PSM Consulting Services

Insight

Contents:

PSM delivering bottom-line improvements

Spring 2003

PSM, making DSI 'Fit for the Future'

Wim Donners Business Unit Managing Director, DSM

Background and objectives

DSM Specialty Intermediates (DSI) manufactures chemical intermediate products on behalf of several business units within DSM. Our product range is relatively mature, margins are always under pressure and our customers' number one requirement of us is low cost. On the other hand, successful introduction of new products is also critical to us and we must ensure we have the flexibility and capability in the organisation to achieve this.

2001 had been a difficult year. We encountered significant fixed cost overruns in comparison to our budget and were unable to clearly explain or tackle the root causes.

2002 was already looking a significant challenge. We knew some of our fixed costs were going to rise and we would have to accommodate most of the 2001 overruns in our 2002 budget.

In late 2001 we decided to engage external support, choosing PSM over competition from other consultancies. Why PSM? Because they took the time upfront to understand the issues we were facing and proposed an approach that was aligned to our needs and capabilities.

PSM's brief, in a programme we titled Fit for Future was to help me to:

- deliver 20% fixed cost reduction within two years, making significant impact in the short term
- improve cost transparency, accuracy and allocation
- redefine the Business model

A rigorous, pragmatic approach

PSM helped me to mobilise the DSI team and assisted them to understand their role in the change programme. They led us through a structured work programme to identify, scope and plan improvement ideas. They also helped us to understand and support the 'softer' side of change, by assessing the strengths and weaknesses in the organisation so that the pace of change and its emphasis was tailored to best fit our needs.

For DSI, the PSM approach was particularly effective in:

- finding the 'quick wins' to get early successes
- using best practice and benchmarks to challenge the DSI view of the scale of the opportunity for change
- helping us to prioritise and select the best projects to implement first
- providing a rigorous framework to ensure the quality of our project plans and then to track and manage their implementation.

Rapid, quantifiable results

Improvements started happening during the planning phase. Most importantly, we had measurable financial success compared to budget within two months of starting the programme, creating the positive momentum we needed.

Overall results in the first 12 months have been:

- projects scoped and planned to deliver 20% fixed cost savings, across all cost areas (not just FTEs!)
- controls put in place to monitor and manage expenditure
- savings of over €2.5m realised in 2002
- straightforward budget discussions for 2003 with our customers due to improved transparency of costs and clear service level agreements with them.

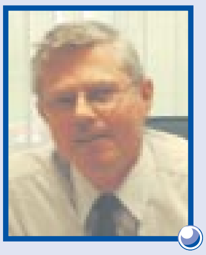
Looking forward to 2003 and beyond there is still a lot of work to do, but we have created a solid foundation to build on.

PSM played the lead role in shaping the programme during the planning phase. When we moved into implementation they provided the practical and rigorous support that helped turn the good ideas into real, bottom line results.

And finally, they knew when to leave!

PSM took real co-responsibility to reach the targets set. All of them gained relevant hands on experience before going into consultancy. This helped them to connect easily to key people in our organization.

Last but not least: PSM are not a consultancy-hours selling machine!



Wim Donners

Closing a facility - Delivering value whilst protecting the brand

Pressures on business are continuing to build. One of our clients recently described it as 'running faster and faster just to stand still'. Whether the cause is the impact of globalisation, the digital age or any of the plethora of explanations used to justify another year of lower than expected performance, the result is the same. People in business have to take bigger, more fundamental decisions, more often, in order to survive.

Productivity and efficiency programmes, outsourcing of non-core activities and cost reduction programmes were once viewed as exceptional activities initiated to improve the bottom line. Now these are more likely to be 'business as usual' for most management teams and accepted as such by the workforce.

