

## CASE STUDY

# Equipment Dealer Achieves 600 BP Profit Improvement & Delays Planned CapEx

### Client

A full-line large equipment dealer providing sales, parts, service, and rentals for heavy-duty trucking and earth-moving equipment.

### Challenge

Rapid growth led to space constraints, employee frustration, and the potential need to invest in a new facility.

### Solution

Introduce operational excellence to improve profitability and increase employee satisfaction. Install a new daily management system and lean process discipline to enhance processes, engage employees, and improve productivity. Liberate enough floor space to accommodate near term growth within the existing footprint and potentially delay a planned capital expenditure.

### Results

- 600 basis points improvement in profit after direct expenses (PAD)
- Made space to accommodate growth within the existing footprint
- Delayed \$2 million in capital investment for at least three years
- Increased employee engagement scores from 56% to 88%

**Large equipment sales and service dealer achieves profitable growth through process and space optimisation, delaying significant capital expenditures and bolstering employee engagement and morale in the process.**

## You Don't Always Have to Spend Big to Win Big

When a business operates in a rapidly growing market, it is often only a matter of time before aggressive expansion leads to growing pains. This was the case for a large and well-known U.S.-based heavy equipment sales and service dealer: the business quickly found itself over capacity and out of space at a key facility in a hot market. The location combines a showroom, rental centre, service shop, and warehouse. Employees in all departments were working very hard, but running into more and more roadblocks to future growth.

Given the increased workload and growing frustration, employee satisfaction was at an all-time low. There was a significant amount of internal conflict, groups work in silos, and it was difficult to get things done. Branch leadership was under significant stress to keep up with limited resources. And the consensus was that things would only get more challenging due to the parent company's directive to double annual services by 2026. The dealer knew it needed more space to grow, and the company wasn't afraid to spend money to gain footprint. At the same time, dealership leaders wanted and needed to grow smart. Profitability mattered, and profit after direct expenses (PAD) needed to improve.

To address all three issues—space constraints, profitability, and employee morale—the dealer brought in the experts at TBM. Dealership leaders quickly learnt that buying or building more space wasn't necessarily the only or best answer. Rather, optimisation of both processes and footprint could free up capacity, drive PAD in the right direction, and improve employee satisfaction. This would position the dealer to achieve and even exceed its future growth goals—all without an immediate and significant outlay of cash.

## Making Space without Capital Expense

When TBM came on board, the dealership's leadership team shared its plans to invest \$2 million in a new rental centre to create more capacity for its growing business. After completing a detailed operational diagnostic of the rental centre and service shop, the TBM consulting team suggested holding off on writing that cheque. For one thing, while the new space would likely be sufficient until 2031, the dealer would then need to build yet another new facility to achieve its 50-year capacity plan. What's more, the diagnostic results pointed to significant opportunities to liberate space within the existing facility. By implementing lean strategy and targeted process improvements, the branch could free up much of the capacity it needed.

In addition, the TBM team helped to identify an opportunity to move the heavy-duty truck bays—currently occupying significant footprint in the middle of the facility—to another facility located closer to the interstate and with available space to spare. The move would be a win-win as it was more convenient for trucking customers as well as many of the employees.

With those bays freed up, the next step was to complete a Production Preparation (2P) event. (See Sidebar: 2P Creates Optimal Balance of Resources) The goal of the event was to determine the best possible layout to accommodate additional service bays for earth-moving equipment and an additional rental service bay. The team-based event considered service volumes, cost, and optimal service turnaround times. It looked at factors such as the flow of materials from the warehouse into the service bays and the layout of the bays themselves.

## 2P Creates Optimal Balance of Resources

### 2P Definition

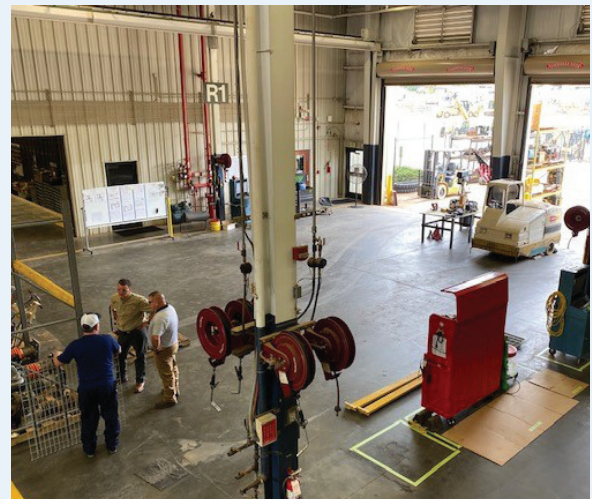
2P, or Process Preparation, is a team-based activity used to design process and equipment based on lean principles.

### How it Works

Through Kaizen events, the team works together to identify the smallest scale required to generate desired output. By optimising factors such as material flow and workspace layout, the approach works to eliminate waste and make the most efficient use of every available resource.

