

Haulotte: how to prepare for an economic upturn during a recession

by

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Overview

Alexandre Saubot had been an armaments engineer for eight years and had worked in the French Ministry of Defence's shipbuilding division when he took over the operational management of Haulotte in 2004. This company was founded by Alexandre's father in 1985 after Creusot-Loire went bankrupt. Haulotte manufactures aerial platforms the market of which is very volatile. The group's turnover varied between 250 and 650 million Euros from 2004 to 2007. 2009 was a disastrous year: the global market collapsed by 75% and Haulotte's turnover dropped to 200 million Euros. Because the recession showed no signs of easing, radical measures had to be taken. Production was cut by one-eight and, so as not to affect the company's ability to recover in the future, Haulotte decided to partially lay off its workforce for two to three weeks every month over a period of eighteen months. In order to preserve social ties and maintain its expertise, a wide-ranging training programme was started in 2009. Following this, the company was able to resume operations as before, and today it has gained a solid position as European leader in its field.

Report by Élisabeth Bourguinat • Translation by Rachel Marlin

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The Haulotte Group is more than one hundred years old. It was formed in 1881 and initially made equipment for the oil industry before manufacturing locomotives and finally mobile cranes. In the midst of economic difficulties, it was bought by Creusot-Loire. When Creusot-Loire later went bankrupt, my father made a bid for the acquisition of two small subsidiaries. He first had to beat off the liquidation specialists who wanted to buy the stock 'on the cheap', pay off the staff and make a significant capital gain on the sale. In order to acquire the 300,000 Euros necessary to buy the subsidiaries, he was forced to sell his Parisian flat, put his family into rented accommodation, and then to ask friends and look to investment funds for additional money. Had I been him, I am not sure I would have had the courage to do this.

Acquisition and expansion of the company

The acquisition took place in 1985. My father faced his first crisis in 1987, and then a second, which was much worse, in 1992 when the mobile crane market simply disappeared in three months in all the countries where we had a presence. The company survived due to a timely equipment order placed with the Army the year before. At the time, my father did not really know how he would fulfil this order but, in this business one must always say 'yes' and then figure out how to deal with it! In this case, saying 'yes' saved the company.

This order was an important milestone in the history of Haulotte. Because the company could not manufacture everything in-house, my father created a subcontracting system, and today most of the components of our machines are made by subcontractors. The group now specialises in three areas: design, assembly, and service. We have only kept a few machines in order to make prototypes and to maintain our expertise.

The 1992 crisis had another consequence: it encouraged my father to export even more. If one geographical area was suffering from a recession, the company had to continue to sell elsewhere. He created about fifteen sales subsidiaries in the important markets throughout the world: Europe, North America, South America, Asia and the Middle East.

Between 1995 and 2007, Haulotte's turnover increased from 60 to 600 million Euros. This major increase was possible thanks to the decision to subcontract, and the fact that the suppliers helped to finance the investment.

Succession

It was during this period that I joined the family company, and it was largely by chance. When I was a child, I noticed that my father worked a great deal, was hardly ever at home and was very rarely relaxed. This did not exactly motivate me to work for the family business.

Having graduated from the École Polytechnique, I worked for nine years as a civil servant in the Directorate General of the French Army, the French Ministry of Defence's shipbuilding division, and the Treasury, before working for the Culture and Communication's Minister. I then worked for two years in a merchant bank. It was during this time that my father said to me 'The group is going through an important development phase. We are looking for people with specific skills. If you are interested, now might be the right moment.' I said to myself that if I was going to be working more than twelve hours a day, it might as well be for my family, rather than filling someone else's pockets, and so I agreed.

