

PMSI Insight Interview

SPECIALTY MANUFACTURER

Operating Performance – The Mojo of Manufacturing

Earlier this year the CBI published figures that showed the UK remains one of the world's leading manufacturing nations: manufacturing is worth more than £140bn to the UK economy, employing more than 2.5 million people and accounting for 74% of business R&D.¹

At the same time, last week we saw the Financial Times (FT) publish an article on “*the dwindling band of British engineering and manufacturing companies*” under British ownership.²

This trend continues throughout Europe, North America and the Western economies as we know them.

With a variety of risks proving greater for the manufacturing sectors of developed economies, creating sustainable operating value remains the name of the game.

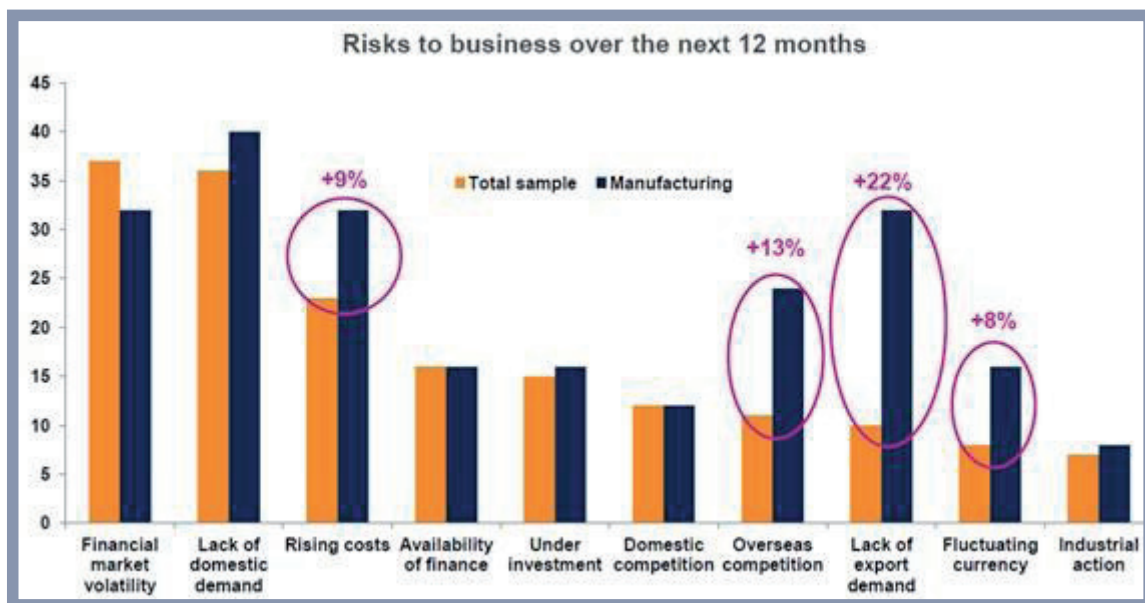


Diagram 1: CBI Business Issues, Manufacturing Overview, www.cbi.org.uk, 2011

The FT went on to explain that the increasing number of underperforming UK manufacturing companies can be particularly attractive for turnaround specialists, quoting Jim Sharpe, Senior Lecturer at Harvard Business School.

“*There are more often than not underutilised assets that can be quickly turned into cash, including liquidating obsolete or slow-moving inventory, selling off equipment and shutting down redundant capacity.*”³

“None of these are easy, as the underlying complexity in most businesses make finding them and acting on them extremely difficult. One-off exercises will give you a snapshot in time and as we all know, the only constant is change, so establishing new KPIs or reporting frameworks will only treat what has been uncovered from that snapshot.”

Patrick Mosimann

Although PMSI Consulting believes this could be an inevitable outcome in some cases, most can achieve success through focusing on operational performance. PMSI works with a number of specialty manufacturers on operating performance improvement and Patrick Mosimann, Joint Founding Director, talks about the challenges involved and how they can be overcome.