### Why it Matters

2P reduces or optimises capital and operating costs by ensuring the optimal balance of labour, space, equipment, and inventory.



*New earthmoving equipment service bays accommodated growth and allowed the company to delay a \$2 million capital investment.*

The resulting recommendations demonstrated that, by optimising the existing footprint, the company would have enough space to accommodate targeted growth for at least three more years while achieving high levels of performance and customer satisfaction. The dealership could thus confidently delay the \$2 million CapEx until 2025 or later.

**“By making incremental capital investments, we are making responsible decisions with the company’s money. It shows credibility”**

—Dealership Executive

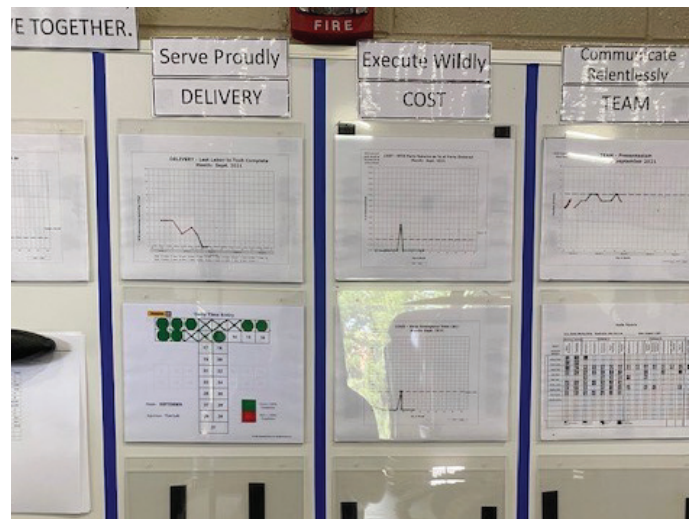
## Optimising Operations

With the space constraints addressed, the next piece of the puzzle was to increase operational excellence and further improve the use of time and resources within the optimised space. The diagnostic exercise pointed to a 15% improvement opportunity that could support the dealer’s capacity needs by increasing efficiency and productivity while also driving the necessary PAD improvements.

Specifically, high levels of non-billable time and work-in-process along with less-than-ideal quality were issues for the team. To address these problem areas and hone in on other improvement opportunities, TBM helped introduce a lean-based management system. Operator standard work and Safety, Quality, Delivery, Cost, and Team (SQDCT) boards become part of the day-to-day work. These lean techniques set the stage for improvement by defining performance targets and standards (i.e. how long steps in the process should take), tracking daily performance against those targets, and making the data visible to all employees. Parts, service, and rental teams now review the boards daily to see what’s working and where improvement is needed, and they work collaboratively to problem-solve and quickly implement ideas and solutions at the point of impact.

At the same time, the dealership team worked to enhance its operational leadership capabilities. TBM introduced leader standard work to help the branch manager, rental manager, and other team leaders reinforce and sustain process and performance improvements. An embedded resource came onboard for eight weeks to support the transition and to coach and mentor leaders in this management philosophy, empowering them to train their teams in lean tactics.

Collectively, the operational excellence improvements drove 600 basis points improvement in PAD. Orders on-time in line (OTIL) improved from 79% to 91% and last labour to close (LLC) improved from 13.5 days to eight days or less.



## Creating a Winning Culture

One of the bonus benefits of increased operational excellence is improved employee engagement and satisfaction. It goes hand-in-hand with workflow improvements and standard work. Even when it's not the primary impetus for change, companies are always happy to reap the rewards.

At organisations that are in tune with employee morale, however, this increased engagement wasn't just a nice-to-have; it's a must. As part of the project, TBM conducted a change readiness assessment to identify underlying contributors to employee dissatisfaction. While space—or the lack thereof—was certainly a key factor causing tension and low morale, employees also voiced a strong desire for more training, more communication, and more collaboration between departments.

