



Counter Attack

Aaron Smith

January 13, 2005

A cost-reduction program at Formica Corporation leaned on project management expertise to save millions of dollars while invigorating a skeptical corporate culture. But the emphasis was on improving processes, not shutting plants. Most important, the transformation didn't end with the project.

Formica Corporation's new CEO is weighing the benefits of the company's 2003 North American Cost Reduction Program in more than just dollars and cents. Frank Riddick instituted a restructuring of Formica's North American manufacturing supply chain, distribution network and product mix in early 2003. Within ten months of the start of the program, Formica had realized \$7.5 million in annualized savings. In December 2003 alone, the company saved \$500,000 in period expenses versus the previous year. And additional cost-savings and profits are expected in 2005 and beyond, says Riddick.

Charged by the corporation's board of directors to improve performance and attract new capital, Riddick's management approach from day one has been "cost reduction by improvement" rather than a singular drive to cut costs by any means. "Yes, the program has saved Formica millions," Riddick says. "But more importantly, it has resulted in better utilization of assets, better performance in the marketplace, and better operational control. Not only are we saving money, but we're really running the business better."

To optimize its three production facilities in North America, Riddick realized that an actionable plan was needed. Understanding the scope of what needed to be done, yet lacking the internal resources, Formica selected Integrated Project Management Co. (IPM), to design and facilitate the new program. IPM helps companies improve execution by blending strategic consulting with professional project management.

Phase 0

IPM president and CEO C. Richard Panico viewed Formica's challenges as an opportunity to apply its business process optimization experiences and project management methodologies to impact Formica on a wide scale. IPM began with an exhaustive study — called Phase 0 — of the company's manufacturing, warehouse and distribution, and marketing and sales operations to identify opportunities to increase profits, enhance product quality and improve customer service. Details were gathered in an eight-week period about plant capacities, capabilities and current costs at Formica's three North American manufacturing sites and seven distribution centers. A comparison was made across units and locations to determine the true cost of goods sold (COGS). Additional data were established to enable the product line and mix — volume, margins and sales forecasts — to be rationalized.

The rigorous analysis enabled Formica to decide on a course to execute the changes that led to cost-savings, making it the most crucial component of the entire program, according to Riddick. "The detailed data simply didn't exist in an objective form until we undertook this program," he says. After the data were laid out, there were no longer any questions about what the corporation needed to do. The only question was, "how? "

Indeed, simply identifying the problem was not going to fix the problem, Panico says. "Companies miss creating meaning behind what needs to be done, and even the processes behind getting it done. Companies must explain the impact of change on the business. They must have a way of measuring if change is to happen in a reasonable timeframe."

Following the Phase 0 analysis, IPM laid out a master plan to move from current to transition to planned states for all three areas in a one-to -two month timeframe. Formica staff members, from company executives to core project teams to support people, were aligned under IPM manager of project planning and execution Larry Radowski and four fulltime IPM project managers to execute the program plan. The teams met every milestone deadline in an aggressive, condensed schedule.

Execution and Input

Creating a strategy was one thing, but execution quite another, especially at a company that was just starting to emerge from the legacy of Chapter 11 and layoffs. "The difficulty, and beauty, is in execution," Riddick says. "I see an advantage to a project management foundation because there is more day-to-day engagement. IPM worked hand-in-hand with the teams, instead of going away and coming back with a plan."

Having assistance with implementing the plan reinforced the teams' ability to meet the objectives on schedule. "Discipline to do the work and ensure accountability quelled some of the internal skepticism that this was just another consulting firm with a grand scheme that would never come to fruition," Radowski says. "A lot of folks had never been asked to be part of the solution. We had to get people to talk and rally and believe in a solution to fix the business. They saw we were practical thinkers and not bashing around a lot of theory and mathematical models. It made a lot of sense to them."

"They began to value the well-run meetings with objectives and conclusions, and follow ups that were tracked," Radowski says. "We put a premium on getting things done on time. It became part of the expectation. The processes became transparent. And they became appreciative as they saw progress made, which built momentum. People started coming out of a disgruntled shell. They said, 'Wow, we are going to do something here.' At the end of the day, we told them, 'This is project management,' and they said, 'Really? I like it.'"

The project managers also made certain to share successes immediately — within weeks rather than months, building enthusiasm among employees who acknowledged that they were part of positive change. The energy continues to carry through at Formica. "IPM challenged things and got people talking and working together," Radowski says. "Now, even the most skeptical are taking the initiative, outside the scope of the original program."

