

# Taking manufacturers back to profit

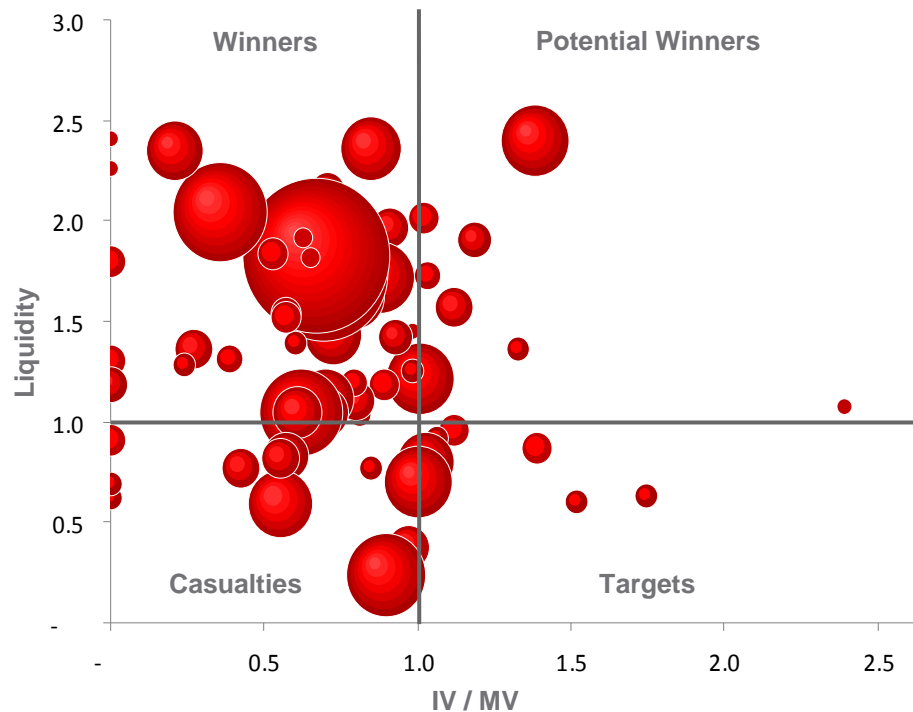
Emerging from the downturn as a winner

Tim Lawrence and David Hatrick

13<sup>th</sup> October 2009



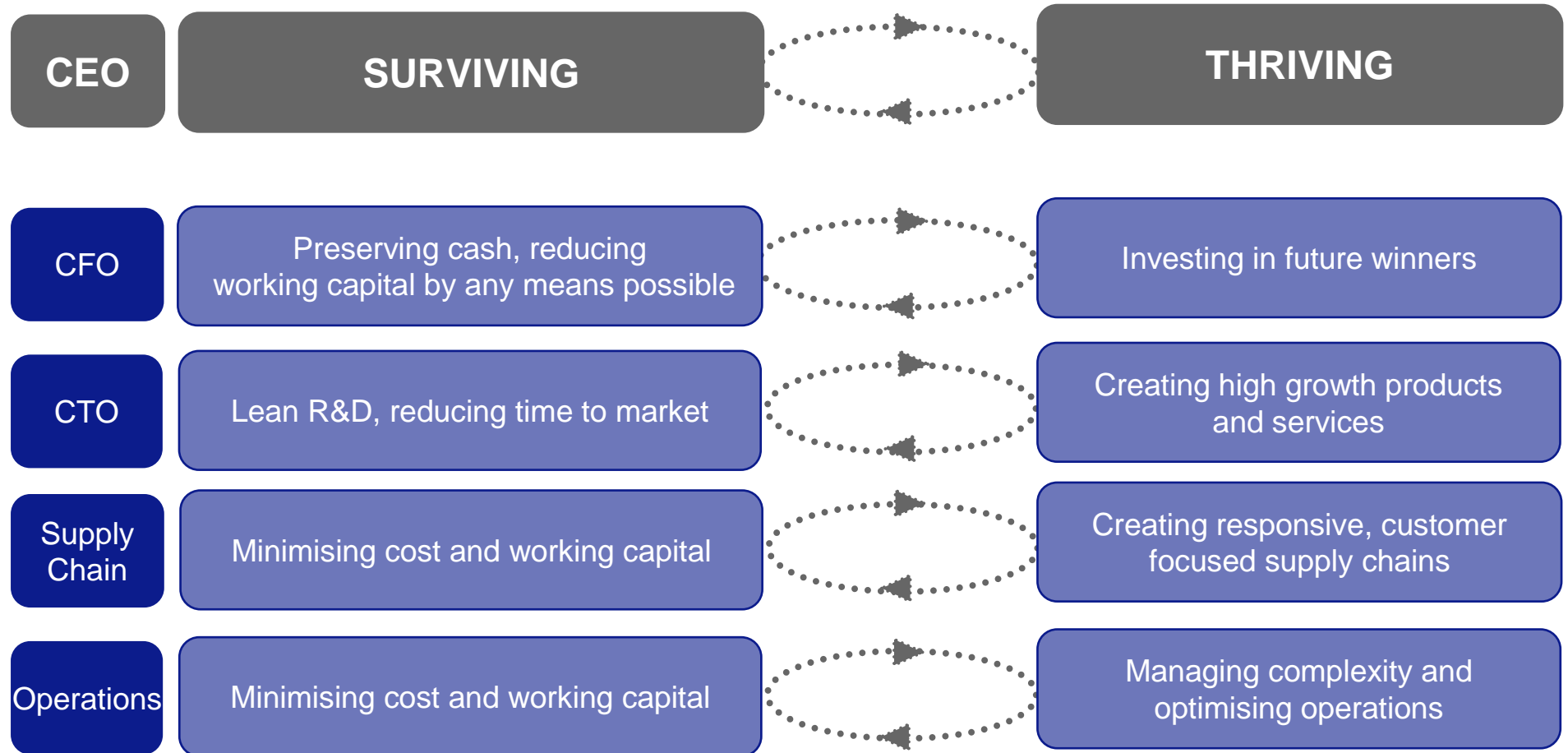
# The impact of the economic crisis is beyond the experience of anyone in manufacturing today – and the recovery is likely to be a long haul



