

Building products company restructures in anticipation of economic recovery

One of the world's largest manufacturers of brand name consumer products for the home, including both a value and premium line of semi-custom wood furniture and cabinetry, decided to take bold action during a prolonged recession to streamline and strengthen itself in anticipation of economic recovery.



Key Metrics

Achieved 175% of targeted labor savings

Hardwood cracks decreased 60-70%

Achieved targeted 20% reduction in management spend

Overall, delivered \$48 million in annualized savings

The company had traditionally enjoyed a pricing and market share advantage due to the larger size, higher quality and greater value of its product offering. However, its unit volume dropped precipitously as a result of a downturn in the building products industry. And, although it had made appropriate workforce reductions to match lower volumes, its cost structure remained essentially the same.

Given these circumstances, the company's management team decided to seize the opportunity to reduce its cost structure while its competitors were seemingly content to ride out the recession. It turned to a familiar resource, USC Consulting Group (USCCG), a highly regarded operations management firm it had used for years to implement operational improvement initiatives and business intelligence solutions.

USCCG's assignment was to assess the possibility of getting the company into a more price competitive position for the coming fiscal year; specifically to reduce its overall cost structure by 20%.

The consultants began by deploying dedicated teams at each of the company's five manufacturing sites. The teams were tasked with quickly identifying and quantifying improvement opportunities and determining the best path forward to realize the company's ambitious operational and financial objectives within a twelve-month timeframe.

Identified categories of opportunity included: 1) direct labor; 2) indirect labor; 3) management consolidation/design; 4) defect reduction; and 5) overhead costs. Teams from USCCG delved into each of these five areas at each location. The consultants were assigned client operations and financial liaisons to answer questions concerning planning and scheduling, associated costs, and assist in calculating baselines.

Ultimately, it was determined that there was sufficient opportunity to warrant development and implementation of strategies and tactics to achieve the targeted reduction in overall costs. Each category was subsequently given a charter and assigned to a USCCG team and company resource, or resources, depending on the extent of the desired improvement over the baseline. Timelines and milestones were established, along with financial KPIs, to ensure that improvements were tangible, measureable and captured.

The project was launched with multiple teams of USCCG personnel, each matched up with a client project leader who reported weekly to a cross-functional executive Steering Team that reviewed progress, key action items, and financial results to-date.

Reductions in labor were nearly twice the targeted savings without any schedule erosion. All activities were completed on or before their deadlines. Excess labor was placed in a floater pool for disposition by a target date, ensuring an ongoing match between resources and run rates.

As a part of the defect reduction effort, the Steering Team launched a Six Sigma project targeting defects in cabinet doors and drawer fronts. A joint USCCG and client team used the DMAIC process to focus on cracks that occur in solid wood as a result of the drying process. Various tools and techniques were used in the analysis phase to determine the critical inputs. Others were used in the improvement phase to adjust those inputs to achieve the best possible outcomes. As a result, hardwood cracks were reduced by over 60% at the feeder plant and 70% at the door processing plant.

Management consolidation was achieved by establishing an appropriate ratio between labor, supervision and management under the concept of *Span of Control*. Poor performers were eliminated based on internal client and USCCG grading, standardized interviews, and by comparing actual performance against standardized work. Following reorganization, a management resource guide was developed and implemented to ensure the required ongoing mix of work/volume, level and effectiveness of management.

Overall, the project achieved a run rate of \$727,000-\$925,000 per week in savings, annualized at a high of \$48,100,000, and an ROI of nearly 5:1. The company achieved the cost advantage it had targeted. Afterward, it merged with a corporate sister cabinet company. Currently, USCCG is installing a new management operating system in the merged company.

“Company leadership viewed the project as a ‘game changing’ event. We knew that when volumes returned to normal, the targeted 20% savings would deliver an exponential benefit compared to the planned gross investment in dollars and time.”

President,
Cabinetry Company
Business Unit



First we make it work. Then we make it last.®

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