At Haulotte, I started by managing the machine stock, and then logistics, before being put in charge of a factory. In the summer of 2002, a little less than three years after my arrival, I became the finance and administration managing director. After three years in this job, my father asked me if I felt ready to take his place as he was 60 years old, and he felt it was time for him to step aside. I replied that I was not at all certain that I was ready, but that I would try to do the job. He called a meeting of the board of directors and the executive managers

– about fifty people in all – and talked about a number of subjects before announcing, at the end of the meeting, ‘As of tomorrow, the new managing director in charge of group operations will be my son. He is the person who will answer your questions from now on.’

Not only did he say it, but he actually did what he said he would do. Every time that someone asked him a question thereafter he told them to go and talk to me. As far as I was concerned, I was able to ask him all the questions that I wanted to, and this was just as well because I had many! I was extremely lucky that the succession took place like this. In these circumstances, it is essential that there is no doubt whatsoever in the minds of co-workers who is in charge of decision-making. If the father continues to manage behind his son’s back, the situation quickly becomes untenable.

Between my arrival on the management board in 2004 and 2007, the group’s turnover almost tripled. The market was buoyant, and the strategic choices taken before I took over were clearly the right ones.

The crisis of 2008

However, between the spring of 2008 and the spring of 2009, the market for aerial platforms fell dramatically by 75%. Contrary to what had happened in 1992, everything stopped at the same time throughout the world. In two years, our turnover was cut by one-third.

As opposed to other heavy materials used in construction, most aerial platforms tend to be sold to leasing companies. In times of recession, these companies buy virtually nothing. Unless there is an absolute necessity (such as renewing machines which need to be repaired or the end of a leasing contract), our clients prefer to allow their machine stock to become outdated and wait to see if they want to buy machinery at a later date. For nine months, we hardly received any orders.

Three assets to deal with this situation

Fortunately, we had three assets which helped us to deal with this situation.

Anticipating the reduced activity

We knew that our market was cyclical and we were ready to deal with periodic downturns in activity which occurred from time to time. The managers in charge of each of the entities were able to reduce their fixed costs by 25% from one year to the next, and the factory managers managed to reduce production by 25% in three months and then by a further 25% over the following nine months. This meant that during strong periods of activity, we would have to employ a large number of temporary workers and workers with fixed-term contracts, we should anticipate special clauses (related to lower activity) with the suppliers, and we would resort to sub-contracting in departments such as communication and in parts of research and development (R&D). This created greater costs for us, but it meant that we had some room for manoeuvre during periods of recession.

Managing a 50% drop in activity over a year is already difficult enough but this was not sufficient because orders dropped by 75%! Despite everything, the fact that we had prepared ourselves for this scenario helped us to set the machine in motion.

Having terminated all the temporary employment contracts, we had to revert to partial unemployment two to three weeks every month. In the beginning, this was supposed to last three months, but in the end, it had to be extended to eighteen months. In total, production was cut by one-eighth, and over two years our turnover fell from 650 million Euros to 200 million Euros. The reduction in need for working capital which followed and a reduction of 40% in fixed costs enabled us to maintain a reasonable cash flow despite the losses.

Thanks to a system implemented by the government at the time, employees’ salaries only dropped by about 5%. The fact that they were less often at the factory meant that they had fewer petrol expenses, and could also undoubtedly find additional part-time work elsewhere.

The only department which was 'ring-fenced' was R&D. Its aim was to continue to develop new products. The other departments profited from this period of relative inactivity and did everything which they had not been able to do at other times, in particular to review all the quality processes with the teams.

After six months of partial unemployment, we realised that there was a risk that the employees might lose their skills and there would be less attachment to the company inasmuch as the employees only came to work one or two weeks every month. Therefore, we launched a large-scale, in-house training programme to teach our employees how to use our machines. We were supported financially by the UIMM (*Union des industries et des métiers de la métallurgie*: Union of Metal-working Industries and Professions) which installed a particular tool during this period. We were lucky enough to be able to use it two months before the car industry.

