

Manufacturing in California

The Corporation for Manufacturing Excellence

CALED's 31st Annual Growing Local Economies Conference

April 28, 2011





Agenda

- I. Introduction
- II. About Us
- III. Manufacturing – A 10 Year Snapshot
- IV. Our Approach to Moving Forward
 - I. Use Great Data
 - II. Innovate
 - III. Strategic Planning
 - IV. Continuous Improvement
- V. Proof that the System Works
- VI. Contact Information





Bill Browne – Director of Client Services

- 32 years of manufacturing experience
- General Manager capacity at three, multi-million dollar enterprises
- “Governor’s Excellence” award recipient for growing international sales (Ohio)
- Full supply chain experience, from CPG to raw materials suppliers
- Lean Six Sigma Master Black Belt and Design for Six Sigma
- MBA, BS in Business & Engineering

Clients include, Mattel, Northrop Grumman, TRW, Bretford, Consolidated Containers, Crossfield Products, Landmark / Cellotape Label, Military Aircraft Parts, InsulTech, Mission Tool and Manufacturing, MSPT, MAX Machinery and Morgan Crucible





The Corporation for Manufacturing Excellence (Manex)

- Since 1995, Manex has provided a broad array of proven solutions and resources exclusively to manufacturers, distributors, and their supply chains, enabling them to compete on a global scale
- Manex uses a holistic and proven approach, from strategy to implementation, to impact all facets of business performance
 - Services include *Strategy, People, Process* and *Performance*
 - Results: growth, profitability, and competitive advantage
- ***Manex is one of 60 NIST/MEP Centers throughout the US. We are here to help manufacturers, distributors, and their supply chains grow profitability. Proven 600% ROI for clients***





US Manufacturing – The Present

- **The U.S. is still the world's largest manufacturer at \$2.7 trillion of industrial output and US manufacturing ranks as the 8th largest economy**
- China is #2 at about 2/3 of U.S. output
- Japan is #3 and Germany is #4
- India, surprisingly is not among the top 12

Why and how the U.S. is still the world's largest manufacturer:

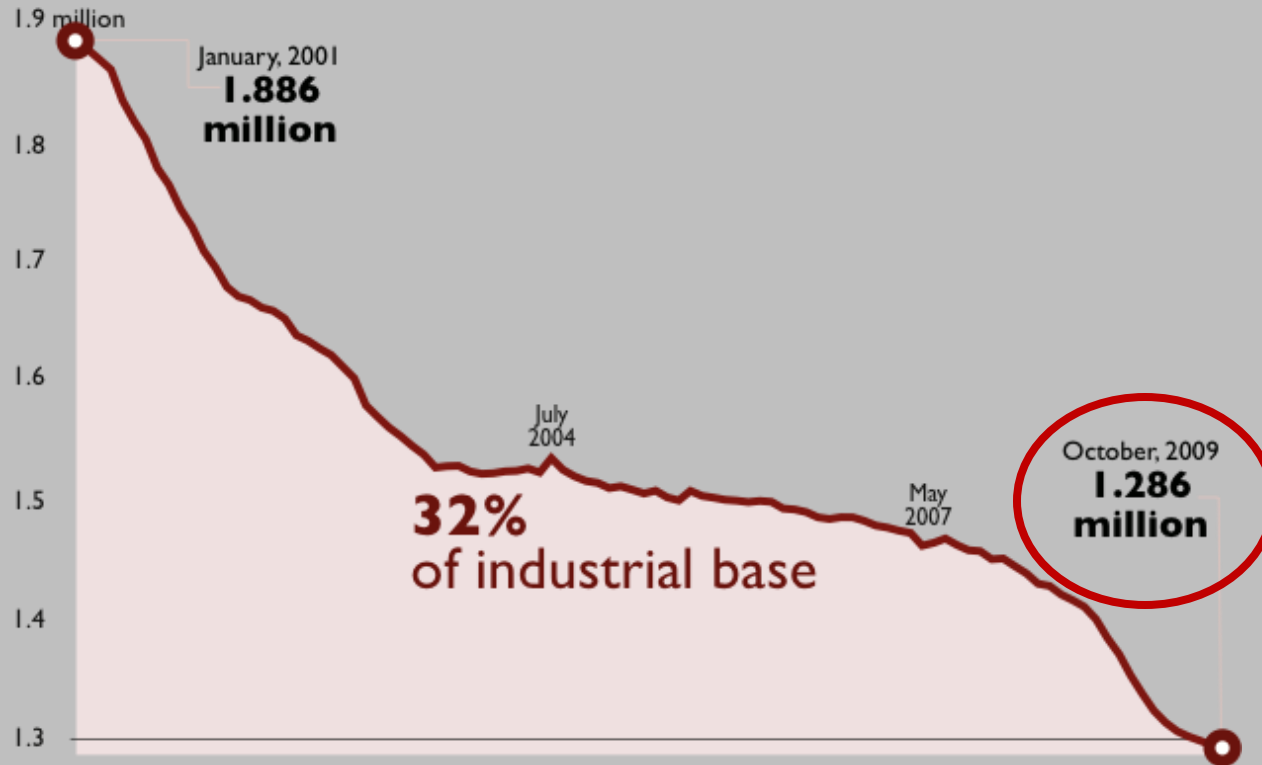
1. U.S. Consumption is both voracious & ravenous
2. Shipping cost or freight time inhibits foreign manufacturing for many product categories (e.g. milk or produce)
3. "Made in the USA" appeals to more than JUST Americans; **the world loves California wines. Make it in America Legislation in the works**
4. Technology products, though produced elsewhere, contribute to U.S. domestic product
5. Recent natural disasters are forcing companies to rethink the supply chain





