Network Optimiztion At Global Industrial Products Manufacturer:
Consolidating 2 North American Manufacturing Facilities

The Challenge: A global manufacturer of industrial products, MachineGoods was considering consolidation of 2 North American manufacturing facilities (located within 6 hours drive of one other) as part of its worldwide strategy aimed at lower cost sourcing. The CEO brought Gotham in to create the business case for facility consolidation (including projected savings, one-time costs, and associated risks), and, if warranted, detail the closure plan.

The Partnership:
Analysis: Gotham took the lead, as the sensitive nature of the work limited the number of MachineGoods personnel involved. To build a case, we looked at one-time costs and savings (related to both headcount reductions and operating expenses). Through our select contacts at MachineGoods, we obtained financial, personnel, operational, and infrastructure-related data from each of the manufacturing facilities. We also interviewd key personnel at both plants to understand current plant operations and any ongoing plans. Since a unified, standard cost system did not exist, common financial metrics were established to execute cross-manufacturing cost comparisons.

One-time costs were segemented into several areas: cost of facility closure (e.g., seperation pay, training bonuses, move expenses); cost to prepare the target facility (e.g., systems-related, building preparation, and personnel costs); cost to physically migrate the facility; inventory increases related to the move; and non-cash write-offs.

One-time and future run-rate personnel costs were estimated via a Gotham-developed personnel model combining the two operations on a functional basis. Plant managers were interviewed to verify the likely combined personnel requirements and assess likelihood of success.

Operating expenses were analyzed at a categorized general ledger level. From the top-down, each spend category was reviewed (at an invoice level, if necessary) to identify potential cost savings (or increases).

Finally, critical risks of the transition were identified and logged at each step in the process

Strategy: The business case supported closure of a plant with operations to be consolidated in the other caility, and the board gave its approval. As reflected in the transition plan, the strategy was to minimize disruption to daily operations, control one-time costs, maintain key skills, and keep morale high. Benefits packages were designed and a policy of “everyone has a job” was adopted to ensure key personnel in the to-be-closed facility would help perform knowledge transitions and to incent these same personnel to move to the new location.

Transition Benefited By Adopting A Policy That "Everyone Has A Job In Denton" And Incenting Personnel To Move

	Direct Labor	Salaried Labor	Positive Impact Of Personnel Transition
Move:	$10,000 move/expense bonus	$15,000–25,000 move/expense bonus (approximate cost based on corporate move policy)	• Reduced training bonuses and training costs • Elimination of redundant personnel costs • Avoidance of salaried personnel rehire cost (up to 20% of first-years salary) • Mitigation of risk of losing skill base
Train:	$5,000 severance + $200 per training week stipend + $120 per day training costs	$10,000–25,000 bonus + Severance match (see below) + $120 per day training costs + Estimated travel costs	
Sever: (requires 60 days notice)	0–5 years tenure: $2,000 6–10 years tenure: $3,000 11–20 years tenure: $5,000 21+ years tenure: $7,500	Promised bonus + 1 or 1.5 weeks pay for each year of service dependent on age (over 50: 1.5); maximum: 26 weeks, minimum: 4 weeks	

Execution: Closure plans were kept from plant personnel until they had been finalized. The plant managers announced the closure at an organization-wide meeting and followed up with one-on-one meetings with each affected employee to answer any concerns/questions.

The Results: The transition plan is underway, with the plant scheduled for closure in the next year. Total COGS, overhead, and SG&A cost-savings from the consolidation are estimated at $6MM, while one-time costs are estimated at $8MM. In addition, over 50% of key personnel decided to stay on and move to the other facility.

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