."*

Jeremy is convinced that, if the same events had been happening at a McKesson business unit in the US, it would have been noticed and stopped. But, of course, it was not happening in the US. It was happening in Europe. And it was in Europe that the restructuring had to be successful.

What can you do?

In theory, it looks easy. Do your due diligence, put together a restructuring plan, implement the plan and sit back and bask in the glow of your transformed business. But, in reality, too much time is often spent on financial due diligence and not enough on operational issues: how the business actually works, what's happening in its markets, what customers really want, who the best people are and what will be necessary to keep them. When commercial issues emerge, it is frequently a shock. Multiply that by the additional complications of working in a foreign environment and most executives reel.

Jeremy Chandler remembers his first reaction on arriving to restructure McKesson's UK operations. Having been given the business model and solutions sold in the UK, and their differences compared with the US approach, he gathered together the finance and sales directors to explain the contracts to him. As the meeting went on, he noticed furtive glances being exchanged. He realized McKesson UK was likely to experience significant losses from some of its biggest contracts. The more contracts he looked at, the more problems he found.

Too much time is spent on financial diligence, not enough on commercial and operational issues

Finding out what was going on was not easy. Jeremy found the management accounts in chaos. Business unit managers had no idea of the current financial state of their parts of the business. As a result, the overall numbers Jeremy put together kept shifting. And he was under pressure from the US to produce budgets for the coming financial year. *"The numbers were wrong, and they kept shifting. We did the final accounts, put together a pretty miserable forecast and then didn't even achieve that. The UK wasn't a squeaky wheel inside McKesson; the wheel had fallen off."* On revenues of just under \$90 million, McKesson UK was looking at potential liabilities of \$50 million in a stagnant market.

Sell or restructure?

Restructuring is not necessarily incompatible with a planned sell-off

Steve Yapp had a dilemma at DCS. DCS was heavily indebted and the bankers were losing patience. Major restructuring was needed in each of the business's main European operations. The group did not have the resources to meet all the demands. Immediate cost savings won DCS a third of a million dollars, but more was needed. Divesting made sense.

DCS's automotive business had been underperforming for some time. Restructuring would be messy and expensive. Management did not feel competent or financially able to redress the problems. Although the automotive division provided over half of DCS's entire revenue, they felt it had to go. Selling the division might raise a much-needed \$9 million.

Steve was not convinced. The automotive division was the market leader, and \$9 million did not reflect the full value, as he saw it. He felt that new management and a new sense of direction could turn the business around. *"It doesn't make sense to sell an \$80 million turnover business for \$9 million if you can see how to turn it around."*

Steve looked around for other candidates for divestment. He found Digica, a troubled outsourced application server provider with turnover of \$36 million. A number of its business processes were poor and financial forecasts were unreliable. Further, Steve was unconvinced that it was a good fit within DCS. He helped the management take the first steps in turning around the business and arrange venture capital funding for a management buy-out. Four months after Steve had decided to divest, Digica was sold for \$38.7 million cash and \$2.8 in debt: \$41.5 million in total.

In the end, the decision to restructure or divest has to be informed by a detailed understanding of the business as-is, and as-could-be. And by a realistic assessment of how much time and money will be needed to turn the business around, and how much the parent company is prepared to commit. Even if a total restructuring is out of the question, it may make sense to do what Steve Yapp did at Digica, and take the first steps to turning around the business. But even to do this requires clear, comprehensive and reliable financial information. There is no substitute for understanding the business in detail.

Get a handle on the details

Management accounts and other financial sources may give a very distorted picture of the business. Steve Yapp found that, owing to cross-border borrowings and a range of debt instruments deployed in different jurisdictions, it had been difficult to assess the debt fully. Jeremy Chandler at McKesson had no idea of the depth of the contractual problems from the summary financials he first looked at. He had to start by getting the numbers right so he would know what kind of a situation he was dealing with.

Jeremy, like Steve, quickly focused on understanding the details. Three weeks after arriving in the UK, Jeremy called in a finance team from the US to perform an emergency audit. This gave him some idea of the scale of the problems, but it was up to him and the people he called on in the UK to find the solutions. They needed to put new management information processes in place, and to start using them immediately.

Getting reliable management information on costs

It was initially a matter of going back to basics. "We needed," said Jeremy, "to identify every single customer that we had out there, sit down and go through the contract, check that the products were correct, check that we weren't providing services that the customer didn't actually want and check to see whether we were charging the right amounts...I got to know this business inside out." Steve Yapp took a similar approach, looking at the business down to individual workers. "How long did he or she work on that project? How much of that time can be charged? How were those numbers reported? It took me two months just to find a reliable definition of profit."

Understanding costs

To understand costs, you need to understand a company's value chain. What value does each activity add to the business and its services or products?