CA Manufacturing – The Past 10 Years

California Manufacturing employment 2001 - 2009



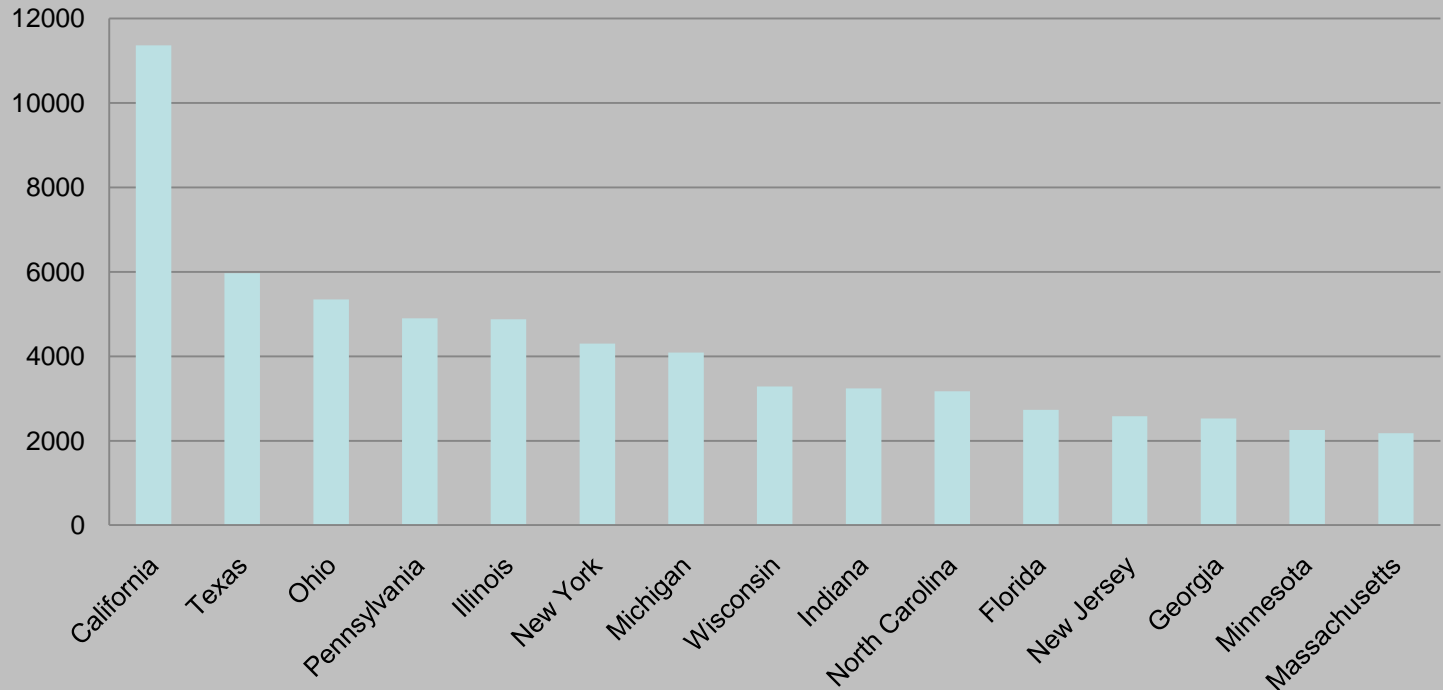
California Manufacturers & Technology Association
Source: California EDD, Labor Market Information Department





