Sequoia Case Study

Re-Engineering Operating Costs for Game-Changing profitability

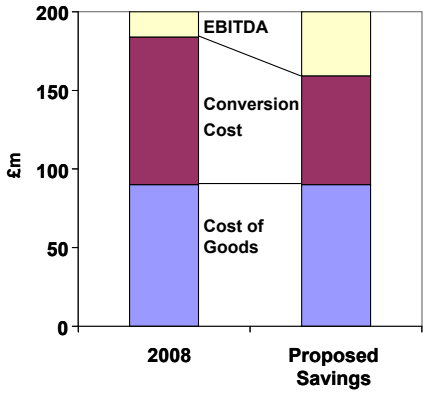
How we identified a 25% saving on operating costs for a market leader.

Our client is a manufacturer of private label chilled products with 5 factories across the UK, each run as a separate business unit. Almost all of the Division's profit was delivered at just one site.

Their market had matured and overall growth had stalled. Although some categories and retailers were experiencing high growth, our client was missing out. Indeed they had recently closed a factory due to unfavourable market and commercial conditions within one category with their main retailer.

They had a question:

Can operating costs be re-engineered to deliver "Game Changing" profitability? Also, if the answer is no then should the division be sold?



The total conversion cost at all sites was £95m with Revenue at £200m. We identified operational improvements offering potential savings of £25m pa. Most certainly Game Changing!

A potential saving of 25% on conversion costs however, will always raise questions: How robust is the analysis?

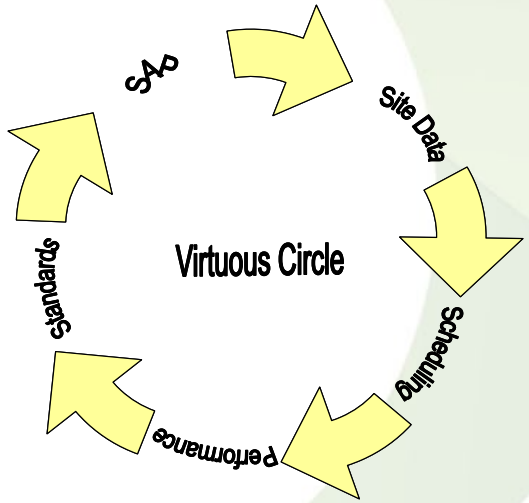
Bottom Up Factory Cost Models

The analysis was based on detailed factory models, built bottom up from budget data and actual performance.

This approach allows us to calculate profitability improvements from shop floor level data. These results feed directly into an implementation plan providing factory performance targets. Using current actual data as a reference point and client teams to agree the feasibility of performance improvement means the results are non-controversial.

How could we be so bad?

The story is possibly more typical than first thought. The business was built up from a cottage industry into a £200m consumer goods company. Sensibly their initial focus was on recipe creation and innovation and customer partnerships. As complexity and volume increased there would have



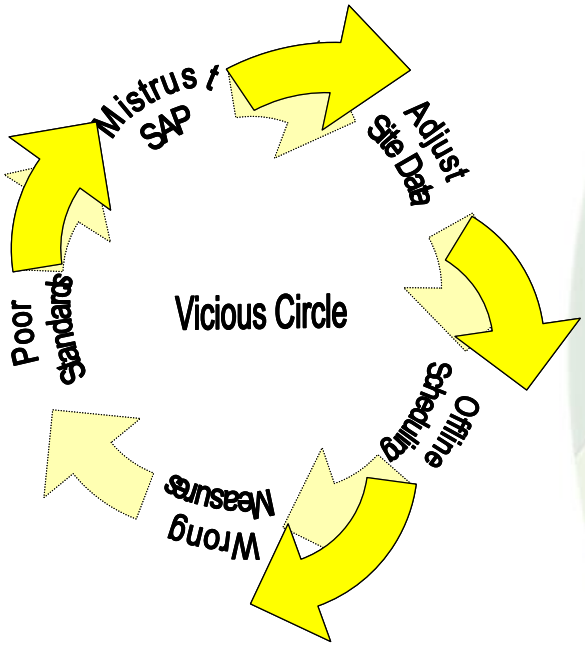
been a requirement for management systems and so SAP, adapted to suit, was employed.

Appropriate Performance Measures

Unfortunately having fed SAP with standards and overlaying site parameters to produce schedules and material plans, it was not followed up with the appropriate performance measures and feedback into standards.

