

Margin Expansion Solutions Productivity Playbook



Margin Expansion Solutions Productivity Playbook for a 300-500 BPs Margin Expansion

Margin Expansion Solutions works with its clients by deploying a small team of diverse industry experts with deep and proven experience and delivering results. We work with their global product management, engineering & operations leaders to broaden and deepen cost saving project identification, prioritization, and execution process. We also work with their senior management team to provide leadership the needed analytic tools and dashboards to deliver a prioritized savings portfolio through development of a credible pipeline of cost savings programs.

Playbook End Play

End-to-end business process clearly defined and documented

Business process implemented as designed

Knowledgeable workforce – roles, tasks, process requirements, and value-added work

Process performance measures created, operationally defined, agreed with performers and stakeholders

Process measured, monitored, continuously improved

Year over year productivity savings of 300-500 BPs

Phase I - Discovery

Objective: Complete assessment of current state of productivity talent, process, and tools at the client



People

- Org Structure
- Stake Holder Meetings
- Productivity Skills
- Productivity Capacity
- Minneapolis Ops
- Product Management



Process/Methods

- Eng. Change
- Productivity
- Reporting & Tracking
- Risk Management
- Prioritization
- Forecasting



Tools/System

- ERP
- COGS
- PDM
- BOM
- Collaboration
- Communication

Best Practices



Financial Knowledge



- Business ability to explain changes in Gross Margin% is critical to understanding operations of the business
- Understand cost drivers
- Pressure test assumptions



Project List Generation

- Valid ideas and verified saving estimates
- Cross functional engagement
- Plan for savings erosion



Constant Portfolio Management

- Granular attention
- On time accurate information
- Actionable analytics
- Resource demand management and allocation

