European Monetary Union: Honeywell Europe

Introduction

William Hjerpe, the American president of Honeywell Europe, and Romano Prodi, newly designated chairman of the European Commission, shared at least one common interest in the spring of 1999: an economically integrated Europe. A stalwart enthusiast of integration, Hjerpe pondered how to move the US-based leader in control technology forward. Looking at his organization's fragmented markets with their high-cost structure (relative to the US parent), he saw monetary union as the push needed to integrate Honeywell's European market.

Over the past several years, Europe had made great strides toward becoming an integrated market. By July 2002, integration was expected to accelerate with the use of a common currency for all economic transactions among the EMU-11 countries. Given his company's leadership in technology and its strong and respected brand recognition, Hjerpe believed that real market integration was a huge opportunity for Honeywell to grow and prosper. Indeed, Honeywell Europe's savings from currency integration, including pan-European purchasing effects, was estimated as high as $30 million annually. While many Europeans wondered if they could keep up with competitive changes, Hjerpe was determined to move Honeywell to the forefront of integration.

Streamlining for Europe

When Bill Hjerpe came to Brussels from the United States to head up Honeywell Europe in 1997, he scarcely believed that Europe would really adopt a single currency. The European region of Honeywell Inc. generated about $2.1 billion in revenue with 13,000 employees--about a quarter of Honeywell's total. Honeywell Europe sold industrial controls (34%), commercial and residential control systems, such as thermostats and building management systems (63%), and aerospace products (3%). Honeywell's reputation was for technological leadership and top quality, and it had great name recognition throughout Europe (see **Exhibit 1**).

One problem, of course, was its cost structure. Honeywell Europe had a matrix organization; it was organized by both product market and country--with a full organizational structure in each European country. Thus, in Belgium, for example, there was a country manager, a finance manager, a human resources manager, etc.--and an organization of managers to run Honeywell's businesses in Belgium. Meanwhile, its manufacturing in Europe (with 17 sites) was fragmented and duplicative.

Research Associate Sabina M. Ciminero and Professor Richard H. K. Vietor prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

And its product offerings, at least in commercial and residential, were resplendent with different models, systems, circuits, colors, sizes, labels, etc.; "the Honeywell product catalogue was an inch thick." The previous president of Honeywell Europe, Giannantonio Ferrari (now president of Honeywell Inc.), had already begun making Honeywell Europe more streamlined and cost competitive.

By early 1998, Hjerpe realized that Europe was indeed going to integrate. At that point, he had two choices--to move fast and become an early adopter of an integrated strategy, or to delay adoption until 2002, holding down costs, avoiding uncertainty and seeing what happened to the competition. Hjerpe quickly chose the former, adopting a strategy summarized as follows: "Exploit the opportunities in our vibrant marketplace, creating a future of competitive superiority by outperforming, with innovative and enhanced efficiency, for our customers *and* for Honeywell." (see **Exhibit 2**).[1]

Hjerpe believed that in the face of price competition, Honeywell could press suppliers to lower their prices to Honeywell--by as much as $15 million annually. Since Honeywell felt that only 14% of its product offerings were exposed to downward price pressure, Hjerpe thought he could actually increase margins if costs could be controlled. Thus, the centerpiece of strategy was to reorganize Honeywell Europe into business units, and then to reduce personnel, manufacturing and distribution costs by driving rationalization (see **Exhibit 3** and **Exhibit 4**). This, plus continuing downward pressure on product differentiation (reducing "stinkers" by 10% annually) and closeness to the market, should yield most of Honeywell's improved margins. Sales initiatives and further acquisitions could help grow revenue by 10% annually.[2] Hjerpe intended to implement all of this by the end of 2000.

Of course, he faced any number of difficulties--both inside Honeywell and without. Honeywell Europe's management was not initially enthusiastic about the kind of streamlining that would make it look like its American counterpart. It would entail bookkeeping changes, incentive changes, performance changes, and for sure, workforce reductions. Externally, Honeywell had to step lightly through member-state employment laws, established distributor patterns and cultural preferences that differed sharply across boundaries. "We're wrestling with how to drive the economies of scale," said Mike Robinson, vice president of Finance, "with banking issues, pension issues, tax issues and the labor issue all partly outside Honeywell's immediate control." Upstream concentration (pan-European factories) had to go together with the diversity of a local presence in sales and services. Customer intimacy still required a local presence, culture and language.

