WHEN GREATER EFFICIENCY DOESN'T EQUAL HIGHER PROFITS

BACKGROUND

Our client occupies a leading position in the Australian roof tile market. The company operates five manufacturing plants in Australia.

Profitability at one plant in particular was declining. This had historically been the company's leading profit maker. The managers at the plant perceived that this decline was due to significant deficiencies in the existing production facility - primarily outdated equipment and limited space for inventory.

OBJECTIVES

We were invited to review the plant's activities. Management was concerned that addressing the perceived manufacturing deficiencies may not be the solution to declining profits.

We were asked to determine what could be done to increase profitability without additional capital expenditure.

KEY RESULTS

Our initial analysis concluded that while there were some problems in manufacturing they were manageable and not the primary factor in the declining profitability.

The primary cause of this problem was that costs were being managed by the back office; price was being managed by sales - no one managed the margins.

GPR Dehler designed and implemented a margin management model. This achieved a 15 per cent increase in gross margin within 12 months.

Due to the success of this program, GPR Dehler has been commissioned to review all other areas of the roofing company.

Production volume and quality at the plant were adequate and overall operational efficiency was both relatively good and reasonably stable. The key problem was that the company's production efficiency wasn't making its way to the bottom line. The problem was traced to the sales and marketing department. Sales staff were unable to take into consideration product or account variances. They quoted for jobs with no knowledge of the margin the company was making on the products and no ability to analyse the performance of individual accounts.

UNEXPECTED GAPS

Production volume and quality at the plant were adequate and overall operational efficiency was both relatively good and reasonably stable. The company's key problem was that the company's production efficiency wasn't making its way to the bottom line.

Following the production process back to the sales and marketing functions, we found:

-- No systematic forecasting.

-- No mechanism to measure margin.

-- No review of actual account performance.

-- No analysis of true costs.

-- No control of the estimating process.

Quotes, planning of sales activity, forecasting, and most significantly the control of margins, were managed more by gut feel than by any objective, systematic method.

The company used two or three versions of an outdated method for quoting jobs. These methods, a global base figure per square meter plus a global margin, reflected a volume at all costs approach to selling. This style harked back to times when competition had been less stringent and sales staff were unable to take into consideration product or account variances. They quoted for jobs with no knowledge of the margin the company was making on the products and no ability to analyse the performance of individual accounts.

Methods for evaluating account performance in a meaningful way did not exist. More importantly, the inability to do so was not alarming. Sales managers laboured under the false belief that the key to improvements lay in greater product range.

The result was that the company was losing money on some products and accounts, making good margins on others; and didn't know which was which.

In addition, there were a number of entrenched beliefs that were holding the company back. These included beliefs that:

-- Volume at any cost was the primary goal.

-- The company was out equipped by competitors.

-- Customers were driven by price alone.

BUILDING A NEW MODEL

A decision was made to leave production intact for the immediate future and concentrate on designing a margin management model - one that would provide new and significantly improved information to control the company's margins.

The four key elements of the system are:

-- Historical account performance - which details sales by account against costs (including costs attributable to poor quality of product or workmanship).

-- Construction analysis - which includes contrasting product requirements at an account level, as indicated by housing plans, for a sample of high end jobs and for a sample of low end jobs.

-- Review of market intelligence with forecasting - this includes an assessment by the key account manager of previ-

ous usage, building practices and future plans of the builder.

-- Account strategy - this includes planning a specific approach to sales; price differentials based on type of construction, volume offers, product price differentials, levels of service offers, and service package offers. Other factors based on account history are also included – such as credit history.

The applied Margin Management Model has become, essentially, the management system for the business. This central document marries the production side of the business with the sales and marketing side. The fully applied model encompasses business forecasting, production planning, service management, sales management, evaluation and strategy.

THE PILOT

The new system was piloted with sales managers who applied the Margin Management Model to five key accounts. Based on the dramatic results of these first accounts, an aggressive schedule was instituted for the remaining accounts.

CHANGING THE MIND SET

When the program began, margins immediately began to improve. The rationale for pricing became the topic of the day; virtually every salesperson had input in the discussion.

By the completion of the originally scheduled program, sales initiatives that seemed impossible only six months before were now being achieved. The key to this immediate success was that the salesperson had precise, well organised data at their fingertips during the negotiating process. More importantly, they had this information BEFORE approaching the customer - and were able to do so with a clear plan in mind.

Builders were being successfully approached with contingency offers on product price differentials, and were accepting pricing agreements based on construction complexity, and other arrangements that had not been attempted in the past.

ROLLING ON

Due to the dramatic improvements in the profitability attainable using the Margin Management Model in the one location, all other locations were commissioned for a review by GPR Dehler.

This was followed by a national workshop designed to launch the model throughout all locations.

Managers at each site have adopted the program enthusiastically and it has now been made a priority initiative throughout the division.

EASY ON PAPER

This project, like many of our engagements, looks straightforward on paper. The reality is far from it. Our skill is not just in identifying problems and designing solutions, but in making those solutions work – often in a tough business and cultural environment.

GPR Dehler has an excellent record of implementing change programs in Australia, New Zealand, Asia, Europe, North America and Southern Africa. Everything we do is geared towards achieving

results – not writing reports. We have the management and planning skills as well as hands on consultants with experience to overcome obstacles and transform good ideas into effective and successful programs. Significantly, we do this with minimum disruption to our clients' business operations.