Red Flags



Not understanding & quantifying waste streams

- Using unverified "correction factors" to cover large unknowns



Weak business case, unrealistic goals



Lack of buy-in from stakeholders



Reacting vs. Planning

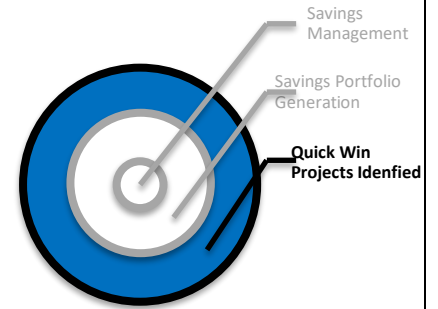


Poorly designed reporting & tracking

Discovery Areas and Business Practices

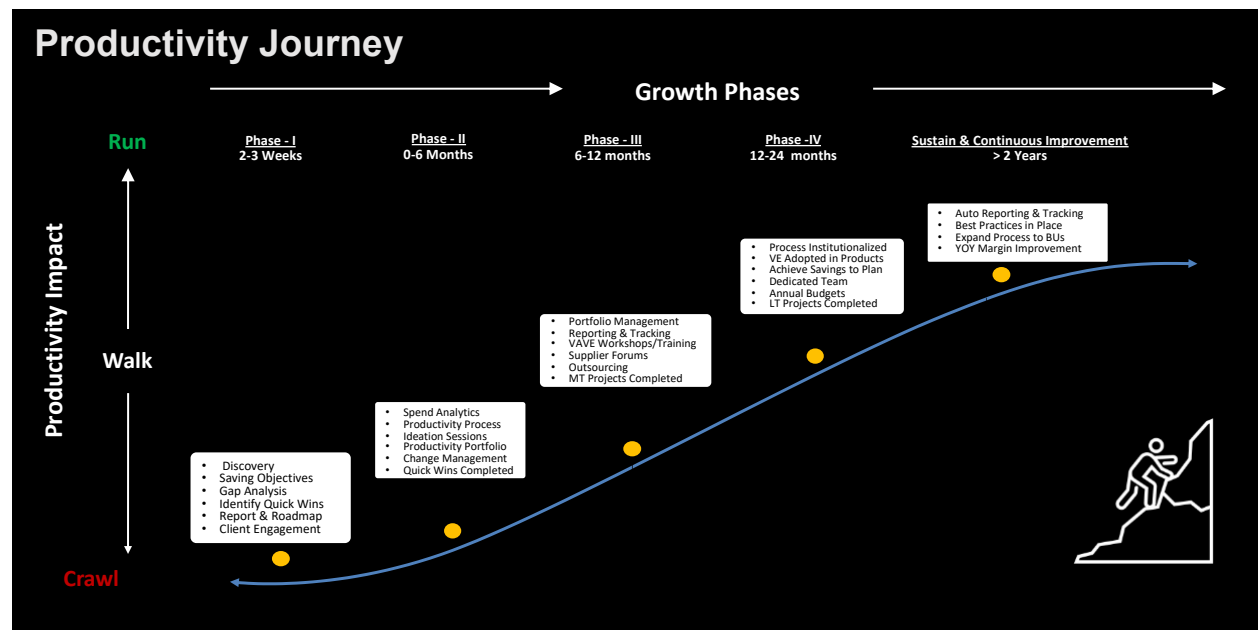
Roadmap/Recommendations

As an outcome of discovery and assessment, MES provides gap analysis and identification of quick win opportunities (savings start within 6 months). MES proposes a roadmap for productivity programs. Customized Phase II plan for a pilot cost reduction initiative of a system, sub system or component (to be agreed with Client)



Productivity Streams	Execution Duration	Productivity Maturity
Design (Materials/DFA/DFM)		
Value Engineering (NPD)		
Supplier VAVE	12-24 months	Run
SKU Rationalization		
Strategic alliance/Vendor Partnerships		
In-Sourcing		
Product Line Profitability		
Outsourcing	6 - 12 months	Walk
Logistics (Transportation/Packaging)		
Warranty Reduction		
Value Engineering (Current Products)		
Value Analysis (Existing Processes)	< 6 months	Crawl
Scrap Reduction		
Price Negotiations		

Productivity Streams

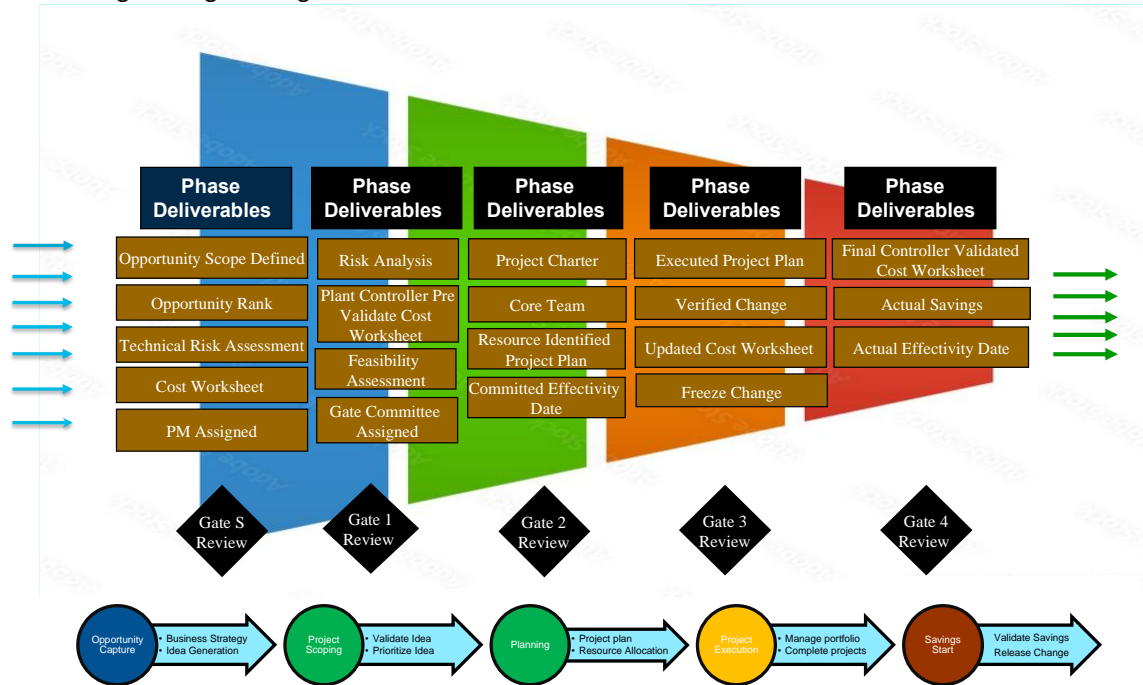


Productivity Roadmap

Phase II – Productivity Process Deployment, Define Cross Functional Roles & Responsibilities, Quick Wins Start

Objective: Generate a pipeline of credible projects and opportunities for margin expansion, formulate execution teams, and start executing quick win projects. Prepare a Phase III mid-long-term savings plan

- Start quick win productivity projects
- Roll out productivity phase gate process
- Training and deployment of process across organization
- Workshops for identifying ideas to generate mid-term (6-12 months) productivity projects
- Identified, executable ideas with quantified savings and resources
- Strategic change management as needed