For further reference see: *Living with Zombies* an update to *Surviving and Thriving in the Economic Crisis*, by Mark Thomas

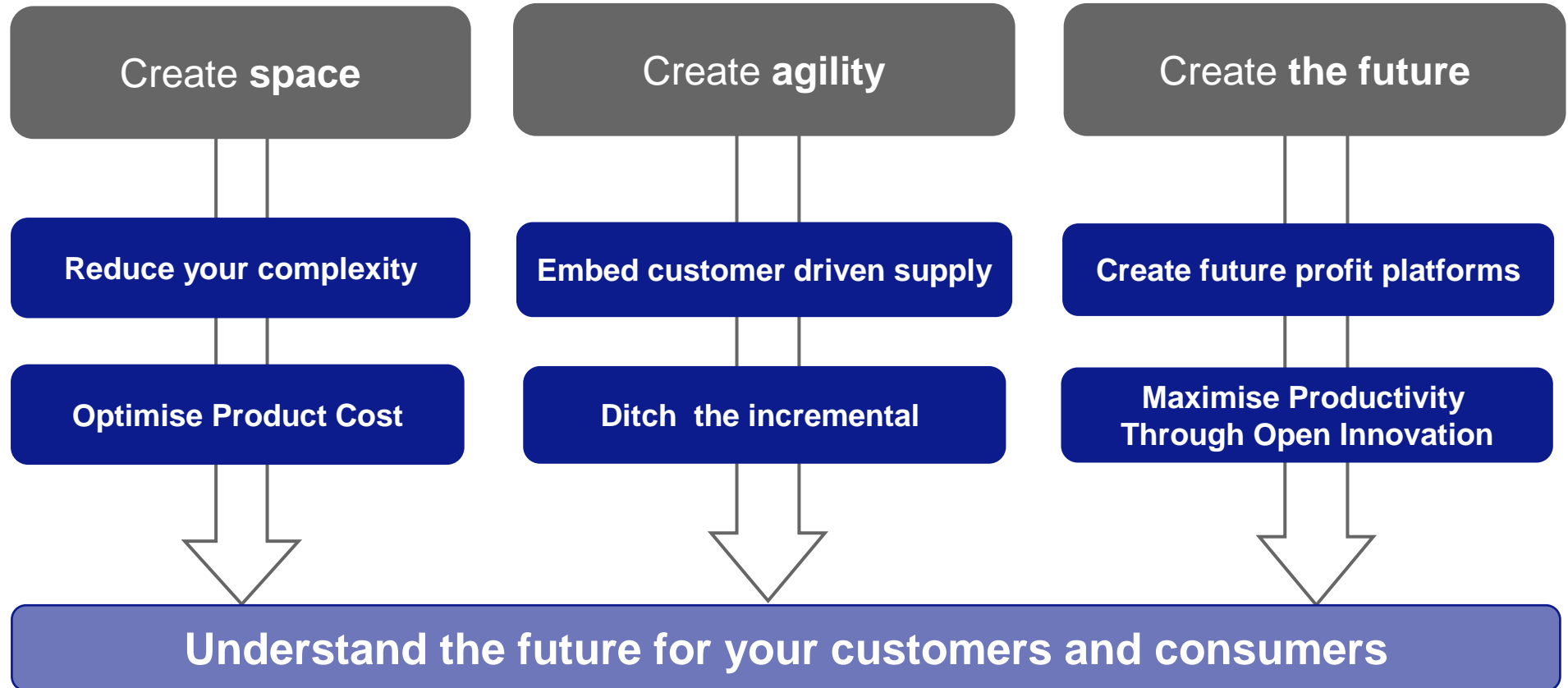
- Business as usual is a long way off, and manufacturers face tough challenges in the next few years
- There is no clear view of the recovery, how long and in what form it will take
  - Simple recession
  - A 'zombie' world
  - Double dip recession.
- The growth of China and India as the world's key manufacturing locations has hardly been dented by the crisis
- All of which combines to make the future very uncertain for European manufacturers.

