

Carraro 2.0: growing globally beyond the turmoil

An interview with Enrico Carraro

Carraro is an international group that leads the world in highly efficient, eco-compatible power transmission systems. Founded in the 1930s by Giovanni Carraro, it is divided into four independent business units, controlled by the Carraro SpA holding, each with a specific mission and with a different risk profile and targeted strategies. The Group's core business consists in the design, manufacture and sale of integrated drivelines (axes, transmissions and electronic controls) for off-road applications, and agricultural and earthmoving machinery. Carraro is a longstanding partner of the main international OEMs, such as AGCO, CNH and Caterpillar.

In 2006 the Group took over Elettronica Santerno, a company specialising in power electronics. This operation enabled Carraro to combine mechanics and electronics, and also to enter into new, rapidly expanding sectors, such as renewable energies.

The financial and industrial crisis in 2009 had a dramatic effect on the Group, as it had to deal with a drastic slowdown in the markets and also the loss of orders from the main OEMs, which turned to their own warehouse stocks.

After years of growth the Group suffered a loss in turnover, from almost € 1 billion to € 500 million, however thanks to a quick, committed turnaround process, it managed to contain operational losses to € 1 million in terms of EDITBA, and to tackle the recovery with success. Today Carraro has reached a new competitive position, approaching pre-crisis turnover figures (> € 710 million), with a business model that has been completely updated, more competitive products, and a stronger team and client portfolio.

Value Partners met with Enrico Carraro, Executive Vice Chairman of Carraro Group, to analyze the phases and the difficulties of a successful turnaround in a mature industry.

A relaunch and reorganisation process is unsettling and risky in itself, but it becomes even more so in the framework of a crisis. The Carraro Group has managed it, but how?

A fall in demand, such as that which took place in 2009, has no precedents. Nobody, not even our clients, could have forecasted it. What's more, we were coming out of a double-figured period of growth. The destocking effect along the chain increased the already considerable reductions in volumes, which were close to 70% in some cases. In 2009, our turnover halved.

Such a situation couldn't be dealt with using ordinary measures. We realised right away that a total rethink was required, with regard to the company, our business model, and geographical position. Therefore short-term intervention was required to ensure the 'survival' of the Group, while maintaining long-term vision.

Consequently the Group's strategic relaunch plan, known as *Carraro 2.0*, was created, with two fundamental guidelines: first, to maintain and strengthen research and innovation activities, crucial for sustaining the Group's competitive position, and second, to look to emerging markets, working within a local framework.

What aspect did you start with?

With the most important one, the customer. Basically because never more than at that point, during such a difficult period, had we realised how important it is to listen to our own partners, to work out how to ensure the presence of the Group in the various markets together. Nothing was how it was, no long-term forecasting could be done, we just had to play it by ear. A high level of flexibility was required of everyone.

What was the next move?

We concentrated on the product. We analysed and re-analysed cost structures, assessing new component standardisation processes, reducing complexity and re-organising design and manufacturing processes. TTM (time to market) improved immediately, and hidden costs relating to lack of quality were eliminated.

At the same time we operated within a local framework, thanks to industrial platforms located in various emerging geographical areas, in order to guarantee the best products for each market, with the solutions and level of sophistication most suited to the various contexts. Another reason for this is that technology in itself does not always meet every requirement.

On the established markets we followed the specific actions of the main OEMs, by working on advanced transmission systems (automatic transmission with electronic control, hybrid power trains, and continuously variable transmission).

How would you define Carraro now, after such extensive reforms?

Carraro is a Group that has been strengthened, with a holding that defines strategies and has 4 heavily focused business units, with independent objectives. Aptitude for change is in our DNA, and we are now experiencing the umpteenth significant expansion phase. From the agricultural equipment we were producing in the '30s we went on to tractors, and from complete vehicles to transmission systems. Now we've opened the door to electronics applied to mechanics and the renewable energy sector. The Carraro brand has always been recognised as a technological partner by the Group's customers.

The Group has been active for several years in the renewable energy sector with Elettro-nica Santerno, a company with a distinctive business model and a double-figured rate of growth, compared with the mechanics sector. Has this aspect further complicated or supported the relaunch process?

Integration between mechanics and electronics has been a key factor for some time now in the industry, with applications ranging from electric vehicles to large earthworks machinery. With the acquisition of Santerno we capitalised on our technical knowledge of the consolidated businesses, and at the same time we seized the opportunity to extend the solutions we offer, also with regard to new applications linked to renewable energies, such as photovoltaic and wind energy.

We found ourselves dealing with markets undergoing exponential growth, which have a logic that is completely different from traditional thinking. We started with a solid product range, with inverters which are very advanced technologically, and very competitive. Quick success soon followed and the undisputed leadership position of the small company at Imola, which grew exponentially in a very few years.

What did you give priority to during the relaunch process?

Straightaway, and day by day, to managing cash flow. In a serious crisis situation cash flow has to be monitored continuously. Strengthening financial position is the foundation on which an industrial relaunch plan should be based. It's a rule that shouldn't be disregarded.

The Carraro Group is one of the iconic companies of Italian industry - family company, longstanding reputation, connected to its roots, now a multinational. How did this transformation come about?

We are entrepreneurs, we're passionate about our business. Over the years we found ourselves dealing with various market scenarios, and we never lost our industrial spirit for advanced technology, cutting-edge products, and new production platforms. That's just how we are. Our pioneering experience in India followed in the '90s, and then the globalisation process that led to us being present with production activities on every continent. Now it's a case of foreseeable, compulsory choices. Ten years ago, that's not how it was.

Management is a critical factor in this phase. Is it possible to make a radical change in strategy, without changing the management team?



Enrico Carraro joined the family business in 1985. In 2007 he accepted the office of Executive vice chairman of the Carraro SpA board of directors (BoD), working alongside the Chairman in leading the Group. He also promoted the new business development initiatives, under which he co-ordinated the definition of new businesses and the relative development programmes over the medium and long term. He chairs the Group's strategic committee, a consulting organization to the BoD. Enrico Carraro is also director on the board of Assosolare, the national association of the photovoltaic industry affiliated with Confindustria Energia.

We entrusted the relaunch to a new CEO, Alexander Bossard, and capitalised on in-house talent with new challenges, by assigning significant amounts of responsibility. As a result we showed we were changing direction, but also confirmed one of the Group's values - team spirit.

Do you regret not having done something, either sooner or better?

I don't have any regrets, but I often think of how to avoid difficult situations in the future. This doesn't curb our desire to grow. Short-term measures should only represent a small part of a much broader plan. The objective has to be permanent transition towards new markets, in terms of applications and areas of the world. There's always an opportunity to be taken. However anyone wanting to run a company now is called upon to make an extra effort, compared with the recent past.

What do you feel has been the most decisive action taken, and of which you're most proud? And the most upsetting one?

It's not about *my* direct actions. I'm proud of the cohesion, which has been demonstrated by the facts, the management team, my father, my brother Tomaso (chairman and CEO of Gear World, Business Unit Components), the managing director Alexander Bossard, and the new BU and department managers - all - working together and in full harmony. The most upsetting measure was, without a doubt, having to plan a significant reduction in staff, about a year ago. Now our colleagues almost number that of pre-crisis levels. A positive sign however you look at it.