A STAINLESS STEEL MANUFACTURER 1/2

A Case Study by

MCGRATH

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Company Facts and Figures

- Industry: Stainless steel producer with a factory located in Southern Europe. The sales, function and management departments were all centralised in Western Europe.
- Main products: Stainless steel billets.
- Type of company: Family owned.
- Location: Southern Europe and Western Europe.
- Turnover: € 35,000,000.
- Production Volume: 10,000 Tons.
- EBITDA: 2%.
- Number of Employees: 331.
- Duration: 25 weeks.
- Return on Investment: 4:1.

Problem Statement

1. The company's strategy was unclear due to poor communication and a lack of defined strategic goals.

Top management were implementing a winning strategy but this strategy was not being translated into clear and quantifiable strategic goals with key indicators associated to it.

There was no formal system in place to communicate the strategy to all the people within the company and as a consequence actions and investments were on stand-by. One of the great obstacles was operations being in Southern Europe and management being in Western Europe. As a result cultural differences and distance were challenging factors to take into consideration.

2. Low levels of productivity in production with excessive costs due to poor planning and significant staff downtime. A poor supervisory culture and the lack of mid-management commitment reflected a lack of initiative in problem solving, low morale and a lack of flexibility in the workforce. As a result, ineffective changeovers, quality problems and downtime went unsolved consequently penalizing performance.

3. High non quality costs due to poor quality work and rework accepted as part of the normal production process. Repetitive quality problems were not solved and some of the defects were solved at the end of the process with manual rework. Reasons for the lack of quality were not identified and quality checks were done only at the end of the process.

4. High Inventories due to lack of a clear policy and a lack of direction, which penalized cash-flow and no definition of parameters left the inventory levels at the discretion of the purchasing department which didn't have a global vision of the business. As a result cash-flow problems were created.

5. Sales performance was lower than potential due to lost opportunities, poor sales practices and skills in the sales force, an unbalanced workflow in the sales territories, a lack of specific goals (apart from sales turnover) and lack of a sales management system to control all the variables.

6. Low profitability due to poor production performance and low margin products. No portfolio analysis and no identification of low/high margins by product and by client.

7. Poor delivery performance due to lack of internal communication and warehouse organisation and material management.

Objectives

1. To define and implement a winning strategy (with a horizon on 2020) with fluent communication at all levels and very clear strategic goals with key indicators. Short interval control.

2. To implement a new sales management system with a complete re-organisation of the sales area in order to become more effective and increase turnover. Improve the sales skills of the team through training and coaching.

3. To implement a new production and maintenance management system focused on performance and productivity. Reduce downtime and changeover time on equipment utilisation and increase quality performance.

4. To implement a new supply chain management system focus on delivery on time and inventory control.

5. To implement a new management system in the technical department to control projects and reduce projects' cycle time.

McGrath Solution

The long-term strategy with a horizon on 2020, was translated in different annual milestones and translated into strategic goals with key indicators to measure performance and achievement. Through several workshops, the strategy was discussed and agreed by the operational management and a commitment was reached. This step represented a major change and increased the understanding between cultures, establishing more fluent relationships between the board in Western Europe and the operational management in Southern Europe. Most of the scheduled investments were unblocked or redefined and this increased the certainty regarding the near future, and allowed the operational management to prepare the changes properly.

The sales area was completely reorganised. A portfolio analysis led to a decision to discontinue some products and the marketing of other products was reinforced. The transparency of this information made the sales force focus on selling with higher margins. Also a client analysis defined different categories of clients according to volume, margin and strategic importance. Procedures, contact/visit schedules and conditions were defined for each category. Sales territories were reorganised according to categories, volume of business and languages, making the sales force feel empowered with regard to their market thus fostering further market research and lead generation.

A complete sales training program and individual coaching increased their sales skills and a redefinition of their role made them dramatically more productive.

A sales management system started measuring performance in all the steps of the sales process, identifying best practices and creating a culture of performance;

also allowing the sales director to help and control performance.

In Southern Europe, where the production facilities were, *McGrath* led a dramatic cultural change.

A new production and maintenance management system focus on performance and equipment utilisation and the creation of working groups to deal with quality issues, changeover time and implementing the 5S methodology throughout the factory, created a new culture and delivered amazing results.

The new definition of performance goals, a new reporting system and the definition of planning standards per product and equipment led to a dramatic increase in productivity. The maintenance department, with new goals and key performance indicators was able to monitor performance on response time, and mean time between breakdowns and started improving their performance and reducing the breakdown time.