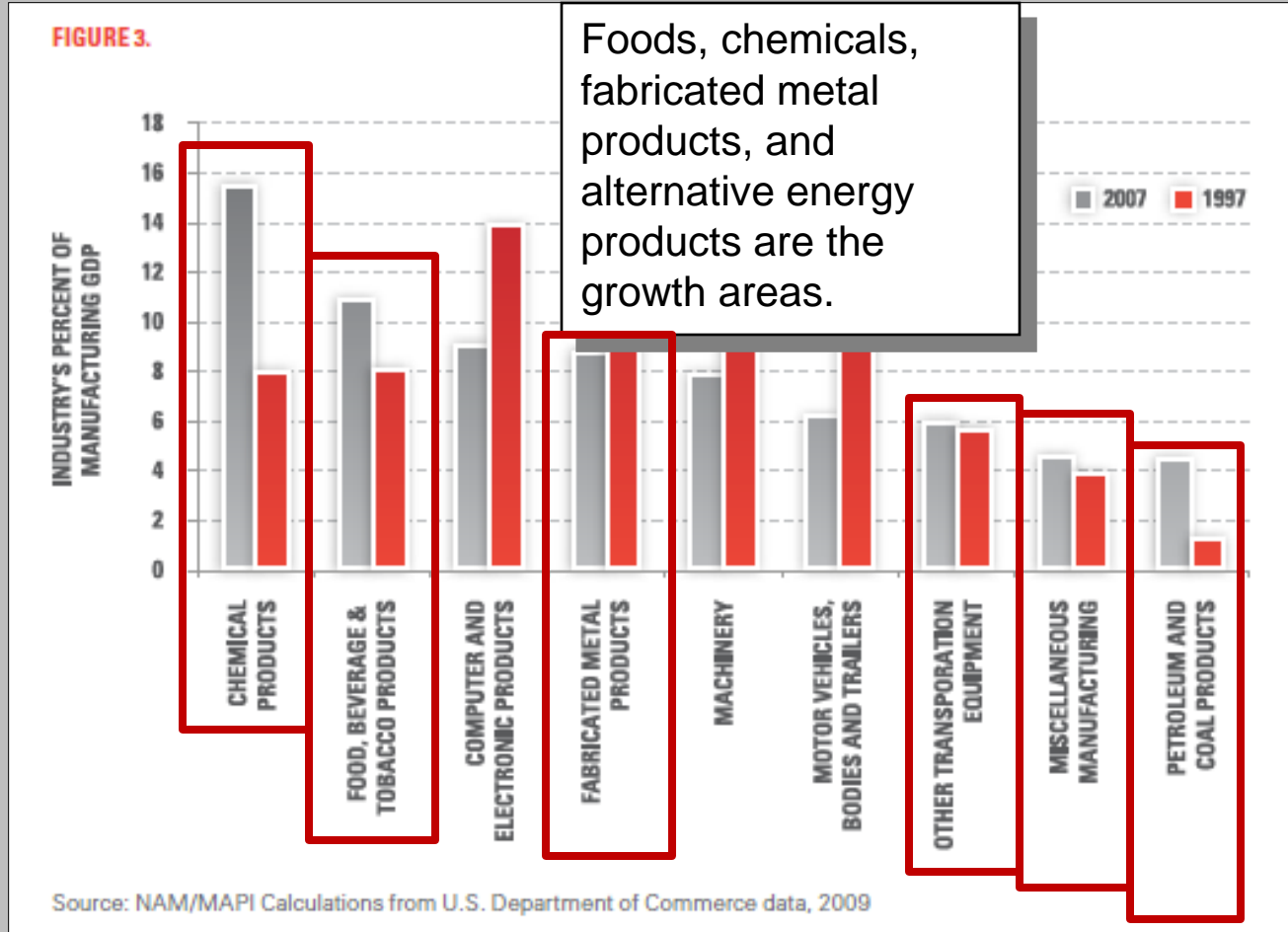
California still has a 2:1 edge over Texas

