Post-Merger Integration Of South American Industrial Goods Manufacturer: Harvesting Opportunity From Performance, Capability, And Cost Structure Enhancement

The Challenge: A U.S.-based industrial goods manufacturer acquired a Latin American subsidiary t play the role of a manufacturing base for Central and South America as part of a strategy to expand into global markets. Prior to acquisition, the Latin American subsidiary served as an internal division of an integrated manufacturing and retail sales corporation. Recognizing cost, service, and quality opportunities existed—as evidenced by apparent cultural shock as the business migrated to external customers and a lack of operations sophistication—senior management asked us to identify specific, actionable improvement opportunities at the Latin American subsidiary.

The Partnership:
Analysis: A 2-week diagnostic revealed significant opportunities and performance gaps. Highlights included:

Cost	Service	Quality
• Labor -- relatively low labor productivity (63%) • Overhead -- relatively high overhead and SG&A headcount (136) • Material -- limited opportunity • Product -- bottom 82% SKUs only contribute 5% to gross margin	• 30 days on average required to process orders • Over 50% of orders delivered after promise date • $800K (3,148 SKUs) in obsolete/no usage inventory out of total $3,800K (8,302 SKUs)	• Cost of quality -- 1.11% of sales • Rework -- 1.68% (target is <0.5%) • Scrap -- 0.57% (target is <0.3%)
• Driven by ongoing lack of cost focus inherited with high- cost structure facility and exacerbated by lack of clarity in reporting/understanding of costs	• Driven by planning system issues	• Driven by lack of proactive quality systems

Strategy: Working with the Latin American management, we developed a plan to address key issues in the near-term to generate immediate improvement in performance and over the longer term to fundamentally improve capabilities and cost structure. Key elements of the plan included:

	Cost	Service	Quality
Near-Term	• Start tracking and reporting direct labor hours to: identify drivers of low productivity, focus attention on this issue, develop opportunities for improvement • Implement focused set of OH and SG&A KPIs and compare performance to U.S. facilities as input to establishing fact-based headcount targets • Take immediate steps to clarify costs and cost reporting	• Institute a new, disciplined production planning process • Give control of production schedule to planning group • Leverage collected data to generate key reports and improvements • Develop visual aids for the floor to focus attention on quality their performance	• Leverage collected data to generate key reports and improvements • Develop visual aids for the floor to focus attention on quality their performance
Medium-Term	• Standardize components • Outsource non-core manufacturing operations (e.g., forging, forging machining) • Implement incentive system with cost performance as key component • Leverage the existing cost structure to selectively manufacture products in South America, thereby ensuring price competitiveness	• Work with key customers to better understand their demand patterns and to synchronize production with customer inventory positions • Reduce lead time required for order placement	• Implement proactive, SPC/SQC-based system • Develop a vendor certification program

Execution: Once armed with a set of focused objectives,the management set out to capture the opportunities highlighted in the diagnostic. Six weeks later, the Latin American management invited us back for a quick progress check and further guidance.

The Results: $2MM in cost (on a cost base of $5.5MM), service, and quality savings were on track for capture in the year following the diagnostic at the Latin American subsidiary.

575 Lexington Avenue, 24th Floor • New York, NY 10022 • Tel: 212.497.9200 • Fax: 212.497.9210 • www.gcpny.com