# Leaving manufacturing leader's facing the challenge of squaring the circle



# So how do manufacturing leaders ensure their business survives today and thrives tomorrow?

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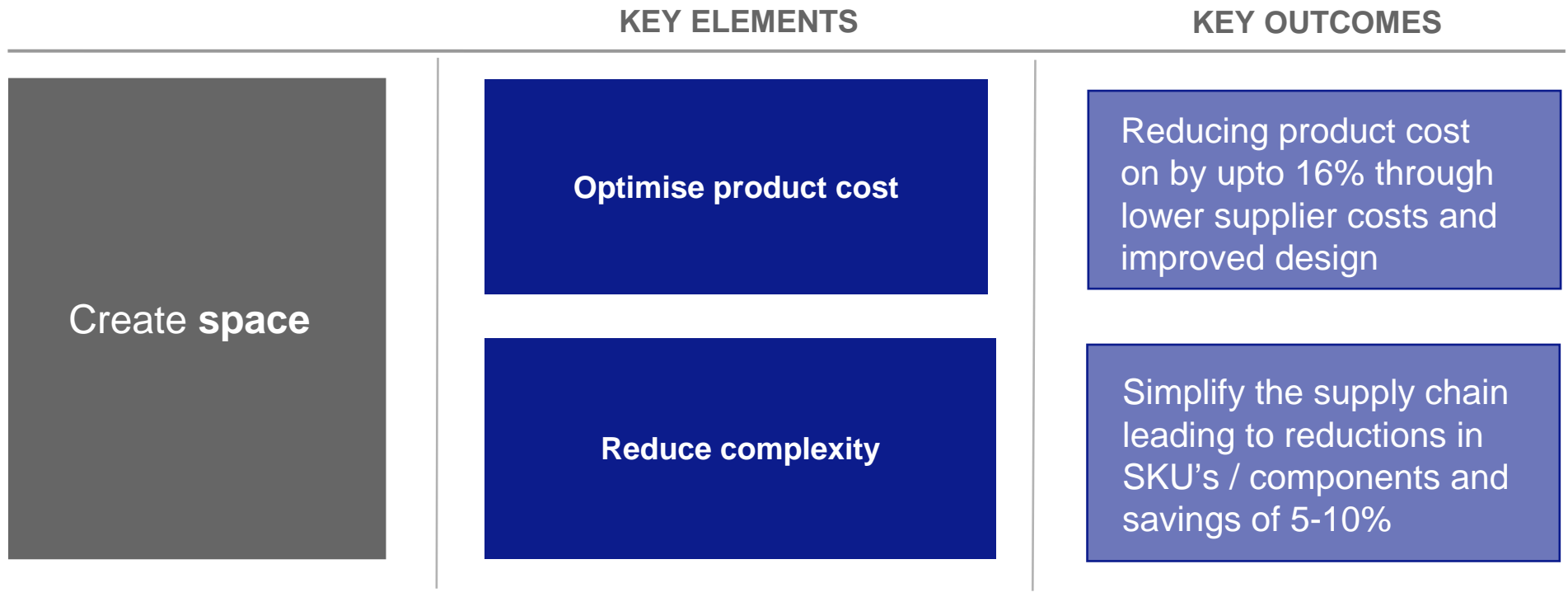