of 20-250 Employee Mfgs by State





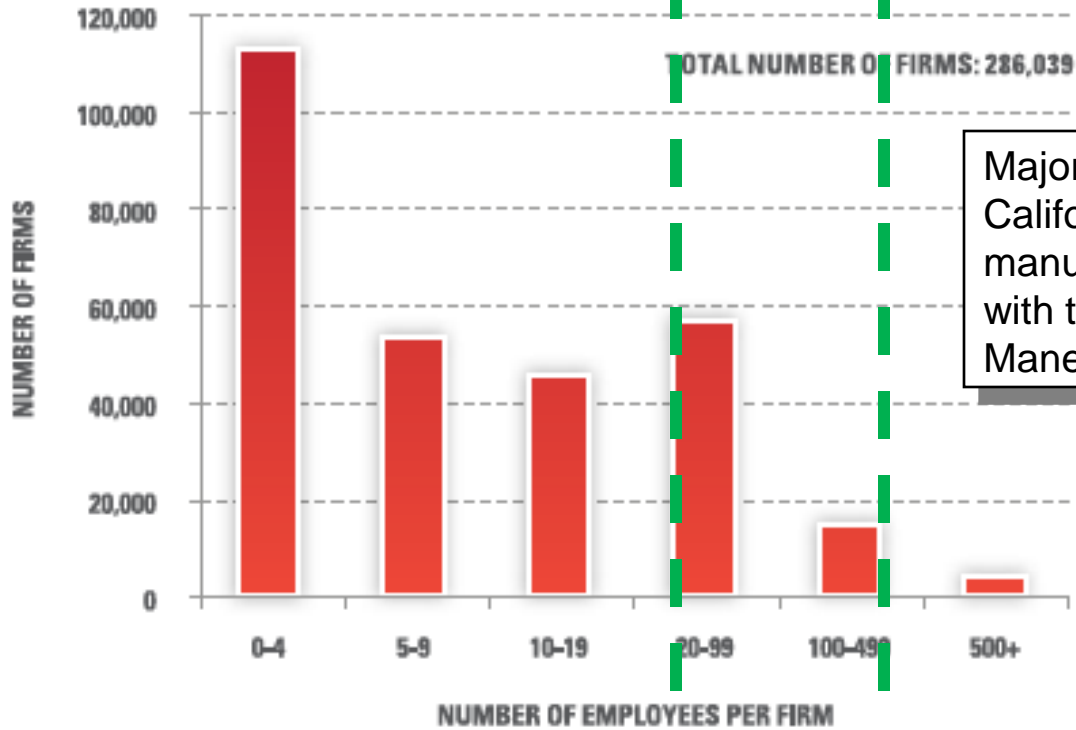
US Manufacturing – Moving Forward





CA Manufacturing – Moving Forward

FIGURE 4.



