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Turnaround your manufacturing company

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Manufacturing is a major contributor to GDP and employment provider in many countries. Manufacturing accounts to 46% of GDP in China, 19% GDP of Japan, 29% of GDP in Germany and 16% of India's GDP. The sector consists of many small and medium companies that account for significant exports and innovation. Germany, home to many engineering companies has more than 1000 small and medium companies, many of them global leaders in their segments. In India 47% of the manufacturing sector contribution comes from MSME firms. Gloomy global demand and tepid domestic market impact the manufacturing sector. Nikkei manufacturing purchasing manager's index, compiled by Markit, touched a low ebb in December 2015, and is witnessing a rebound in January 2016. A dip in the Index of Industrial production (IIP) reported by the Reserve Bank of India is a clear indicator of the stress in the core sector of the economy. The last few quarters have been tough for manufacturing companies as capital investment decisions have been postponed or dried. Both large and MSME are facing effects of global downturn which has made survival a test for many. Many companies, including the large ones are registering lower operating revenues compared to last years and some are bleeding. MSME, specifically suppliers to the large companies are the worst hit. With customer gains becoming far and few many companies worried about growth and profitability.

Symptoms checker

Many manufacturing businesses are prisoners of their past. Their business models and operations have remained unchanged in years. In initial years a completely integrated plant with most operations done internally may have made sense. However, with increasing economies in scale in adjoining process and newer technologies, cost and competitive advantage of integrated operations could have been lost. Location is of strategic advantage and many manufacturing companies built their factories in states and counties for tax-breaks and incentives. With sunset of tax breaks, many of these factories turn unviable. An associated challenge that plagues mostly MSME manufacturing companies is that the manufacturing plant is located close to where the owners stay and not located from sourcing/supply chain perspective. With advent of stronger and larger manufacturing competitors incumbent companies are caught in the flux of lower pricing to survive.

Made to order manufacturing requires tighter integration between design, production and supply chain. Some made to order companies place undue importance on pursuing unique challenging and novel applications and take great pride in delivering one-off job orders with complete organization stretched to meet the order. While meeting new challenges exposes the manufacturing company to the next orbit of innovation, lack of standardization in design and in-plant operations changes impacts response time and delivery. With low emphasis on knowledge management, manufacturing operations improvement information lost in translation or lethargy, the company attends each order as unique. Delivery and cost efficiencies are lost. Associated challenge is high cost of experimentation and waste for even scaling up of existing designs or newer materials as demanded by the market.

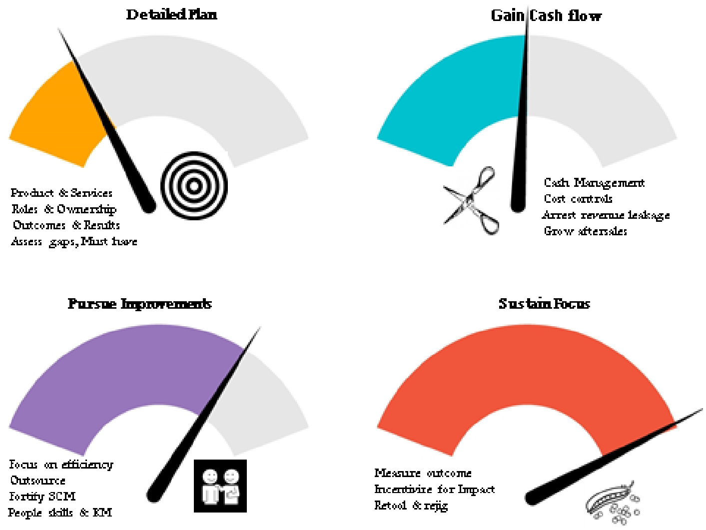
Seamless manufacturing operations require effective alignment of sales-to-order (STO), Order-to-delivery (OTD) and delivery to sales (DTS) process. Sales process in many manufacturing companies may be just reactive, may not be standardized or may lack ownership of outcome at various stages. The worst part sales leader may be ineffective in motivating and driving his team and engaging with customers. Customer requirement process may be weak, or product management role may be limited to underplayed. Revenues may be stagnant or moving south and orders predominantly won because of low pricing. Worst, even if orders are won receivables are gauntlet around the neck, with some may have to be written off as bad debt. Rework and inventory may be high and affect what little profitability the company may be making.

Most challenging part of manufacturing industry is to attract and retain talent. Social and economic changes also exacerbate the availability of qualified technical talent. For manufacturing companies that have been successful in attracting qualified manpower from other regions may find then availability drop as the industrial development in that region happen. Manufacturing companies in Rajkot, Gujarat state or Holland, Michigan state are affected by talent shortage. Recent graduates find other newer industries like IT and Biotech more attractive. Even if they have been successful in hiring a good candidate, spousal considerations would see the resource walking away to denser pastures. Even if companies succeed in attracting talent, many find the attrition heavy because of "expiry date" employees those who join to gain a credible experience and leave after1-2 years saps their employee development programs. In short, many of the manufacturing SME end up being the training shops for larger companies to poach industry prepared resources. Major challenge is not just to attract junior resources, but also middle and senior management. Unlike IT and other industries, crossover to manufacturing is limited because of perception and other issues.

