

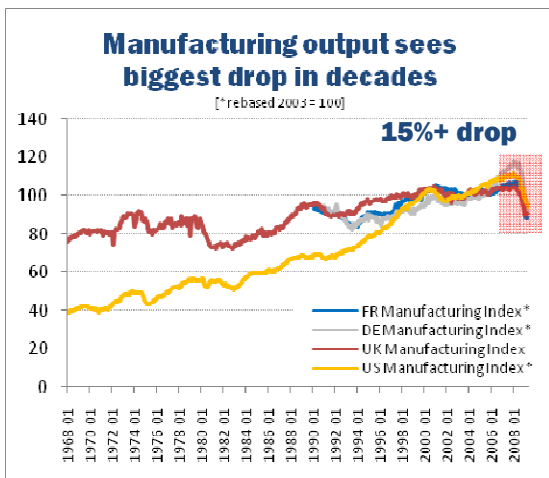
The road to failure is paved with averages

Summary: Manufacturing is going through the biggest downturn for over 20 years, and whilst there will be casualties there will also be firms that seize new opportunities and prosper. *Neil Heffernan* argues for doing much more than the average by taking bold action now to identify and break through the constraints holding back your operation. Only by doing this will you distance your performance from the average and be one of these successful firms. In this article Neil advocates five priorities for success.



1. Do not underestimate the severity of the downturn

The output of UK manufacturing, as measured by the government's own manufacturing index, has dropped by almost 15% in the last 12 months, the biggest drop since the recession of the 1980's. France, Germany and the Netherlands have seen similar sized drops. The US Industrial Production Index has not fallen by more in the last 40 years.



Many businesses have seen even bigger falls in the first half of this year as customers' de-stock their supply chains to release cash. Even now, with much of this de-stocking finished, eight out of every ten manufacturing leaders we are working with are experiencing volumes 20%-30% lower than this time last year.

2. Do not rely on recovery in the short term

No one knows when recovery will come and how quick it will be. Many leaders are hoping to see some recovery in the second half of 2009, but very few are yet to see any concrete signs of this. Past experience also points us towards a sluggish recovery. UK Manufacturing output took eight years to return to previous levels after the last drop of similar magnitude in the early 1980's. The

relatively minor drop that hit the major European economies in the early 90's took half a decade to recover from. Even in the fast growing economy of the US it took 3 years for manufacturing output to recover from the drop at the beginning of the 70's.

I will be surprised if we see a recovery to last year's peak levels within the next 5 years.

3. With bold action, the downturn can be an opportunity

These measures paint a negative picture, but they are the averages of a large number of companies' performances; and the word average is important. Undoubtedly, the road to failure is paved with averages. There is much that manufacturing leaders can do now to distance their performance from these averages and prosper now.

As customers become more focussed on price, brand loyalty declines. Customers have greater impetus to re-examine conventional ways of doing things and are open to innovative better value solutions. Downturns disturb the normal rhythms of the economy and create new opportunities. Seven from the top ten companies of the Fortune 500 were started in recessionary times including Hewlett Packard and General Electric.

Companies can and do prosper, but it requires bold, driven action on two timescales: tactical and strategic.

4. Take tactical action now to safeguard performance in the short term

Nearly all manufacturing businesses are now focused on getting cost out of their operation and doing it quickly. The 'easy' tasks of scaling down numbers of temporary employees, trimming overhead costs and reducing stock in line with volume decreases have largely been done or are well in progress. Capital expenditure has been halted or severely reduced. Yet this is only the average course

of action, and average firms will not prosper in a downturn. The best firms need to do much much more.

Now is the time for taking a deeper look at your organisation and identifying the problems that you have long ago stopped trying to solve and now take as givens. Abandon the assumptions that previous strategies have been built on and re-examine the fundamentals of your operation: the performance of a particular line or facility, the yield of core process or the lead time through your factories. Why can't we have 100% quality? Why do we need any stock at all? Why can't this process run faster? You'll know you're on the right track when all your internal experts start telling you that this simply cannot be done. What impact would you have if you broke these constraints?

One Dutch manufacturing site has been able to reduce energy consumption by almost 20%, 2 months after starting action. Another textiles firm challenged what had developed into an exhaustive, resource-heavy quality checking regime. They discovered that their checks were way in excess of even their most demanding customer's requirements; huge savings were possible.

With steely determination set your most energetic people on breaking through these constraints now, to have a real impact in 2009 and 2010.

5. Build and execute a medium term plan to deal with a structural downturn

Whilst we might hope for a quick recovery, relying on it is far too optimistic. The view of many industry leaders is that we should be planning for a prolonged downturn with recovery to last year's levels more than 5 years away.

There is a danger that successful short term tactical action will generate false complacency. The best firms are going to need to go much further than tactical measures to emerge strong from this. Again I argue that only by identifying and challenging the problems that your organisation accepts as the norm will you be able to distance yourself from average, mediocre performance.

With an open mind to what is possible in manufacturing speak to your commercial people and re-evaluate the opportunities for increasing sales. This may well require a paradigm-shift in how manufacturing currently

operates but don't let this hold you back. Only the bold will prosper.

One UK coatings manufacturer was able to create a lucrative new market for their product by drastically scything lead time from 3 weeks to 3 days, something that many first thought impossible. To be able to match their customers' colour requirements, produce and deliver in such a radically short timescale they had to challenge many of the constraints that previously defined their operation. Their sales in this market are growing at 15% quarter on quarter.

Another industrial firm was able to package their expertise in productivity improvement (learnt from their own transformation effort) with their product, to help customers increase yield and up-time.

The strongest firms will promptly redirect their operational strategy to match demand and produce the right quality product at the lowest cost. Again, I advocate that by abandoning the assumptions around which their previous operations have been built leaders will time and time again find that they can improve plants dramatically. One European fibre manufacturer was able to reduce total cost of production per unit by almost 20% across all their sites, in less than 12 months.

In Summary

Manufacturing is going through the biggest downturn for over 20 years and we cannot rely on recovery in the short term. Action needs to be bold and swift. By challenging the constraints that exist everywhere, and reaching new levels of performance, the best firms will be able to distance themselves from the average and prosper.

Neil Heffernan July 2009
n.heffernan@stroudandco.com

About the Author

Neil is a Principal in Stroud's EU office, and has been with Stroud since 2001. He has worked across the manufacturing sector with clients in the paper, chemicals, coatings, fibres and textile sectors. Neil has also consulted in the rail industry.