Majority of California manufacturers fit with this grid. Manex sweet spot

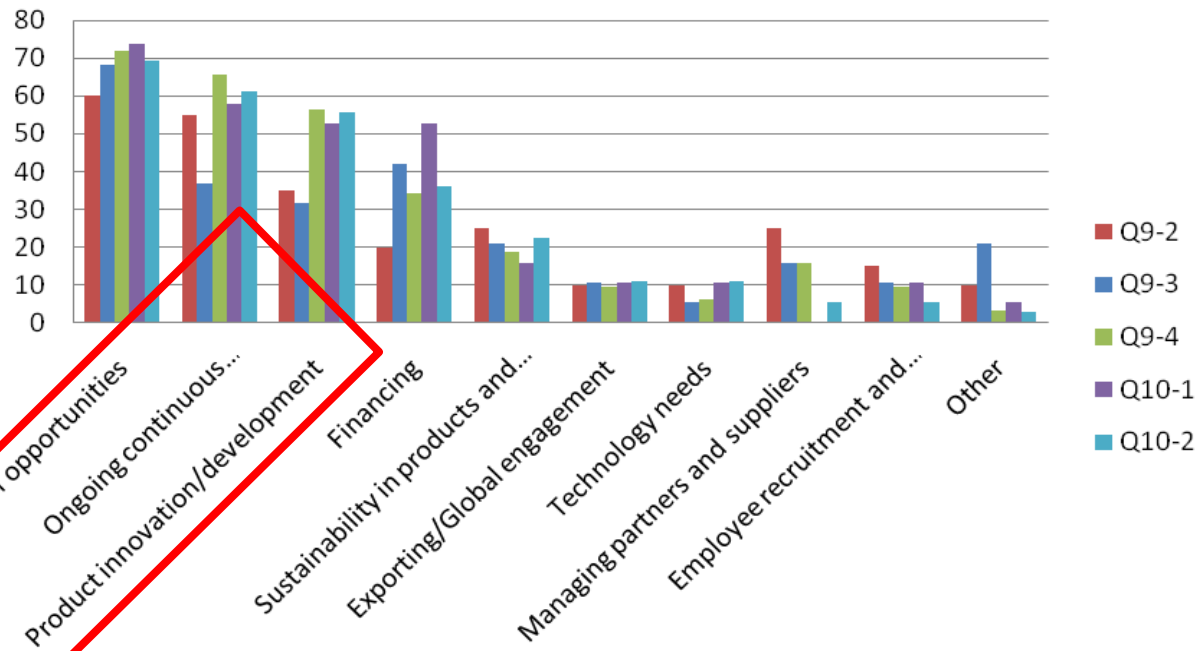
Source: U.S. Census Bureau





MANEX Survey Results – Where to Focus?

MANEX - Company Challenges - By percent of companies responding



Identifying growth opportunities
Product innovation/development





Our Approach to Moving Forward

- **Know where you stand.** Good data is everywhere. Great data takes mining
- **Innovate or perish.** Thomas Freedman wrote the “world is flat” and it’s true. Ask why should I buy from your company vs. the other guy? Need a competitive edge
- **Strategic Planning.** Why do some companies report growth while other do not? The answer is Strategic Planning: Without a plan nothing happens
- **Engage your workforce / continuous improvement.** Single biggest opportunity for CA companies is to get their team involved at all levels in making their companies the best. Implement a continuous improvement program





Know Where You Stand

- Good data is hard to find, great data requires “mining”
- Use this information to set goals and targets, not just for your organization, but for departments and individuals
- Target the “best in class,” not the average

	Best in Class	Average	YOU
Sales Per FTE	\$150k	\$133k	\$125k
Comp per FTE	124%	98%	100%
Quality Rate	99.6%	98%	95%
	Best in Class	Average	YOU
Margins	31%	29%	21%
Profitability	14%	11%	8%





The Need for Product Innovation

- You have to develop new products
- Either you do innovation or innovation will do you
- 23% of domestic manufacturers invest < 1% of sales into new products, 66% invest < 5%
- The ones that invest in innovation and successfully master it see superior profitability and supernormal growth in equity
- Innovation requires a cultural mindset
- Innovative products create a rising tide that lifts all of the components of your brand
- Innovation is a process





Innovation Case Study

- Foamy liquid soap

Strategy	Fact	Numbers
Charge more money for less product	Foamy soap cost consumers the same or more per oz as non foaming liquid soap	Unit costs for the manufacturer are somewhere between 25-40% less than regular liquid soap
Innovate and add product features	Consumers love pre-lathered soap, because it “grips” better, takes less effort, is less slippery and feels “soft & fluffy”	Grew from 14% to more than 25% of the hand-soap markets since 2004; consumers were paying for the features
Develop a captive audience	Refill market is strong; consumers develop habits and this leads to loyalty	Refills are up to 40% less per oz for consumers, but at least that much cheaper for manufacturers





Strategic Planning

Nine out of ten organizations fail to execute strategy successfully*

- **Only 5%** of the workforce understand their company's strategy
- **Only 15%** of the executive teams spend more than one hour per month discussing strategy
- **Only 25%** of the managers have incentives linked to strategy
- **Only 40%** of organizations link budgets to strategy

❖ Sources: Drs. Robert Kaplan and David Norton, the creators of the *Balanced Scorecard* management tool.