It helps to think in terms of three kinds of cost:

Core costs – that add value to products and customers

Support costs – to maintain the organization

Improvement costs – to change or improve the business.

All overhead costs should be treated as variable. If volumes fall, overheads should be cut. If volumes rise, overheads should be held steady. This is only possible, of course, if organizational design is already focused around the company's strategy. Otherwise, the business risks making the wrong cuts and damaging its core processes. Know what you are dealing with.

And keep on looking. Every company needs to reassess its cost-effectiveness every 18-24 months. Left alone, costs inexorably rise. People elaborate rather than simplify their work. Resources cluster around tasks that often have minimal impact on profitability. The price of cost-effectiveness, as of democracy, is constant vigilance.

Profit should always be the first charge against sales, as any business that does not emphasize profit will ultimately make a loss. Once profit is determined, it becomes possible to see what costs the business can afford.

Understanding costs requires more sophisticated information than any forensic investigation or personal micro-management can provide. Jeremy needed to understand how the problems in McKesson UK had come about if he was to know what to address in the restructuring. It was not just a matter of finding out the profitability of contracts, but of understanding how management had made their decisions and what processes, if any, had been followed. Then consistent processes were documented and introduced.

Setting up a new information system, and gaining an understanding of management processes, usually has to be carried on in parallel with other elements of the restructuring. Jeremy spent months at McKesson UK rushing from meetings with customers to talk to the Works Council about the state of the business, and then to appointments with the finance team and advisors on the new financial management system they were putting in place.

How do I know a surplus cost when I see one?

To increase profits in a mature market, the only alternative to growing by acquisition is to reduce the business's cost base. Most companies can readily find initial savings of up to 10%. Here are some guiding principles for identifying surplus costs:

Analysis: What value is added to the business by a particular cost? How can that value be gained with reduced costs?

Relationships: Maintaining relationships with customers and suppliers costs money. How much does each cost? What are the returns and strategic importance?

Accountability: Who is responsible for each cost? How can transparency be improved? How can accountabilities be re-defined to encourage cost-effectiveness?

Targets: How are cost targets translated into increased value for customers and profit for the company? Are the targets stretching enough?

Measurement: Do management reports highlight changes in total unit costs? Do they trigger action or record historical performance?

Detail-oriented management

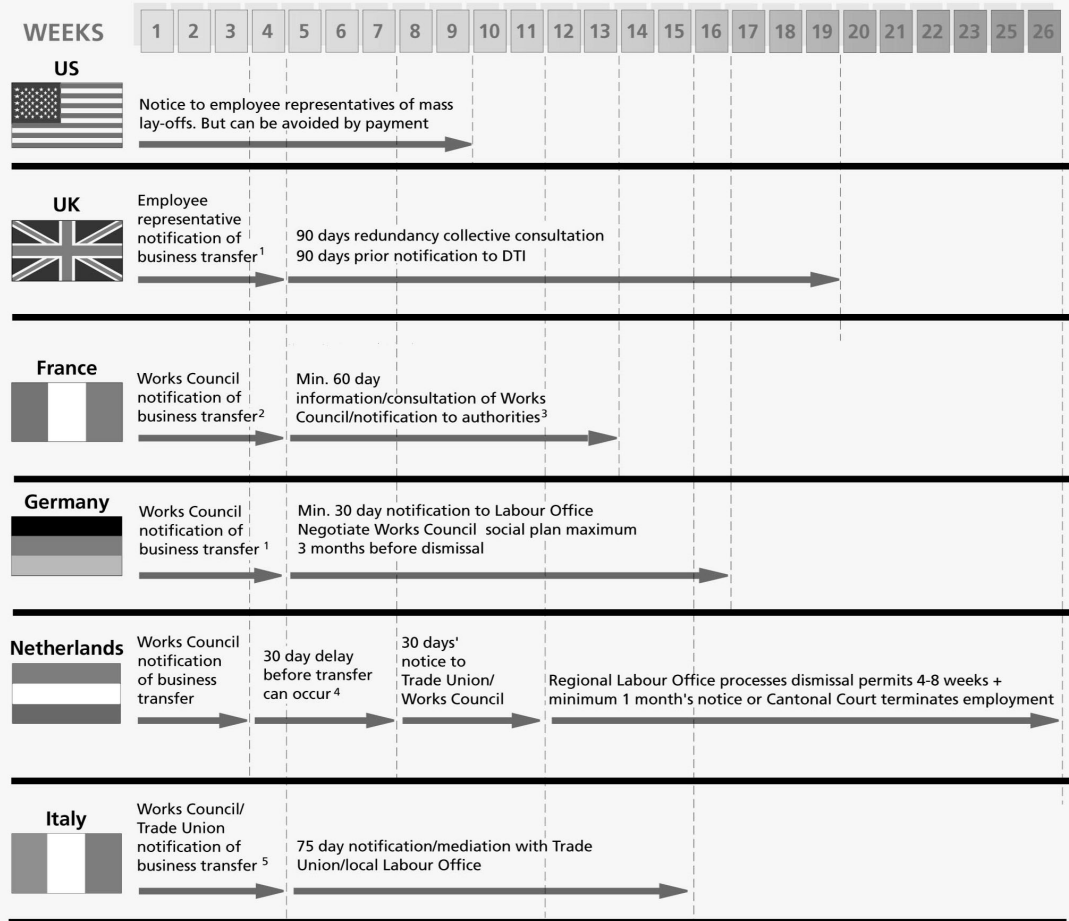
At McKesson UK, management practices as well as managers had to adapt to the new provision of information. Gradually, as the information flowed in, managers began to understand how changes they made in their parts of the business affected the figures, to see where the revenue and profits and costs were coming from. Forecasting became a cumulative process. Once the new system was up and running, senior management were able to start tracking renewals and extrapolating the data to predict trends. For the first time, they could see what that would mean for the profitability of the business, and could reforecast on that basis. They were beginning to manage rather than oversee the business.

