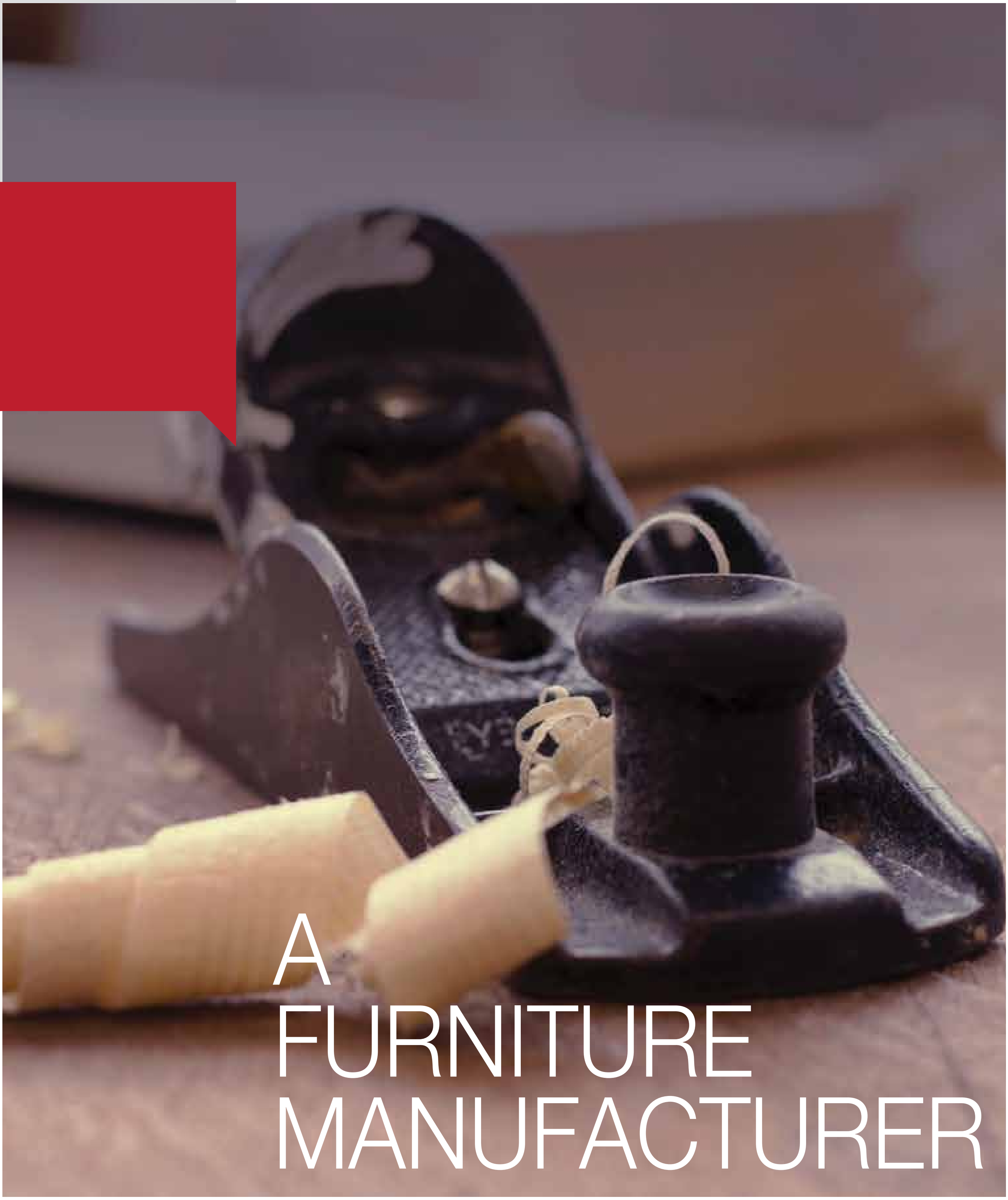

A FURNITURE MANUFACTURER

A Case Study by

MCGRATH

Contents

Introduction

- Industry: a furniture manufacturing group with three factories, headquarters and a showroom.
- Main products: wooden boards, bedroom furniture (classic and modern) and dining room furniture.
- Type of company: family owned.
- Location: Western Europe.
- Turnover: around 55.000.000€.
- Profit/Loss: - 8% (2011).
- Duration: 25 weeks + 15 weeks follow up.

Problem Statement

1. The turnover was falling dramatically for various reasons:
a) Fall in sales of the traditional furniture distribution channels because of a consumer shift to new channels (mainly IKEA).
b) Poor customer services with constant late deliveries.
c) Poor quality furniture products that remained at a pricing level that company wanted to keep.

2. Excessive production costs due to poor planning, downtime, redundant personnel for the actual workload and high inventories and transportation costs.