Transparency with regard to bankers and employees

In 2009, our turnover fell to 200 million Euros and our EBIT (Earnings Before Interest and Taxes) deteriorated significantly. Our loans amounted to 350 million Euros. Luckily we had a very good and open relationship with our bankers. Nine months before they were able to detect the slightest problem with our accounts, I called a meeting to explain what we intended to do, and to reassure them of the way in which we were going to get through this difficult time. None of them abandoned us, and they were right to stay because each of them was fully repaid in the end.

For a long time we had already had very good communications with our social partners (trade union representatives, staff representatives, etc.). Trust cannot be imposed but is built through time, by sharing information about results, problems and potential difficulties which the company may come across, and equally when everything is going well. This does not mean that we agree about everything. I remember a few particularly laborious negotiation sessions about profit-sharing and salary increases. Nevertheless, we know, on both sides, that our respective concerns will at least be examined and discussed.

In order to take the decision to resort to partial unemployment, we needed the consent of the employee representative committee, and the department of labour. If we had not had such good and long-lasting relations with these bodies, our social partners would have been able to block this decision, undoubtedly not permanently but sufficiently long enough to seriously put the company in danger.

This mutual trust was essential not only to save the company, but also to maintain our skills. During difficult times, the best salespeople, executives, and workshop specialists can be tempted to look elsewhere. When a recession is over, if the company has lost most of its skills, it can no longer bounce back. We have been fortunate that very few of our staff have left the company during hard times either in France or in the rest of the world. When the economy started to pick up during 2010, we were fully operational.

The transparency which we have always had with all the group's partners (employees, managers, bankers, suppliers, shareholders) encouraged people to make the necessary efforts to get through this difficult stage. There were no dividends for four years, no top-management bonuses for three years, and all salaries were frozen for one year in 2010.

Three hundred million Euros of equity

Another advantage was that we had accumulated three hundred million Euros of equity before the recession which allowed us to use up about one hundred million of it during the recession.

In order to have this sort of 'cushion', one must be able to tolerate pressure from shareholders, bankers and employees during prosperous times. The bankers and investors were constantly saying to me 'You have too much equity. You ought to leverage your business.' I replied that with my modest experience as the son of a farmer from the Béarn region, I could not predict when the downturn was going to take place, but that I was certain that having a little money in the till would help us to get through this ordeal.

Similarly, with regard to our employee policy, I gave priority to profit-sharing and incentive agreements rather than salary increases. Sharing part of the profits during good times is not a problem, and it is even essential. However,

during a recession, agreeing to increases may put the group in difficulty. This requires good judgement and skill to explain to the employees because it is not easy to refuse increases when the EBIT is at 18% and the net income 12%, which has been the case in the past.

The difficulty is finding the balance between investment, strengthening equity, paying dividends to shareholders and employee incentive agreements. The positive part of the 2008-2009 period is that it showed that what we had been saying for years – the need to put to one side a large part of the profits in order to prepare ourselves for the next recession – was right. Frankly speaking, I would have been happy with a decrease in activity of 30% rather than 75% to prove this, but, in any case, everybody now understood our reasoning.

The end of the recession

At the end of 2010, we had managed to absorb the inventories, and orders started picking up. We were then faced with another problem: how to make the employees go back to work at the factories! During the period of partial unemployment they had reorganised their lives, and this was understandable. For the first six months after the recession there was a substantial amount of absenteeism. It started to get better but it was still remained significant for a further twelve months.

By looking back on what had happened before the recession, we realised that this period had been buoyant and clients had been asking us to shorten our delivery dates. We had not paid enough attention to the signs which forecast a downturn and which had been present since the autumn of 2007. When just one client asks for a delivery delay to be put off for three months, there is no need to be worried. But when twenty-five clients, scattered over ten countries, ask for the same thing at the same time, that should have raised questions.