Steve Yapp changed the structure of DCS in France to business units, to provide transparency on costs and profitability. New product developments were conducted along set process lines and, wherever possible, in conjunction with partners. Individual business unit managers had responsibility for running their units, without undue interference from senior management. *"This totally changed the shape of the French business,"* Steve said, *"and I think it was also a maturing stage for the management team to go through that. It turned out to be probably the most successful restructuring plan we did in terms of how it was executed."*

Understanding severance

Reducing headcount was perhaps the most complex cost reduction, and the one where expert knowledge of the local environment was most necessary. Since it was both the area where most of the cost savings were coming from, and the most contentious issue for the future of the business, Jeremy had to handle it carefully. At first he was tempted to follow precedent. McKesson UK had made layoffs before, on a voluntary basis, and the experience had been non-confrontational.

Timelines for consultation in respect of a transfer of a business and termination of employment for redundancy (assuming 99 dismissals)



- 1 No fixed timetable, information and consultation must take place in "good time".
- 2 No fixed timetable but consultation must take place before there is a final commitment to the proposed transfer.
- 3 Three meetings with Works Council with set intervals between each meeting - simultaneous notification of labour authorities with minimum period (45 days) before redundancies can be notified.
- 4 Notification to authorities at same time. 30 day delay from date of notification to Works Council before transfer can take place.
- 5 Notice at least 25 days prior to transfer plus up to 10 days' consultation.

These time lines provide a general overview only of the likely maximum time limits. Individual variables will inevitably impact on timing and advice should always be sought.

But there were good reasons not to do the same this time. Previous redundancies had been much smaller in scale – less than a quarter of the numbers Jeremy was looking at – and with the business in so much trouble, he could not take the risk of losing good people. *“What happens when you allow volunteers is that a lot of your best and brightest people take a big chunk of money, disappear and get a job with one of your competitors the next day.”*

Many of the opportunities in restructuring come from knowing what should be done above and beyond strict legal obligations. Frequently there can be great gains for a business in offering more generous severance terms than necessary. Potentially disruptive – and therefore costly – senior managers may be

Being generous can actually save money

soothed by an offer of a term as non-executive director or a period of gardening leave to allow them to gather themselves for their next job. Sometimes, a generous approach even saves money directly. When DCS finally announced their layoff program in Germany, Steve Yapp was advised that the process would take 18 months. Notice periods alone needed to be between six and nine months, depending on an employee's seniority. Steve knew the business could not afford that. He decided to offer more generous financial settlements in return for a shorter period of restructuring. The move risked legal challenge, and indeed 50 out of 122 workers affected did bring cases against DCS, some of which meant that their compensation was increased. The end result, however, was that all the layoffs were completed in 3 months at acceptable cost, and DCS was freed up to move on with its new structure and strategy.

Not all European countries' laws offer the scope for such fast-tracking. In many, the risks of legal challenges resulting in significant penalties for the company are too great. But with the right advice, costs and timescales can be minimized everywhere. As Jeremy Chandler says, *"It is a very slow process and you must make absolutely sure that you understand employment law in great detail. But if you work carefully and exactly through the process and allow enough time in your planning, then it can be done."*

In the end, there is no substitution for mastering the details. Restructuring – especially restructuring in Europe – isn't management from 30,000 feet or 3,000 miles. McKesson was fortunate in recognizing this as soon as the bad news started to filter back to Atlanta. DCS brought in Steve Yapp as an interim FD and later CEO. Both companies realized they needed someone on the ground to get a grip on the details and use that knowledge to manage the restructuring. As Steve says, *"Basically the judgment calls are always around people and numbers. Get the people right and get the numbers right and then move from there to sorting out the business."*

Find the right people and get accountability

McKesson realized there was no way they could understand Europe from Atlanta, GA

It would have been easy for McKesson to ignore the situation in the UK back in late 2002 when problems first began to emerge. Sure, the recent summary reports coming in looked bad in the short term, but wasn't there great potential just about to be realized? It was less than a year since they had won the NHS contract for \$535 million. McKesson's profile in Europe was rising. Surely this was just a temporary blip?