Counter Culture

Beyond the millions in cost savings, Formica realized many qualitative benefits that bode well for the company's future. "We've made a lot of changes in the culture, and that's the hardest part," says Riddick. "IPM has been a catalyst, a facilitator for dealing honestly and objectively with the facts. Morale has improved dramatically. Our people see an investment in the business. They see a future."

IPM itself faced challenges working within the existing paradigms of a 90-year-old company — among them, to minimize functional biases and to challenge opinions, while at the same time creating teams that were focused and motivated to move quickly to meet program milestones. "IPM took a host of issues and a confused direction and very quickly described what needed to be achieved, and how it fit the long-term goals of the company," Panico says. "Just coming in and deciding to shut plants down to save money would have been the easy answer in the short-run," Riddick says. "But what would have been the impact on the organization? Would the business have been better off long-term? Would we have been a better-run company? Clearly not."

Instead, the organization has developed confidence in how decisions are made, and that it is pursuing the right course, Riddick says. "We've made changes in organizational capability, both in design and by bringing in strong professionals. And, to IPM's credit, we've strengthened the operational side."

Formica has also seen a tremendous improvement in teamwork. Prior to the start of the program, for example, operations and sales and marketing were physically separated at different locations. "IPM has helped coalesce the groups into working teams, particularly for cross-functional decisions such as rationalizing products," Riddick says. "Now, that is a joint decision between operations and sales and marketing."

Quantitative Results

Within eight months of launch, the accelerated, turnkey effort yielded actual annualized savings of \$7.5 million. The team continues to track well against the original, projected total savings for the program of about \$11 million annually. Highlights of the teams' accomplishments include:

Manufacturing Model Subproject — Formica moved from a complex, high-cost supply chain process to a simplified, lower cost model by reducing COGS; optimizing its product mix; refocusing production and warehousing to maximize capacities and efficiencies, while reducing operating costs; sharing best practices; and improving resource utilization.

Warehouse and Distribution Subproject — Formica optimized its distribution network to minimize total costs and improve lead times by redefining service zones and assigning customers to centers closer in proximity. It also moved a key distribution center, designing the new center to facilitate best-practice warehouse management concepts, resulting in dramatic increases in fill rates and overall productivity.

Marketing & Sales Subproject — Formica moved from unstructured to formalized product line management policies, including product decisions made by review of quantitative and qualitative criteria, and established new sales forecasting and incentive plans.

An important premise of the program was to institute the changes with no interruption in customer service or delivery schedules. To date, the team has succeeded in keeping the transfers between manufacturing and distribution transparent to customers. One significant benefit of the warehousing and distribution subproject is a discernable reduction in operating costs and improvement in customer delivery times, making service times a new competitive advantage for Formica.

While most weight of the cost benefit is seen in the manufacturing supply chain segment, all aspects of the program work together, Radowski says. "The changes made in product line management will ultimately improve manufacturing costs. And using sound business processes, including new sales incentives, to diligently manage product portfolio dynamics could eventually outweigh the gains in manufacturing."

Sustaining Improvement

Corporate cultural changes can't be sustained after a consultant departs unless the company changes from the inside, Panico says. "IPM had to create a positive attitude as much as a positive plan. We needed to gain the confidence of the employees that made the changes happen."

Throughout the program engagement — in creating, leading and facilitating the teams — IPM project managers encouraged full collaboration. "Formica staff were involved in every aspect of the program, including all presentations," Radowski says. "We frequently asked them to challenge us on the data and the steps we recommended. As we worked together with them, employees began to relate to us as people just like them, in functional roles, not as intimidating outsiders."

"I give Frank Riddick a lot of credit for having the vision and seeing the true answer to the turnaround was the people," Radowski adds. "He had a leadership group that wanted to make a difference. He was passionate and not going to accept constraints or obstacles; he was going to overcome them. There was a willingness to take a risk and do it. It's not always easy to get management regimes to do that."

Sustaining improvement through organizational change is the ultimate victory, Panico says. "We know we've done our job when we have gone beyond a one-time fix to create momentum — when the changes and new processes continue after we're gone, and get even better through continuous improvement."

Riddick agrees. "Our people can follow the data analysis, discussion and project management models used in the program to continue to ensure that good decisions are made and acted upon on a timely basis. The key for me is that IPM did exactly what they said they were going to do. The analysis was correct and helpful. The subprojects are saving us a great deal of money. And the projects are being done on time."

And Formica's return on investment for IPM's services met the promised payback in less than one year's time, according to Riddick. Project management at its best.

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