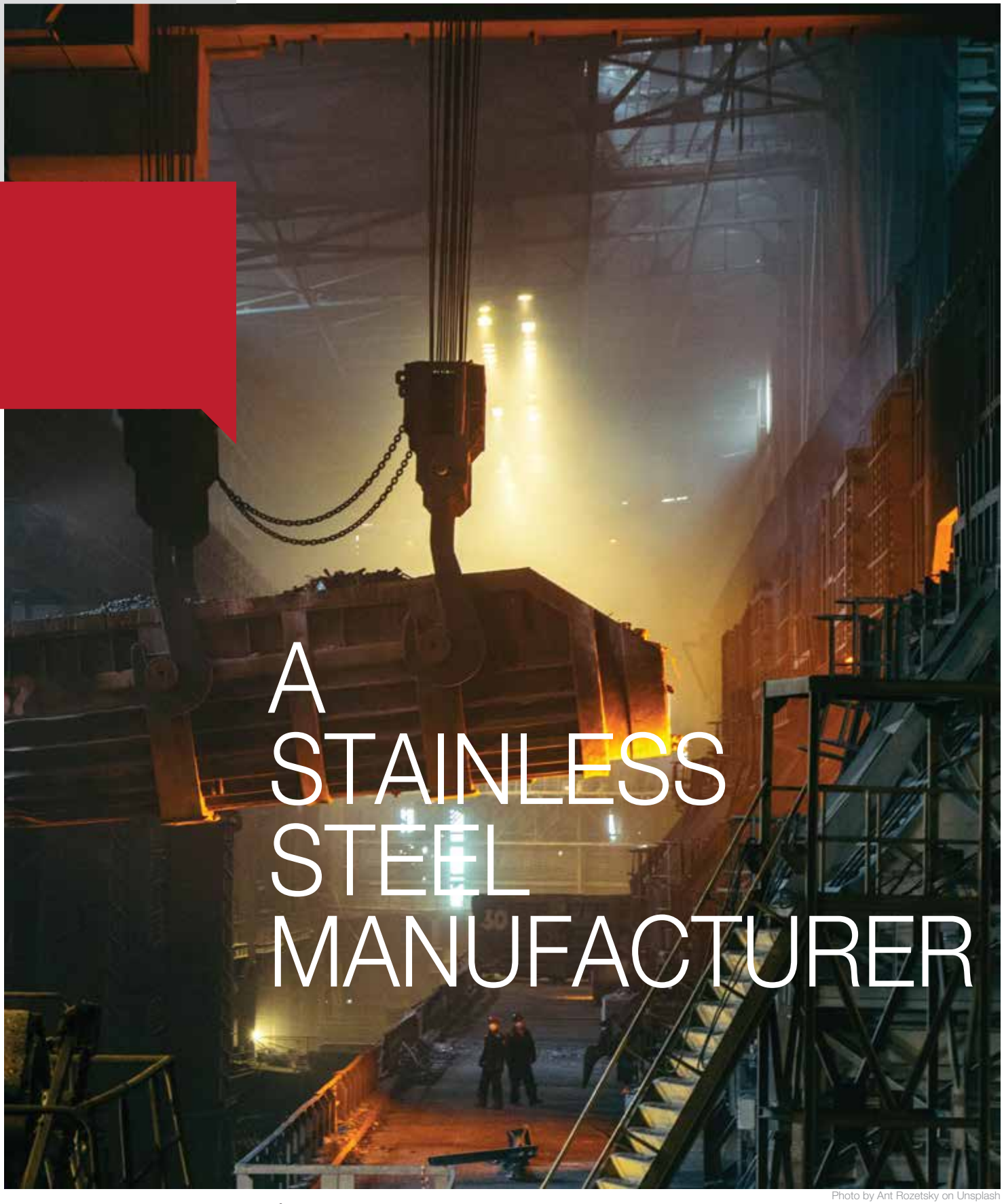

A STAINLESS STEEL MANUFACTURER

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A Case Study by

MCGRATH

MCGRATH

Contents

Bottom Line Results

A 7.7:1 Return on Investment was achieved on quantified financial savings that impacted the P&L Statement. Savings evaluation agreed and signed by top management.

Context

The rapid and uncontrolled growth this client experienced, where sales and production more than doubled in five years, was extraordinary. It became clear that there was a new reality and a 'professionalised' management approach had to be implemented.