The previous head of MPT had the foresight to realize that there was no way he could understand what was really going on from his office in Atlanta, GA. He knew he needed to get someone in at the top to find out exactly what was going on and restructure the company quickly, so that it would get back on course.

Who should run a European restructuring?

The obvious answer was to hire someone locally in the UK, but there were risks in bringing someone new into the business at such a critical time. Previous experience had shown that, even when they had found someone, it would take at least six months to work out whether they had made the right choice.

The head of MPT had his reservations. He knew there were significant differences in running a European business: different kinds of work, different markets, legal and cultural differences to be overcome.

Jeremy Chandler was the ideal solution. He was a Brit who had spent the last eight years working for McKesson in the US. His early working experience had been European, however, and he had previous experience of selling to the NHS. Within McKesson he was a high flyer, with experience in turning around a moribund sales operation in the South Eastern US more quickly than anyone had expected. Jeremy had even worked directly for the head of MPT at its US headquarters. He was clearly the right guy for the job. McKesson US needed someone they knew and trusted, and someone who had experience working in the culture of the UK business. So much was unknown about this restructuring situation that no other criteria applied.

At DCS, Stephen Yapp not only had to get the right person to lead each of his European business units, he also had to make sure he understood how the top management roles worked together. In contrast to the US system, many European companies have both a President and a CEO. The President often takes over some of the more strategic aspects of the top role while the CEO focuses on operations. In the restructuring of Germany, for instance, Yapp decided to leave the existing President in place to help ease the new CEO into the firm. He also made sure he had an excellent FD, enabling him to focus on developing the operations end of the business. Yapp believes getting the right person in as CEO of DCS Germany made a huge difference. *“After the restructuring was complete, I called on BMW, one of our largest clients in Germany. They said: ‘You are a completely different company now. The relationship’s great, you’re delivering on all your KPIs. I believe that is all down to your CEO. He understands business, he understands relationships and he understands us.’”*

Getting the right management team in place

Once Jeremy took over as Managing Director, UK, he understood how important it was to get the right people. The resistance he encountered when he presented the final restructuring plan in the summer of 2003 surprised him. Many senior managers did not want to listen. The restructuring would shake up the way they ran their businesses. They displaced the confrontations they should have had with their staff onto Jeremy.

Jeremy had to decide quickly whether the senior managers were a help or a hindrance in turning the business around. Anyone who refused to face reality, or who made excuses for past underperformance, was out. Senior management teams leading restructurings need to agree on the strategic intentions, the aspirations for the new business and how that business should operate. Shared understanding is crucial. Within four months of arriving in the UK, Jeremy had already removed six of the nine members of the management team. Steve Yapp was similarly focused at DCS. *“The group finance director couldn’t explain his group consolidations, which is his job. So, out he went and I brought in an interim guy.”* When he could not find how a specific layer of management contributed to the business, he eliminated it, saving close to \$2 million. *“We needed managers, not mail boxes.”*

“The group finance director could not explain his consolidations, so I brought in an interim who could”

Steve says that he regrets not appointing a new functional management team into the French business right from the start. He decided to do the restructuring first, then appoint a new team. He thinks that, with the right team in place from the start, many of the problems during the restructuring would have been avoided. In Germany, the Chief Executive and Finance Director left early on, but it was only later that other vulnerabilities in the management team became apparent. Steve was determined to address these. *"You should never compromise on the quality of your people."*

Jeremy would agree. He found the McKesson workers surprisingly accepting of the need to change the top team and reduce headcount overall.

"When we actually announced it to the employees it was almost a relief to them. At the very least they knew that the company had not been doing very well and that there were just too many people around." This may be a universal phenomenon. In the US, research has shown that the management action that most motivates high performing employees – more than increased pay or responsibility or perks – is when management shows the courage to remove people who aren't performing or who aren't necessary. Having the right number of people, with the right experience and attitude, seems to be highly energizing to excellent employees.

Making people accountable

With his new management team, Jeremy focused on accountability. Progress was slow at first. As the financial figures started to come in from the new management accounting systems, they hit managers like bombshells. Some spent a lot of time trying to discredit the quality of the data, even when it was their own teams who had provided the numbers. Others focused on minutiae. Jeremy had to tell more than one manager that it did not matter whether one particular product was 20% or 30% profitable when there were five others that were huge loss makers.

