

The Center for STRATEGY, EXECUTION, and VALUATION

Laidlaw Education Services: A Return Driven Strategy Case Study

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In the North American school bus market, about one-third of the approximately 500,000 yellow school buses you see on the road every day are owned and managed by private-sector companies, the transportation having been outsourced by the local school districts. And in that privately operated segment, more than a quarter of those buses were operated by Laidlaw Education Services (LES), headquartered in Chicago's western suburbs.

The Challenge

Laidlaw Education Services' parent company, Laidlaw International, was the \$4.6 billion holding company for North America's largest providers of school, municipal and inter-city bus transportation. Included in its holdings were two medical services businesses (ambulance services and emergency room services) that generated \$1.6 billion in revenues. That parent (LI) was emerging from two years of Chapter 11 reorganization in the spring of 2003, suffering the consequences of a rapid succession of acquisitions, some that had turned sour.

At that time, LI's focus was on refinancing exit debt, improving the capital structure and achieving an investment grade rating, along with identifying its go-forward portfolio components. Further, new chief executives were brought in for the operating companies, and each was directed to strategically assess their businesses.

Rationale for Change

Although the school bus unit was the clear market leader, it had never leveraged its potential for scale economies, allowing local, regional and emerging national competitors to more successfully participate in the market at its expense. As a consequence, it had experienced slow but steady margin erosion, and was muddling along as a cost-of-capital company with dimming prospects. LI set out objectives for lower unit costs (centralize, simplify and streamline appropriate processes); improved return on capital (fix or shed underperforming contracts); and assess growth opportunities in both core, and possibly adjacent, markets. LI expressed a goal of 3 to 4 margin points of improvement over a four year time span.

Benefits of Return Driven Strategy

The leadership team charged with driving the strategic assessment realized that:

- there needed to be a broad and genuine level of involvement across the organization
- there needed to be an effective framework within which the process could be undertaken and communicated

¹ Jim Folkes, former Vice President, Strategy & Business Development, led the business transformation efforts for Laidlaw Education Services from its inception in 2003.

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That leadership team was introduced to the Return Driven Strategy in 2003, which successfully fit the bill. Return Driven Strategy is an elegant framework, in that it is marked by both ingenuity and simplicity. And it is also marked by completeness in the way it encompasses all aspects of business strategy. The model is constructed in such a way as to provide a logical “outside-in,” or customer-focused approach and challenged first the executive team, and then broader groups of managers to think through the service they delivered each school day. The process caused a “strategy first-then tactics” mentality to begin to take hold. The other important aspect of the model was that it provided a common vocabulary and point of reference, hastening the adoption process.

Execution Challenges

The competency tenets of the Return Driven Strategy focus on Delivering Offerings, Innovating Offerings and Branding Offerings. Like most businesses, LES was most comfortable addressing the first component of Delivering Offerings - operating effectively and efficiently...and LES had a plethora of opportunities to choose from. LES had grown to its size largely by acquisitions itself, and over the years had underinvested in the infrastructure required to tie them effectively together. But this was no small undertaking. Migrating from an operating-only culture to one that could both operate day-to-day *and* successfully drive enterprise-wide projects took time, as did the staffing and integration of an IT group required to help execute the various initiatives. Further, it was unrealistic to expect growth to occur until the simplifying / streamlining / integrating of operating and administrative functions was completed.

Fortunately, LI stayed consistently on-message regarding their commitment to focus on the *quality* of earnings as well as their acceptance of the investment and time required to generate success. This was quite incredible in today’s quarter-by-quarter fishbowl of heightened performance expectations.

The Results

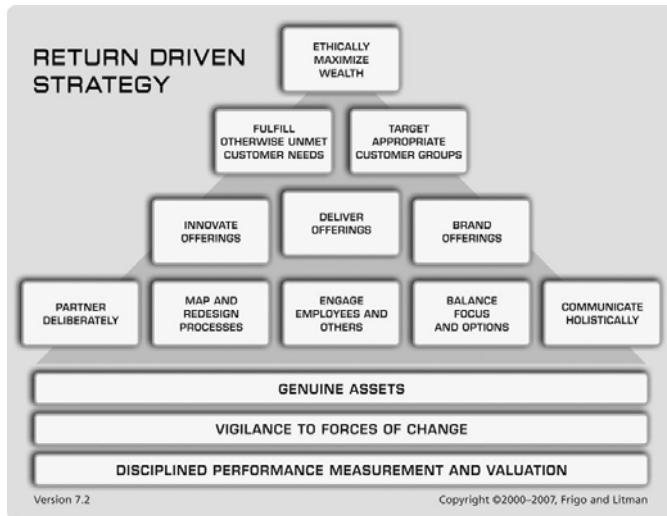
When EBITDA margins are normalized for extraordinary fuel escalation, LES made steady progress from the 2003 base year through the fiscal 2007 period. Over that four year span, margins improved by 4.40 margin points. Returns, as well, improved as LES reduced its capital outlays and made more efficient use of its rolling stock.