As the scale and frequency of change has escalated, many businesses have had to question the fundamentals of their own competitive landscape. Strategic discussions are now more likely to consider:

- **the benefit of transferring operations to cheaper economies**
- **how to achieve bottom line benefit from economies of scale**
- **the right balance between the cost of production and closeness to the market/customer**
- **how to manage a reduction in volume, avoiding escalating overhead costs and keeping costs variable**
- **reaping the synergy benefits from an acquisition or merger.**

Any of these topics can put a facility into the firing line for closure, often for reasons that are not directly attributable to its own performance. It is simply in the wrong place at the wrong time!

The Task Faced in Closing and/or Relocating

PSM have considerable experience working with businesses to plan and close or move facilities. In our initial discussions with clients we find there are several recurring themes characterising the problems they foresee:

- how to predict the reaction of the workforce given they are typically the best people and have been retained through previous restructurings
- how to predict the reaction of the customers without fully understanding the value they place on the facility under question
- how to predict the reaction of the political groups given the particular local, current employment and political landscape
- how to secure the co-operation of the workforce to transfer knowledge, technology, relationships etc
- how to run the day-to-day business to ensure product supply during the rundown programme
- how to be seen to be fair, whilst balancing the commercial reality that drives the closure.

. . . and PSM always adds to this list:

- *how much management time will the closure take? Especially the time spent up front, in planning the programme, not reacting when things go wrong! That can be immeasurable!*

Managing a closure effectively means seeking the most cost-effective solution (including the cost of running the facility during the rundown phase), whilst protecting the company's reputation.

Unfortunately, for every example of a well-managed closure, there are numerous examples, reported widely and publicly of poorly managed programmes that result in people feeling unfairly treated by a business that (seemingly) doesn't care. How can there be such polarisation of results?

Getting it Right - Where to Focus?

Our experience has shown that there are several interlinked elements of a successful closure programme. Remove one, or pay only lip-service to it, and the risks rise exponentially. Alternatively, by addressing each one in a proactive manner with the appropriate amount of skilled resource, the risks remain manageable. What are these elements?

1. The 'rock-solid' business case

Having a 'rock-solid' case for making the change is essential for any successful closure. There must be a compelling, simple and logical reason that everyone affected by the programme can understand, so that:

- people can rationalise what is happening to them. Is it my fault or am I a victim of circumstance?
- other interest groups that are often involved in any closure (e.g. politicians) are immediately conditioned to the reality faced
- the business can be seen to be taking a common sense decision (from a public relations perspective)
- discussions can quickly move to how to effect the closure, rather than debating if it is necessary
- the business case represents a strong reference point throughout the closure process.

A good business case will have been well thought through and tested in advance with other options having been thoroughly assessed. The preferred option will have been challenged from the perspective of the various stakeholders. One recent closure programme, led by PSM, illustrates the importance of these last two steps. The business case appeared to be sensible and represented the most logical business solution, until, we were invited to challenge it. We became concerned and our client uncomfortable when they were unable to provide key elements of data to support the financial assessment. In addition, the client was not able to demonstrate how supplying the local market would be cheaper once logistics and other hidden costs were added. The case was far from 'rock-solid'!

2. Communications

Having a communication plan is key to ensuring the message is deployed in an open, honest and proactive way. Plan ahead, so that most of the questions from the various stakeholders can be anticipated. This reduces the chances of people feeling that they are left in the dark about something that will change their lives.

A good communications plan covers the period before the announcement, the announcement day itself and the period thereafter. It will address the questions - Who do we tell? Who tells them? What do we say? When do we say it? What if questions are asked, who replies? What happens if we don't know the answers?

If the case for closure is solid, then there is less opportunity for interested parties to look for gaps. However, poor communications can create unforeseen problems as illustrated during a recent relocation programme. Our client unwittingly gave evasive answers to off-the-wall questions thereby fuelling suspicion. This precipitated special consultation meetings followed by an unscheduled announcement in the canteen to defuse the situation!

