Operations Strategy At Leading Industrial Machinery Manufacturer:
Creating A Fact-Based, Realistic Strategy For Performance Enhancement

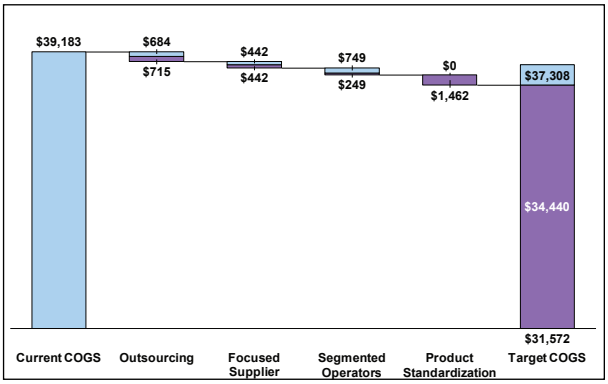
The Challenge: Our client, a manufacturer of industrial machinery, was not performing to its potential. Faced with aggressive 3-year performance targets (15% or >$5MM COGS savings, 98% on-time delivery up from the current 91%, and 90% first pass production yields up from around 70%), the client managers needed a fact-based, rapid plan to meet these targets. To establish the necessary fact base, the CEO asked us to perform a quick, but rigorous diagnostic of current performance as a first step in helping craft and execute an operations strategy that would deliver targeted performance.

The Partnership:

Analysis: Working with key client managers, our team spent 2 weeks gathering data, conducting interviews, analyzing operational metrics, and determining IndusTech's operational capabilities and shortfalls. While strong engineering capabilities had allowed IndusTech to grow by developing new products and new technologies, the resultant complexities were driving up costs and impeding growth by diluting engineering effectiveness and fragmenting the supply chain. The 2-week diagnostic revealed a number of important issues that must be understood and properly addressed to achieve targeted performance:

- In reality, IndusTech comprised two complementary businesses with distinct profitability and growth profiles—an industrial equipment business with a reasonable but stagnant margin and market share, and a consumables business (material consumed by the industrial equipment) with a twofold higher margin and significant growth potential, underscoring the need to segment operations
- It was highly vertically integrated but a below-average performer in many of these operations, suggesting potential for selective outsourcing
- Its supplier base was highly fragmented—for example, some 225 commodity raw materials were each being sourced from more than one vendor, with potential saving of $450K from consolidating spend at the lowest-priced supplier
- Its product development approach was piecemeal with unnecessary part uniqueness across similar products, creating a cost savings/complexity reduction opportunity from common parts.

Strategy: Backed by a strong fact base and an understanding of key drivers of profitability and associated opportunities, the team developed a target operations vision with realistic targets. The basic tenets of the vision were: standard platforms and modular component blocks configured to lower costs, reduce complexity, and increase flexibility; and an integrated, heavily outsourced supply chain. Specific elements included:



1. Outsourcing non-core activities (e.g., sheet metal, PC board, and wire & cable assembly)—cost savings of $1.4MM and capital avoidance in excess of $6MM
2. Rationalizing the vendor base and developing focused supplier partnerships with vendor-managed inventory (VMI) and leveraging of vendor design and manufacturing capabilities—cost savings of some $900K
3. Segmenting operations (equipment vs. consumables) to improve supply chain management—$1MM in savings
4. Moving towards standard and modular system design with a proprietary consumables strategy to greatly simplify inventory and production (finished goods SKUs expected to drop from 2,543 SKUs to 32 SKUs)—cost savings of some $1.5MM.

Execution: The execution plan was phased, dividing specific initiatives into two buckets—short-term (to be completed in the next 12 months) and longer-term (to be completed in the subsequent 18 months). After gaining board approval for the strategy, IndusTech managers launched four simultaneous teams: one focused on supplier and outsourcing initiatives; the second, on developing a new segmented planning and replenishment system; the third, on re-laying the shop floor; and the last, on revamping product design architecture.

The Results: The company captured the anticipated $2MM in short-term cost savings by successfully executing vendor rationalization, outsourcing, and manufacturing changes and is on track to capture the remaining $3+MM savings from longer-term initiatives, primarily standardized and modular product design.

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