We reacted to the recession six months earlier than many of our rivals, but it was still six months too late. This delay cost us dearly, because during these six months we were working flat out, and the inventories we had to absorb as a result were even greater. Of the 100 million Euros which we lost in three years, half was due to the depreciation of inventories: when one takes too long to sell one's goods, the goods can no longer be sold at the same price as if they were new. Since this period we have put detection systems in place, in particular to consolidate the analysis of all market signals independently of sales departments which are generally focussed on sales objectives and are a little too enthusiastic.

Today, the company's situation has clearly improved even though in my opinion it is not yet entirely satisfactory. In 2014, the group's turnover was 400 million Euros, 85% of which was generated abroad. We are hoping our turnover will be 450 million Euros this year with slightly more than 1,500 employees. The EBIT is now between 6 and 7%, and we have significantly reduced our debt.

Management principles

Apart from this period of recession and how I managed it, I would like to share with you a few management principles and discuss some of our strategic decisions.

Forcing certain means and expecting a certain result

One cannot force someone to use certain means and expect a certain result. If one does so, when there are problems one runs the risk of not looking legitimate if one makes specific demands and, for a company manager, this is a little embarrassing. For instance, one cannot give someone an objective and tell him that if he wants to achieve that objective he has to employ five people who have been designated to him. One has to make a choice. As far as I am concerned, I always prefer getting the results that I want.

Managing cycles rather than fighting them

To reduce the consequences of recessions, people have often advised me to develop counter-cyclical professions. However, if one changes to a different market, one must be certain that there is added value which comes with

it. When we identified markets which were related to ours and for which we may potentially have had the know-how, the technologies, or even the sales network, we noticed that these related markets had all entered into a recession at about the same time as the aerial platform market.

I prefer the strategy which consists of managing the cycles flexibly rather than trying to oppose them. To achieve this, one has to manage to convince the labour inspector of the need to have a large number of temporary workers. The 2008-2009 recession gave us the opportunity to show that for nearly two years we had managed to function without needing to call on temporary staff, and that it was this flexibility which enabled us to save the company.

Refusing external growth

People have often suggested that I resort to external growth in order to expand the company. However, the aerial platform market is very small with few manufacturers, and when one considers an acquisition, one is rapidly faced with provisions which aim at anti-competitive practices. Another disadvantage is the cyclical character of this sector. When the market is at its lowest, no-one wants to sell because the companies have little value. When the market is higher, everyone says that the situation will remain stable for several years and that the value of the companies will become exorbitant.

Presidency of the UIMM

When the UIMM agreed to help finance the training programme that we had put in place, I wanted to use my experience discretely in order to help others. I met Pierre Gattaz – before he became president of the MEDEF – and I offered my help. In the autumn of 2013, he asked me to take part in the ‘Work relations and employment policies’ commission. After a year, Pierre Gattaz and Jean-François Pilliard asked me to manage negotiations concerning the modernisation of labour relations.

From that moment onwards, several people suggested that I stand as a successor to Frédéric Saint-Geours at the UIMM. I was just a member, and I did not think that I had the necessary qualifications to stand for president of the UIMM, but, rather than regret not having done it, I applied, and toured the regions. I was lucky and very honoured to be elected, and since then, despite managing Haulotte at the same time, I try to put forward ideas to encourage the development of our industry and French companies.

Discussion



Reasons for the recession

Question: *You mentioned both the recession of 2008 and the cyclical character of your sector of activity. What is the real reason for the difficulties which you experienced?*

Alexandre Saubot: In our market, recessions take place about every five years and the last one was in 2003. There is a relationship between the cycles and the financial crises. A normal cycle should have made activity fall by 10 to 30%, but the addition of a financial crisis makes things worse.

How does one convince bankers?