3. Expecting the unexpected

Even with a 'rock-solid' business case and good communication the unexpected can still happen. Closure creates major change and people tend to react emotionally to change. We therefore encourage our clients to invest substantial time and effort in looking at the situation from the perspective of all other key stakeholders, and in making preparations, so that:

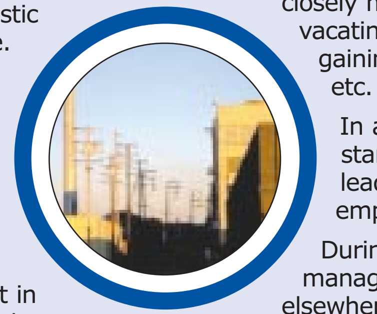
- the chance of people acting in an irrational way is limited
- if people do act irrationally, contingency plans are in place to minimise the impact

We encourage the early preparation of three key contingency plans; the sabotage plan, the disruption to work plan and the broken supply plan. It is too late to start thinking what to do when any of these problems arise.

4. Consultation, little 'c' and big 'C'

A very visible part of any closure programme is the consultation with employee representatives. This process must be handled sensitively as it has a critical impact on creating positive or negative feelings towards the closure programme.

There is significant positive PR to be gained by adopting a caring, though realistic approach to closure. This should be coupled with the provision of meaningful support to people affected by the closure. However, we encourage our clients to check that in resolving problems they do not create precedents that other parts of the business have to live with.



In addition to the big 'C' of formal consultation we actively pursue the little 'c' of informal consultation and information-sharing with the key influencers inside and outside the facility. This informal activity is very effective in smoothing the process of formal consultation.

5. Running the business

How will people react once closure is announced? This tends to be one of the biggest unknowns that management teams wrestle with prior to the announcement date. Employers want to reassure their customers that it is 'business as usual'. Businesses need their employees and suppliers to operate as normal...and work a bit harder to help transfer knowledge and relocate the operations elsewhere...and assist with run down and physical closure!!

If people don't react as expected then supply will be at risk and, in our experience, costs will typically escalate as the business finds ways to protect the customer.

PSM is able to offer the expertise gained from numerous closures and relocations to anticipate:

- the main factors to look for when assessing how people are likely to react
- where and when individual and group incentives should be offered
- what contingency action is appropriate to take in advance, just in case!

6. Managing closure and exit

Once operations have ceased or have been transferred, the temptation exists to immediately focus exclusively on the new supply chain, or the new business processes. In many closure programmes we have helped our clients to realise hidden value by closely managing the final stages of vacating the site, selling the assets, gaining early release from leases etc.

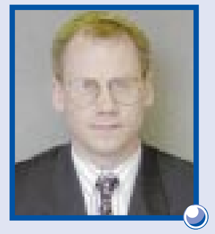
In addition, we have found that starting this process early can lead to opportunities for existing employees with other businesses.

During this final stage management's attention is often elsewhere, so our role is to ensure the programme is completed in an efficient and professional way.

PSM's added value

Closing any facility is a complex process with many interlinked activities. Keeping at least one step ahead of the various stakeholders is fundamental to success. This demands that the closure team-leader has in-depth experience in closure/relocation. Unfortunately this experience is not common in most management teams and therefore PSM's role is to provide that experience on a temporary basis for the duration of the programme.

We ensure the quality of the up-front planning. We use checklists and best practice templates, supplemented by our experience, to help our clients quickly see the strengths and weaknesses in their closure programme. We provide both specialist and programme management support to help in delivering a successful closure/relocation. Our involvement optimises the cost, risk and duration of the programme, whilst giving maximum opportunity to enhance the brand/image by the professional and open manner in which the programme is completed.



Keith Eagle

If you would like to hear more about PSM's experience or would like a second opinion on your own closure/relocation programme then contact Keith Eagle by e-mail at **Keith.Eagle@PSMconsulting.co.uk** or telephone +44 (0) 20 7872 5426

Insight - Spring 2003

Managing Castrol's product portfolio for improved service and reduced costs

John Hopkinson, Global Product Line Manager - Industrial

Within Castrol Industrial we have improved customer service and reduced costs by eliminating proliferation and reducing the number of products in our range by over 40%. This enabled us to simplify the supply chain, focus our sales force on core products and reduce the working capital across the range by 90%.