In order to manage this unprecedented growth spurt *McGrath* was required to intervene and create a program that would maintain the client's excellent performance whilst extracting only the best from its operations in the face of a more demanding market.

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Company Facts and Figures

- Industry: Stainless steel producer with a factory located off site in Europe. The sales, function and management departments were all centralised in far from the production site.
- Main products: Stainless steel billets.
- Location: Europe.
- Turnover: > € 70,000,000.
- Production Volume: > 20,000 Tons.
- EBITDA: > 13%.
- Number of Employees: > 400.
- Return on Investment: > 7:1.

Problem Statement

1. The constant growth and a strategic shift made it necessary to help the company find new adaptation skills in order to cope with the new scenario.

2. The levels of productivity in production, were still good, but best demonstrated performance standards were slowly abandoned and replaced by historical standards that were not optimised. As a result there was room for improvement in productivity. Also delays in production orders led to late deliveries, and in a more demanding market these late deliveries were unacceptable.

3. Maintenance performance was poor, and the management system was incomplete. Equipment performance was not monitored closely and equipment downtime was frequent and penalised performance.

4. Non quality costs due to poor quality was an area to be improved upon. The quality working group (so successful in the past) had been dissolved due to several changes in the quality and the production department. The quality department was more focused on getting required certifications than really working on quality performance. The rework, was again, accepted as part of the normal production process.

5. Some local management changes in the first and second level and some structural changes (not based on strategic reasons) led to the dissolution of the technical department, and the abandonment of inventory parameters and purchasing rules and procedures.

6. The growth that the company enjoyed had placed the company in a position were a strategy shift was required. The top management was very conscious that a new customer mentality was required, that the quality performance had to improve dramatically, that lead times had to be tighter and the production cost more competitive. Becoming more flexible was a necessity in order to gain a competitive advantage and to be able to rise above the major players in the market.

Being flexible prompted the creation of new products to suit the needs of the customers and this in turn allowed for increased reliability in terms of product, service and delivery times. Adopting these new behaviours and tools, in order to gain a competitive edge in all these areas, had to be implemented in a very short period of time.

7. The current company structure didn't reflect the needs of the consumer anymore. The organigram at the time was based on the availability of the work force instead of on real strategic needs. The structural imbalance was a result of staff personalities. An engineering department was now needed in order to implement flexibility and reliability in new and existing products.
A strong and independent quality department was now needed to ensure quality and good customer services and a new supply chain department was required in order to ensure shorter lead times and reliable delivery times.

8. The relationship between the headquarters and the production facilities had also become very difficult. The lack of fluent communication and regular scheduled meetings required to communicate strategy and review performance had created a climate of lack of trust and a culture clash. As a result the top management felt frustration and the production management were not comprehensive, they did not understand their obstacles.

9. The weight of the U.S. and Asian sales increased significantly, making the incidence of the transport cost more important. Very little effort was made in order to optimise this cost and no studies were conducted in order to rethink the logistics.

Objectives

1. To commit local management to the new strategy (based on flexibility and reliability) and to implement all the necessary changes to achieve a competitive edge.

2. To implement a new structure, deploying a new engineering department, creating a unified supply chain department from the existing one and other major changes in order to create a very strong local management team.

3. To create communication channels with reports, key indicators and effective meetings in order to implement a fluent relationship between local management and top management.

4. To improve equipment utilisation, reducing the change-over time and reducing breakdowns.

5. To increase the productivity during running time.

6. To reduce the transport costs and find alternative logistics solutions.

7. To re-establish rules and procedures for purchasing and inventory control.

8. To reduce scrap cost.

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McGrath Solution

It became necessary to restate the strategy after the company's new position in the market, due to the growth experienced in the previous years.

From conversations and workshops with top management and the sales director, *McGrath* agreed and formulated a new strategy. This strategy was based on reliability (order fulfilment and quality); flexibility (new products and engineering capability); readiness (adaptation for short runs and fast response to requests) and high performance (profitability and competitiveness). These four values were infused into every aspect of the organisation, from the structure, to the management tools (goals, planning, reporting, etc…).

The structure went through a major change.

A new engineering department was created, with three subdivisions for product development, equipment development and automation and manufacturing (maintenance and changeovers). These last two areas were moved from production to engineering in order for the priorities to be set correctly. In this way, the flexibility value was ensured.

The existing purchasing and logistics departments were unified and so a supply chain department was formed. Procurement and purchasing, material management and warehousing and delivery, transport management and production planning would all be managed by the new supply chain department. By unifying these functions under one roof, these areas were able to move reliably and rapidly in the same direction.

