

Driving Profit through Facility Consolidation

Background

This world leader in innovative transportation safety products and equipment manufactures traffic control systems from three locations in the US and Mexico. The division reported \$60 million in sales from two distinct business units with similar product offerings.



Recurring losses from one of the business units was dragging overall profitability. After several quarters of losses, the overall division was operating at an annual loss in excess of \$10MM.

The troubled business unit opened a facility in Mexico to take advantage of lower labor costs, expecting to see margin improvement. However, this failed to turn around the losses and created additional quality and operating problems.

As a result, the company's lender began to put pressure on the company to develop and implement an improvement plan. Initially, the company made several minor cost avoidance measures, but declined to make any significant structural changes.

Keystone Value Add

Keystone was contacted by the company's financial partner and conducted a diagnostic review of the division, resulting in a set of

recommendations to turn the business around quickly.

	Operating Run Rate	Income Cash Impact	Flow	Implementation Risk	Operating Risk
Scenario One - Integrate MX and CA into FL	Green	Green	Green	Yellow	Yellow
Scenario Two - Integrate CA into MX and FL	Red	Yellow	Yellow	Yellow	Red
Scenario Three - Shutdown entire unit	Yellow	Red	Green	Green	Yellow

The company again engaged Keystone to assist in a drastic operating footprint rationalization effort. This initiative was expected to yield the biggest – most sustainable – profit gain.

The program included:

1. Product rationalization – ensure the most profitable product mix before consolidating;
2. Adapt manufacturing model – adjusted the model to reflect more value-added processes, while outsourcing of much low-value-add, high-labor processes;

PCB Outsourcing

Product Group	Boards Needed to Quote	Boards Sourced	Boards Out for Quote	Boards Awaiting Quote Package
179E Con	16	8	8	17
179 Con	17			2
2010 Mon	6	4		6
2070 Con	6			2
210 Mon	2			2
222 TH Det	7	7		2
224 TH Det	2			2
262 TH Det	4			4
283 TD	1			1
283LA TH Det	3			4
294 TH Det	4			3
328 Plug Det	6	6		2
340S TH Det	1			1
340CA Con	17	16		2
436 Plug Det	2			2
724 TH Det	1			1
808A Con	9	4		2
910 TH Det	2			2
913 TH Det	2			2
917 SH Det	1			1
919 TH Det	1			1
921 TH Det	2			2
927 Plug Det	3			3
928 Plug Det	2			2
940 TH Det	2			2
Components	5	5		2
Con Mon Test	2			2
NEMA LCD Mon	5		4	1
No Prod Group	4	1	4	2
NYC Con	6	6		4
RS232 Con	4			2
TMM00 Con	2			2
USC Table 2	5			5
Total	152	97	14	81

3. Refine focus on new products and innovation – By reducing the overall cost base, funds were available to re-emphasize innovation, long a strength of the company.

Working closely with a key team from the client, Keystone

developed the overall plan, drove all key activities and had people at all locations to assist the company's management team with the key actions needed for a successful transition.

Results

The division moved from losses of (\$4M) on revenue of \$60M to profits of \$2M on \$40M in revenue. The relationship with the bank was repaired and the company was able to grow profitably with a much smaller cost base.

- **Divested several product groups** – underperformers and non-strategic – for **\$20MM.**
- **Reduced operating expenses and overhead by over \$6MM.** This included the sub-let of two locations and the elimination of annual fixed costs.
- **Increased the variable operating margin by 25%,** due to the shift in the manufacturing model and product mix.
- All of the change was implemented with **no customer disruption** or loss of business.

"Keystone was instrumental in bringing us back to profitability in such a short time. This was a complex project with many moving pieces, and their execution was spot on."

--CEO