CASE STUDY

WIKA Weathers Recession, Bounces Back to Set Record Sales

When sales decline, speed and agility are key to protecting profits. They also help companies capitalize on opportunities when the market returns. This German manufacturer's lean practices helped it survive the Great Recession and realize 30% sales growth in the recovery period.

Client

WIKA Instrument Corporation, a leading international manufacturer of pressure gauges and other critical measurement instruments.

Challenge

After seven years of sales growth bolstered by WIKA's LeanSigma efforts, the global economic recession caused a double-digit sales decline, which was then followed by record-setting growth in the recovery period immediately following the downturn.

Solution

Lean manufacturing practices enabled the company to respond quickly to market declines without being caught holding excessive inventory. Discipline and transparency enabled WIKA to maintain profitability during the global market downturn, and then respond quickly when sales growth returned.

Results

Financial benefits include sales and market share growth, healthy margins and operating cost advantages such as higher productivity, less scrap and lower working capital requirements.

When sales at WIKA Alexander Wiegand SE leveled off at around 300 million in 2001, lean manufacturing practices helped reposition the company as a highly responsive, high volume supplier of made-to-order pressure and temperature measurement instruments. The privately held firm headquartered in Klingenberg, Germany, employs more than 6,500 people and ships more than 40 million products every year. By 2008 WIKA's global revenues had grown to 515 million. Then, in 2009, the European and North American recession took a double-digit bite out of sales. Revenues bounced back in 2010, and then some.

"We were told that the award for transitioning to lean would be nothing but growth," says Michael Gerster, former President of WIKA Instrument Corp. in the U.S. "That was true until 2008 but in 2009 we experienced negative market forces that derailed an otherwise spotless record."

"What was remarkable though is the fact that we still made 2009 a good year in terms of profitability, and how we managed the sudden and unpredicted 30% upswing to set new records in 2010. It's impossible to think of going through such a swing without our lean mindset," he adds.

WIKA's lean journey began in 2001. Management's primary objective was to shorten order lead times, then running anywhere from four to six weeks, and improve on-time delivery performance, which was hovering between 60-70%. Improving quality and productivity were other top priorities.

"One of the weekly discussions that we had before lean was that we were too slow, too expensive, never had the right stuff in stock and our quality was not good," recalls WIKA Instrument Corp. COO Klaus Gross. "You can probably imagine how much fun we had in those meetings."

During this period some of the company's product lines were becoming commoditized by new competitors offering similar products at 30 to 50% lower prices. Rather than pursue a race to the bottom by competing based on lowest prices, WIKA business leaders decided to leverage operational excellence and lean manufacturing to transition to a just-in-time, high variation, fast delivery strategy that provided enhanced customer value.

To move away from batch production methods and warehouses stuffed with inventory, WIKA leveraged kaizen workshops—more than 1,000 to date—to set up work cells, reduce changeover times, implement onepiece flow and slash work-in-process inventory. It took about 18 months for the changes to reach critical mass and begin to show up in the company's operational and financial performance, according to Gross. WIKA has since achieved dramatic reductions in equipment order lead times, productivity improvements, cost savings and on-time delivery. The company has reduced quality failures from around 1%, or 10,000 defects per million opportunities (dpmo), to 2,000 dpmo, and is on target for 500 dpmo.

Today, WIKA leverages its operational advantages to produce a wide range of high-quality measurement instruments to exact customer specifications, and deliver them quickly—usually within three to five days. Such service has been rewarded by customers and is a major contributor to the company's sales growth. At the same time WIKA has been able to improve productivity, shrink floor space requirements, reduce working capital requirements and uncover additional cost savings, which have contributed to better margins.

"Since 2002 we have improved our EBIT margin every year by about 1%," WIKA CEO Alexander Wiegand said in a recent interview for Chief Executive magazine. "That's the bottom line. It's not all coming from lean of course, but more than half of that improvement is the result of our lean activity."

When market demand fell in 2009, WIKA was able to protect its margins because their lean methods made production activity and performance much more transparent. In the past when orders fell productivity fell along with it because people worked slower. Because each lean work cell now has its own prominently displayed performance metrics, it's easy for supervisors to see when output or any other key indicator slips. And when market demand returned, it was easier to align production activities to order requirements.

Top to Bottom Culture Change

One of the critical elements of WIKA's ongoing success has been the fact that lean efforts and the continuous improvement mentality have not been limited to the factory floor, or to any one department or division. Lean management practices extend all the way from annual goal setting to the sales process and the shipping department. Here's just a small sample:

- Policy deployment practices now define breakthrough performance targets for the whole company.
- Leadership development programs identified skill gaps, assessed management strengths and weaknesses, and provided individual and team coaching to help make the best decisions and develop talent from within.
- The Georgia plant shipping department simplified order picking, streamlined product flow, and improved inventory management, leading to a 25% increase in sales.
- Many kaizen workshops have reduced working capital requirements by reducing both inventories and receivables.
- The continuous improvement mindset even led to standard, company-wide processes for organizing meetings and hosting visitors.

Klaus Gross estimates that productivity gains in the United States alone have made it possible for the business to grow without adding the labor equivalent of 200 employees, which calculates out to cost savings of $7 million per year. It doesn't take very long for results like that to really add up.

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