MANAGEMENT BRIEFING

5 Attributes of Large Companies with Superlative Value Creation

How buyout managers can identify opportunities and actions to accelerate improvements in EBITDA and working capital.

BY BILL REMY, DAN SULLIVAN, BOB DEAN, DAVID HICKS AND ANGELA SCENNA

Executive Summary

This management briefing explores how big companies can reap big benefits from an Operational Excellence Strategy.

Large, global companies that use an Operational Excellence strategy tend to outperform their peers in terms of share-price growth and speed to recovery after market downturns. They have more cash and higher profit margins as they grow because Operational Excellence practices and tools enable them to consistently follow disciplined management processes; effectively execute strategy; streamline product development; and, rapidly integrate acquisitions.

Being a global company with a large footprint has its advantages and disadvantages. Big companies can benefit from efficiencies of scale, but they also are prone to rampant inefficiencies that—if left unchecked—can erode share price.

When large-footprint companies embrace an Operational Excellence strategy, though, their size begets more advantages than disadvantages. Evidence and experience show that over the long term, such companies create more value than their competitors by:

- Consistently following disciplined management processes;
- Effectively executing strategy;
- Streamlining product development; and,
- Rapidly integrating acquisitions.

The overarching benefit is better performance, both operationally and financially. Figure 1 illustrates how three large footprint mid-cap companies that have embraced Operational Excellence compare with the S&P MidCap 400® and the Dow Jones Industrial Average. Hubbell, Danaher and Carlisle Companies have had greater share-price growth over the past five years and recovered share-price value faster following The Great Recession years of 2008 and 2009.

The continuous-improvement foundation of Operational Excellence minimizes the potential negatives of large-footprint realities and provides tools to manage the resulting challenges. In this Management Briefing, we identify five attributes of large-footprint organizations that have used an Operational Excellence strategy to improve cash flow, open capacity, and achieve efficient growth through cost control and superlative value creation.

Executives at these companies have learned that Operational Excellence can be an antidote to the realities of managing large-footprints that fuel these common leadership challenges:

- Increasing shareholder value.
- Driving profitable innovation through speed-to-market and effective commercialization.
- Implementing a consistent management process across a complex organization.
- Improving execution, flexibility and responsiveness.
- Funding growth initiatives without excessive leverage.
- Acquiring and quickly integrating new businesses.
- Competing with lower-cost regions across the globe.

