Owner's Edge LLC
DRIVING OPERATIONAL EXCELLENCE

CASE STUDY I Privately Held Small Manufacturing Company

BACKGROUND:

This privately held small manufacturing company produces engineered molded plastic parts using a proprietary and patented process. The company designs and builds most of its key manufacturing equipment. Innovative product designs and low manufacturing costs are a key part of their strategy of competing with products produced in China and other low-cost countries.

PROBLEM:

Despite healthy gross margins, the company is losing 65% of revenues. The more it increases sales, the higher the losses. Credit lines are maxed out and the owners are wary of investing any more money into the business without a plan for fixing the underlying problems. Company is too inventive and spends almost 40% of revenues on product and process development. As a result, most of the production equipment is underutilized and typically runs only one to two weeks per month. The workforce is made up mainly of temps and turnover is alarmingly high.

SOLUTION:

Rather than always working on the next "big" project to save the company, Owner's Edge advised the owners to instead focus on selling products that can be produced on equipment the company already owns. This greatly reduced development costs and ramped up both plant efficiency and profitability, as equipment utilization and work efficiencies rose. Costs were reduced to improve gross margins.

Highlights:

- Changed sales and marketing focus to concentrate on existing processes and equipment
- Developed new products for existing accounts, increasing sales to company's largest customer by over 50%
- Developed new accounts/markets for existing processes. Company tripled its account base and increased overall sales by 150% in two years without adding substantially to its equipment base. It also reduced its reliance on a single customer and industry for its continued well-being.
- Increased gross margins and reduced costs by giving up 25% of floor space (made possible by the elimination of excess/obsolete raw material inventory and equipment), negotiating an 11% reduction in the cost of raw materials by increasing volume and by nearly doubling production efficiency. Labor and training costs came down as the use of temps was reduced and full-time employees hired. New cost structure allows the company to begin exporting product to China and Europe.
- Rising sales and profitability allowed for negotiation of a credit line expansion and mezzanine debt to finance future growth.