“Improvements for manufacturers can be found in three broad areas;

- Sales growth, through an understanding of competitive strengths
- Margin improvement, through greater optimisation of performance
- And asset efficiency, through process improvements, product mix and a strategy for working capital.

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Mosimann goes on to explain the PMSI approach to uncovering drivers of performance, and helping clients to revisit that insight as their environment and organisational focus changes.

“PMSI’s approach has been to develop various performance improvement modules that can be set-up to help uncover quick-wins, but allow clients to revisit the issue with the flexibility they require.”

These modules draw on available sources of data (internal and external), which is then restructured around various business rules and algorithms to identify underlying performance issues and/or opportunities. Once set up, this analysis can be automated and the insights delivered to key decision makers for business planning, forecasting or change management.

So how can a manufacturer find their Mojo and keep it?

Mosimann goes on to share some examples of success.

“Specialty manufacturers live with complexity every single day – it’s what they thrive on. But they shouldn’t get lost in it when it comes to analysing their own performance.”

Patrick Mosimann

Performance Benchmarking Module

“A manufacturing client with over 20,000 SKUs was looking for a fast and effective way of seeing what might be driving changes in volume, mix and price. Out of 150 million combinations, monthly exception reports were created to focus the management team efforts on a well-defined strategy for growth.”

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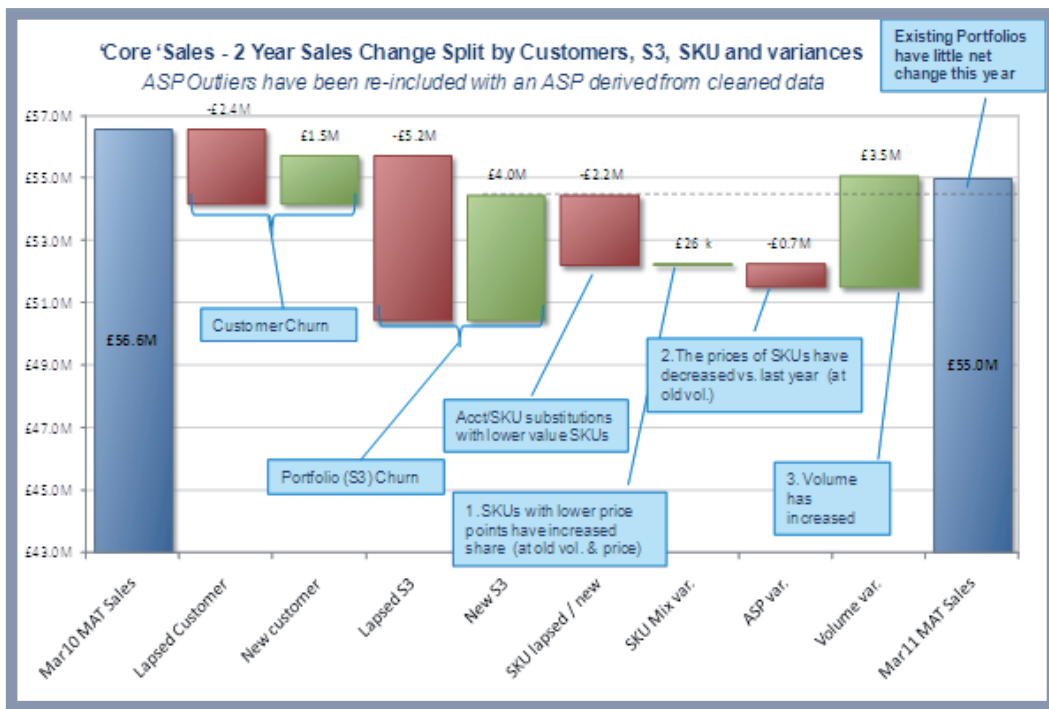


Diagram 2: A Typical PMSI Performance Benchmarking Module Output

This module delivers bottom-up performance benchmarking analysis. A decomposition of value-creation illustrates key performance outliers – against the agreed strategy – and a cost-benefit analysis then prioritises areas for management focus. Different perspectives are packaged and illustrated for different decision makers, for example product, customer, channel, market, distribution etc.