OpEx Firms Outperform Major Indices

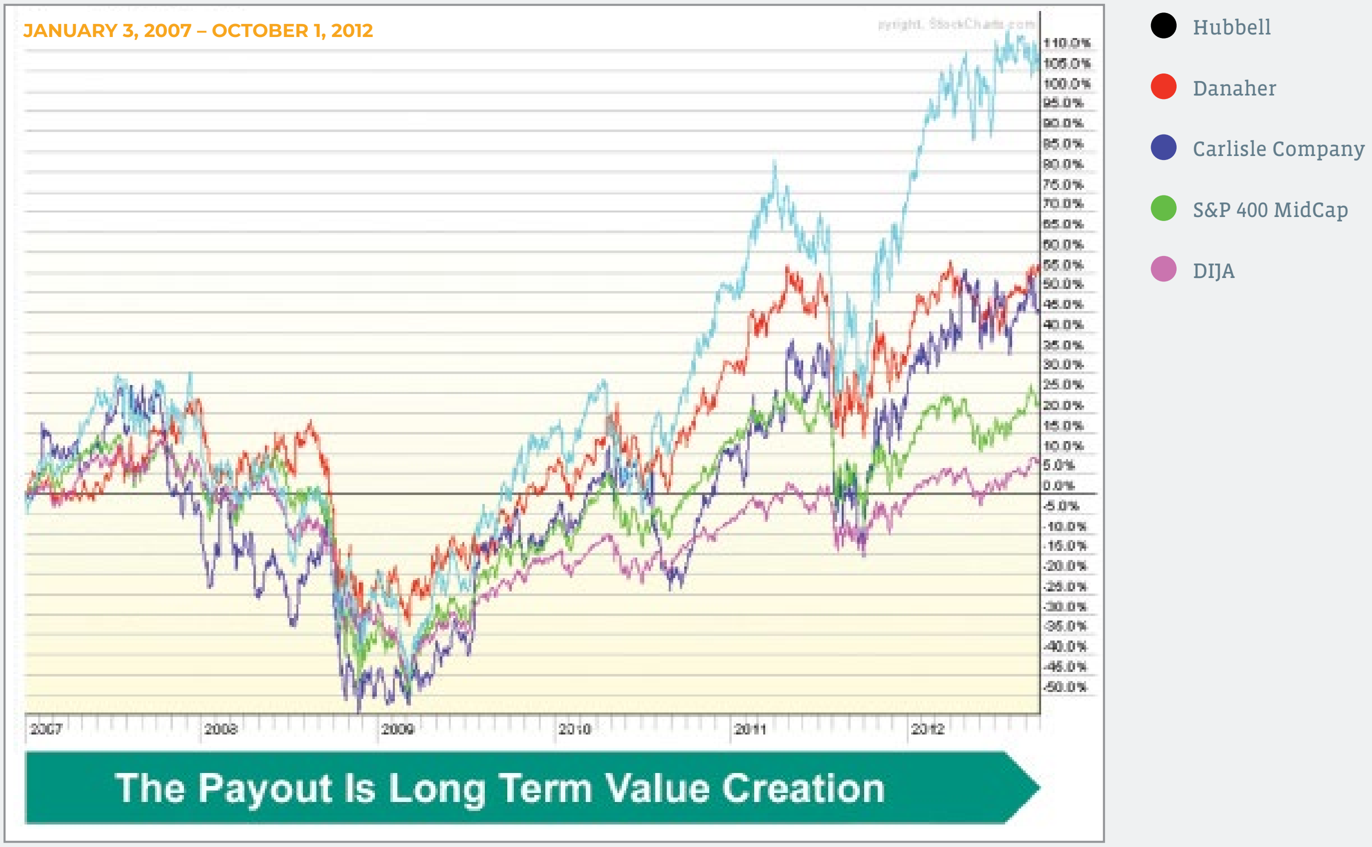

FIGURE 1. The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index covers over 7 percent of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an ongoing basis. Source: www.stockcharts.com

Large Footprint Success: 5 Essentials

1. COMMITMENT TO A "CRITICAL FEW" GOALS

Our successful large-footprint clients choose a small number of the "right" goals that become the focus of their limited resources. These goals are customer-focused and will produce meaningful results (as opposed to incremental returns). In most companies, identifying these goals requires a disciplined process for understanding the "mind-of-the customer" and the ability to identify and transform unarticulated needs into differentiated products and services.

For TBM client Pactiv, a privately held, global producer of food service disposables and food packaging, the customer-value emphasis was on asset utilization, which means big runs of ubiquitous products at a low margin. Pactiv sells what is essentially a commodity product. Customers choose suppliers based largely on cost and availability. The company decided to focus its efforts on improving performance at the production-line level, thus increasing flexibility, shortening lead times and improving productivity. As it became a more efficient producer, Pactiv became more competitive by changing its production mix to a higher number of smaller lots with shorter lead times—which improved margins through cost reduction and increased availability. The outcomes of this transformation included new customers, more satisfied customers, improved asset utilization, higher profitability and increased revenue.

Pactiv improved revenues by 17 percent year-over-year in 2011; and EBITDA improved 38 percent during the same time (YTD through Q3).[1]

> "When other companies were doing badly, Pactiv was out buying its competition," said former TBM Consultant Glenn Kubisiak, who worked with Pactiv during its early transformation efforts. "In 2008, they were not even acknowledging that there was a recession. There's no question that the work they did in those years helped them to make important acquisitions."

On the cost side, the results have been just as impressive. In one recent year, the collective continuous-improvement efforts of employees at Pactiv's 50-plus sites freed up $250 million in cash.[1]

How many strategic goals a company sets is less important than resisting attempts to go for easy wins or low-hanging fruit. Define transformative goals that will be noticed within the organization as well as by customers. If need be, start with one plant, product, product line, supplier, etc., that will be most receptive to the transformation. This improves the chances of fast and noticeable success.