Bracing against the tide

To be successful, a company should build strategies to fix the challenges and create a revision plan to address the key factors for turnaround. Based on our experience and the management literature, we present the approach manufacturing companies should turn around profitable as shown in Figure 1 below

Figure 1: Turnaround Management



Develop quickly an executable plan: Playing what one is good at yields better predictable outcomes. Get to the big picture to see which way the markets are treading, catch the cues early and cast the direction firmly. Assess the product lines, identify core one to invest and drop the "me-too" products. Identify what minimum variants are required to cover the market and limit the variety. Better ensure about 70% of parts and processes are common to gain from procurement and production economics. Identify approaches to become asset light including facility sharing, outsourcing, partial-sell off. Evaluate options to tap overseas markets including acquiring bankrupt or going out of businesses to gain access to key markets and newer models. Define partner ecosystem that can help increase market reach, and product improvements on a success fee model than investment model. Evaluate methods to shorten supply chains so that they could be served faster and with quality products. Assess methods to lower freight costs including assembly at site options and associated changes that may be required across the company.

Focus on cash flow: Turnaround is predominantly based on the three pillars of growth: Revenue, Cost and Assets. Conserve cash and invest in quick cash generation activities that may not need any investment (services and spares), cut unproductive capex and cost. This entails assessing where the cash is coming from, how much is coming in, how much is going out and what to do to maximize incoming cash flows. Develop a cash management system and forecasting system to manage short term liquidity and efficiently manage working capital

Determine operational improvements that can be made right away to reduce cost and bleed revenue loss. Implement cost reduction and operational efficiency improvement activities. Determining how to cut costs without disturbing the company's ability to generate revenue and survive over the long term is a challenging issue. Evaluate what is the immediate / long term impact on the value drivers due to cost savings. The financial and operational aspects of growth must be balanced during turnaround of business. Cost control would be on items which do not have a lasting impact and does not match the intended outcome. Discover ways to new sources of revenue and streamline the backend operations to deliver the same. Discover the money your companies is leaving from post sales service and parts on table. Invest in a small team to sell services and spares. Work on your existing customer base and devise campaigns to upsell mandated parts and services. Integrate your post sales process, ensure parts and services are monetized effectively, first call responses are high and customer feedback on services has a positive impact on sales. Identify methods to reduce inventory including parts substitution, supersession or sale.

Pursue Improvements: Tighten up complete business process so that the company can only deliver better quality, no system failure occurs in organization, equipment, and workplace productivity. Identify process bottlenecks and operational inefficiencies. Devise simple systems to improve quality and response. Outsource to gain from major savings in terms of HR, procurement, engineering services and other outsourcing. Companies realize the savings from outsourcing can be substantial, gain from better market information and significant savings.

Improve the total customer experience and customer delight is very important. By investing in improved customer relations you not only build relationship capital, but also defend your territories from your competitors. Another major advantage of investing in relationship is you that you could plug "service recovery costs" and other leakages. Work with large customers to benefit from pre-order and other mutual arrangements so that plant utilization and productivity can be improved. Reduce span of control across the organization, especially in direct sales. Create self-directing teams that bring a sense of urgency and ownership. Dump regional and product specific sales teams. Cross train, consolidate and upgrade sales skills. Adopt and update KYC, measure account mining efforts and incentivize account mining by delivery or implementation teams. Identify the right programs, training and development sessions that show your commitment to people's growth. What employees appreciate lot more in turbulent times is the trust management places in them to shoulder newer responsibilities and invests in their retooling and reskilling. Turnaround times are a good harbinger of positive change, rediscover the true culture you want to embody and imbibe. Pursue cost effective product and brand engagement. Low cost social media and community branding approaches help in dampening the negative vibes associated with the products and company. Negotiate with media players and discover there are lots of cheaper, cost effective options including unsold inventory on air, and tube for a song.

Create newer organizations to bring more focus and market alignment, create space for newer leadership to emerge to own and direct growth and importantly, de-risk the company from vagaries of markets and offerings. Invest in mid and senior levels for long haul and empower them to own and drive outcomes. Cultivate internal talent by creating newer platforms for the incumbents to extend and stretch their capabilities. Build stronger and hungry team by hiring cohorts of fresher and align them to right mentors. Complement external training and development with coaching and mentoring.

Sustain Focus

An important aspect of a quick turnaround is implementing right reporting systems. You do not need a fancy all comprehensive reporting behemoth, but one that can tell you quickly about revenues, costs, and cash flows. Implement a simple reporting system that help in addressing how various units are delivering to mission, whether they are getting the maximum impact they from their expenditures and how effectively they are utilizing their budgets. First few months, have a daily and weekly review and as the tide turns better move to bi-weekly reviews. Communicate the positive results to motivate the employees and team to pull up and deliver faster. You may have lots of areas to improve, praise the areas that are working well is critical to employee morale. Recognize employee making a difference and let them know their contributions have not gone noticed. Offer incentives to encourage employees. Make target achievements public. A well aligned team rightly oiled always accomplish more.

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