At the same time, working groups, provided with effective tools in order to be action oriented, delivered a new methodology for changeovers that dramatically reduced the non-productive time of the equipment, identified reasons for the lack of quality and solved the most important ones without any major investment. They also helped organise and clean the factory, creating a friendly and productive environment.

As a result, a dramatic increase in productivity and volume produced was achieved without increasing resources or costs.

The supply chain (essentially the logistics and the purchasing departments) were provided with new management systems, with new goals, key indicators, new planning standards, new tools for assigning work, new work instructions and a new reporting system.

New inventory parameters were defined, with order points and a close monitoring reduced the stocks to more than half, liberating more than a million in cash.

A significant reduction in late deliveries and a more productive warehouse with planned loading and unloading and a 5S implemented completely, freed up the human resources department that before were allocated to material management.

At the same time management and supervisory training was done with all the supervisors and mid-management in order to improve the way they plan, manage their resources and motivate people. The cultural change towards performance was supported by individual follow up meetings with all of them in order to commit them to the change. This training and coaching, supported by the tools changes and the new management system created a formidable cultural and behavioural change. An improved environment throughout the factory could be perceived and translated into results.

Finally, the technical department, with a long history of inefficiency, was also provided with a new management system and with tools to control progress on the multiple projects they were working on.

The close monitoring and the new accountability and milestones defined made the performance increase dramatically and the cycle time reduced to 50% on average.

As a result of all these major changes, the local management and the general management benefitted from seeing bigger picture on performance, hence they were able to identify reasons for lack of performance and take corrective action. A new management report linked with the strategic goals and with clear key indicators cast a new light on the company management, improving the management style at all levels.

Benefits Achieved

Benefit 1: Profit

The transformation of the company had a great impact on the profit and loss statement. A reduction of the total operational costs of more than 15%, an increase in the total productivity of the production of more than 20%, and an inventory reduction of more than 25%, took the EBIT from the 2% to more than 4% in just 6 months and allowing the company to achieve further consolidation later on. Also, the inventory reduction released more than 1,000,000 €, eliminating delays to suppliers completely.

Benefit 2: Sales Increase

By implementating the new structure, the training on sales skills, the individual coaching, the portfolio analysis and the territories new allocation, the sales started to increase immediately. A year after the completion of the program, sales had increased to more than 25%. New markets were consolidated and the number of new clients that fell into the new strategy dramatically increased, boosting margins further.

Benefit 3: Capacity Increase

An increase in orders was supported by a capacity increase with the existing shifts in the factory. Due to the productivity increase achieved in the manufacturing during the first six months, the increase was supported by the existing equipment and shifts.. Eventually additional shifts were organised in a very lean manner, increasing the profitability of the operation. Scheduled investments in equipment were also authorised and implemented in order to increase capacity.

Benefit 4: Manufacturing Cost Reduction

The new production management system and the fluent communication at management team level helped achieve more than a 15% reduction in operational costs with net savings of more than a million Euros.

Benefit 5: Culture and Behavior Change

The fact that an important part of the program consisted of management skills training with individual follow up, empowered the lower management levels to take initiatives and provided them with proper information to make effective decisions. This combined with a new management system that oriented greater performance radically transformed the culture of the company and individual/management behaviours.

New effective meetings on shift, supervisory, mid management and top management levels allowed a new culture of achievement and performance to flourish.

The new results of optimisation at all levels worked as a very strong motivational factor to keep up good performance. This was the insurance that helped perpetuate the results achieved during the program.

Benefit 6: Effective Supply Chain Management

Uniformed purchasing procedures, new inventory parameters, a suppliers evaluation and a cooperative negotiation with the most important suppliers created important financial gains. A new planning system based on Best Demonstrated Performance as standards for production and also for warehousing operations boosted productivity and reduced material management costs.

Summary

The transformation of the whole company not only provided financial benefits but also oriented the company towards a successful future through a behaviour change and a new culture of performance. The strong foundation of the *McGrath* Program supported and promoted future continued growth.

Due to the implementation and excellence of the *McGrath* Program (5 years on) the steel company were able to consolidate their position and importance amongst the major players within the steel industry. The client's satisfaction with the program and their continued faith in the tools and foundations implemented by *McGrath* continues to allow them to adapt to unexpected and inevitable changes in the steel market.

Return on Investment

A 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). Additionally the *McGrath* Program freed up one million Euros of cash flow, dramatically improving the company's liquidity.