Operational Transformation At Premium Personal Care Products Company: Establishing Cost-Focused Operational Processes To Enable Rapid Cost Savings Capture

The Challenge: CosmetiCo, a fast-growing producer of high-end personal care products, had recently been sold by the founder to a PE firm (a Gotham client). After the acquisition, CosmetiCo brought in a new CEO (previously President of \$1B personal care division of a Fortune 100 company) who discovered that the company lacked basic operational processes, cost controls, and likely had excess costs of 20-30%. The CEO approached Gotham to evaluate operations, quickly capture cost savings, and help CosmetiCo to put in place cost-focused operational processes.

The Partnership:

<u>Analysis</u>: The Gotham team began with a 4-week diagnostic spanning the company's operations. Due to CosmetiCo's limited cost tracking and reporting, the team first focused on building a robust profile of costs, trends, and key underlying cost drivers from first-hand observations and modeling:

- Direct Labor: Gotham's preliminary assessment from spending time on the production floor and interviewing
 manufacturing personnel uncovered significant downtime and low labor productivity. As there was no productivity
 reporting, the team implemented basic downtime tracking on the lines to establish the magnitude and sources of
 downtime and pin down the labor productivity/cost in each manufacturing area.
- Material: To build the material cost picture, the team accessed key purchasing data from the ERP system, grouped purchased items in logical commodity groups, and analyzed historical spend patterns. This spend analysis and comparisons to benchmarks indicated that CosmetiCo was overpaying for their commodities. Mapping the purchasing process revealed a clerical (rather than strategic) approach whereby orders were placed with minimal focus on cost (e.g., costly spot purchases). Additional issues driving up material costs included unnecessary complex packaging, significant corrugate waste in internal product transfer, and material waste/overfill in the filling.
- Overhead: Gotham built a profile of CosmetiCo's overhead cost based on organizational charts, payroll data, and firsthand observations, and identified excess cost in the manufacturing supervisory structure.

Several of the above issues Gotham uncovered could be traced back to critical gaps in the planning process (e.g., no stocking strategy, significant forecast inaccuracies). These issues were driving excess inventory (obsolescence accounted for nearly 15% of material costs), as well as shortages. Although 80% of CosmetiCo's product line had relatively stable demand, these "islands of stability" were not being leveraged in the planning.

Strategy: Working with the executive team, Gotham developed 3 initiatives to quickly capture and sustain cost savings:

- Manufacturing and Warehouse Improvements (\$2.5-3.0MM savings
 - opportunity): - Identify/eliminate drivers of efficiency loss and material waste
 - Establish standards and tracking mechanisms
- Purchasing/Material Sourcing (\$5.5-8.0MM savings opportunity):
 - Develop purchasing process/tools to review price history, volumes, and price breaks before placing POs
 - Re-source commodities out-of-line with benchmark costs
 - Redesign packaging to eliminate non-value added costs
- Demand and Supply Planning (\$1.0-1.5MM savings opportunity):
 - Develop planning tools and processes to support an overall inventory/stocking strategy based on product type and demand
 - Create a cross-functional process for dispositioning slow-moving inventory before it becomes obsolete
 - Develop sales and operations planning process to support planning and forecasting.

Execution: To capture the identified savings opportunities and improve operational capabilities, three joint client-Gotham teams were launched:

- The manufacturing and warehouse team initially focused on robust downtime reporting and time studies to further isolate specific areas of loss/inefficiencies. The team then undertook process modifications to improve cell layout, speed up ramp-up time after a changeover, and eliminate excessive material handling. To reduce waste, an internal packaging-reuse trial was initiated and later rolled out. Finally, the supervisory structure was realigned and a daily executive/manager review of productivity was initiated.
- To help get the **purchasing team** off on the right foot, Gotham developed new purchasing processes that utilized volume breaks and included tracking mechanisms (e.g., a PPV report and an open PO report to monitor results). To facilitate commodity re-sourcing, the Gotham team compiled a list of potential vendors, collected specifications, created bid packages, analyzed the bids, and helped purchasing team select vendors. In addition, we worked with the engineering team to eliminate non-value added design elements within existing packaging.
- The **planning team** focused on improving forecasting, establishing an inventory strategy, developing a production schedule based on a weekly plan, and creating process for dispositioning slow moving inventory. Gotham created a stocking tool to facilitate ongoing management of the process.

The Outcome: Within 3 months of launching the joint teams, over \$7MM of the cost reduction opportunity was confirmed/ planned (out of \$9-12.5MM identified in diagnostics), with \$2.5MM captured on an annual run rate basis.