MES Productivity Phase Gate Process

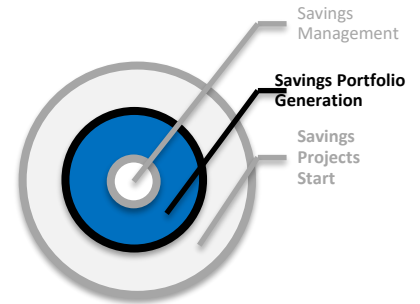
	Responsibility					
	Sourcing	Engineering	Operations	Finance	Product Management	
Roles						
Project Manager	x	x	x		x	Initiates & manages Project Charter, Project Plan, Technical feasibility, Cost Worksheet. Selects gate and executes gate committee meetings
Sourcing/Ops/VAVE Leader	x	x	x		x	Shares responsibility with P/L in creating project schedule and obtaining Cost Worksheet Validation by Plant Controller. Collaborates with P/L to ensure achievement of Team Productivity Goals.
Plant Controller				x		Approves Initial and Final Validation of the Financial Information contained in Cost Worksheet
Sourcing Leader/PMO	x	x	x			Manages Productivity Project strategy. Facilitates Executive Sponsor commitment. Aids in selection of gate committee members
MES App	x	x	x	x	x	Aggregates Portfolio in real time, generates reports, risk management forecasts, actionable insights and alerts
Management & Leadership	x	x	x	x	x	Provides sponsorship of Productivity initiatives. Review Productivity reports and provides guidance and decisions. Participates in gate reviews

Cross Functional Roles & Responsibilities Matrix

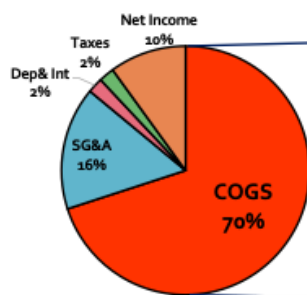
Phase III – Long Term: Savings Portfolio Generation - 12 months or more implementation effort

Objective: Training to generate productivity projects, scale process and generate long term productivity projects portfolio

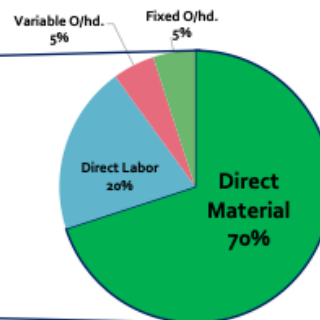
- Analytics of product portfolio, select candidates for margin improvement
- VAVE workshops for additional products and savings
- Generate a pipeline of opportunities
- Project & resource planning
- Start projects execution
- Strategic change management as needed