Future

William Hjerpe thought Honeywell could meet its goals if Europe continued to grow for the next couple of years. He commented that "as we establish a strong vertically-based SBU organizational structure, we will continue to build the benefits of a region-wide Honeywell philosophy… to reinforce economies of scale and globalization of strategy."[3]

Hjerpe was determined to make Honeywell Europe a more streamlined, more profitable competitor. But a lot depended on Prodi's course and the success or failure of the integrative process. For sure, Honeywell had its work cut out for it.

[1] Honeywell Europe, "Performance, Progress and Ambition," *1998 Review & 1999 Outlook*, February 4, 1999.

[2] Ibid.

[3] William Hjerpe, "Organization Change – Europe, Middle East & Africa," November 27, 1998.

Exhibit 1 Honeywell Europe, Middle East and Africa (1998)

- **Financials**
  - -- Sales $2.1 billion
  - -- Assets $1.5 billion
  - -- Operating Profit $210 million
- **Presence in 49 countries**
  - -- 31 through affiliates
  - -- 5 through joint ventures
  - --13 through national distributor and rep offices
- **With 17 manufacturing locations**
- **And 13,000 people**
  - --8,500 in sales & services
  - --4,500 in engineering & manufacturing

Source: Honeywell Inc. 1998.

Exhibit 2 Honeywell Europe's Strategy

Our European Customers' Business Climate

- Intensifying competition
- Global business consolidation
- Pressure on prices
- Rising performance expectations
- Year 2000 system investment requirements exacerbated by Euro adaptation costs
- Labor mobility and cultural differences still a constraint

Honeywell

- Our goal is to achieve top tier performance
- Our business is to increase our customers' productivity, lower their operating costs, enhance their profitability while improving their competitiveness
- We provide Year 2000 services and compliant products
- We are progressive "Early Adopters" of the Euro
- We enhance existing facilities and plan performance

EXTREME PRESSURE TO IMPROVE COMPETITIVENESS → **WE IMPROVE OUR CUSTOMERS' PERFORMANCE**

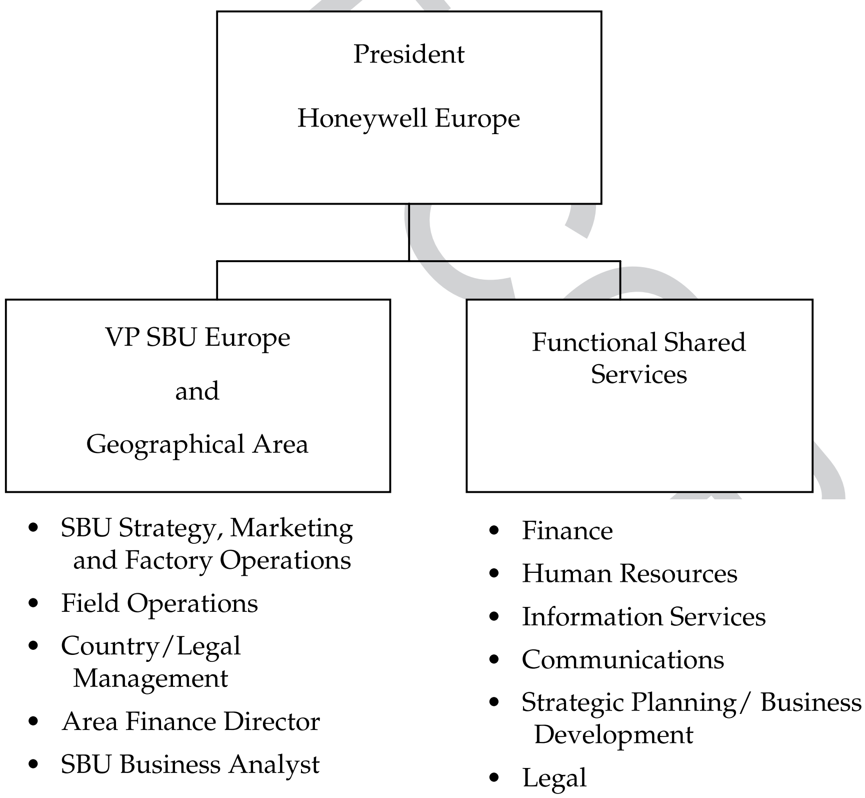
Source: Honeywell Inc. 1998.

Exhibit 3 Old Organization Structure

Areas	SBU Operations	Support Functions
• Sales • Service delivery • Customer support • Strategic execution • Tactical implementation	• Marketing • R&D • Manufacturing • Distribution • Strategic planning	• Infrastructure • Shared services • Logistics • Supply management • Contract management
Affiliates	**Center of Excellence**	**Area Centers**

Source: Honeywell Inc. 1998.

Exhibit 4 Pan-European SBU Management Structure



Source: Honeywell Inc. 1998.