Pricing Module

In this next example, Mosimann explains that a client was facing an accelerating annual drag on prices across Europe.

“This is the type of issue that doesn’t need to be found. Pricing issues are the ones that sit down right in front of you and slap you in the face.”

“What’s driving this is however not always clear. Is it product mix; sales capability; tender management processes? The list is endless but uncovering and supporting improvements in this area is where specialty manufacturing can leverage tactical, as well as strategic opportunities.”

The manufacturing sector enjoys detailed understanding of costs and how that drives pricing strategy. PMSI however also looks at pricing intelligence and how this needs to combine to provide clients with the optimal pricing strategy.

“The key is initially to understand the pricing map and identify wins and losses. Then a strategic pricing set-up is needed with a clear logic as to the where an existing structure needs to be flexible, given the route-to-market and various floors, discounts, rebates etc.”

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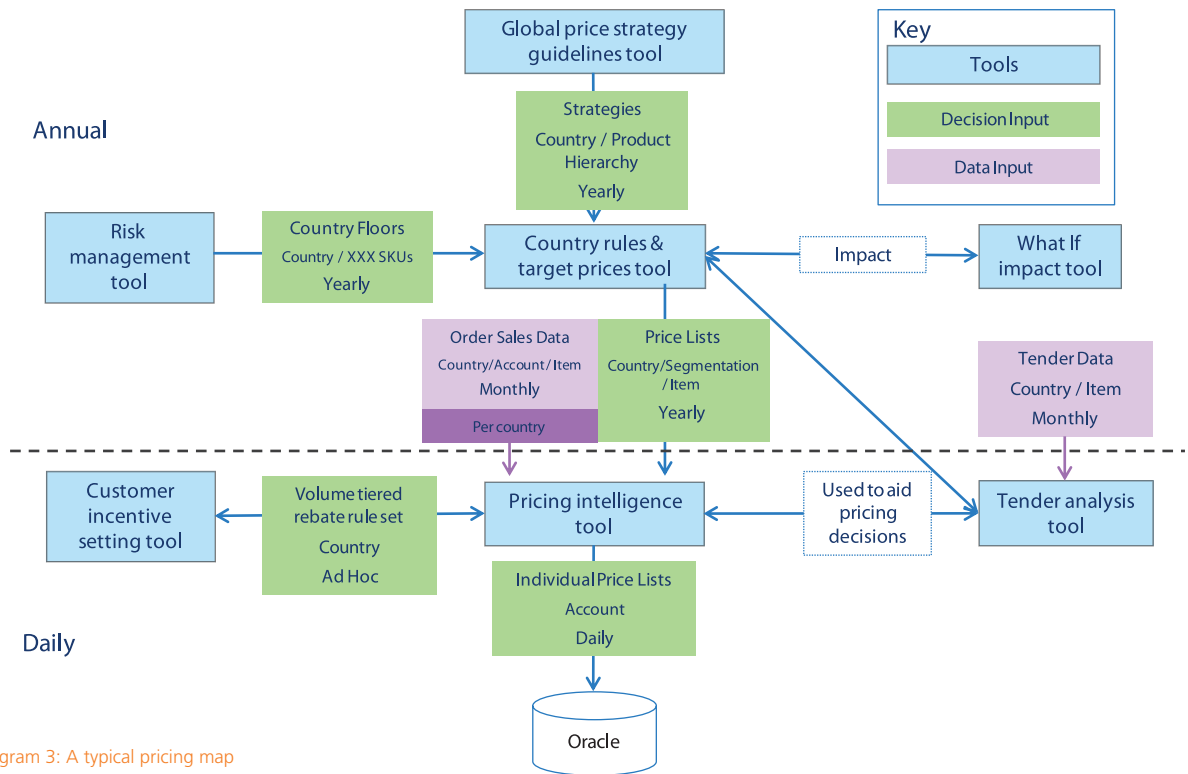


Diagram 3: A typical pricing map

“Working through the processes that surround pricing can be extremely time-consuming, which any Pricing Manager will tell you, but the rewards can be enormous.”