Q.: *At a talk at the École de Paris du management, Joseph Puzo, CEO of Axon' Cable, said that in 2009, during the recession, he had to resist the pressure from bankers to lay off some of his staff¹. How did you manage to convince your investors to agree to partial unemployment?*

A. S.: None of our bankers asked me to lay off an employee. The first time I held a meeting, I presented my 'recovery' business plan, and explained to them that, because the recession was so marked, it was possible that we were in a 'worst-case' scenario. But I also said that if they played along and did not make outrageous requests, that I would be able to meet all the deadlines. Every three months I called a meeting, and as long as I honoured my commitments, they trusted me.

Nonetheless, we discussed the renegotiation of our main financial banking contract. The bank charges amounted to 125% of the savings of fixed costs which we were in the process of making. I refused. One must never forget that bankers are suppliers, like any other, and when they exaggerate, one has to be able to say 'no' to them. When one is consistent, transparent and responsible, nine times out of ten one manages to convince them.

Furthermore, the family shareholders have always been in the majority, and this was very lucky and certainly helped me to face the challenges that I met with a degree of equanimity.

Family shareholders

Q.: *What was your family's reaction during the recession?*

A. S.: My father is still president of the group, and even though my four brothers and sisters and myself are shareholders, we all agree that it is first and foremost his company, and that it is up to him to make the decisions. My father just wanted to get through the recession.

It was only later, when my brothers and sisters read some articles in the press which were full of praise about my father, that they realised what had really happened, and the amount of hard work which had been necessary to save the company.

The future of sub-contractors

Q.: *What happened to your sub-contractors during this period?*

A. S.: During the previous cycle in 2003, our turnover fell from 260 to 200 million Euros. We realised that this sort of event was very difficult for our suppliers as they were too dependent on our purchases.

1. Joseph Puzo, Bruno Bouygues and Anne Guérin, "[Mid-cap companies: small but global](#)", Guest Speakers Seminar, May 27th, 2015.

Shortly after I started working for the company, I asked the purchasing department to identify our largest suppliers, and I devised a plan with them so that in the future our orders did not amount to more than 20% of their turnover. In this way, if the aerial platform market was in trouble, the suppliers could compensate by supplying other sectors such as agricultural machinery or the automobile industry. We had not anticipated that all the sectors would be hit at the same time...

When the recession was over, we paid our suppliers everything we owed them. We respected practically all the volumes we had said we would produce, even though it sometimes took us several years to supply them, even up until 2012. In the end, the vast majority of our suppliers survived the recession.

Rivals

Q.: How did your rivals manage the crisis?

A. S.: Our main rivals are American, and they are subsidiaries of large groups. During the recession, they filled their factories with sub-contracting work for other subsidiaries. One of them produced parts for Jeeps for the US Army which were used in operations in Iraq.

We were penalised by the fact that the European market restarted eighteen months after the American market. At the beginning of the crisis, two-thirds of our sales were in Europe.

Innovation and clients

Q.: What importance do you give to innovation?

A. S.: The difficulty in our profession is that an aerial platform is defined essentially by three figures; its height, the distance it is displaced, and the weight it can carry. It is possible to make an aerial platform lighter, a little easier to use, and a little more efficient, but regardless, whatever the client decides to buy will be based on these three figures.

Furthermore, we have two kinds of client: the client who buys the machine (to then rent it out), and the client who uses the machine. The latter is very rarely consulted about the choice of model to buy or to rent. As for the client who buys the machine in order to rent it, the most important criterion is the availability of the equipment. This client is particularly interested in its maintenance, whether the upkeep of the machine is easy, and how long it takes to be repaired.

Because these two clients do not have the same demands, we decided to give priority to the client who buys the equipment from us. The end client comes afterwards: we try to satisfy him when we can, without downgrading the service we give to the purchasing client.

Room for growth

Q.: You already export 85% of your turnover and you cannot buy your rivals, so where is there any room for growth and development?

A. S.: We have good growth prospects on the one hand in countries which do not yet have aerial platforms and are going to discover them over the next twenty years, and, on the other hand, the North American market, the largest in the world, where our market share is less than 5%. When we find new markets, we are able to take between 20 and 50% of the market share. However, when we find ourselves in a market ten years after our rivals, it is much more difficult, because the rental companies have already set up their fleet of machines.