So rather than a virtuous circle of tightening standards, increasing labour efficiency and improving production performance, they were actually led into a vicious circle where imprecise standards led to a mistrust of the output from SAP and consequently offline adjustments and spreadsheet planning systems were used to produce production plans, duplicating data and effort. Performance measures

were recorded as variances only which made problem identification near impossible. The result was a loss of control.



Are these savings really achievable?

Regain Control

Regaining control of manufacturing costs takes a few steps

- Focus on Conversion
- Employ Absolute Standards
- Use Absolute KPI measurement

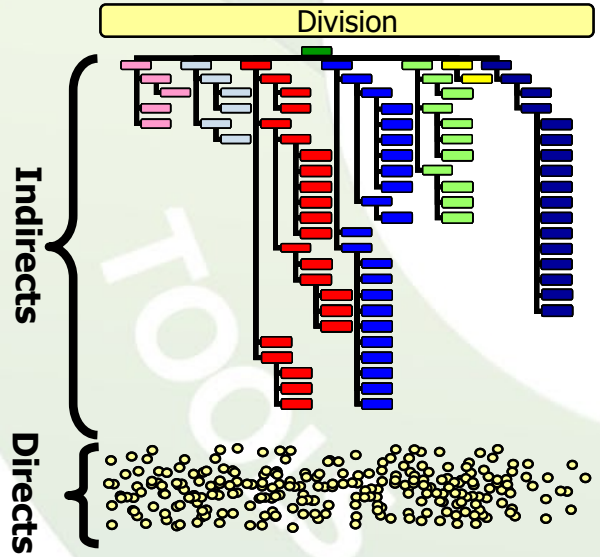
Which will enable improved use of SAP. Then within an atmosphere of control we can attack the big savings.

Of the £25m total savings, almost £10m of that is in direct and indirect labour restructuring. Not a figure that can be arrived at through incremental improvements but instead through a Greenfield vision with major philosophical changes.

Remove deep functional silos

The indirect workforce was organised in deep functional silos. In the extreme case there were 8 reporting levels between MD and shop floor. The direct labour was poorly organised and limited in skill set. Labour planning efficiency was low with time wasted waiting for Engineers for breakdowns or Hygiene crews.

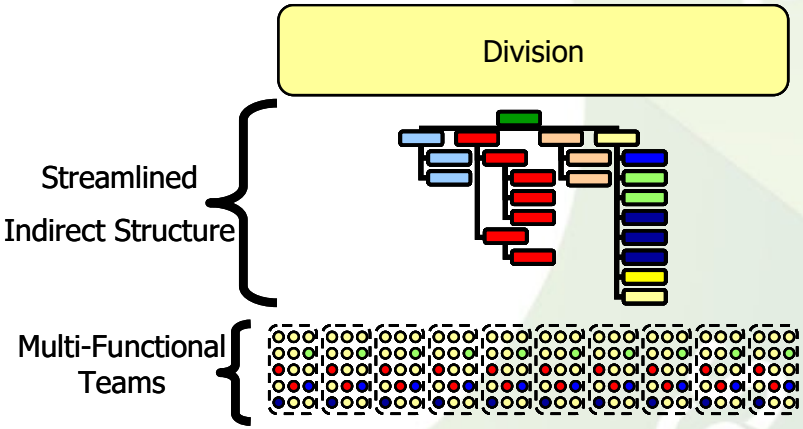
Divisional support was thin and found it difficult



to communicate through the existing structure.

The target was to reduce labour across the business by 30% although with an improved skill base the salary saving would not be proportional. The reduction had to be tackled at the divisional level and would begin with centralising expertise and non-productive functions. With strong divisional leadership and a detailed training programme the sites begin the process of creating integrated multi-functional teams at shop level. Decision making is delegated to the lowest possible level and teams are made responsible for their own production, maintenance, hygiene and quality. This process moves some previously "indirect" employees into these "direct" teams.

Only at this point with established, fully trained teams in place will the business be ready to radically reduce the remaining indirect structure.



And the final question – At what cost?

Financially the majority of these savings can be gained with little or no investment. There are some quick wins available in waste reduction, through measurement and agency labour, through improved labour planning. This will release cash to fund those projects requiring more capital such as line automation and most importantly staff training.

The major investment required for this project is commitment from the business. Cultural change of this nature is a major undertaking and needs a 2-3 year commitment from all levels of the business.

We are currently in the process of supporting this client in the implementation these recommendations.