Strategic Plan: OGSMT

Objective	Goals	Strategies	Measures	Tactics / Action Plans																		
XXX Company will become the leading provider of XXXXX management software solutions to major industrial and commercial XXXX users.	By the year 2009 be a company: 1) Generating \$20MM Revenue and \$15MM EBITDA <table border="1"> <thead> <tr> <th>Yr</th> <th>Revenue SMM</th> <th>EBITDA SMM</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>0.60</td> <td>0.00</td> </tr> <tr> <td>2</td> <td>5.90</td> <td>0.90</td> </tr> <tr> <td>3</td> <td>10.10</td> <td>5.16</td> </tr> <tr> <td>4</td> <td>15.40</td> <td>10.21</td> </tr> <tr> <td>5</td> <td>20.00</td> <td>15.00</td> </tr> </tbody> </table>	Yr	Revenue SMM	EBITDA SMM	1	0.60	0.00	2	5.90	0.90	3	10.10	5.16	4	15.40	10.21	5	20.00	15.00	Obtain adequate funding for product development and commercialization phases from: <i>f</i> Equity funding And / or <i>f</i> Dvlp. partnership	<i>f</i> \$750 initial funding by x/xx/xx <i>f</i> \$3MM subsequent funding by 9/1/04	Complete Strategic Plan Complete Business Plan Complete Investor and dvlp partner presentations Development Investor and dvlp. Partner target list <ul style="list-style-type: none"> o Establish criteria o Make sales presentations
	Yr	Revenue SMM	EBITDA SMM																			
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5	20.00	15.00																				
2) Company Valuation to exceed \$100MM		Conclude product positioning and models for: <i>f</i> XXXXX <i>f</i> XXXXX <i>f</i> XXXXX	Prototype and Beta Models in place <i>f</i> XXXXX <i>f</i> XXXXX <i>f</i> XXXXX	Technical Development Requirements for: <i>f</i> XXXXX <i>f</i> XXXXX <i>f</i> XXXXX																		





Continuous Improvement and Engaged Employees

Hewitt Associates Research

- **Companies with at least 60% of their workforce engaged showed an impressive shareholder return of 20.2% between 1999-2003**
 - Three primary behaviors measure engagement: “Say, Stay and Strive”

International Survey Research

- **Companies with greater employee engagement display:**
 - Better margins (operating and net profit)
 - Improved customer satisfaction
 - Reduced absenteeism and turnover
 - Improved quality and safety
 - Greater product innovation





Manex Service Offerings

>>Strategy

- Corporate Strategy and Business Planning
- Market Research and Development
- Mergers & Acquisition Advisory and Integration
- Product Innovation
- Customer Satisfaction, Loyalty and Retention
- Turnarounds and Workouts

>>People

- Six Sigma Training
- Organization and Operations Design
- Knowledge Management
- Access to Federal and State Workforce Grants
- Nationally Recognized Lean Certification Program

>>Process

- Lean Manufacturing
- Plant Layout and Expansion
- Process Optimization
- Supply Chain Management
- Logistics and Distribution
- Inventory Optimization

>>Performance

- Benchmark Assessment
- Management Dashboards and Scorecards
- Key Performance Indicators (KPIs)
- Quality Management Systems
- Six Sigma
- ISO/AS Implementation and Certification





Quantifying the Benefits

This client went from marginally profitable to highly profitable. The focus was on lean improvements across all aspects of the company.

	Old	New
Total Lead Time	21 days	15 days
Total Processing Time	6 days	5 days
Sales Levels	\$24.0 million	\$29.0 million
Pre-tax Earnings	2.67%	5.51%
Valuation	\$10.9 million	\$16.75 million

By improving performance with one customer, company was able to secure a second OEM Customer resulting in \$7MM of new business. Company is on track to reach \$50MM in sales in 2012.

These improvements increased the value of the company by \$5.8 million.



Proof That Our Approach Works

It does not matter what business you are in, focusing on the four goals will ensure success

1. Medical device manufacturer is growing ***sales 80% over 2008***
2. Accessories manufacturer increased ***net income*** more than ***20%***
3. Contract manufacturer ***doubled their market share and increased prices by 8%***
4. Food company achieves over ***\$400k in sales*** per employee, best in class
5. Division of aerospace company ***increased sales by 700%*** over past 24 months
6. Automotive Supplier achieves ***38% EBITDA***
7. ***OEM supplier awarded a \$7MM contract due to Lean Implementation***





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