The Chinese market

Q.: Have you created production units in China?

A. S.: We sell and manufacture aerial platforms in China, but we do not manufacture in China everything we sell there. With salary increases and the valorisation of the Yuan, it is not as lucrative as previously to manufacture

in China. On the other hand, this allows us to understand what is going on there and to know the real costs of production.

Q.: *Do you have rivals in China?*

A. S.: We are starting to see rivals emerge, but, like us ten years ago, they are faced with rental companies who already have set up their fleets of equipment.

Q.: *Are you worried that your aerial platforms will be copied?*

A. S.: There are very few patents which protect machines like ours, and it is very easy to simply buy one and take it apart in order to understand more or less how it is designed. The real difficulty for us, as well as for our rivals, is to develop a service network of people who speak the local language and can assemble and repair our machines. This takes time.

For the time being, the strategy of Chinese industrialists is to develop in China and then to buy companies in the rest of the world in have a presence in the West, and to create a network.

Transmission

Q.: *Are you starting to think about your own succession?*

A. S.: Perhaps one of my children will succeed me, but I want them to feel totally free as far as this is concerned. There is nothing worse than raising one's child and telling him 'you will take over from me'. I know several examples of sons who have succeeded their fathers but it was obvious that they were unsuitable to manage a company. In this situation, there are three possible options. Firstly, the father continues to work behind the scenes because he realises that he has made a mistake, and there is nothing worse than that; secondly, the father hires a managing director who does all the work and, very quickly the whole company realises that the son is the CEO only because he is the son; and thirdly, the father does neither of these options and so the company is headed for disaster.

Presidency of the UIMM

Q.: *In the past, the presidency of the UIMM was generally passed on to managers from well-known companies in the steel, aluminium or automobile industries. I am a little surprised that you were chosen because you manage a medium-sized company. It is the case that there are no steel or aluminium works in France any more and that the car industry is faltering. What is left of the UIMM I used to know?*

A. S.: Undoubtedly France is experiencing industrial decline. The proportion that industry occupies in France's GDP has been halved over twenty years. However, the current president of the MEDEF (*Mouvement des entreprises de France* : Movement of the Enterprises of France) comes from the UIMM which would appear to show that we have kept some degree of influence. We still carry some weight with the trade unions, politicians and those in charge.

The fact that I am the manager of a middle-market company is not a bad thing in view of current circumstances. I come from industry and I know the problems of industry from personal experience. At the beginning of 2008, I was honoured to be invited by the then Prime Minister, François Fillon, to a dinner with five other heads of companies, four of whom were in charge of large groups and one of whom managed an important transportation company. I was 'the youngster' whom no-one knew. When it was my turn to speak, I told two or three anecdotes about the 'charms' of our social laws and the Labour Code. I do not think that the Prime Minister was the only person around the table who was surprised.

I do not think that being the head of a middle-market company is a handicap if one is president of the UIMM, and I intend to show this over the remaining two-and-a-half years of my presidency with help from all my teams, both at head-quarters and in the regions.

■ Presentation of the speaker ■

Alexandre Saubot: has managed a family-owned middle-market company, Haulotte Group SA, since 2000. It specialises in the manufacture of aerial platforms and telescopic fork-lift trucks. It employs one thousand five hundred people throughout the world and its turnover was slightly more than four hundred million Euros in 2014, 80% of which was generated outside France. He is a graduate of the *École polytechnique*, and he began his career as a civil servant and in banking. He is a member of the Labour Relations Board at the MEDEF (Movement of the Enterprises of France). On March 19th, 2015, he was elected President of the UIMM (*Union des industries et métiers de la métallurgie*) for a period of three years. At the end of December 2015, he was elected Vice-President of the MEDEF in charge of labour relations.

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