

## Manufacturing

### Client:

An ESOP manufacturing company that provides custom product to a national client base.

### Background

The company was under pricing pressure from imports. Many of their competitors in the U.S. had gone out of business. Profitability had been on a downward trend for three years. The employees were disengaged. They did not understand the ESOP concept and were behaving like hired hands rather than business partners.

### Initiative

Management wanted to engage the employees, streamline the processes to eliminate waste and improve net income.

### The Assignment

The Institute conducted an assessment of the current state, identified a prioritized list of actions and facilitated the implementation of initiatives that would decrease cost and increase net income. Among these initiatives were: Revise the cost accounting structure to identify true cost by part, develop a performance ScoreCard to communicate key value drivers to employees, establish an incentive pay plan linked to the ScoreCard performance, implement process reengineering and LEAN tools to reduce waste and increase throughput, provide business literacy education to employees about the roles and benefits of ESOP owners, and establish a quality department.

### The Outcomes

The initiative engaged all employees in the business. It equipped them with the appropriate improvement tools and provided a process where they could initiate change. As a result, the company reversed its downward trend.

Organic growth enabled the company to make strategic acquisitions and it remains on a path of continuous improvement.

Over 5 years the value modifier moved from 2 to 3.5.

### Sustained Results After Three Years

Peer Comparison	Competition	Client
<b>Strategic Profit Ratios</b>		
Profit Margin (pre tax)	1.6%	4.1%
Return on Assets (pre tax)	3.4%	3.7%
<b>Income Statement</b>		
Direct Labor	18.7%	12.9%
<b>Asset Productivity</b>		
Ave Collection Period (days)	42.4	37.0
Inventory Turnover (times)	7.6%	20.9%
<b>Employee Productivity</b>		
Sales/Employee	\$ 93,658	\$138,053
Gross Margin/Employee	\$ 26,716	\$ 41,852