[1] "Progressive Focus on Operational Excellence Enables Aggressive Growth," TBM Consulting Group, www.tbmcg.com

Big Footprint, Big Challenges

- Consistently following disciplined management processes
- Effectively executing strategy
- Streamlining product development
- Rapidly integrating acquisitions
- Increasing shareholder value
- Driving profitable innovation through speed-to-market and effective commercialization
- Implementing a consistent management process across a complex organization
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2. THOROUGH PLANNING & PRECISE EXECUTION

Once they have identified their critical few goals, our successful large-footprint clients plan and execute their strategy to achieve those goals.

Leadership must take ownership of this from the beginning to be successful. We have found that the more engaged the uppermost executive(s), the more successful a big company's Operational Excellence strategy. Committing resources to strategic goals includes leadership time and attention. Top executives should expect to devote at least 20 percent of their time to supporting continuous-improvement activities, starting with the strategy deployment process.

Strategy deployment (Figure 2) is essential to planning thoroughly and executing precisely at large-footprint companies because multiple sites, functional silos and management layers mean non-strategic goals are lurking everywhere, threatening to "creep in" and compete with strategic goals.

We see this frequently in silo-focused decision making, such as unit-cost-based purchasing. Performance incentives encourage buyers to find the lowest possible price for materials, and often they can use their company's size to negotiate prices that are impressively low. But without purposeful and planned communication across functions, the buyers don't know that they could be causing expensive problems in downstream functions (i.e., poor quality, inventory carrying costs, longer lead times) that more than offset the upfront savings. Silo thinking also happens as daily pressures subtly cause supervisors and managers to become less focused on the company's critical few goals and more focused on solving day-to-day problems.