**Create space**

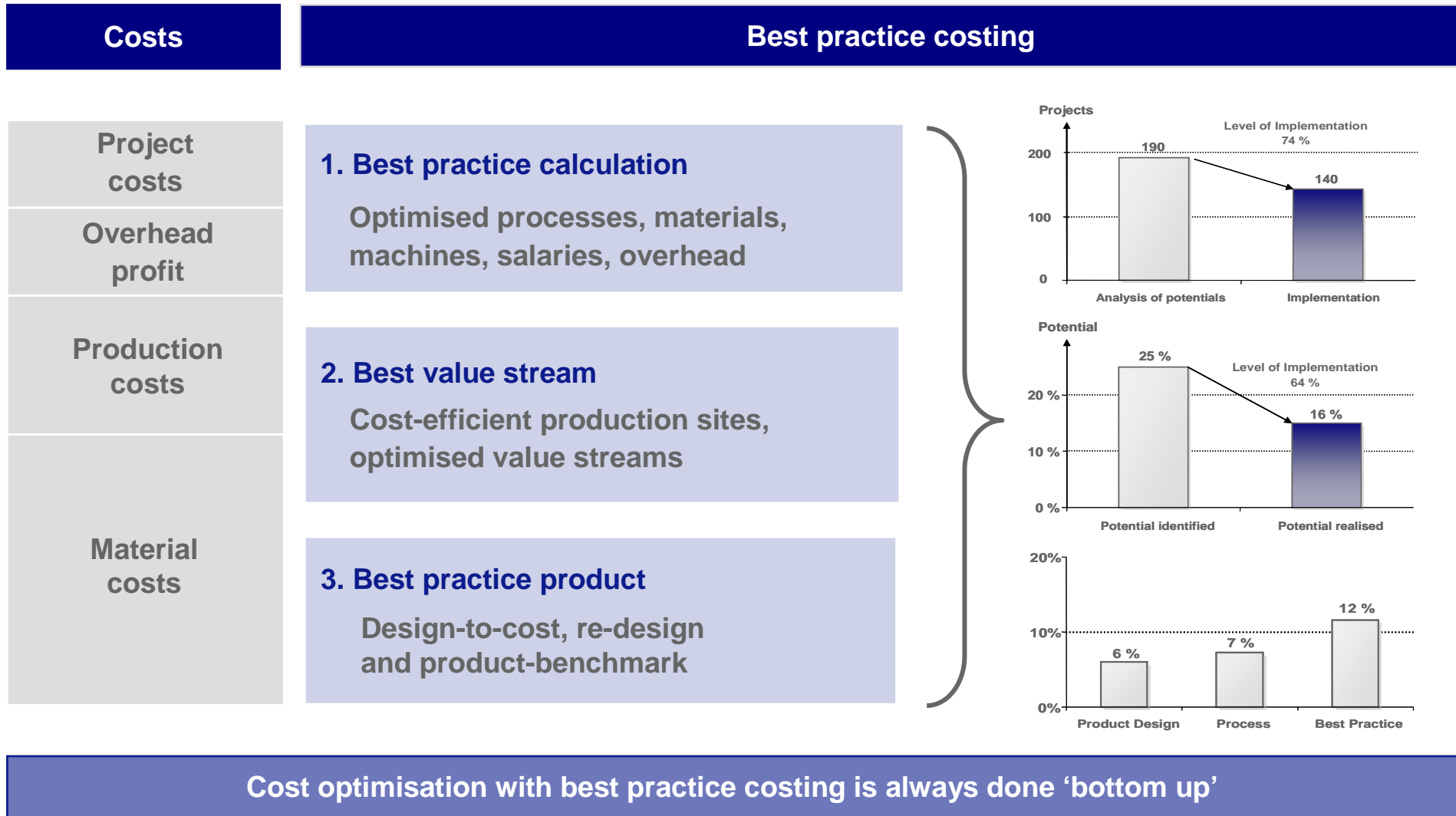


By now, the low hanging fruit has been addressed. It is time to look at new approaches to reducing cost