Issues can present themselves in a variety of ways for specialty manufacturers. With complexity comes a labyrinth of connections between cause and effect and uncovering those must be a continuous process.

Mosimann goes on to explain how an issue might present itself in distribution or delivery for instance, however the root cause lives elsewhere in the overall strategy.

“A manufacturing client with a complex portfolio was underperforming in terms of delivery. A key problem driver was the very fragmented tail and its impact on manufacturing capacity. The breadth of production requirements meant increasingly longer delays and higher standard costs.”

“Although the organisations position as a specialty manufacturer had helped them support customers across multiple complex and sophisticated needs, a variety of duplicate product ranges had evolved and with no obsolescence, substitution or product life-cycle approach, issues were rapidly spilling into working capital issues.”

“Competition was gaining share because of the delivery delays, so the business needed to simplify its offering without diluting its position as a specialty manufacturer. The Product Portfolio Module is where we were able to uncover areas for improvement, without damaging customer relationships.”



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Product Portfolio Module

This approach from PMSI looks at the effectiveness of the current portfolio and also evaluates where SKUs can be rationalised.

The impact from simplifying a business can be very significant, including the management of production efficiencies, inventory/working capital and establishing savings from streamlining the business focus. Using a theoretical 80:20 rule, customer risk, volume losses/gains, working capital impact and more can be analysed to identify a realistic way forward. Using established tools, from experienced professionals, such as PMSI, can help manage these complexities, giving management the confidence to execute with clarity and determination.

“ There’s no dispute from me that increasing demand is where the manufacturing sector needs help. There is however equal opportunity in improving operational performance, as well as the ability to prepare for even more success through increased demand. ”

Patrick Mosimann

Mosimann explains how a programme that included the Product Portfolio Module achieved significant successes over time.

“ Our client was able to make some considerable wins over a 12 month period. I won’t say it wasn’t lots of hard work and required commitment from the management team however they did achieve a 20% SKU reduction with a 4% increase in profitability due to tactical pricing. ”