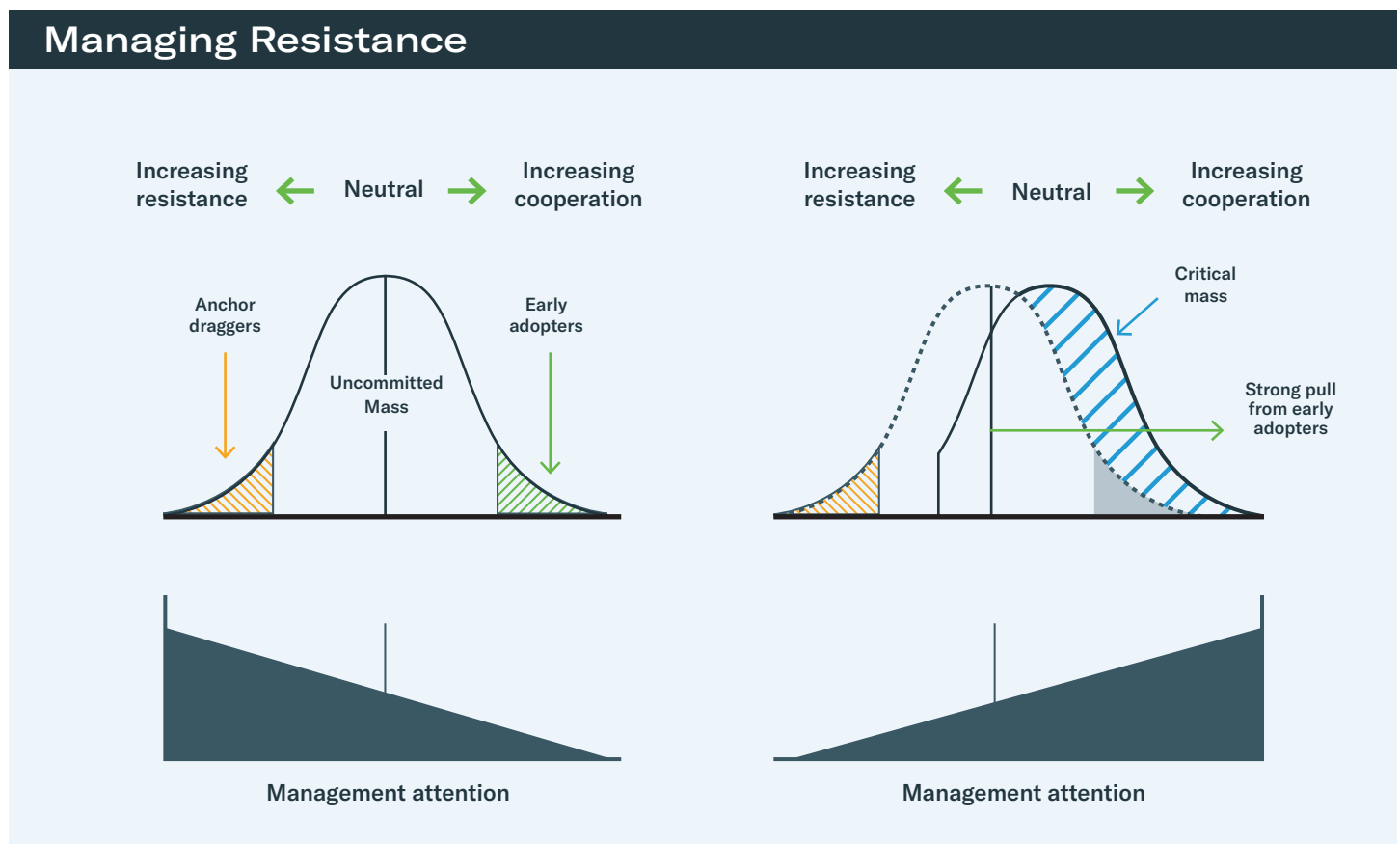
Leaders at both the branch and corporate level took the feedback to heart. Many of the strategies implemented to address operational excellence—standard work,

performance data visibility, and daily huddle meetings—also helped to address employees' biggest concerns and pain points. (See figure 1).

Buy-in and alignment around all these programmes started from the very top levels of the organisation. And the high level of leadership engagement quickly brought employees on board. Recent employee engagement scores at the Huntsville branch skyrocketed from 56% to 88% on the latest survey. The survey was based on 100% employee participation, another strong sign that employees are fully committed to work they do and the changes being made in their facility.

Branch leadership is well aware of the impact on the team, as well as on themselves. "The change management training is the best training I have had in helping me understand how to move people in the right direction," says a branch manager at the organisation. As he's fond of telling his colleagues in other locations, "Trust TBM and the process. It works."

FIGURE 1



*Changes in processes are more effective when management is committed and fully engaged in the process.*

## Keys to Success



### Profitability Improvement

- Introduced daily management discipline
- Implemented operator standard work
- Created SQDCT (Safety, Quality, Delivery, Cost and Team) boards to track daily performance and identify improvement opportunities



### Employee Engagement

- Conducted change readiness assessment to identify cultural obstacles and prioritise countermeasures
- Created and launched formal training and onboarding programme
- Implemented daily SQDCT board reviews and collaborative problem-solving sessions with all members of the parts, service, and rental teams
- Created leader standard work to engage team leads in reinforcing and sustaining improvements



### CapEx Avoidance

- Moved heavy-duty trucking bays to a more suitable location with available space
- Through operational excellence improvements and improved workflow, liberated space within the existing footprint to accommodate at least three years of growth

## Profitable Growth Starts Within Your Four Walls

For fast-growing businesses with aggressive goals, it can be tempting to expand your footprint to create the room you need to grow. However, more often than not, you can do more with what you already have. Lean techniques and operational excellence initiatives can uncover capacity you didn't know you had while driving greater profitability, employee engagement, and customer satisfaction. More space may ultimately be a necessity down the road. But making the space you already have as efficient as possible will help you grow smarter, positioning your business to achieve not only its top line goals, but its profitability goals, too.

## Speed wins every time.

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