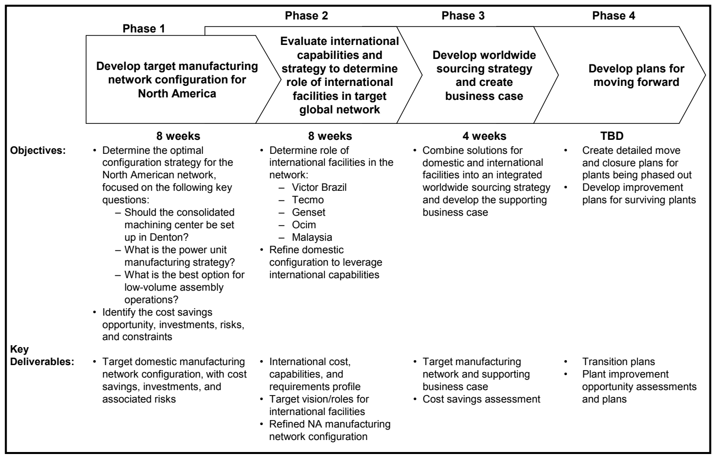
Manufacturing Strategy At Global Industrial Products Company: Establishing A Global Sourcing Strategy To Harvest Plant Consolidation Savings

The Challenge: A global manufacturer of industrial goods was formed through targeted industry acquisitions throughout the past decade. Comprising 19 distinctly-run manufacturing facilities (7 in the U.S.) and a multitude of distribution/sales support facilities, he company was now ready to harvest the manufacturing cost savings achievable using an optimized sourcing network. We were asked by the CEO to: determine the optimal worldwide manufacturing configuration, develop move plans for locations that will not be part of the future network, and to identify and execute improvements required to migrate target manufacturing locations into world-class manufacturing facilities.

The Partnership:



Analysis: Due to the sensitive nature of the study, a limited number of the client personnel acted as contact points for the organization. Through these contacts, our data requests (including financial, operational, personnel, and infrastructure-related data) were sent to each manufacturing facility. We also visited each facility to interview critical management and understand the current operations situation and any ongoing changes. Because a unified cost system did not exist, we had to first establish common financial metrics allowing cross-manufacturing unit comparisons. Subsequently, we were able to assemble a company wide product, overhead, and SG&A cost database. As described in the figure below, working with our client contact points and top management, we then moved on to develop a target manufacturing configuration, initially for North America and ultimately worldwide.

Strategy: Our recommended optimal manufacturing network configuration strategy combined global capabilities with local requirements, and included:

- Consolidating 3 North American metal processing facilities into a single metal processing center of excellence
- Leveraging the company's low-cost base in Malaysia to create electrical product center of excellence and scaling back 2 U.S. manufacturing facilities into 1 product launch facility
- Consolidating U.S. high-volume assembly operations into a Mexico-based high-volume assembly center
- Positioning international facilities in Brazil, Italy, and Malaysia as regional manufacturing facilities to meet local demand and supply to the U.S. on a selected basis.

Execution: We are helping the CEO in developing a target manufacturing organization and creating detailed plans for plant closures and migrations.

The Results: The execution of the study's recommendations is underway, with 3 plants targeted for closure in the U.S. Total COGS, overhead, and SG&A run-rate savings from the project are estimated at $20MM on a total cost base of approximately $200MM.

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