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Formica Counters Manufacturing, Supply Chain Challenges; Saves \$11 Million With Unconventional Consultant

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Integrated Project Management Co. Helped Formica Emerge from Bankruptcy;
Proves A Catalyst For Change

When Formica Corporation emerged from Chapter 11 bankruptcy in June, the worldwide manufacturer and marketer of decorative surfacing materials was on track to achieve approximately \$11 million in annualized savings from restructuring its North American manufacturing supply chain, distribution network and product mix, under a cost reduction program begun in April 2003.

Who helped Formica chart this course? Not a recognized name in management consulting, but a specialized company with deep roots in professional project management.

Formica's year-long North American Cost Reduction Program was designed and facilitated by Integrated Project Management Co. (IPM), a professional services firm that helps companies improve execution by blending strategic consulting with professional project management. IPM has a 17-year history of working with major corporations to optimize operations and business processes, among other services.

C. Richard Panico, IPM President and CEO, viewed the challenges Formica faced as an opportunity to apply the entirety of its Business Process Optimization experiences and project management methodologies to impact Formica on a wide scale.

"We 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," says Panico. "But simply identifying the problem doesn't fix it. Companies must explain the impact on the business, the process to get it done, and measure it if change is to happen in a reasonable timeframe."

As one of the world's ten best-known brands, the changes recommended by IPM played a key role in strengthening and positioning Formica for growth, says Formica President and Chief Executive Officer Frank A. Riddick, III. "The Program saved Formica millions, but more importantly, it has resulted in better utilization of assets, improved marketplace performance, enhanced operational control, and a re-energized culture," explains Riddick. "We're really running the business better."

Embarking on Change

To optimize its manufacturing assets in North America - three production facilities of 13 worldwide - Riddick realized that an actionable plan was needed. "Given the demands to improve performance, restructure and attract new capital, this had to be done quickly," he says. Understanding the scope of what needed to be done, yet lacking the internal resources, Formica selected IPM to lead the effort.

IPM conducted an exhaustive study of Formica Corporation's manufacturing supply chain, warehouses and distribution network, and marketing and sales processes 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 Formica Corporation's product line and mix (volume, margins, sales forecasts) to be rationalized.

Following the analysis, IPM laid out a master plan to move from current to transition to planned states for all three areas in a one to 12 month timeframe. The Formica teams met every

milestone deadline in an aggressive and condensed schedule (see sidebar, below, Formica North American Cost Reduction Program Summary).

The rigorous analysis enabled Formica to decide on a course to execute the changes, making it "the most crucial component" of the entire Program, notes 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."

"Just coming in and deciding to shut plants down to save money would have been the easy answer in the short-run," Riddick continues. "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."

Sustaining Improvement from the Inside

Formica's need for surefire, rapid execution was a key reason behind the choice of a consulting firm with a core competency in project management.

"I see an advantage to a project management foundation because there is more day-to-day engagement. IPM worked hand-in-hand with our internal teams, instead of going away and coming back with a plan," says Riddick. "Their services for Formica certainly transcended conventional project management."

Change can be sustained long after a consultant departs, provided the company changes from the inside. "IPM had to create a positive attitude as much as a positive plan," says Lawrence Radowski, Manager, Project Planning and Execution, and leader of the IPM/Formica Program teams. "We gained the employees' confidence, and that makes real changes happen."

Sustaining improvement through organizational change is the ultimate outcome, adds Panico. "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."

At Formica, this is indeed the case. "I know that IPM set up some processes that are going to be sustained," says Riddick. "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."

Formica Corporation was founded in 1913, and is the pre-eminent worldwide manufacturer and marketer of decorative surfacing materials, including high-pressure laminate and solid surfacing materials. Additional information about the company is available on Formica Corporation's web site, www.formica.com.

Integrated Project Management Company, Inc. (IPM) re-defines the value of project management for leading companies worldwide in the life sciences, food and beverage, consumer products, industrial and healthcare industries.

Since 1988, IPM has collaborated with its clients, including Pfizer, Abbott, S.C. Johnson & Son, Johnson & Johnson and BP, among others, to improve project, program, and portfolio execution through a unique blend of professional project management and business management consulting. IPM's practice areas include: Product Development and Lifecycle Management; Business Process Optimization; Strategic Business Consulting; Operations Optimization; and Capital Project Management. Visit www.ipmcinc.com for more information.

Sidebar

Formica North American Cost Reduction Program Summary

Numerous Formica staff members -- from company executives to core project teams to support people -- were aligned under an IPM Program Manager and four IPM Project Managers to

execute against the Program plan, beginning in May 2003.

By December, 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 approximately \$11 million. Highlights of the teams' accomplishments include:

Manufacturing Supply Chain Model Sub-Project

Formica moved from a complex, high-cost Supply Chain process to a simplified, lower cost model by:

- Reducing COGS;
- Optimizing its product mix;
- Re-focusing production and warehousing to maximize capacities and efficiencies, while reducing operating costs;
- Sharing best practices; and,
- Improving resource utilization.

Warehouse and Distribution Sub-Project

Formica optimized its distribution network to minimize total costs and improve lead times, through consolidation and re-assignment of customers to centers that are closer in proximity.

Marketing & Sales Sub-Project

Formica moved from unstructured to formalized product line management policies (product decisions made by review of quantitative and qualitative criteria) and established new sales forecasting and incentive plans.

An important premise of the North American Cost Reduction 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 Sub-Project, which will be completed this month, will be a discernable improvement in customer delivery times. Service times will now be a competitive advantage for Formica.

While most weight of the cost benefit is clearly seen in the Manufacturing Supply Chain segment, all aspects of the Program work together, explains Radowski. "For example, 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."

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