AN AUTO-PARTS MANUFACTURER

A Case Study by

MCGRATH

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Contents

Introduction

- Industry: A petrol tank manufacturer (Tier 2) group with four factories and an R&D Center in Europe.
- Products: Petrol tanks.
- Type of Company: Multinational. Public company.
- Locations: Western and Northern Europe. Headquarters in Western Europe.
- Turnover: Around 850.000.000€.
- Profit/Loss: - 2% (2006).
- Duration: 48 weeks + 24 weeks follow up.

Problem Statement

1. Risk of loss of important contracts due to late deliveries and poor quality. Scoring as supplier in risk of falling to dangerous levels.

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

3. A lack of centralised information about performance at headquarters which prevented staff from taking corrective actions, improving programming, reducing inventories and taking advantage of other synergies.

4. The Research & Development Center were in charge of developing new products and prototypes with very poor performance in 'time to market.'

These problems were also magnified by a lack of proper supervision, a lack of discipline in the support areas, a lack of standards for orders and cycle times and apart from sales volume, no other key indicators were followed up.

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Objectives

1. To implement a new overall management system at board level and at management team level with centralised information on performance, inventories, production planning and logistics, in order to get the relevant information to make the right decisions.

2. To develop a high-performance management team oriented to achieve better coordination, a significant cost reduction and dramatically improve customer services.

3. To implement a new project management system in the Research & Development Center oriented to develop new products in accordance with the challenges of the market and at the right time.

4. To dramatically increase the performance of the four factories, with a new overall planning system based on best demonstrated standards and with trained supervision.

5. To implement 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. Implement a short interval follow up system as part of the management system based on information at a local and centralised level, in order to take timely corrective action when plans were not accomplished.

McGrath Solutions

The production management and supervision went through a dramatic cultural change, a new culture of performance was rolled down to personnel. New daily and weekly meetings based on key performance indicators were held everywhere. Workload was measured and optimal staff defined. 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.

A project management system was defined for the Research & Development Center with a close follow up on deadlines and milestones. Compliance was implemented on all the steps of the R&D cycle and performance improved dramatically.

The attainment on the R&D schedule also improved certainty in relation to the prototyping and trials processes which used the production facilities, allowing for better coordination with production and the new centralised programming system which included the R&D activities.

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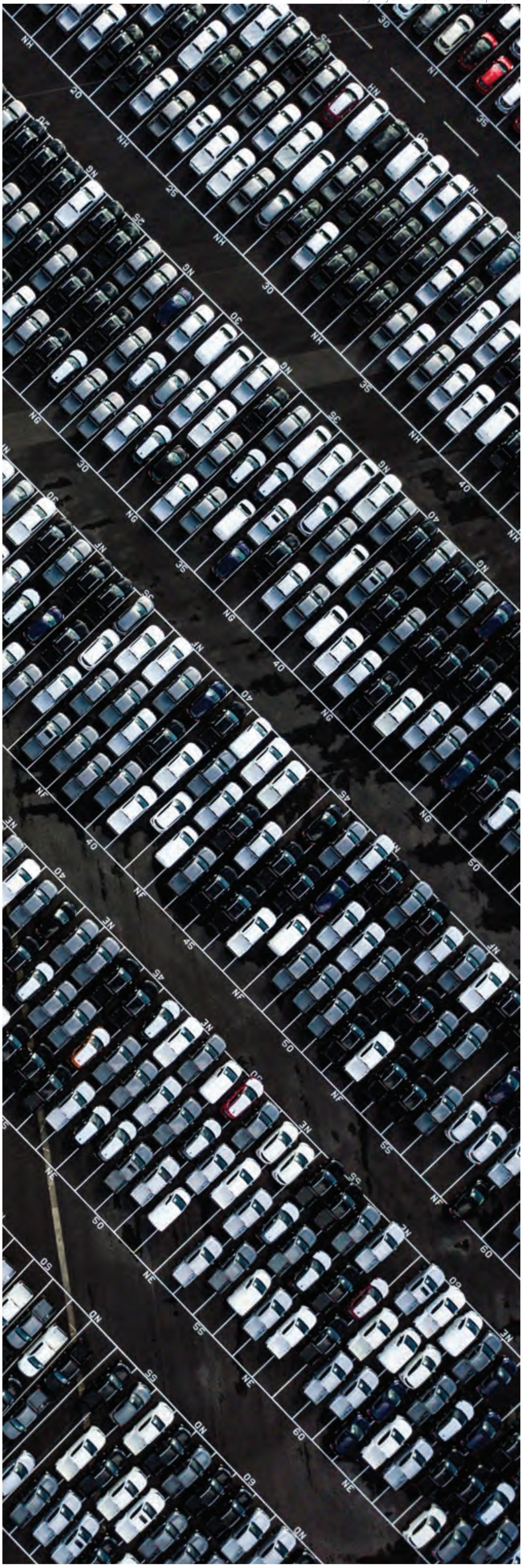

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Benefit 1: Profit
The new strategy, culture and management systems created a positive turnaround with regard to the financial performance of the company.

The first financial statement after the completion of the program showed a 3% profit and this figure increased to a 10% profit the following year.

Benefit 2: Production Increase
As a consequence of the new production management system the factories could respond to a significant increase of demand not forecasted by the customers with an excellent performance in delivery times.

Benefit 3: Manufacturing Cost Reduction
The new production management system and the fluent communication at management team level and at headquarter level allowed for a significant reduction of the operational costs with net savings of more than fifteen million Euros.

Benefit 4: Culture and Behavioural Change
The intensive management training extended to all the executives and managers and combined with the implementation of the new management system, a focus on the key performance indicators and the excellence achieved in performance a cultural change in the company was fostered and this in turn lead to a behavioural change. The new results of the optimisation at all levels also worked as a very strong motivational factor to keep up good performance. The quality problems almost disappeared, the complaints from customers were almost non-existent, their supplier score improved with all their clients and everybody felt part of a very satisfying new reality. This was the insurance to perpetuate the results achieved during the program.

Benefit 5: Effective Supply Chain Management
Uniform purchasing procedures, supplier 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. This was key for new product and reduced manufacturing costs and improved the service received by the suppliers.

Benefit 6: Positioning in the Market
The significant change in performance, the more competitive costs and a commercial strategy based on the new standards allowed the company to win new important contracts.

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 6.4:1 Return on investment was achieved on quantified operational savings that impacted the P&L Statement. Savings evaluation was agreed upon and signed by top management (CEO and all the local MDs).

Reference Letter

Five reference letters were signed by the CEO and the four local MDs.

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