There was also an education issue. Most managers had never seen detailed financial data on their businesses before, never mind had to produce financial projections. When Jeremy asked each business unit manager to produce a business case for the following year's investment, the results shocked him.

"The quality of the business cases that came back was unacceptable. I don't think they'd ever been asked to go through a structured process like this. There was nothing in the business cases about the marketplace, competitors or what resources might be needed to actually support their plans. And there wasn't any consolidated idea of what McKesson stands for in the UK or what its strategic direction as a company should be."

If he had received a similar business case from a US manager, that person would have been straight out the door. But Jeremy recognized the steep learning curve his managers were climbing, from virtually 0% to 100% financial accountability. Also, he recognized that the data he was providing them with were still at a macro level. Without the detailed figures, it would be hard for any manager to understand how the business was driven and where the revenue and profits were coming from.

Executives leading turnarounds frequently find they spend a lot of time explaining accountability. One former turnaround CEO remembers how plant managers talked to him about gross margin, when they had nothing to do with the sales process. He refocused them on what they could control: costs. One had let plant maintenance costs rise to over \$18 million a year to service old machinery. While re-equipping the plant would cost \$150-\$200 million, the costs could be depreciated over thirty years. The end result was that the business would be around \$9 million a year better off. But no one had ever explained that to the plant manager before.

**British, German, French
and Dutch managers can
take widely varying
approaches to team
working**

Being clear about terms of reference is crucial. British, German, French and Dutch managers can take widely varying approaches to problem solving and to sharing ideas and experiences. A disciplined methodology helps break down procedural differences and creates a climate of cooperation. Many turnaround leaders find their patience stretched. As one executive of a major building products manufacturer said, *"I had to be a bit more flexible than I usually am. I had to get past my own frustrations."*

The biggest mistake senior executives make is to try to do too much too quickly. The first thing is to have a clear idea of the eventual company structure and to move towards it in clear steps. Introducing strong financial and managerial controls early gives middle managers the room to act - at little risk to progress in restructuring, if those same controls feed information back to the parent company. Managers will need guidance, and will need to see how their results will be rewarded. Focus should always be on these business results.

**Managers in a
restructuring company
need a balance
between guidance
and autonomy**

At McKesson UK, Jeremy managed his expectations, and set out to coach his managers. He went through the basics of business cases: what growth they wanted to achieve, what kind of investment that would require, what the impact on the business would be, and when. At DCS, Steve Yapp created a structure with inbuilt checks and balances to ensure that each manager was overseen by two more senior colleagues. This gave everyone good support and prevented any business unit escaping senior management attention. At the same time, he believed strongly in stopping senior managers – including himself – meddling in the business. *"I've got to make sure that I get these guys to feel that they own and run the business. I don't tell them what to do. I give them choices."*

Jeremy's patience and guidance paid off. Now he is confident that he has a team who can handle anything that happens. *"When I first came, in I had to sit at the top of the tree, sort out their problems and manage their people for them. But now we are doing what we should be doing. Discussing the future not the past."*

Manage the ongoing business

At the start of any restructuring, the business is going to have issues. Jeremy Chandler found himself dealing with plummeting losses, four contracts that threatened to cost McKesson \$50 million, and no sales of any significance for almost a year.

Restructuring is an emotive word – customers and investors are likely to be wary

It was no surprise customers were defecting to alternative suppliers. Technology had been sold before it was ready, and the UK business had not applied the right people to accelerate development. But the worst problem was that management did not face up to the situation. *“They did not go to the customer and say, ‘We’ve got this problem, we need to re-negotiate the contract because of X, Y and Z.’ Instead they would go and say, ‘Sorry, your software is going to be late, but it’s not our fault. And we’ll give you some more software for free to make up for it.’ But you can’t do that forever. When I came in, it had got to the point where customers were understandably getting angry. And they still did not have what they had originally ordered. Many had gone through years of lack of focus from the previous management as well as late delivery.”*

In addition, restructuring is an emotive word. Customers as well as employees – and investors – are likely to be wary. At the time when you are working on a new strategy and structure, and managing layoffs and site consolidations, you need to make sure that the business is keeping to budgeted profit and cash flows. Above all, business must be maintained.

Sell your way out of trouble?