The production department's function became to fulfill orders with the best possible performance, so the focus was clear.

The quality department also became decisive in terms of reliability.

The human resources and finance functions were also unified as central services and added to these were facilities management and security and I.T.

Service level agreements were agreed upon by the five areas as well as by sales and the top management. A detailed set of documents, procedures, requirements and due dates were defined in order to regulate the relationship between the different areas and functions. This made it possible to have a more satisfactory interaction and also helped to reduce the cultural clash between production and head office.

New corporate goals for 2020 were defined according to the new structure with their key indicators. A new management report was designed based on the new goals.

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The company ended up with a very strong management team, made up of 5 strong characters with decisive influence on the competitive edge the company needed.

The sales director was also added to the team in order to increase the market perception of the production team.

A weekly local management meeting was implemented and a monthly company management meeting (with the attendance of all the board members) was also implemented. Reporting for those meetings was redefined and effective meetings methodologies were implemented. Once every quarter a full day meeting would take place away from the usual facilities and it would incorporate activities in order to increase team spirit.

On the production site two working groups were created. A production flow working group was identified and removed obstacles in the production process flow.

During the program several actions were taken, some of them with no investment involved, and some of them with very little investment. The actions of this working group increased productivity and equipment utilisation.

A quality working group set new quality check points throughout the production process in order to be able to identify quality problems as soon as they happened. The identification of the root causes for lack of quality using the FMEA methodology were discussed and several actions were implemented for the most frequent ones. These actions had a decisive influence on the non quality cost reduction achieved by the program.

In the maintenance department, now under engineering, a new management system was implemented. Focused on preventative maintenance and monitoring equipment breakdown closely, the maintenance department went through a substantial change.

TPM activities were defined and transferred to production and a very complete technical training program was carried out in order to increase skills and also to increase flexibility. Breakdown time fell dramatically.

The changeover department (that had been transformed in a mold warehouse) was completely transformed. Now under engineering, new methodologies for changeover were studied and set, training programs for the equipment operators were carried out and new procedures for planning and preparation were implemented. Changeover time also fell dramatically.

Due to the changes implemented in the maintenance and changeover departments the running time increased by more than 15%, reaching levels never before achieved in the history of the company.

In terms of inventory control, new inventory level parameters were set and new procedures were implemented, keeping the inventory at the minimum required level.

Major work was done in transport management.

For European transport client clusters were identified so that transport could be combined when possible, reducing the total cost significantly.

For other continents, studies and evaluations were made in order to define the optimum logistics structure and some of the solutions were being implemented.

Apart from that, new transport suppliers were contacted and quotations requested. Cheaper contracts ensured a good level of service was granted. Total transport costs were reduced by more than 12% and will be reduced further in the near future.

Also, in order to continue to develop the mid management and supervisory level of the company, new management training was carried out in order to reinforce the behaviour change, identify high potential staff and start a career planning process so that qualified staff would stop leaving.

At the same time a scrap reduction of almost 10% was achieved.

Once again, a new climate throughout the factory could be perceived and translated into results.

Benefits Achieved

Benefit 1: Profit

The structural and operational changes implemented had an impressive impact on the profit and loss statement. The output increase due to the increase in running time and the increase of productivity (mainly in the finishing department) translated to more than 3.6 million Euros of profit.

The scrap reduction was reduced by more than 270,000 Euros and the transport cost reduction represented more than 390,000 Euros.

Benefit 2: New Structure According to the Required Competitive Edge.

Once the competitive advantages were defined and a new structure was implemented the company was able to succeed with a new found flexibility, reliability, readiness and ability to achieve high performance in the face of its competition. The company was now in a position to compete with the big players.

Benefit 3: Capacity Increase

The increase in the capacity made it possible to support a growing demand, in line with customer service levels.

Benefit 4: Manufacturing Cost Reduction

The changes implemented reduced the cost per unit, making the company more competitive and more profitable. Increased productivity, equipment utilisation and better quality had a substantial impact on the manufacturing cost.

Benefit 5: Transport Cost Reduction

The new ways to organise transport led to a sustainable cost reduction. This cost may be reduced further once logistics alternatives are fully implemented.

Summary

Again, the transformation carried out in order to be competitive not only provided financial benefits but also ensured the company's successful future through a behavioural change and a new culture of reliability, flexibility, readiness and high performance. The *McGrath* Program was the solid base where growth could find support to continue.

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