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# Product cost optimisation – Creating a green field approach to cost reduction, on average identifying 25% potential savings and realising 16%



Cost optimisation with best practice costing is always done 'bottom up'

# Complexity – it's about more than simplification

## Complexity is inevitable

- Manufacturing businesses operate in environments where complexity is inevitable
- Businesses need to manage the right balance of complexity to grow profitably

### Reduce complexity in non-value added areas

Understand cause and effect

Determine Customer value

Product Specification harmonisation

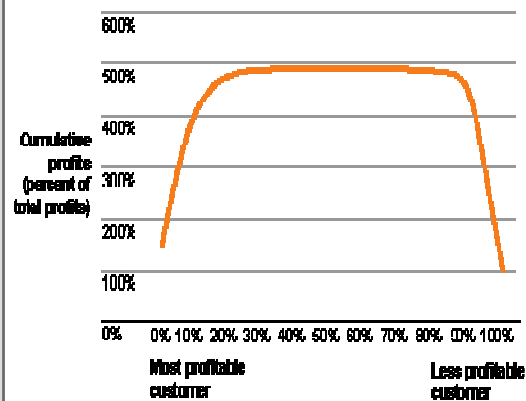
SKU Rationalisation

Production Configuration simplification

Supplier Rationalisation

## Exploit complexity in value adding areas

- What is the appropriate level of complexity for the business?
- What is your competitive positioning?
- Understand the true cost to serve



## Continuously manage complexity

- Create a culture which supports the profitability mindset over simple asset utilisation
- Balance innovation drivers to ensure unprofitable complexity does not creep back in
- Exploit technology to facilitate low cost responsiveness

### Nokia Product and Operations Structure

- Case Nokia 6680



16 © 2005 Nokia

NOKIA  
Connecting People

## Inalfa Roof Systems – 20% improvement in profitability in six months

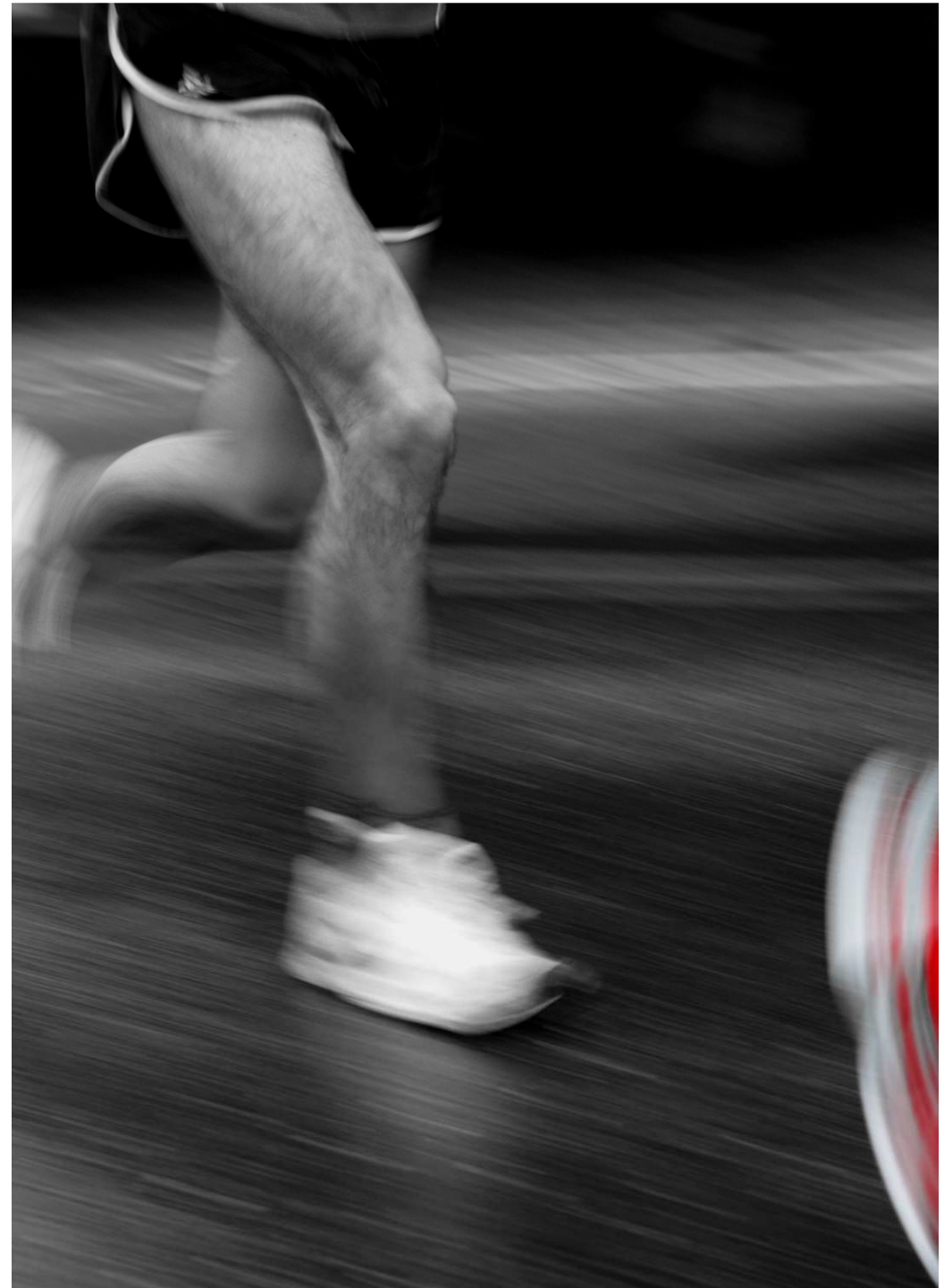
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“The project identified specific measures creating a sense of urgency on all management layers, delivering immediate financial results in a number of projects. Mid term the project has brought new dynamics into our organisation focusing on external pressures rather than discussing internal barriers.”

