

Case Study 1

Plant Closure

This project happened a few days after I had joined Tyco Healthcare. I was tasked to go to Spain and close “an old Kendal Glove Plant” we had there. We knew it was “close” to Barcelona and managed locally through our Spanish offices.

The corporate plan was to source latex gloves directly from Malaysia at a much lower unit cost.

Arriving in Barcelona I discovered that the closure was far from simple. My first meeting with the regional VP of sales led to the realisation that the gloves made locally were special as they were made on particular styles of glove mold. Additionally Tyco Spain had contracts with the local health authorities to supply these gloves for at least 2 years.

(As an aside for those unfamiliar with the process, latex gloves are made by a dipping process where hand molds, on a chain conveyor, pass through various tanks containing liquid latex, curing and washing agents and finally through a drying process. This makes even a small capacity machine big.)

I spent the first several days establishing if the need for these special gloves reached other European centres. Luckily it did seem that the need was a local one but it was also clear that Spain was a major market for latex gloves for Tyco. By day 3 I finally located the factory which was at least an hour’s drive, non-rush hour, outside of the city in the foothills to the north. The factory was located in a small village and seemed to be the only source of industrial employment. This made staying in the village an interesting experience.

Discussions with the plant manager indicated that we did not actually own the factory but merely leased it from a local landlord. Armed with the lease I retreated to the UK to consult with our lawyers, later taking a trip to consult with local lawyers in Barcelona. It was clear the lease was binding and we had to return the factory to original condition when the lease was terminated. Now whatever original condition might mean, given that the lease was so old, I was pretty sure it did not include having a glove making machine built right into the fabric of the building.

The original owners of the company had leased the factory many years before and as their business had grown they had developed capacity by building their machine right into the building utilising the building structure to support the machine. In practice this meant that we would have to almost demolish the building to remove the machinery.

Leaving the plant manager and local VP to complete the compilation of removal costs from local sub contractors we had employed I again returned to the UK to think the problem through.

I had the costs within a few weeks and even allowing for the savings from the Malaysian gloves it was going to be a long time before we broke even. I decided to return to the plant and organise a meeting with the landlord. He turned out to be a real local wheeler dealer.

Before the meeting some local checking by the plant manager and I revealed that the landlord had already applied to re-zone the site for a lo cost housing project for which there was good grant assistance at that time.

I also put in several calls to our procurement group and to the proposed new supplier in Malaysia.

From this I learned that the gloves could be made to the required Spanish pattern if the ceramic hand formers could be made available. (They would have been prohibitively expensive to make from new given the volumes involved.)

At the first meeting the landlord was pretty intransigent so we did not make much progress. However he was a gracious host and offered to drive me back to Barcelona that evening. Later over dinner he softened considerably and it was clear that we could do business together. It seemed a lot of his attitude was based on regional tensions that exist in that part of Spain. He felt that our local people did not respect him and pride is a powerful thing and was hindering the negotiation.

So here was the final deal I finally arrived at over dinner.

I sold the contents of the plant to the landlord for \$1 on condition we were released from the lease conditions about the building. I also put him in touch with the Malaysian glove supplier to whom he sold the glove formers and several other pieces of equipment. This helped to off-set his site clearance costs and these were, of, course much lower than ours would have been due to his local knowledge.

I was able to use some of this saving to enhance the redundancy package for the locally workers and still provide a cost avoidance of \$350,000 to Tyco. The improvement in redundancy enables us to convince the plant workers to help with the small stock-build we needed while we transferred production, they even helped to pack the ceramic formers for transport to Malaysia.

We were back-up and running with Malaysian supplied gloves in just over a month with little impact on local supply.

A small bonus for me was that several of the displaced workers found work helping on the lo-cost housing scheme.

You can't always get such a win-win for everybody when you have to close a plant but in this case it was great to be able to make all the pieces fit together.