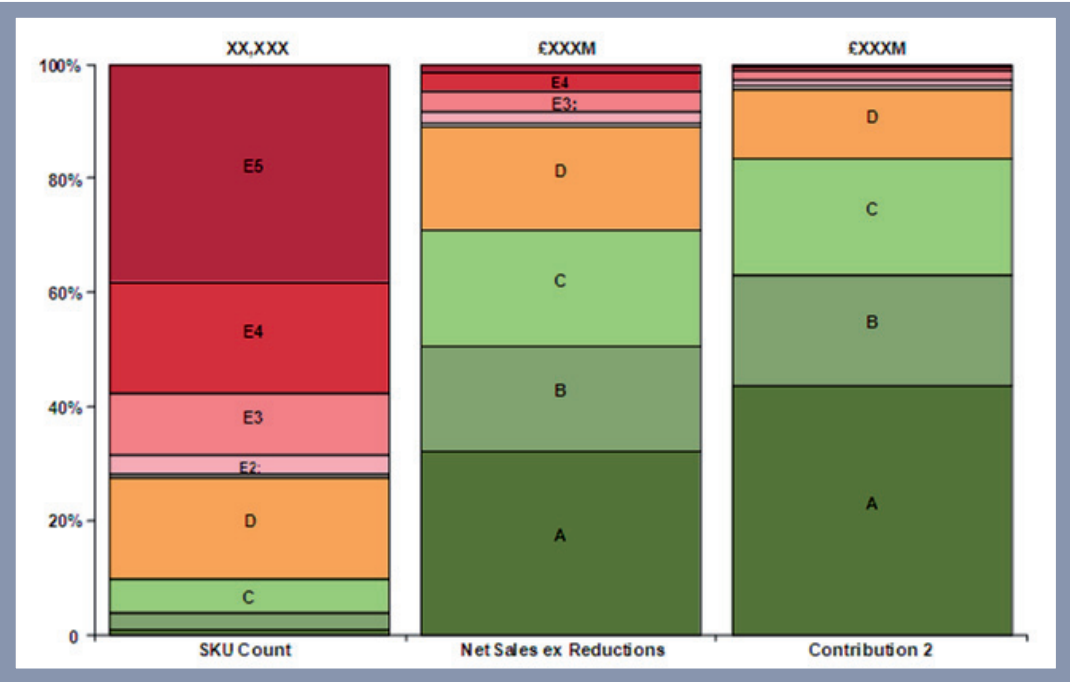


Diagram 4: An example output of SKU value classification (revenue and profit contribution)



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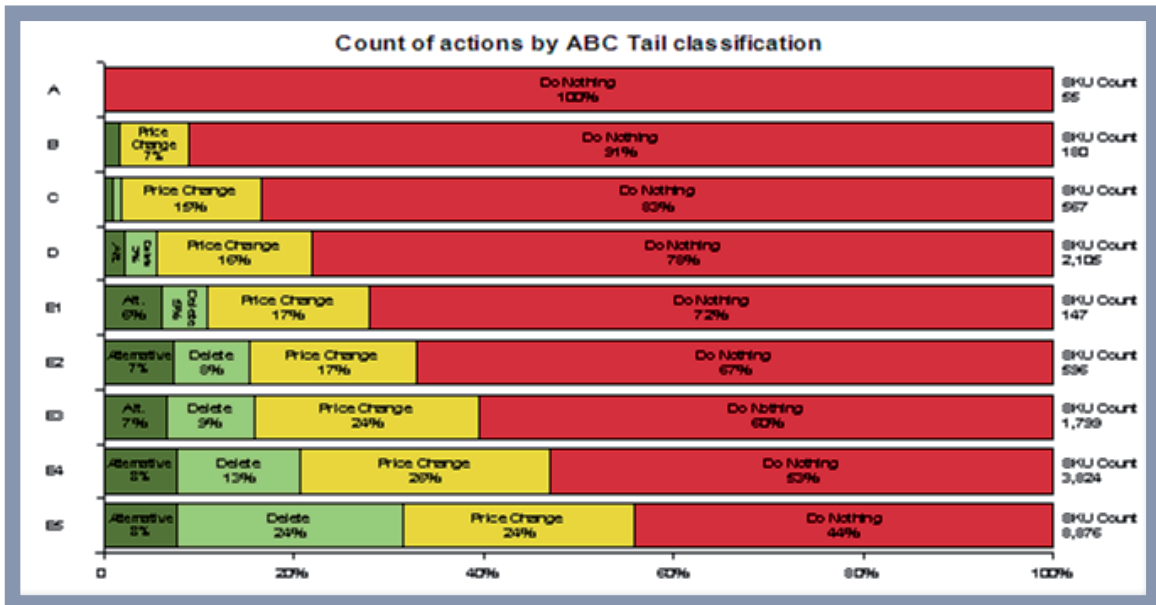


Diagram 5: An example output of product management actions against an agreed rationalisation

Mosimann goes on to explain that operational performance is where manufacturing should be focusing equal efforts to those invested in growth.

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Last week during a visit to Derby, we saw the Prime Minister David Cameron announce “I want Britain to be a manufacturing success story.”⁴ There remains a number of operational issues that manufacturers must tackle in order to truly maintain or restore their Mojo, and understanding the complexity this sector deals with is vital to achieving that combined optimisation for growth.

For more information

on how PMSI’s modules might help your organisation, contact **Patrick Mosimann** on **T 0208 347 3500**.

1. CBI Business Issues, www.cbi.org.uk, 2011
 2. Financial Times, Alistair Gray, ‘Overseas buyers see value of UK engineers’, 24th November, 2011
 3. Financial Times, Alistair Gray, ‘Overseas buyers see value of UK engineers’, 24th November, 2011
 4. BBC News, 24th November, 2011



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