Strategy Deployment Process

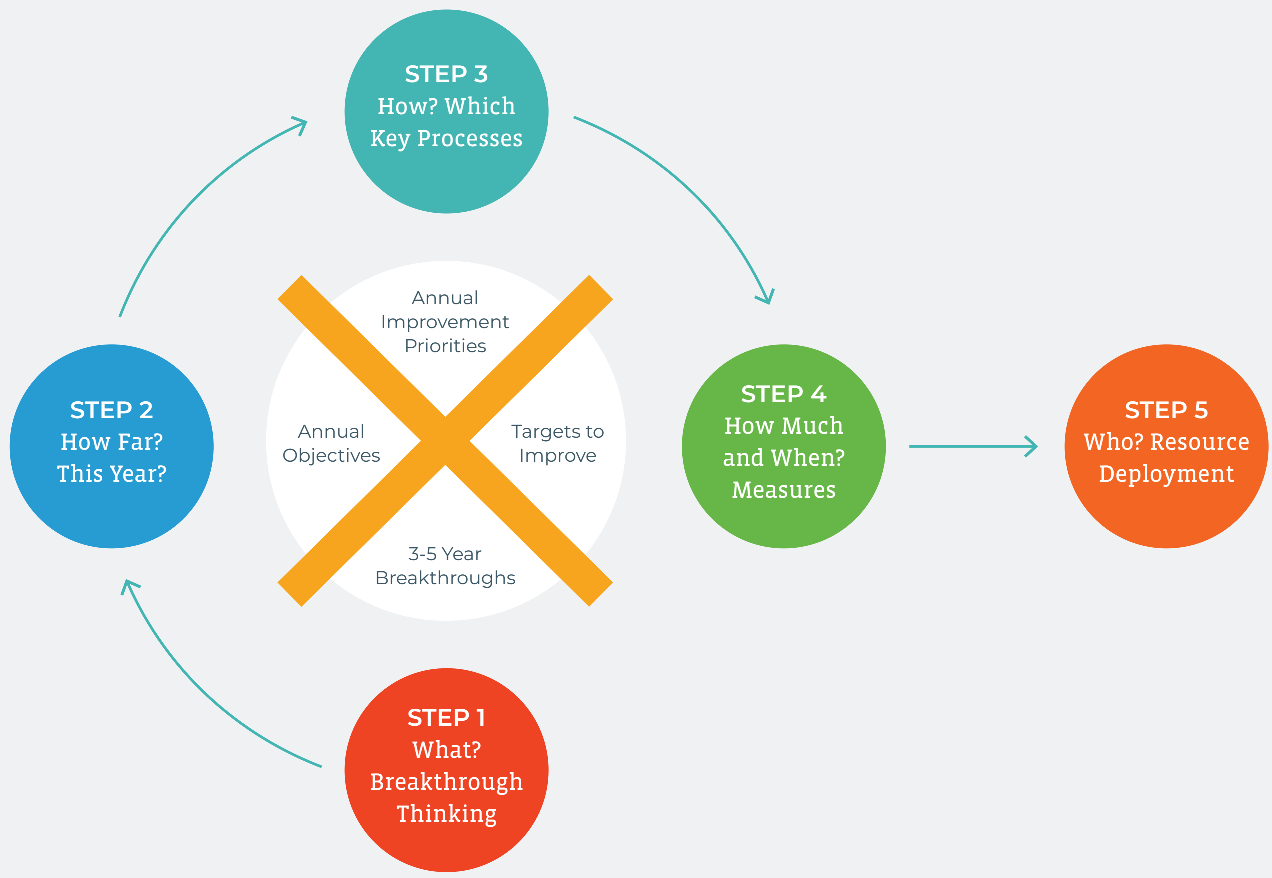


FIGURE 2. The strategy deployment process leads executives through a series of steps that turn planning and resource allocation into a multi-year action plan with real goals and measures—all supporting breakthrough transformation to a company that creates more value with the same or fewer resources.

Hubbell Inc., an international manufacturer of high-quality electrical and electronic products, has embraced the strategy deployment process for 11 years and has used an Operational Excellence strategy to achieve long-term value creation. According to Hubbell CEO Tim Powers, the disciplined framework of the strategy deployment process has been one of the key contributors to Hubbell's performance, which includes:

- Sales growth from $1.3 billion in 2001 to $2.98 billion in 2011.
- Net income growth from $48 million to $268 million (same period).
- Stock value growth of 110 percent since 2007, about 90 percentage points above the S&P 400 MidCap Index.

Strategy deployment minimizes silo thinking by providing clarity and direction to all levels and functions. Companies cascade strategic goals down and across the enterprise through purposeful and ongoing communication and process-improvement activities that keep everyone walking on the same path. Often, our clients create a unique "business system" or "operating system" to facilitate this.

TBM client and diversified manufacturer Carlisle has deployed an Operational Excellence-focused common business platform (Carlisle Operating System, or COS) across its five divisions to keep everyone focused on five strategic goals conveyed by leaders in precise targets for sales, operating margin, global sales, working capital and return on invested capital (Figure 3). Dedicated positions at the corporate, division and site levels support COS, and employees participate through regularly scheduled PDCA events at multiple levels and through ongoing kaizen events.

3. STRONG, REPEATABLE PROCESSES

Large-footprint companies need strong, repeatable processes that support daily improvement; standardization—from leader standard work to line/cell operator standard work; and the spreading of best practices throughout the organization. With strong, repeatable processes, a large company can efficiently leverage resource investment in acquisitions, capital purchases and new-product development; and quickly seize developing market opportunities.

Managing for daily improvement (MDI) is an example of a strong, repeatable process. It typically involves a daily walk through the business at a defined time by the entire management team. They spend more or less time in each area depending upon the previous day's performance. By going to each work area, managers can see any issues firsthand. Having the entire management team present speeds problem solving by freeing up resources and removing the functional barriers that tend to slow down the search for solutions.

Alstom Transport—a Paris-based manufacturer of trains and provider of other transportation-related products and services—demonstrates how such a process supports execution. In the United Kingdom, Alstom Transport employs some 2,000 people, including many maintenance technicians. As part of their daily management process, the members of each department in Alstom's five depots and the fleet control center meet at 9 a.m. each morning to discuss the previous day's performance and any problems that require attention. They stand in front of boards showing safety, quality, delivery and cost performance; and agree as a team on what needs to be done to improve performance. Managers then walk around to each team and discuss performance and the proposed solutions.