The LI share price rose 4.55 times from its post-Chapter 11-emergence low of \$7.75 to the \$35.25 Laidlaw received when the company was sold to First Group plc on October 1, 2007. That compares favorably with the Dow Jones Industrial (1.55x), the Dow Jones Transportation (2.03x), and the S&P 500 (1.56x) averages for the same period. While the favorable sale of the medical businesses, and the operating improvements from the municipal and inter-city businesses clearly improved the LI share price, so did the LES enhanced performance.

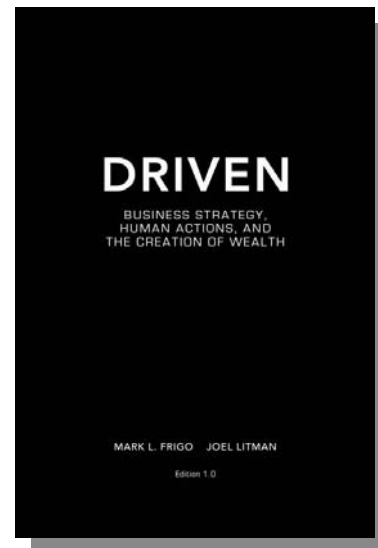
All companies must constantly evolve their business strategies to confront the realities of changing market needs. They will benefit if they, like Laidlaw Education Services, use a framework like Return Driven Strategy to guide their discussions and assessment.

Case Note: This case was written by Jim Folkes, former Vice President, Strategy & Business Development, led the business transformation efforts for Laidlaw Education Services from its inception in 2003.

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The Return Driven Strategy Framework



Driven

RETURN DRIVEN STRATEGY is a framework for business analysis and planning. It has been built on a simple theme: If we can better understand how the success or failure of a business is driven by its plans and actions, then we can greatly improve how we value companies and how we run our businesses. The framework is the culmination of a decade of research and applications and categorize the root causes of thousands of businesses that have succeeded, failed, or remained in mediocrity, over 20-30 year time periods of performance history.

DRIVEN is written for organizations and individuals who want to create more value and wealth by improving how they plan their businesses and take action. This book is about Return Driven Strategy, a framework for planning and evaluating businesses that can help people to get results, greater profitability, growth and valuation. In planning, building, and running businesses, Return Driven Strategy, has helped business leaders to choose what actions to take and when to take them. The ideas, tenets and strategies in the Return Driven Strategy framework have been tested and refined by executives, board members, employees, money managers, hedge funds, and academicians in North America, Europe and Asia.

DRIVEN includes explanations, diagnostics, and case studies from the research. Chapters are arranged in the same order as the elements of the Return Driven Strategy framework, making DRIVEN both an interesting read and a valuable guide for ongoing reference. For more information about the book *Driven* see www.returndriven.com

Comments from Business Leaders about Return Driven Strategy

"Return Driven Strategy provides a clear and concise way of looking at the key issues that drive profitable businesses. Its primary focus is on the customer, and markets, and it ties the various business components back to these key issues." -- Samuel C. Scott III, Chairman and CEO, Corn Products International, and Board Member of Abbott and Motorola

"Return Driven Strategy helped us to create a REAL Strategic Plan and gave us the tools to examine every facet of our business. The result: sales: UP; profits: UP; and we are a better company in just about every area of our business. I just can't say enough about the positive effect RDS has had with us. It's provided everyone with an understandable framework to comprehend our business." -- E. Terry Groff, President, READING BAKERY SYSTEMS

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"The Return Driven Strategy framework has enabled the senior leadership of our company to establish, implement, and periodically realign, a first class, effective business strategy that produces real results. We know that we are working on the right things, for the right reasons. We also know that our periodic discussions are on point, and a good use of our valuable time. Our principles, business priorities and resources, are effectively aligned. From conceptual level to day to day execution, this thing really works." -- John J. Mulherin, Chief Executive Officer, The Ziegler Companies, Inc.

"Imbedded in Return Driven Strategy are the undeniable truths of what works in the real world of business." -- Edward J. Sierawski, Founder and CEO of Sequoia System International, Inc 500 High-Growth

Dr. Mark L. Frigo is a recognized thought leader in strategy execution. He is Director of The Center for Strategy, Execution, and Valuation in the Kellstadt Graduate School of Business at DePaul University. The author of six books and over 75 articles, his work is published in leading business journals including *Harvard Business Review*. He is an advisor to executive teams and boards of directors of Fortune 500 companies and entrepreneurs. Dr. Frigo is co-creator of the Return Driven Strategy framework with Joel Litman and the co-author of the book *Driven: Business Strategy, Human Actions and the Creation of Wealth* (2008). You can reach Mark at mfrigo@depaul.edu or 312-362-8784.