

## Operations Improvements At Branded Household Goods Company: Focusing And Accelerating Labor And Freight Cost Reductions

**The Challenge:** CleanerCo was purchased by a private equity firm as a platform for household goods acquisitions. Two months after this deal closure, the PE group discovered that a new product launch was falling well short of plan (\$5MM actual revenue vs. \$14MM plan) and creating an EBITDA shortfall 33% below target, which would result in a violation of senior debt covenants. To help mitigate this shortfall, the PE firm engaged Gotham to identify and help implement cost reduction opportunities that could have a significant, quick impact.

### The Partnership:

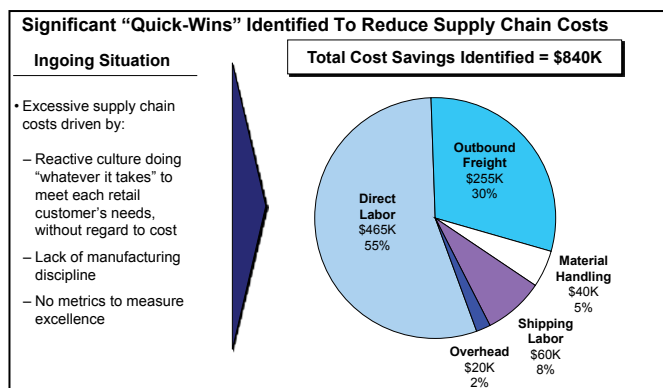
**Analysis:** At an initial 2-day site visit (HQ and manufacturing/distribution operations), we quickly gathered facts from interviews with senior executives and functional managers, first-hand observation of manufacturing and distribution operations, and historical performance data.

Based on our subsequent analysis, we identified and estimated the value of three areas of opportunities: quick wins in freight, labor, and inventory; improvement in forecasting processes; and import supply chain redesign. We then created a supply chain fact base and a plan for quick-win opportunities.

In 4 weeks, we collected detailed historical data, spent more time on the floor to understand labor productivity issues first-hand, analyzed operations performance to pinpoint specific areas of opportunities, and refined the estimated impact.

**Strategy:** A plan was developed to capture \$700K-\$900K in quick-win EBITDA opportunities:

- \$500-600K (~25% reduction) in labor costs:
  - Eliminating 3rd shift (not required based on capacity analyses)
  - Eliminating line shutdown at shift change and instilling floor discipline
  - Improving labor efficiency on assembly lines via reasonable standards and line re design
  - Reducing variability in manufacturing levels through a make-to-stock (MTS) program
- \$200-300K (~20% reduction) in freight costs:
  - Elimination of multiple weekly prepaid shipments to the same customer
  - Switching from premium LTL carriers to lower cost regional carriers
  - Capturing customer-specific opportunities (based on a freight cost and customer sales matrix)



**Execution:** A 6-week effort was launched with 2 joint client-Gotham teams focused on direct labor and outbound freight. On the labor front, we deployed a top-down approach of improving productivity. For example, to correct the labor standards, we analyzed the assembly requirements of 300 SKUs and grouped them in about 40 families based on assembly steps required. Following the “80/20 rule”, we identified 15 families that account for 80% of labor hours. We worked with production supervisors to determine correct cycle times for these families and within 1 week, corrected cycle times for products accounting for the majority of labor. Next, we created a process and trained supervisors on how to correct standards for the remaining SKUs.

On the freight initiatives, we created a database linking an electronic shipment tracking database and the sales history database to allow each order to be tracked, and duplicate orders and high volume premium shipments to be isolated and addressed. Next, we assisted the distribution team in transitioning to cheaper carriers and ensuring any service issues would be addressed immediately.

**Results:** In 10 weeks, CleanerCo captured \$840K in annual savings (15% jump in EBITDA), and was on track to bring savings up to \$1MM, helping to satisfy the senior lenders and avoiding the need for equity infusion. Gotham has since been engaged to aid in establishing a forecasting process at CleanerCo.