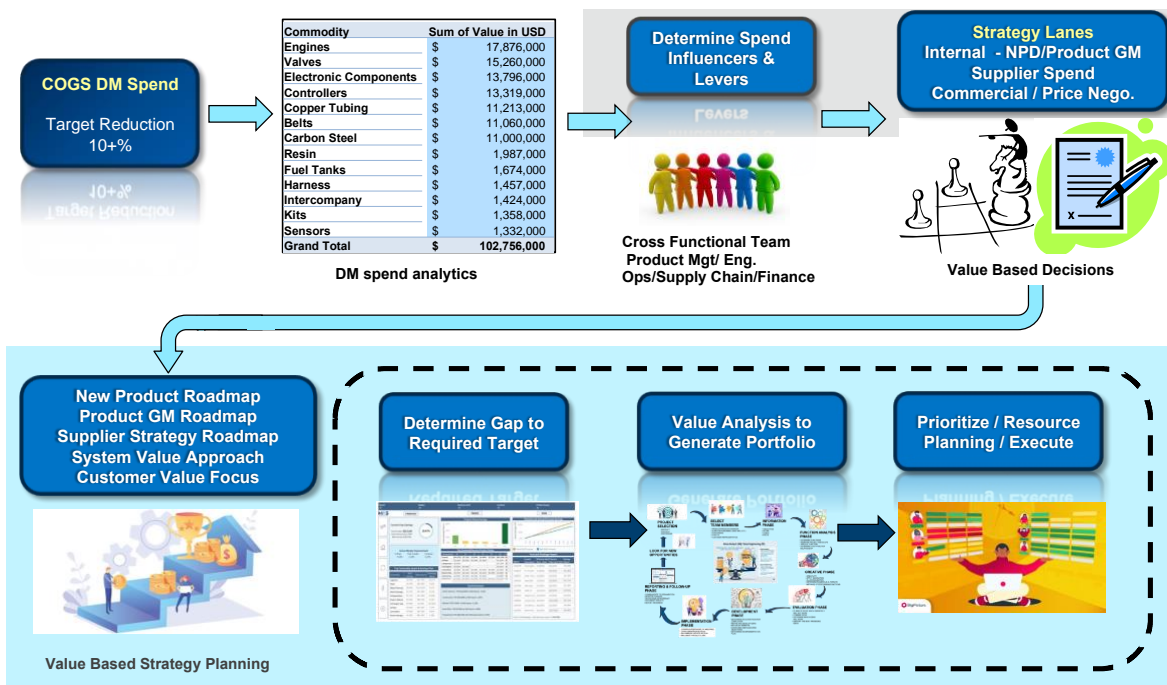
Industrial Income Statement



Cost of Goods Sold (COGS)



Direct Material Costs = Largest Savings Opportunity

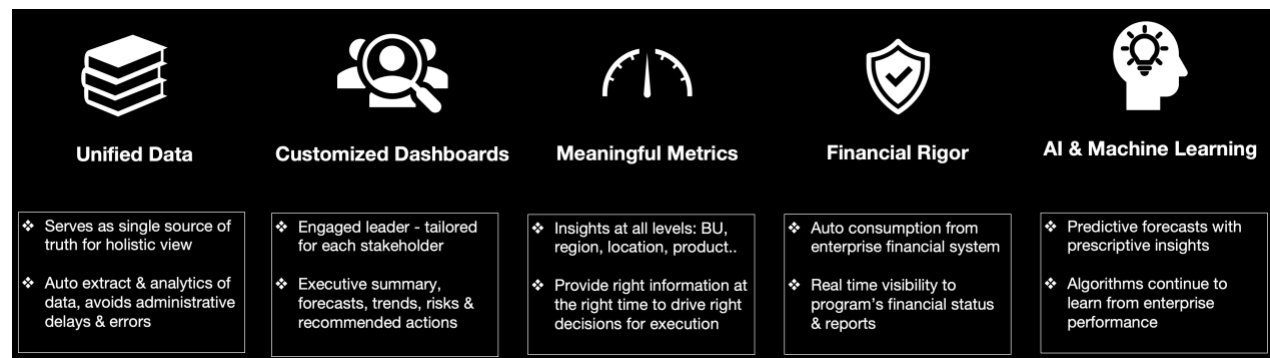
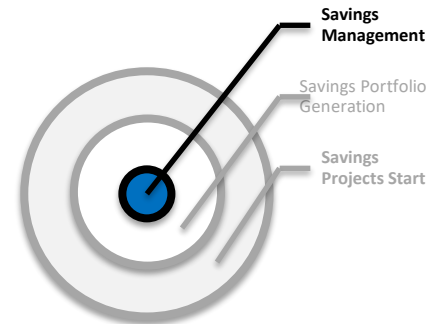


COGs DM Spend Reduction Process

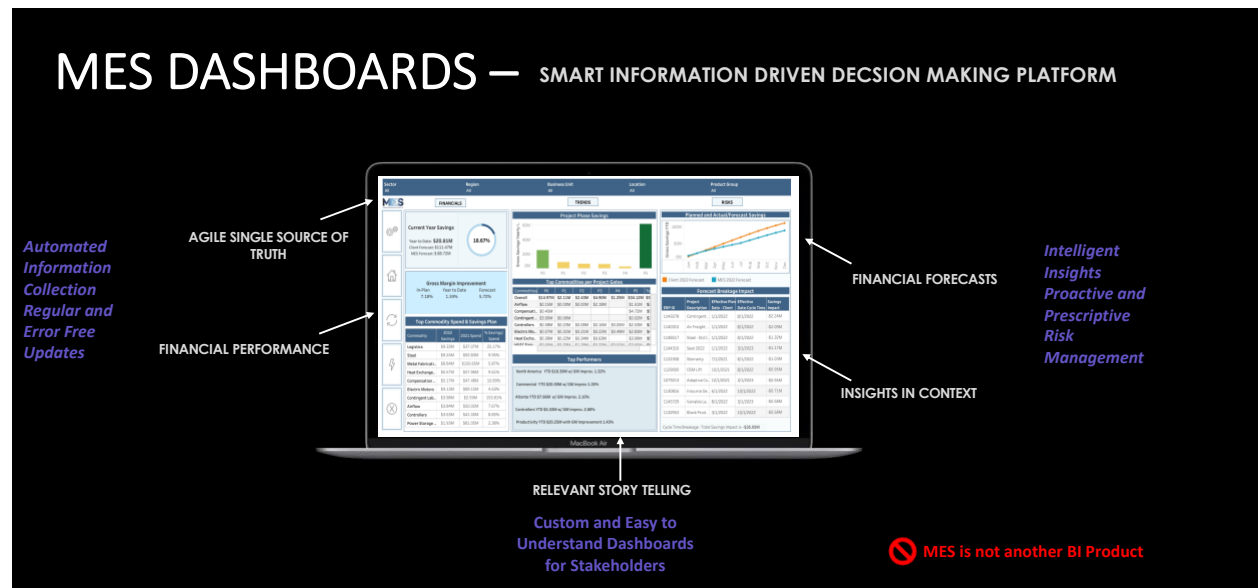
Phase IV – Portfolio Management, Financial Tracking & Forecasting