***Ton Houben***  
*Group Chief*  
*Executive Officer*

**Create agility**



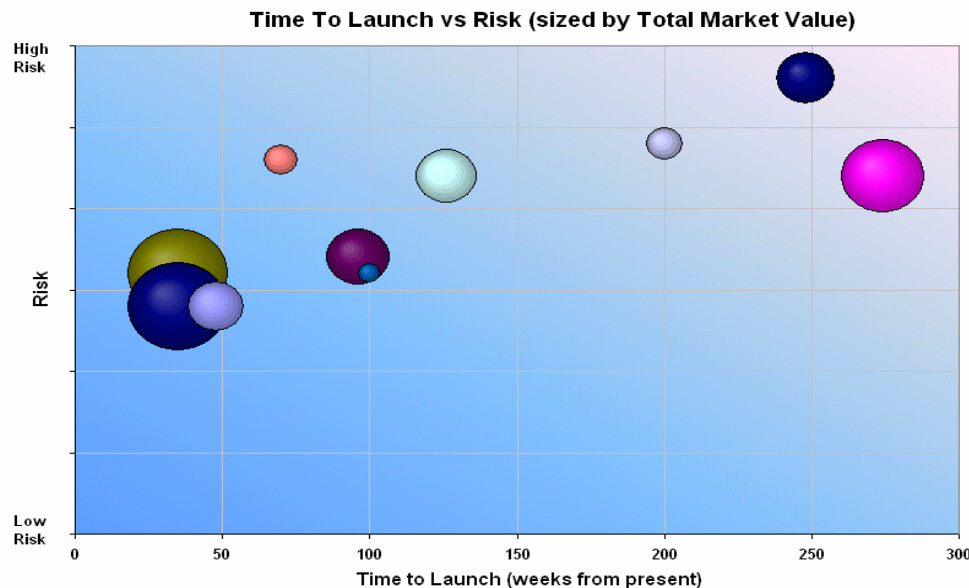
## Create agility in the supply chain – customer driven supply

- Companies with CDS at the heart of their supply chain strategy:
  - design their supply chain to win the customer at the point of use or at the point of sale
  - designed the upstream supply chain back from that point.
- Significant mindset change is needed, from a cost reduction focus to become agile and responsive
- A recent PA survey confirmed that a CDS approach delivers better overall supply chain performance
  - improve revenue by 10%
  - increase profit margin by 5-7%