These two main problems were also created by the lack of commitment and motivation of the workforce, lack of proper supervision, lack of discipline in the support areas, excessive number of references in the products portfolio (most of them not profitable), lack of standards for jobs and cycle times and apart from sales volume, no other key indicators were followed up.

Big investments were made from the family owner to save the company, with no other objectives other than to survive a little longer.

Objectives

1. To design and implement a winning strategy to become competitive in the new market scenario, with a new products committee as the big innovator.

2. To implement a new overall management system at board level and management team level with a balanced score card as the tool to get the significant information to make the right decisions.

3. To develop a high-performance management team oriented to achieve the strategic goals defined and shared with them, with cooperation and team spirit.

4. To implement a new sales management system oriented to develop new channels and develop a sales force that understands the new challenges of the market.

5. To dramatically increase the performance of the three factories, with a new overall planning system based on standards and cycle time with a push/pull concept, trained supervision and the implementation of technical training for the personnel. An implementation of a new production management system with control on the main variables that impact the cost of production: downtime, stocks breakouts, operational times and logistic costs.

McGrath Solution

A new strategy was defined through workshops where the management team and the board participated. This had a big impact on the traditional hierarchical culture and changed it dramatically. A renovated sales team went out to conquer new markets with new tools, new skills and with much more confidence. The production management and supervision sectors went through a dramatic cultural change which rolled down a new culture of performance to personnel.

New weekly meetings based on key performance indicators were held everywhere and some staff were persuaded to become cooperative subcontractors. Very few people were laid off but personnel costs and operational costs fell dramatically. A new view on the inventory based on average consumption and lead times was implemented reducing the inventories and the breakouts at the same time. A new culture based on performance was established and some internal groups sponsored by *McGrath* defined some additional interventions to reduce costs even more. Finally, a new admin system reduced financial costs with the reduction of the accounts receivables.

Benefit 1: Profit
The new strategy, culture and management systems made a turn around with regard to the financial performance of the company. The family owner no longer needed to invest financial resources. The first financial statement after the programme showed that the company had made a 3% profit and this profit increased slightly over the following years.

Benefit 2: Sales Increase
Most of the products were discontinued due to the implementation of the new strategy and a few others were designed and manufactured with success. The renovated sales team managed to increase sales by 30% in the first complete year after the program.

Benefit 3: Manufacturing Cost Reduction
A significant reduction of the operational costs from 85% to 71% of the turnover with net savings of more than half a million Euros was achieved due to the new production management system and the fluent communication at management team level.

Benefit 4: Culture and Behavioural Change
A cultural change sparked by a behavioural change was apparent and this was all due to the new strategy that had been effectively communicated. The cultural and behavioural change were also the result of the new management systems, the intensive management training extended to all the executives and managers and the technical training extended to the staff. The new results of the optimisation at all levels worked as a very strong motivational factor in keeping up good performance. Quality problems almost disappeared, complaints from customers were almost non-existent and everybody felt part of a very satisfying new situation. This was the insurance to perpetuate the results achieved during the program.

Benefit 5: Effective Supply Chain Management
Uniform purchasing procedures, suppliers evaluation and a cooperative negotiation with the most important suppliers created important financial gains but also created a long term relationship based on honesty, clarity and cooperation with suppliers that was key for new product and reduced manufacturing costs.

Benefit 6: Positioning in the Market
All these changes created credibility in the market and they launched a new way of dealing with the main accounts created and they inspired a spirit of cooperation and enabled very important information required for the design of new products. The company created its new position in the market that could be perceived even at final customer level. The main accounts started to see that the company was permeable to their suggestions and opinions and as a result special campaigns were developed and an increased number of sales were closed. The development of this complicity with the main accounts was another key aspect for achieving the results.

Implementation Program

Throughout the project, the CEO, the management team and related staff were involved in determining the best approach and action.

Strategy Definition

A number of workshops were held during the first weeks to develop the new strategy. A strong commitment with the new strategy was developed during those workshops and meetings and presentations were held across the organisation communicating the new situation. A new commercial and industrial plan was developed breaking down the strategy into indicators and performance goals. The existent uncertainty about the future (just before the project began) was also an important factor in achieving commitment across the organisation. A balanced score card was designed and implemented almost immediately and was presented at supervisory and management level. This gave rise to a new consciousness about what was important from that moment onwards and helped the required cultural and behavioural change.

Re-Structuring

The production and the sales areas were completely re-structured. Positions that remained from the past were suppressed, and the structure was adapted to the new strategy. In sales, new channels were opened with a structured approach and most of the sales force was crewed according to the volume of the markets with trained salespeople working exclusively for the company. The existing representatives who were also working with other firms were filtered and only a few stayed but committed with the new strategy and with ambitious objectives that were agreed apon. On the production side a new structure was implemented taking into account workloads, processes complexity and also the need for proper supervision.

