Case Study (SGO)

Turnaround at a Machinery and Plant Engineering Company

Prerequisites:
A holistic view of performance indicators and the value creation structure, as well as the confident application of change management approaches, are essential prerequisites for a successful corporate turnaround.

Company:
A medium-sized supplier to the automotive industry (OEMs and Tier 1 suppliers). Functional organizational structure, revenue: over €40 million, part of a corporate group with a financial investor.

Problem Statement:
There are significant “friction losses” at the interface between ‘Sales’ and “Production/Engineering.”
There is no effective, proactive project management and controlling with clear lines of responsibility. The profit contributions and capital tied up in the individual product lines are not transparent. The company’s operating result is negative (EBIT: -1% of turnover), and there is high cash burn due to quality issues, long lead times, and inadequate capital management, particularly regarding inventory and accounts receivable.

Assignment:
Improve corporate management, generate positive profit contributions across product lines, and achieve positive free cash flow, if necessary by modifying business processes, the corporate structure, and the management system. Serve as an interim business advisor to the technically oriented sole managing director.

Duration of assignment:
11 months

Procedure:

- **Immediate Actions**

To assess the current situation and initiate initial measures, a SWOT analysis (Strengths/Weaknesses, Opportunities/Threats) will be conducted with all managers across the company’s various functions. Based on this, a prioritized list of necessary actions, along with a to-do list, will be developed and coordinated with senior management and the leadership team. Furthermore, management forums such as a “Credit Committee” for more effective accounts receivable and accounts payable management and “Quality Circles” for the rapid resolution of quality issues will be established. A profit center accounting system will be implemented to ensure transparency regarding the results of the individual product lines.

- **Detailed Analysis**

The prerequisites for improving management efficiency are:

1. Reviewing business processes

(e.g., clarifying: “How do specific sub-processes work, and who is responsible for them? Are the results of these sub-processes transparent, and are they managed using key performance indicators?”)
Analysis Results:
Failure to meet deadlines (=> process quality), design changes, and necessary rework at customer sites (=> manufacturing and assembly quality) lead to declining margins, high inventory levels of unfinished systems, and high accounts receivable, resulting in negative free cash flow.
The costing process, including quotation costing, concurrent costing, and post-project costing, is not end-to-end. The ERP system is only partially aligned with core processes. A management information system with key performance indicators is lacking for control purposes.

2. Review of the organizational structure and levels of responsibility
Analysis results:
The current functional, division-of-labor approach—which involves various interface issues regarding responsibility, span of control, and information flow—leads to inefficiencies in day-to-day operations and hinders clear, customer- and process-oriented, decentralized business management within the individual product lines.

3. Review of management tools
Analysis results:
Certain controlling modules such as “Strategic Planning,” “Budgeting / Cost Center Reports,” order planning and processing (project controlling), rolling forecasting, human resources management with workforce planning, working time models for greater flexibility, a compensation system linked to the target-setting process, and materials and financial management with inventory and receivables controlling have only been partially implemented or not implemented at all.

• Implementation

The results of the analysis are translated into a prioritized action plan, which is broken down into various subprojects, each with a specific to-do list. Project progress is continuously measured using key performance indicators and, if necessary, corrected through additional measures in the event of negative deviations. A project manager is assigned to each subproject.

The following subprojects are launched:
1. Corporate planning and target-setting process
2. Business units, service units, and process management (“order-to-delivery”)
3. Project management and controlling with a focus on quality, lead times, on-time delivery, costs, and cash flow
4. “Design-to-Cost” cost reduction program for low-margin product lines and business units (including adjustments to new target cost values in assemblies, savings on A-components, modularization and standardization, relocation of manufacturing, and changes to the supplier mix)
5. Accounts receivable management (from customer credit checks, contract reviews, credit limits, and invoicing processes to payment terms and dunning procedures)
6. Procurement and accounts payable management (procurement processes, inventory control, and pricing and payment terms)

Ongoing monitoring of management processes and progress toward objectives in the subprojects takes place, among other things, during monthly business unit meetings with senior management.

Result:
The turnaround is achieved through positive operating results (EBIT: +6% vs. budget) and positive free cash flow after approximately one year. The positive free cash flow, which improves by approximately €3.5 million, is primarily realized through the following key measures:

- Creation of new accountability structures (revised organizational structure)
- Introduction of a “process-oriented” line organization (business units with their own profit center accounting and key performance indicator management)
- Increase in sales efficiency through reorganization of the sales structure (in-house sales staff vs. agents)
- Project structure planning with capacity leveling based on staffing requirements and hourly planning
- Design-to-cost approach with adjustments to value-added structures
- Shorter lead times through optimized sub-processes, particularly in manufacturing logistics and administration, and adherence to agreed delivery dates
- Effective project, inventory, and accounts receivable management through a focus on “project cash flows”
- Consistent quality management

A key factor for success in turnaround situations is clear, credible, and goal-oriented communication across all levels, as well as the early involvement of managers and employees in line with the principle of “turning those affected into active participants.”