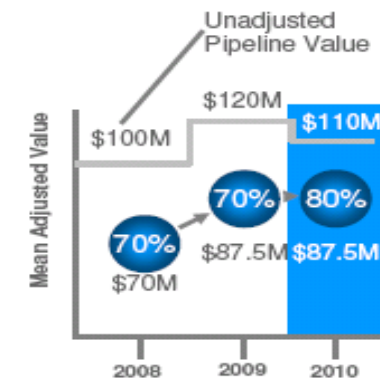


# Create agility in the innovation system – Ditch the incremental

- Ditch low value, incremental projects – they will not contribute to the long term survival of the business
- Create a culture where the hard decisions are made, no more pet projects, relaxed approach to margin targets or endless delays
- Create momentum by freeing up resources to focus on strategic growth opportunities
- Involve all the functions in decision making, transparency of portfolio is essential.



## Case study Healthcare Manufacturer



- Improve the efficiency of the R&D process
- Enable the executive team to make the hard decisions
- Create flexibility and agility in the portfolio

**Create the future**



# By combining a focus on strategic growth platforms and innovation productivity, companies can create the future

## Create future growth platforms

- Invest in opportunities that address the new realities
- Make cost an strategic innovation platform
- Understand the new realities for your customers and consumers
- Take advantage – low cost technology acquisition and access to more available talent pools.



## Maximise productivity through open innovation

- Leverage external sources of technology and innovation to create and accelerate bigger opportunities
- Lower development costs and accelerate time to market
- Innovate within and beyond your supply chain.



# Creating Future Growth Platforms – you need a clear vision of the new realities



- The future will be different – understand its impact on your business and your customers/consumers
- Develop new propositions – aligning with the future, defining your differentiation and how you will create customer value
- Drive innovation across the business – its not just R&D! cross functional teams and new ways of working are needed
- Don't limit innovation – new services and business models will be required.

## Case studies

### Reverse Innovation

GE Healthcare launches portable ultrasound systems developed for emerging economies into the US market.

### Innovating for Asia

Coca Cola develops and formulates Minute Maid for Asia, its no longer just a case of repackaged.

### Low carbon innovation

Evonik and Daimler collaborate on next generation auto batteries. Bosch extends into renewable energy systems.

# Maximise productivity through open innovation – leveraging the outside world to deliver faster, bigger innovations



- Developing, commercialising and manufacturing everything internally is no longer feasible
- You need to find the right solution, at the right cost at the right time – no matter where you find it
- Open innovation drives productivity without increasing investment in R&D
- Needs you to empower innovation teams to make the right decisions on technical, supply chain and commercial opportunities.

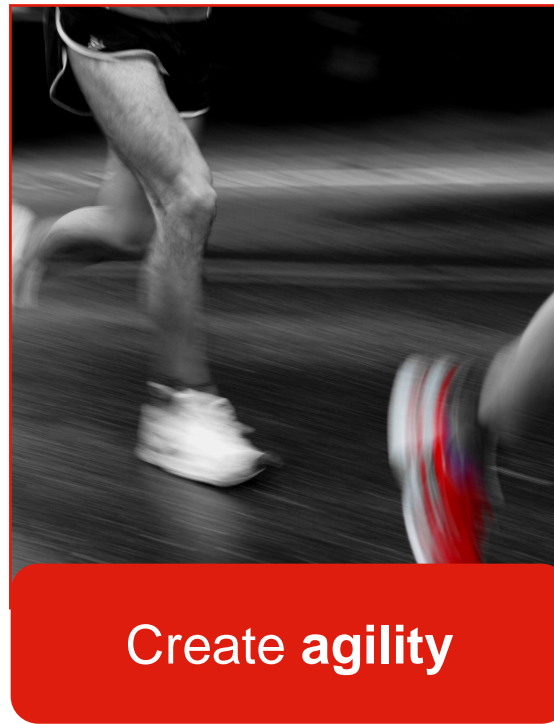
## Case study Global Beverage Co

- Clear strategy and roadmap to identify which technologies will be essential to the future of the business
- Identifying those technologies that cannot be developed in house for acceptable cost and time
- Partnering with the right technology providers – not reinventing the wheel
- Changing the culture of the development organisation.



# The recovery is uncertain, but to survive and thrive, we believe manufacturing leaders must address three imperatives

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## Key questions for discussion

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- What **challenges** do you have in creating space, creating agility and creating the future?
  - Generic
  - Industry specific
  - Technology specific
- What would be your **advice** to your colleagues?