Another big structure change was the creation of the new products committee which was in charge of creating new products according to the market's new needs, with methodology and procedures defined to ensure effectiveness.

Sales Management System

The sales area was completely transformed. The clients were organised into a system of classification and the frequency of contact was stipulated; other aspects were also defined under each category. Territories were re-defined and new sales people were recruited to deal with the new territories and routes. The frequency of visits were also defined for each of the sales people. New goals (other than sales volume) were set and a new lead generation process was defined. New procedures, pitches and treatments were defined for the big accounts. A bi-weekly meeting with the whole team was organised where the CEO was also present. Sales and technical training was carried out. Most of the existing sales agents were replaced by the company's own sales people.

All these big changes combined with the new excellence in deliveries, quality and innovative products pushed up the sales to more than 30% in the first year after the program. The perception of the company and its brands changed completely within the industry according to the surveys organised.

Orders Process, Traceability and Planning

A new process and procedures for orders was defined which allowed production planning to improve efficiency and dramatically reduce customer complaints. The unification of the production planning also reduced work in progress and production cycle time dramatically. An order could now be delivered with more quality and in a quicker time frame and with these changes business and clients numbers increased.

Management Team Training and Coaching

Management training and individual/group coaching was developed in order to create a high-performance management team. This was crucial for developing the new company culture and facilitating the behavioural change required to be competitive. The balanced score card and new procedures for the management meetings were also crucial making this move a success.

A new way to cooperate was established within the team and new links were set between production and sales. Action oriented meetings with action plans to follow up on were implemented and decisions were set. Meetings became effective and efficient in reducing the duration to a tenth of the time that was used before. Now the management team, and the CEO were really in control of the company and no decision was forgotten or all decisions were executed.

Supervision and Mid-Management Training and Development

Middle management and the supervision were trained. The management training helped the middle managers and the supervisors to cope with the new ambitious goals that needed to be achieved. New management skills started to flourish in the company boosting motivation and accountability. The combination of the training, the new goals and the new management tools started to show impressive changes in performance and behaviours that were also encouraged by the top management. The client seemed to become a very important person in production and the production efficiency was something that was taken into account in the client negotiations by the sales people. Some specific teambuilding workshops were designed and developed combining sales people and production supervisors which proved to be an excellent tool to increase communication, cooperation and teamwork between sales and production people.

Technical Training

A technical training program was designed based on supervisory evaluation. A flexibility matrix was made in all areas of production in order to identify training needs, keeping in mind all the tasks to be performed in each area. The technical training was developed with in-house trainers in order to improve the technical skills of the production workers. A new flexible and more skilled workforce made it easier to innovate new techniques and products.

Production Management Systems

In the three factories new management systems were installed.

Not only was a new overall plan developed and implemented (based on standard working times and cycle time) but a master schedule that calculated resources in the long and medium term, along with a medium term forecast based on feedback that was coming from sales, was also created. Work instructions and procedures were completed, some based on the technical training given. A simple reporting system based on key performance indicators was designed and implemented at supervisory and middle management level, that also fed the management report (balanced score card).

The supervisors now have the important tools and information to manage their areas and with the training and the new management skills acquired, they have started showing amazing results. Productivity increased by more than 30% was achieved (in some departments) and an overall 15% was reached a month after the implementation.

Customer Service and Complaints

Due to poor performance in quality and delivery, a working group sealing customer satisfaction was created. With mid-managers and supervisors of different production, admin and sales areas. This group started identifying problems and tried and implemented solutions, also taking care of communicating with clients (distribution channels and furniture shops) in order to make sure problems were solved. This group also implemented some improvements that made life easier for sales and production and had a positive financial impact. A methodology was given to this group in order to make sure that no problems were unsolved or not tended to. Clients' perception changed dramatically according to surveys made.

Technical Office (R & D & I - Design)

Due to the importance of the roll of new products in the strategy, a specific management system was also implemented in the technical office. Very valuable people, bored and underused before were now receiving a lot of feedback and information from the market. A more skilled workforce enabled them think big and be ambitious. Crewed now with the right resources, this office worked side by side with the new products committee. New products were successfully launched according to the new customer preferences. Innovation now had channels to flow and help the organisation to become competitive.

Summary

At the start the company was struggling to survive but after *Mcgrath's* intervention the company became a profitable leader in its market. Important financial gains were made, the company was no longer in the red but the most important achievement of all was that a new culture established. This change ensured the preservation of the financial and operational improvements and the new positioning of the company in the market.

From the new management systems, new skills were acquired at all levels. Motivation was boosted. Innovation and customer orientation became part of the culture.

Return on Investment

A 5.4:1 Return on investment was achieved on quantified financial savings that impacted the P&L Statement. Savings evaluation agreed and signed by top management (CEO and MD).