

## Cost Assessment/Reduction At Global Industrial Goods Manufacturer: Determining The Right Fixed Cost Structure And Capturing Overhead and G&A Opportunities

**The Challenge:** Our client, a global manufacturer of industrial goods, was formed through targeted industry acquisitions throughout the past decade. North American operations include 5 distinct business units including 9 manufacturing facilities. Wide disparity in fixed cost structure across the NA network became a primary concern for IndusGoods' senior management as spending in the sector slowed and the need to reassess levels of fixed spending became apparent. IndusGoods' asked us to help develop and implement manufacturing overhead and G&A savings recommendations across the NA plant network.

### The Partnership:

**Analysis:** Our initial analyses focused on establishing actual levels of fixed cost spending. Using organization charts and payroll reports we mapped how many personnel were employed in each fixed cost function and what the associated costs—labor, fringes, and expenses—were. We then established how each functional personnel group allocated its time among responsibilities. This exercise showed that a good deal of fixed cost personnel (e.g., line supervisors) and their associated costs were hidden in variable line items.

Next, we developed personnel and spending efficiency metrics on a function-by-function basis for cross-business unit and external benchmark comparison. Each business unit's goals and strategic plans were documented for spending context. Consideration was also given to the corporations' ongoing network consolidation strategy.

Finally, we combined this information to establish a zero-based organization structure and targeted spending reduction areas. Functional groups included:

#### Manufacturing Overhead:

- Manufacturing Administration
- Tooling
- Maintenance
- Receiving/Stores
- Production/Material Control
- Manufacturing Engineering
- Quality Assurance

#### G&A:

- Executive Administration
- Finance
- Human Resources
- Information Technology

**Strategy:** Fundamental to the challenge was the need to aggressively cut fixed costs while retaining organizational competency in core functions and operations. Because some facilities were slated for closure or consolidation, reduction goals differed across IndusGoods' business units, and impending closure afforded the opportunity for more sizeable reductions in spending without compromising the client's core competencies.

**Execution:** Meetings were held with business unit management to review the findings of the study and to generate input and buy-in for reductions. These reductions were built into business unit budget structures and management performance goals for the next year. Selected key productivity comparison metrics were implemented to serve as tracking and reporting measures for future fixed cost spending.

**The Results:** Total captured run-rate savings in the first year of reductions was \$8.1MM (on a \$41.5MM spending base). An additional \$2.1MM in savings were identified and targeted for capture in the following year.

<b>Productivity Comparison Metrics: Manufacturing Administration</b>				
<b>Metric:</b>	<b>Current Performance</b>			<b>Internal Benchmark</b>
	<b>Business Unit One</b>	<b>Business Unit Two</b>	<b>Business Unit Three</b>	
<b>Number of Direct Labor Heads per Supervisor</b>				
• U.S.	34	16	58	} 60
• Mexico	60	18	—	
• Average	38	17	58	
<b>COGS as % of Sales</b>	<b>67%</b>	<b>51%</b>	<b>58%</b>	<b>51%</b>
• Labor %	12%	11%	20%	11%
• Raw Material %	49%	65%	55%	49%
• Other %	39%	24%	25%	24%
<b>COGS per Headcount (\$000)</b>	<b>\$10.8</b>	<b>\$9.2</b>	<b>\$8.8</b>	<b>\$10.8</b>
<b>Inventory Turns</b>	<b>4.4</b>	<b>5.1</b>	<b>5.7</b>	<b>5.7</b>