CLIENT STORY

WHEN A TOP-SPEED TURNAROUND IS CRITICAL

The Americas division of a foreign-owned auto supplier had lost traction. Over several years, its profitability had declined and turned negative because of a number of challenges. For one thing, the division had signed up for too many launches, having neither planned, staffed up, nor readied equipment sufficient for handling the issues typically involved in new-vehicle launches. Customers were upset, and the division was spending heavily to expedite deliveries to them to make up for it.

Management had tried to solve the problems by applying lean practices, but had experienced only brief results when effort was applied, but the results didn't stick when the resources and the attention moved on. In addition, management's sales approach had been too open to OEM target costing and set prices without discrete plans and buy-in from operations to hit the target costs, and so it routinely underquoted component programs. Management had also planned capacity based on assumptions that overall equipment effectiveness—an operational metric of yield, uptime, and productivity—would snap up to best-in-class levels quickly after launch without demonstrable evidence. Manufacturing operational performance was poor, with excessive downtime, high overtime, and labor turnover, unacceptable scrap levels. and much higher than planned logistics costs.

Although strong in product design, the division's industrial engineering was well behind competitive levels, and production approaches were not well matched to the designs. Headquarters did not understand the true situation at the division's many plants, and some plants lacked proper metrics and leadership to drive improvement on their own. Equally troubling, managers in different functions at headquarters were focusing far more narrowly on fighting fires in their own silos than they were on working together to triage and jointly correct systemic problems one by one.

Without bold action, the business was headed toward bankruptcy. Concerned about the deteriorating performance, the chairman called in AlixPartners to help turn the division around.

A participative turnaround puts the business back on track

As our first step, we applied our proprietary QuickStrike® diagnostic to identify and quantify potential improvements in operating income, run rate, and other key metrics. Our process uncovered the fundamental drivers of the division's underperformance and assessed the team's bench strength as well. Then we took a collaborative approach to the crafting of turnaround initiatives. When it came to singling out areas of the business that could be improved, it turned out that *everything* was on the table—from product strategy, manufacturing, and operating footprint to pricing, purchasing, and decision authority. For example, we adjusted the way pricing was decided so we could bring decision making deeper into the business and not let sales operating be the decision maker on prices.

We also worked closely with the new CEO to set up a topflight local leadership team—finding, recruiting, and mentoring the new hires so as to foster a collaborative management approach that would take ownership in the outcome and culture. In addition, we developed a holistic turnaround plan by way of an array of improvement projects, and we then drove only those that the division couldn't implement on its own.

As an example of the projects we executed, we analyzed the division's pricing to determine true profitability, including activity-based costing and capital requirements. Drawing on those findings, we then negotiated to exit certain programs and to gain onetime adjustments to market pricing on other programs. Core to that was our understanding of customers' perspectives and situations. Our reputation for treating each customer fairly and for being transparent about the business was critical to getting customers to accept our turnaround plan and have confidence in the business going forward.

We took similar approaches to reset certain purchased prices to market as well. And we again turned to our experienced consultants to look holistically at the direct and indirect cost drivers so we could renegotiate with incumbent suppliers and adjust our business to better align it with supplier partners in core components—but require competitive pricing and value.

We took a tailored approach in operations roles, taking interim general manager roles at two of the plants and taking other participative roles to address root causes and then step by step improve the performance through hundreds of initiatives.

When it really matters

Our collaborative and rigorous approach helped the division jump-start better performance. The client was left with more-competitive and sustainable plants, a true quality discipline, and management accountability. EBIT improved by more than 13 percentage points, and following our one-year engagement, the client team has continued to accelerate the business. Equally important, the division now had a leadership team whose members have the right capabilities and mind-set to profitably serve customers, satisfy employees, and sustain the turnaround's positive momentum.