Sometimes, everyone is so keen to win a contract that will turn the business around that they lose any sense of perspective on the deal. In December 2001, early in Steve’s time at DCS, he was told that a large sale was about to be booked to a Hong Kong-based company, Sime Darby. This sale would turn a loss-making division into one with healthy profits. When the sale did not come through, Steve went to Hong Kong to find out what was going on. Within the first few minutes of his arrival, it became obvious that the client was nowhere near ready to buy. However, Steve continued talking about the business DCS did, and finding out more about Sime Darby. The upshot was that Sime Darby proposed a joint venture in Hong Kong. That deal was signed in August 2002 and has already led to further sales. Although it all turned out well, Steve saw it as a useful warning. *“You can’t base your whole business model around one event, and you can’t commit yourself to the Board until the deal is actually signed. Up to then, things can always go wrong, and it’s no good going into denial when they do.”*

Establishing the fundamentals of customer service

Instead of chasing new business at McKesson UK, Jeremy focused on his sales team. The old team had seriously underperformed, so a new team was rapidly recruited. Jeremy brought in salespeople who could show customers they knew about their business, and who were able to have a sensible conversation about McKesson’s products and services. Sometimes, in a restructuring, the most effective measures are the most self-evident.

Sometimes the most effective measures are the most self-evident

Steve Yapp, at DCS, invested in product development. To control costs, he made sure that each new development step was taken after a full pilot. When big deals came in, he reinvested the money to improve products. For example, MAN trucks paid \$1million for the Quantum software DCS had developed. DCS put that \$1 million right back into development, into the services business, and is now enjoying a substantial return on that investment.

Managing existing customers

Jeremy also realized that the only way forward was to be completely honest and open with McKesson's UK clients. Some clients reacted badly at first to the news of exactly how far McKesson was from fulfilling the original contract, but Jeremy hammered out deals. He and his sales people sat down with clients and explained exactly what was happening, and what their options were: whether to continue or cancel the whole contract or change certain parts of it. Then McKesson changed the contracts to reflect the actual services clients were receiving.

Steve Yapp had to find some equally creative ways of keeping customers at DCS. BMW had been the largest client of the German business, but by 2002 they were losing patience with DCS and expressed their dissatisfaction at the service they had received. Steve defused tensions by offering to fund a customer survey so that BMW could see exactly what the impact of DCS's work had been. BMW could choose the survey recipients and the questions, and Steve promised that, based on the results, DCS would come up with a plan to put things right.

DCS commissioned the survey and followed up on the results. The restructuring of the German business introduced new processes – and new management to oversee them – to ensure more efficient and targeted service. Steve appointed a new German MD, who devoted himself to restoring damaged customer relationships. Steve recently met BMW under very different circumstances from before. In an hour-long meeting with senior BMW executives, DCS received nothing but praise. *"They said, 'Things are completely different now. You are delivering on all your key performance indicators; the relationship is great. You're a different business from two years ago.'"*

Like Steve, Jeremy believed he needed to get personally involved in the most contentious negotiations. He focused on the four most badly handled accounts. *"When I first explained the real situation to them, they wanted to string me up and hang me." The final settlements took eighteen months. "With one of them, we had to go to mediation...but I was supported by some very good people. To get through and come to an agreement that was acceptable to both parties was, I thought, quite an achievement. So all the contracts were settled within the provision."*

McKesson knew it was winning when customers renewed not just for one, but for three years

Success in contract renegotiation became evident when some McKesson UK customers renewed their contracts not for the usual single additional year, but for three more years. Then, towards the end of 2003, McKesson closed two large sales, one to part of a major government department, and one that represented the first major client for a new kind of healthcare system.

Once sales were back on track, Jeremy and his team turned their attention to improving profitability, at the insistence of their US parent. *“Even though the budgets have already been fixed for this year, they want me to come back and tell them how I am going to get the profit margin in line with the sort of returns common throughout the rest of McKesson.”*

Creating a European Business

Often, a European business is not one single business, but a set of almost independent national operations. This is often one of the starkest contrasts between a US-based business and a European company. There may be good business reasons for running separate country business units, but, as European integration increases, and markets start to cross national boundaries, it makes sense to look at what an integrated, pan-European business could offer.

Market consolidations are the best reason for creating a pan-European business

The best reason for creating a pan-European business is a strong market driver. DCS saw that its major customers, the auto manufacturers, were increasingly looking at their operations from a European perspective. It made sense to structure its automotive operations similarly. Steve created an Automotive Board to head up the division across Europe. On this board were each of the four country MDs, a Chief Technical Officer and a Chief Marketing Officer. This board oversaw all European operations.

At first, executives within DCS were confused about how the new structure would work. Steve ended up drawing it out. *“I drew a map with three circles. I said, ‘That’s the UK and that’s France and that’s Germany, Switzerland, and Spain.’ I said, ‘I want us to manage at a divisional level this bit here. So, I’m not trying to turn a German business into a French business or whatever. I’m just trying to find out what we can do together.’ And I broke it down into three areas – product development, marketing and key account management. Over all, we needed to have one image, one business, and one name. And that’s what we started to do.”*

One image, one business, one name

Bringing the businesses together at DCS took almost two years. Managers who could not work within the new structure were replaced. Sales teams were refocused. One of the most significant steps was developing a new product strategy. Steve consolidated existing products from sixteen to five and set the R&D teams to work more closely together throughout Europe. First, he split the development of a dealership software product between Germany and France, to take advantage of group-wide technical resources. Then, he decided to go one step further and develop pan-European business management software, based on SAP technology.

