Operational performance improvement in industrial companies

Introduction

Bain and company has developed a program for operational performance improvement of industrial companies. This program is called Bain's performance improvement diagnostic (PI X-ray). Company's efficiency can be screened both accuracy and quickly by using this method. First this process find areas which have high optimization potential in operation process and then develop and prioritize relevant improvement initiatives.

The performance improvement X-Ray

Bain's PI X- Ray involve with whole operation process including procurement, production, service, distribution and administration and screen key performance dimensions of all areas. Based on result of PI X- Ray, most important cost and improvement potential of the company is displayed and then goals, measures and corrective actions will be defined.

Operational performance improvement potential

Bain's PI X- Ray is geared 10 performance levers.

- Reducing procurement costs
- Optimizing production
- Optimizing distribution
- Optimizing after sales services
- Reducing overhead costs
- Optimizing IT
- Reducing product complexity
- Reducing product costs
- Reducing working capital
- Optimizing capital expenditure

Reducing procurement costs

Mainly three step need to be taken to identify potential procurement cost reduction.

1. Creating transparency in procurement process
2. Identifying saving opportunities
3. Organizational optimization – organizational and procedural improvement such as competencies, processes, systems and tools in the organization.

Optimizing production

In this case companies need to consider three aspects

1. What do we want to produce and what do we want to purchase?

Still companies produce some material which they can purchase more efficiently through supplier. Some material requires specific production process. Those things can be outsourced to suppliers which has expert knowledge. And also some processes can be outsourced to countries which has low labour cost to reduce production cost.

2. What plant network that we required?
   Plant network need to be designed effective way. Clear specification of plants for product type lead to reduce production cost. Further some processes can be moved low labor cost countries.

3. How do we implement lean production in all plants?
   Lean manufacturing method could be applied for minimize the waste.

Optimizing distribution

Companies need to focus on three aspect to optimize distribution

1. Which type of distribution network is required?
2. Whether company use its own warehouse or outsource it?
3. How can lean distribution method be implemented in all warehouses?

Optimizing after sales services

Three areas need to be fulfilled to achieve optimized after sales services.

1. Structural efficiency – Service center network need to efficient and organization need to find the right balance between centralized service unit and dispersed service unit.
2. Staff efficiency – staff need to be well trained
3. Continuous improvement

Reducing overhead cost

Reduction of overhead cost is main goal of any operational performance improvement method. Bain suggest benchmark overhead coat as a percentage of revenue in both functional and activity level.

Optimizing IT

Bain consider the IT deeply to improve the operation efficiency by focusing on IT administration, IT infrastructure and IT projects.

Reducing product complexity

Many industrial companies offers too many products and its lead to create unprofitable products. Companies can reduce their product range by 5% to 10% by internal initiatives and Bain suggest to follow four steps to achieve that.

1. Create portfolio and profitability transparency
2. Develop an initial catalogue of measures (long list)
3. Coordinate the long list with marketing and distribution
4. Decide the final catalogue of measure (short list)

Reducing production cost

Industrial companies can achieve significant cost reduction by applying design to cost or design to X approach suggest by Bain. This helps to achieve cost saving in range of 5% to 20%. According to Bain value analysis, competitor analysis, brainstorming and marginal benefit analysis use to reduce the production cost.

Reducing working capital

Benchmarking can be used to reduce working capital of the company. Mainly account receivable and account payable can be optimized by improving debit and credit management. Further company need to manage inventory level properly.

Optimizing capital expenditure

Capital expenditure is another area that benchmarking can be used to improve. Industrial companies can be optimized capex by applying below principles

1. Structured budgeting processes for investment projects
2. Clear valuation principles for investment budgets
3. Clear investment responsibilities for investment decision
4. Controlling for investment project

Conclusion

By using operational performance improvement, companies has increased their margins by average 7% within two to three year. Reduction of procurement cost, reduction in working capital, optimizing capital expenditure are the areas which has shown significant improvement. Areas such as outsourcing, design the plant network, inventory management system have been shown medium level of improvement. It is also indicated that areas such as introduction of lean management, reducing product complexity and reducing production cost need more time to show significant level of result.

http://www.bain.com/publications/articles/operational-performance-improvement-in-industrial-companies.aspx