

Operations Improvements At Leading Industrial Goods Manufacturer: Achieving And Sustaining World-Class Performance

The Challenge: WidgetCo, a leading producer of industrial goods, had experienced a sales decline of more than 25% due to a general economic downturn. Several critical performance issues resulting from WidgetCo's transition to a new ERP system were exacerbating this sales loss e.g., shipments from the wrong warehouse, inaccuracies in customer promise dates, inaccurate vendor forecasts, severe product shortages and production of excess inventory. Not surprisingly, customers were frustrated by the poor customer service. Since rapid and sustainable operational improvement was critical to WidgetCo's survival, the CEO engaged Gotham to turn this performance shortfall around.

The Partnership:

Analysis: A joint team of Gotham consultants and WidgetCo managers conducted a root-cause analysis to quickly distinguish symptoms from actionable issues. We categorized operational issues into short-term tactical issues and longer term systematic issues. The former included system programming errors (such as promise date inaccuracy and shipment from wrong warehouse) and delivery backlog problems due to incorrect prioritization of work orders and purchase orders. The latter included problematic operational parameter settings in the MRP system (e.g., product routing, safety stocks, lead times, batch sizes) and undisciplined operational business processes (e.g., forecasting, shop floor scheduling, sales operations planning and customer care).

Strategy: Given the urgent need for quick improvements, we took a 2-phased approach:

- **Phase 1 (Stop the bleeding)** focused on near-term tactical fixes over a 3 month period
- **Phase 2 (Achieve and sustain world-class performance)** targeted resolution of longer term strategic issues

Execution: In Phase 1, we worked with functional middle managers and line staff to execute tactical fixes, primarily focused on the severe backlog situation – a tool to prioritize work orders/purchase orders for backlogged parts; surveys to determine key customer care issues; and programming specifications for promise date calculation and warehouse assignment. During Phase 2, we worked extensively with functional middle managers and senior managers on several initiatives, including:

- Segmented operations and service strategy by classifying SKUs as make-to-stock or make-to-order
- Re-setting of MRP parameters (safety stock, lead time, batch size) based on demand patterns and manufacturing process times, calculated using database models
- Key management reports for proactively tracking shortages, forecast errors, inventory excesses/ shortages, and schedule adherence
- KPIs for each function involved in the order-to-shipment process (e.g., Logistics, Planning, Purchasing, Finance, Quality, and Manufacturing)
- Process mapping and re-design of key operations processes in conjunction with functional managers, to put WidgetCo on a path to world-class performance.

The Results: Delivery backlog was reduced by more than 40% and on-time delivery improved from 68% to 90%. Inventory reduction opportunities exceeding \$6MM were also identified. WidgetCo was able to sustain and steadily improve its performance months after our involvement ended.