While individual dealerships had no interest in more than simple dealer management software, the market was changing in response to legal changes in Europe that opened up the market for servicing cars to independent providers. The large manufacturers had every reason to consolidate their dealerships and manage their businesses on a European basis. This, of course, opened up a market for business management software to run the resulting networks of dealerships.

Work began in May 2002 on Quantum, a business management system developed with SAP technology. It was sold to Managing Directors and Finance Directors as a new way of running their businesses. After extensive piloting, it went live in August 2004, in four languages.

Communicate and support

Jeremy Chandler and Steve Yapp could not have done what they did without staunch support from top managers. In most restructurings, there is bad news before there is good, and employees, customers, investors, bankers, suppliers, competitors, analysts and even regulators need to be managed delicately, and intensively. The leader of the turnaround comes under enormous personal pressure.

Get help for the top guy

The initial months of uncovering the mess and starting the layoffs were particularly challenging for Jeremy: *"This was one of the toughest times. It got to the point where there was so much going on it was almost overwhelming. I'd come from the US with high credibility and I was in very real danger of losing that. I was beginning to feel very isolated. The only people I could talk to were back in the US, and they were busy managing their own business."*

Atlanta kept in close touch by phone, but that was not enough. Jeremy needed operational help. McKesson decided to get Jeremy some local support. As Jeremy said, *"They realized how much I was fire-fighting. They told me that rather than learning each step the hard way, it would be a hell of a lot easier if I got outside help from people that have actually been through these sorts of situations before. In the end I got support from some very good people."*

Get help from people who have been through these situations before

Steve Yapp also got a lot of support from his team and others in the early days of restructuring DCS, when he was trying to sort out multiple country businesses and stave off bankruptcy. He believes that one of the most important things he did was to listen to them. *"If you are too isolated as a Chief Executive, you start believing your own publicity and then you're in trouble, you really are in trouble. I like to surround myself with people who bite back and say, 'Steve, you are not listening, he's got something there'...I listen to everyone around me."*

Keep everyone informed

Of course, the CEO is not the only one who needs to know what is going on. Jeremy knew that McKesson UK's employees at the company's five sites were worried for their jobs and the future of the company – especially once they heard that a troubleshooter had been sent over from the US. Jeremy decided to keep them informed personally. He introduced a quarterly company briefing and a regular road tour, visiting all the offices to explain how the company was being transformed. His presentation described the actions and measures he was introducing to restore the business to its former leadership position. He showed detailed charts covering forecasts for the quarter and for each month, alongside the actual figures achieved. Reactions were skeptical at first, but, as people

realized that they were hearing a consistent message, and that Jeremy was personally committed to the process and to achieving results, they became more positive. Jeremy thought his efforts were worth all the trouble. He knew the effect managing layoffs would have on how well the remaining workforce performed.

“I got lots of aggressive questions, but gradually they realized I was being consistent and problems were getting fixed”

Steve Yapp summed up the atmosphere at DCS as, *“At best, suspicion and mistrust”*. Rumors were compounded by the speed at which information travels in a software firm via websites, chat rooms and emails. To try to raise morale, he put in a communications program involving six-monthly presentations to the workers’ councils and to employee groups. He also made sure that managers immediately beneath board level were kept much more informed than they had been about what was going on at group level, and made sure that they shared the news with their direct and indirect reports. Sometimes, this direct communication led to some tough moments.

“I got lots of aggressive questions. I told them, ‘I haven’t got all the answers but this is what I am thinking about, and this is what I am actually doing.’ After the second meeting, they realized I was being consistent and that medicine was being brought in to cure the problems. I think I gained a lot of credibility because they could see I was an honest-speaking, professional guy in the business, acting in the genuine interest of the employees, customers and shareholders.”

As well as managing his employees’ expectations, Steve had to deal with banks that were threatening to cut DCS’s lending facility, and shareholders already bruised by the tech meltdown of 2001. The banks needed some involved conversations to realize that their returns from DCS were going to be in the form of balance sheet value, not cash flow. Investors took even more time to come round. In a restructuring, too many firms forget these important external stakeholders.