Background & Project Objectives:

Castrol Industrial is a global specialist industrial lubricants business owned by BP, operating worldwide from our UK headquarters. Over the years, in response to customer requirements, we had developed specialist formulations to meet specific needs. In reality many of these formulations differed only slightly from others. The result was a wide range of products with low volumes/profitability at the 'tail', and high costs of complexity throughout the business, especially in the supply chain.

We asked PSM to help us take a strategic approach to managing the portfolio through product rationalisation and beyond. This required a fundamental review of the product range, with the objective of achieving improved customer service, whilst realising $5m bottom-line annual savings by:

- agreeing and focusing upon a new global core range
- managing the withdrawal of products in the 'tail' of the volume/ profitability spectrum
- offering substitutions for the middle range of modest volume/profitability.

Work undertaken:

In practice, there were two major obstacles to overcome in deciding how to classify the product range into the three groups of 'core', 'substitutes' and 'tail':

1. There was insufficient consensus on the best ***method of classifying*** products into these three categories.

2. *The data* held centrally was very limited, thus precluding choices on volume & profitability and preventing consensus on the final product range.

To overcome these issues and to move forward, data was collected on sales globally and loaded into an analysis tool, specified by PSM. The team used this tool to model future benefits based on dividing the product range into 'core', 'substitute' and 'candidates for deletion'.

Whilst this data was being collected, the global product rationalisation team conducted several workshops facilitated by PSM, which helped to clarify issues and dependencies, to enable speedy decisions to be made once the modelling had been completed.

Once consensus was reached on allocating products to categories, an implementation-planning workshop generated a 12-month timeline of activities needed to complete the project and deliver the benefits. This timeline was a key project tool, since it enabled both planning and measurement to ensure implementation stayed on track.

A critical aspect of the project was developing and agreeing the business case and logic for reducing the product range, rather than simply imposing a cost saving target. This enabled everyone to 'buy in' to the change with the result that discussions were focussed around the detailed ***means*** of achieving the change rather than the fundamental ***need*** for change.

Results:

The Global Product Rationalisation team quickly reached consensus on the new product range, and how to achieve it. The project created a more focussed product range (40% reduction) to offer to the customer, and the additional benefits were:

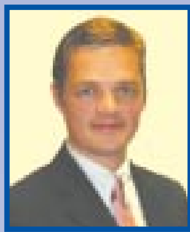
- a simplified supply chain and raw material purchasing activity
- a 90% reduction in working capital by only holding stocks of a narrower range of fast-moving products
- a sales force focused on selling profitable products
- no lost revenue - customers either purchased stocks of deleted products or transferred to products in the new core range
- potential identified to deliver additional reductions in fixed costs via plant rationalisation in the future.

"PSM helped us achieve in 5 months what we had failed to achieve over the previous 18 months. They did that by adding pace, rigour and process to our project team"

Meet the Team at PSM Consulting

Terry Gorman

Terry started his career with Rolls Royce. After a period in the modern materials and chemical industries, Terry began his consultancy career in the 70's. Terry returned to a line management position in the 80's as UK Head of HR with a global electronics company. Terry now specialises in Management Coaching, HR strategy, and pay strategy.



Peter Leech

Peter has been running change programs in Investment Banks for almost all of his 14 years in consulting. His clients have ranged from small departments and business units to multinationals. He believes strongly in inclusiveness and stakeholder management as the critical success factors of sound delivery.

John Turner

John has over 23 years experience in advising Investment Banks. He specialises in providing business and systems strategy assistance, and has particular interest in operational efficiency, business continuity planning and the effective use of IT. He speaks at conferences discussing issues related to the euro in industry and is often quoted in the press and industry journals.

Could your photograph be here?

Do you have the skills and experience to...

'Make a difference'

If so, please eMail your CV to:

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