Carlisle's Progress Over the Years

	2010	2011	2016
Sales ($ Billions)	2.5	3.2	$3.67
Operating Margin	8%	9%	12%
Global Sales	14%	17%	23%
Working Capital	23%	21%	22%
ROIC	9%	9%	12%

FIGURE 3. 2012 Investor Presentation, and 2016 Annual Report and Form 10K: www.carlisle.com/investor-relations/presentations

4. DISCIPLINED MEASUREMENT & REPORTING SYSTEMS

Big companies tend to have too much data and not enough accountability. Inconsistent measures create gaps in performance and pockets of waste. They also thwart the spread of best practices throughout the organization.

Fortunately, the reverse also is true: The larger a company, the larger the potential benefit of bringing the entire organization up to best-achievable performance as planned through strategy deployment.

> Leaders at large companies who are going through a deep Operational Excellence transformation will learn how to do things that they never knew were possible, but they must be open to doing so.

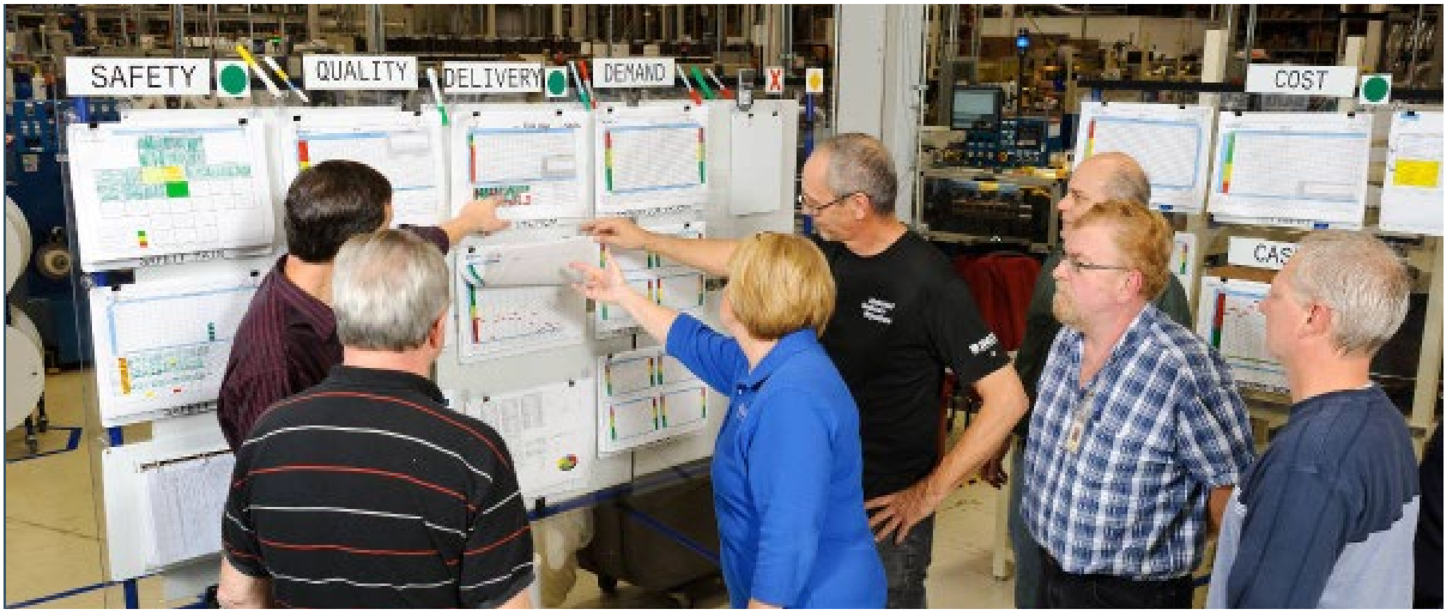
Without disciplined reporting systems, no one has clarity on actual performance versus planned performance, and everyone needs to know this in order to identify problems and solve them quickly, as well as to identify ongoing opportunities for improvement.