Rewarding success

“They thought people would be embarrassed to come up on stage and get an award”

Employees as well as bosses need to be supported and rewarded. One of the things that most impressed Jeremy about working in the US was how good American companies are at recognizing employees’ performance. He felt that recognition schemes such as the Employee of the Month made a big difference to people, and compensated for the hard, intense work that was expected. Once the restructuring began to deliver results, Jeremy wanted to bring this aspect of US business to McKesson UK. He asked each of his direct reports to give him some names of outstanding performers, so that those people could be recognized publicly at the annual company meeting. To his surprise, many thought it a bad idea. *“They felt employees would be embarrassed to be called up on stage to receive an award. It was like implying they were better than the other employees. It wasn’t the way things were done in the UK.”*

Fortunately, Jeremy persevered. The presentations were a great success. Fifteen people were called up on stage and thanked for doing such a great job. Then they were presented with fun gifts, such as a chance to go hot air ballooning or drive a racing car.

Steve Yapp made sure that bonuses at DCS more accurately reflected business progress. When he arrived, each MD's bonus was calculated against individual gross margin targets set by the CEO. Steve changed this to a system based on company and unit profitability as well as on individual performance, with proportions dependent on the impact an individual could have on the overall business. Steve felt that the new bonus methods gave out an important message: *"I wanted people to understand that this was going to be a bonus focused on delivering results. Secondly, they are going to start seeing a move towards a share between personal performance and divisional performance – linking individuals to the company, one step at a time."*

Let's celebrate!

McKesson UK had been estimating a \$1.2-1.5 million loss for 2003. The actual figure was \$2 million profit.

McKesson UK's annual meeting was a chance to do something that Jeremy knew was vital to the company's future success: show employees the good side of belonging to a US company. He had admired the professionalism of celebrations in America. Previous UK events had been anything but. *"I got the impression that previous events had been very amateurish and more of a slap on the back and a booze up for the management team rather than anything of value to employees. So, this time we were going to do it very professionally, with lights, sound and a big screen, and to make sure that the employees were recognized."*

Jeremy decided that the 2003 annual meeting should be open to everyone in the company. He hired the National Exhibition Centre in Birmingham for the meeting and, crucially, managed to persuade the US management to attend. Their enthusiastic participation showed a different side to a US parent that had all too often seemed to lack sympathy and understanding. It showed everyone was part of one firm.

The meeting was an outstanding success. Employees bounded up on stage to receive their awards for service above and beyond the call of duty. But the best moment came when Jeremy announced the latest financial results. The year had begun with a forecast loss of \$6.7 million. During the last road show, just three months before, Jeremy was still forecasting around \$1.2-\$1.5 million loss.

"When I did the company update at the NEC, I put up the charts that all the employees were familiar with and I showed them the forecast loss. And then I clicked forward and was able to show that actually we had made \$2 million profit for the year. That felt pretty good – one of the best days I'd had back in the UK. Being able to stand in front of the employees, who had all had a really tough year, and showing them the results of all their hard work. That was a break out the champagne day."

Conclusion

Restructuring European subsidiaries can be successful, but it rarely happens overnight. It can, however, be achieved more quickly than you might think. McKesson expected Jeremy to take two and a half years to turn the business around. In the event, he managed to transform it in just half that time. Steve Yapp does not want to think about what his shareholders and non-executive directors estimated for his turnaround, but they were clearly surprised and relieved to see a transformed company after just two years.

There are no shortcuts to understanding thoroughly specific features of European businesses. Despite Europe-wide legislation and market consolidations, each situation, each industry, and each geography is different. The layoff procedures Steve Yapp followed in Germany are not possible in England. McKesson's contracts for provision of healthcare technology would have been very different had they been signed in France instead of the UK. In the end, there is no substitute for detailed and up-to-date local knowledge.

German layoff procedures won't work elsewhere in Europe. Contract issues are going to be different in France and the UK

Nor can you manage European restructurings from 3,000 miles away. You need senior managers on the ground who understand the local situation and operate with authority in response to events. McKesson knew it was important to send a Brit to turn around their UK business. Steve Yapp feels he might have had an easier time in France if he had been French. Both McKesson and DCS made sure that their turnaround leaders in each country kept in very close touch with the group home. Head office needs, during a turnaround, to be on top of the details of the business, and to have sufficiently sensitive reporting structures to allow them to pick up on any potential problems. Putting in new management information reporting and processes is perhaps the most important part of any turnaround.

It is easy to focus on the problems, on the differences between turning around a business in Europe and turning one around in the States. But Jeremy Chandler and Steve Yapp agree that European restructuring can be accomplished with better results than seemed possible at the outset. If you get the right people in place, and work your way through the legal and process tangles, you can get the same kind of results that you would expect back home. Sometimes, you can even get them more quickly.

"When I first came to the UK," said Jeremy Chandler, "I expected this would be a six-week job to understand what was going on and that I would take some quick actions to put it right. In fact, those quick actions have taken seven quarters, but the business has gone from a trouble spot to a stabilized business to a transformed business."

Collinson Grant is a management consultancy working with large businesses throughout Europe and in the United States. For over thirty years the firm has focused on restructuring, improving profitability and creating effective pan-European companies.



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