

Operations Improvement At Ethnic Foodservice Products Manufacturer: Rapidly Capturing Manufacturing And Logistics Cost Reduction Opportunities

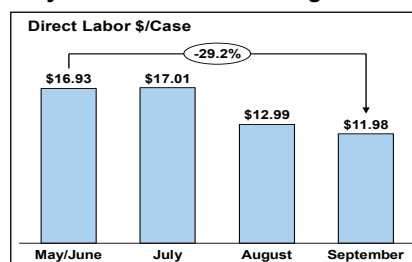
The Challenge: Our client, a manufacturer of ethnic foodservice and retail private label products, had recently been acquired by one of our middle-market PE clients. Prior to acquisition, Gotham had conducted operational due diligence of the company and identified \$1.5-2.5MM in cost reduction opportunities. Within manufacturing, Gotham identified significant labor productivity and material waste savings through better shop floor management. On the logistics front, Gotham identified an opportunity to reduce reliance on Dot Foods and associated costs by increasing direct shipments to foodservice distributors. Post-acquisition, the CEO asked Gotham to: (1) implement shop floor management best practices to capture manufacturing cost savings and (2) assist in working with foodservice distributors to capture logistics opportunities.

Rapid Capture of Manufacturing and Logistics Opportunities: Gotham designed and undertook a 12-week effort to begin capture of operations improvement opportunities, with an estimated \$600-900K in run-rate savings to be realized within this time frame. The joint team, comprising client team members, Gotham operating partners with 30+ years of experience at leading food companies, and Gotham analysts, rapidly captured targeted early savings by:

- Developing a preliminary view of labor productivity and material waste by reconciling and analyzing disparate data in off-line spreadsheets, physical sheets, and IT systems
- Implementing shop floor reporting tools to capture labor productivity and material waste data at critical points of manufacturing process and to enable end-of-shift analysis of performance and identification of areas of improvements
- Working on the shop floor (from early morning startup to shutdown) to: observe operations; identify improvement opportunities; provide immediate guidance to supervisors, line workers, maintenance, and scheduling; and troubleshoot and pilot solutions
- Identifying pilot customers for direct shipping/pickup, developing strategies on how to approach conversations, and facilitating those conversations among the client sales team, foodservice distributors, and restaurant chain customers.

\$1.2MM Run-rate Material and Labor Savings Realized at End of 12 Week, Significantly Above \$600-900K Target

Manufacturing operations improvements led to significant increase in line throughput – from ~225 cases/shift to ~375 cases/shift – driven by: (1) transitioning line from people-paced to machine-paced by adjusting how the depositor functioned at front of the production line; (2) staggering the shift start times to minimize wait times; (3) reducing changeover time by optimizing SKU production scheduling by line; (4) tracking and diagnosing reasons for production line stoppage and bringing in vendors to repair and recalibrate machines to function at maximum capacity; (5) at process steps requiring skills limiting labor rotation to qualified personnel; and (6) replacing a key ingredient in certain recipes to streamline process steps and reduce labor content.



As regards material waste, the team's shop floor tracking tools identified significant overflow and scrap throughout the manufacturing process. For overflow, we worked with Quality to develop and implement statistical process/quality controls (SPC/SQC) that allowed 3-7% reduction in fill weights while maintaining label weights. By raising awareness and implementing process changes, floor scrap was reduced by 50%. Scrap from expired rework was eliminated by: adjusting manufacturing processes to reduce the amount of rework material; and putting in place management tools to ensure processing of rework before its expiry time.

\$500-900K Logistics Savings Underway

Gotham worked with the sales team to develop a pilot of moving 5 DCs of a leading foodservice distributor to a pickup model and then migrating additional DCs of pilot customer and additional customers after the success of initial pilot. Additionally, the team reduced direct shipment costs by bidding out freight and optimizing multi-stop trucks shipments. The team also reduced warehouse labor cost associated with unstacking/restacking pallets – we developed and monitored a pilot to plot the cooling profile of pallets with and without slip sheets and established that, contrary to belief, pallets without slip sheets actually cooled faster.

Client Team Trained and Empowered to Carry Forward Savings Opportunities

While rapidly capturing significant savings, Gotham also ensured that the client team could sustain captured savings and continue to improve operations moving forward. To this end, we implemented process changes, tools, and tracking to establish process ownership and accountability. For example, we: put in place startup checklists to provide supervisors an early detection tool; implemented KPIs and customized dashboards to measure effectiveness and productivity; instituted hourly monitoring to properly manage labor and materials; developed SPC control charts for weight tracking; revamped schedules to provide full supervisory coverage and enable communication between shifts; aligned scheduling with production capabilities to ensure adequate material with minimal waste; and ensured analytical support to the line leads to facilitate day-to-day decisions (e.g., end-of-day waste management) and problem solving. To ensure continuance of operations improvement momentum, Gotham identified and developed an implementation plan for the next set of opportunities (e.g., equipment upgrades to improve reliability and performance, line speed increases, packaging changes to eliminate a process step, more defined and collaborative product launch process to minimize issues). We also bridged the operations management gap after the abrupt resignation of the COO. During the executive search, we ensured that company operations continued to deliver and that improvements were sustained and growing. Once hired, Gotham onboarded the new COO and was able to seamlessly transition him into his role.

The Outcome: Gotham's operations improvement effort delivered \$1.2MM in run-rate saving at the end of 12-week effort (vs. ongoing target of \$600-900K). Throughout the effort, client members, including shop floor personnel, worked alongside Gotham and were trained on shop floor management best practices. Gotham put in place process changes, tools, KPIs and reporting to ensure sustainability after our exit. We also planned the next set of opportunities and helped get \$500-900K logistics savings underway.