Objective: Process Institutionalization, Portfolio Management, Financial Performance & Forecasting

- Strategic productivity portfolio management
- Financial reports and forecasting
- Management dashboards
- Risk management
- Establish program monitoring rigor, meetings, and owners
- Resource & Investment decisions & prioritization
- Strategic change management as needed



MES Strategic Portfolio Management Process



MES Strategic Portfolio Dashboards



MES team functions as an integrated member of client leadership team and not merely as consultants. For additional information on MES, visit www.margin-solutions.com or e-mail MES leadership.

Bios

Ajay Garg
CEO, Co-Founder Margin Expansion Solutions
agarg@margin-solutions.com



Ajay is an experienced executive who has served at diversified Industrials and Fintech OEMS: Ingersoll-Rand, Stanley Black & Decker, Dresser-Rand, Colfax & Diebold. He has experience of leading engineering, product management, quality, and services teams. Ajay has broad international business experience including seven years as a business leadership team member in Asia Pacific through expat assignments in Shanghai, China.

Ajay is a mechanical engineering graduate from Rochester Institute of Technology and earned his executive MBA from Alfred University, NY. As a consultant Ajay continues to follow his passion to guide businesses uplift their EBITDA. He is an active LinkedIn contributor and an invited speaker on the topic of Margin Expansion.

Richard DeVaughn
CSO, Co-founder Margin Expansion Solutions
rdevaughn@margin-solutions.com



Richard is an experienced senior executive who has served as a key team leader responsible for global manufacturing, technology operations, research & development, strategic planning, and product development in consumer, industrial, and commercial product sectors at: Ingersoll-Rand, Stanley Black & Decker, Textron, and Ford Motor Company.

Richard is a seasoned private equity and angel fund investor with private company board of director experiences. Richard is a mechanical engineering graduate of Kettering University and attended MIT as a Sloan Fellow where he earned an MBA degree.

Productivity Case Studies

EBITDA Expansion

Lean Sigma
Reduced direct
Labor cost

VAVE
Reduced
direct material
costs



Near Shoring
Reduced freight
& tariff costs

Double
EBITDA in 24
months

Situation & Approach

- A child car seat OEM reviewed business profitability
- Decided to initiate a EBITDA improvement program
- Analyzed annual direct & indirect spend
- Prioritized commodities for direct spend reduction
- Prioritized product platforms for Lean sigma implementation
- Targeted freight & logistics cost reduction
- Targeted products for margin improvement
- Resource and project planning
- Management approvals of resources



Outcome

- Consolidated vendors for volume leverage
- Strengthened vendor contracts & price reduction
- Deployed lean lines, reduced labor costs
- Instituted VAVE process & applied to product margin expansion
- Negotiated freight & logistics contracts
- On track to double EBITDA in 24 months



COGS Reduction



castings



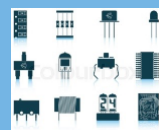
compressors



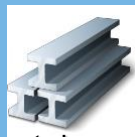
engines



motors



electronics



steel

\$100m
Annual
Saving

9%
COGS
Reduction

Situation & Approach

- A diversified industrial business unit implemented significant cost reduction to offset inflation and forex pressures
- Objective to reduce direct material cost by 5% to offset margin erosion
- Follow customer focus vs. internal approach for opportunity ID
- Focus on product and platform margin expansion
- Align with market value proposition
- Cross functional team structure to support the program
- Goals and accountability set at all levels
- Program management meeting & reporting rigor set up
- Continuous improvement and sharing best practices
- Leadership level sponsorship and support



Outcome

- Achieved \$180m in savings over a period of 2 years
- Direct material cost reduction of 9%
- Reversed from gross margin erosion to gross margin expansion
- Program rolled up to enterprise level

