A Changing Footprint…

The Company

The Company is a diversified manufacturer and fabricator whose offerings include steel buildings, livestock and equestrian handling equipment, grain bins, and industrial equipment. Sales channels include Big Box retailers, manufacturers' representative organizations and distributors, and direct sales. The Company enjoys a reputation for high product quality and superior service augmented by a wholly owned transportation subsidiary.

The Situation

After two years of declining revenues, the Company's largest division, which manufacturers farm and ranch equipment, experienced an 11% growth in sales in the latest fiscal year. However, this growth came with the highest operating loss in the division's history. While the Company had attracted new customers, their customer base had steadily shifted to areas of the country that were far removed from current facilities. This, coupled with a policy of freight equalization which discouraged local purchases, had caused the division to ship over half its product line more than 400 miles. Over time freight costs had risen from 14% of sales to over 17% of sales in a price sensitive, margin-focused market.

The Approach

The Keystone Group was engaged to analyze the current manufacturing footprint and determine the optimal mix of plants and distribution centers to best serve customers in the future. We were also asked to determine the best product mix to produce at each facility.

Our evaluation started with identifying specific products that could or should be manufactured at all facilities vs. products with unique complexities that had to be manufactured at the headquarters facility. Working with management, we then developed multiple manufacturing and distribution scenarios to address customer geographical concentration.

Our approach to the problem followed five core steps:

1) Gathered data and quantified the problem:

- Analyzed product sales by region and state and likely sales growth by location
- Evaluated current and potential market size and share by location

2) Determined operating scenarios:

- Based on the results from Step 1, defined over 40 operating scenarios with different combinations of regional manufacturing and distribution facilities

3) Developed financial model and evaluated / quantified scenarios:

- Built a financial model to evaluate all operating scenarios vs. the base case
- Determined the optimal scenario based on performance metrics and potential risk

4) Evaluated product profitability:

- Evaluated product sales and profitability by SKU
- Developed rationalization plan for poorly performing SKUs

5) Developed implementation plan:

- To better align the future footprint and market, developed detailed plans to open new manufacturing and distribution facilities and consolidate an existing facility
- Determined key work streams and activity timing, responsibilities and sequencing.

The Results

With Keystone's assistance, the Company is implementing the footprint and product rationalization plans. The Company is building a new manufacturing facility in their largest market and has rationalized 500 SKUs from a portfolio of 1,700 SKUs. While sales have been flat over the past three months, product rationalization has resulted in improved profitability with a 1.5% improvement in gross margin.