Successful large-footprint companies build disciplined reporting systems by providing:

- A protocol for problem solving that uses root-cause analysis and includes countermeasures to make up for lost ground. The protocol must provide appropriate tools and methods at each level. Line operators, for instance, should be able to solve most of their own problems, and when they can't, there should be a strong, repeatable escalation process that brings in more resources.
- An inherent timeframe for solving problems that stresses urgency, i.e., Our goal is to solve problems within 24 hours. This encourages rapid solutions.
- Immediate and clear identification of accountability so problems don't "fall through the cracks."
- A record of performance that can provide insight into strategic decision-making going forward.

A best practice we see in this area is use of "war rooms," which are meeting rooms dedicated to rigorous reporting and the subsequent problem-solving work that goes with it. Pactiv, for example, has a war room at each plant. On the walls of each war room are diagrams, charts, graphs and other displays that depict plant performance on targets that can be mapped back to the company's strategic goals. This data is dynamic. It is updated regularly and is as close to real-time as possible. This neutralizes any disagreement about "what the real problem is" and focuses managers and supervisors on cooperatively solving problems.

The data displayed in a war room is usually at the plant level and is a rolled-up version of what is reported on the plant floor by day, shift or even hour. This level of disciplined reporting is necessary for transformative change because at big companies, the entire organization needs to be moving in the same direction to move at all.



5. WILLINGNESS TO LEARN, ACCEPT MISTAKES, & RECOVER

Leaders at large companies who are going through a deep Operational Excellence transformation will learn how to do things that they never knew were possible, but they must be open to doing so. Those working under them will be learning new things as well, and so the leaders need to understand that mistakes will be made. Successful large-footprint companies prepare by giving people the resources to create countermeasures when they have fallen short of a goal.

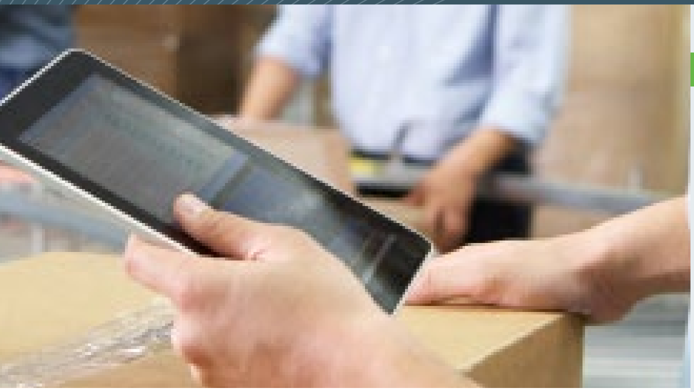
> Leaders must also be willing to adjust their plan when it makes sense. If you are keeping the organization focused on customer value, then the need for adjustments will become apparent.

Vermeer, a TBM client that makes large equipment, identified global growth as a critical goal and focused on a limited number of markets, including China.

Vermeer assumed that customers in China had the same concerns about labor efficiency as their North American counterparts. When sales of a line of large equipment in China didn't meet expectations, Vermeer started talking with customers on a deeper level and discovered that functionality trumped labor cost in value. A redesign of the product line aligned more closely with what Chinese customers value and product sales took off.

Fortunately, because Vermeer had invested many years and multiple resources in building an Operational Excellence culture, the company was able to react quickly and cost-effectively when it became apparent a redesign was needed to meet growth goals in China. The opportunity was not lost, and the negative impact was minimized.

As Vermeer and our other large-footprint clients have learned, bigness is no reason to expect small results from process improvement. An Operational Excellence strategy can bring exponential benefits to large-footprint companies if it includes a small number of meaningful goals; strategic planning and execution; strong, repeatable processes; a disciplined reporting system; and an engaged leadership team that is willing to learn, accept mistakes and make adjustments.



About the Authors

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Bill is Chairman and Chief Executive Officer at TBM Consulting Group. He has 30-plus years of leadership experience in general management and manufacturing operations. His areas of expertise include operational performance improvement through LeanSigma deployment in manufacturing operations, supply chain, product development and project management. He has experience in broad array of business leadership positions across various industries including aerospace and defense, railway, industrial and agricultural equipment, technology and process automation.

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