

## CASE STUDY

# Interim Leader Turns Around Distressed Manufacturing Operation

## Client

A manufacturer of consumable medical products and supplies. The company was acquired two years earlier by a middle-market private equity firm.

## Challenge

Only 55% of shipments went out on-time with shipping errors at 2.5% of all lines picked. Backorders exceeded \$1 million. They had missed financial targets for over a year and a half. Communications were poor, there were no visible performance metrics, no quality data and poor safety performance.

## Solution

TBM embedded an interim executive director who worked directly with site managers to immediately address top priorities and begin an operational turnaround. He later identified a permanent executive leader and helped with onboarding.

## Results

- The company met its revenue and earnings budget for the first time in 18+ months
- Back orders reduced by 70%
- Inventory down by \$1 million
- On-time delivery up from mid-50% to mid-70%
- Direct labor costs per piece down by 23%
- Shipping errors down by 90%
- OEE improved by 114%
- Safety incidents reduced by 40%

**An interim executive director worked closely with the site managers of the struggling unit over a 10-month period to begin an operational turnaround and lay the foundation for higher performance. He then helped onboard the permanent leader.**

The distressed operation was the company's biggest division and largest profit contributor, and therefore under a lot of pressure to perform. That pressure had taken its toll, undermining daily performance and contributing to high management turnover. The business was in such turmoil that it had missed profitability targets for over a year.

"When expectations are high people can become overwhelmed," the interim leader observes. "That can lead to a kind of paralysis and an inability to execute on a basic level."

In contrast, the private equity owners had modest expectations of the temporary leader. They needed someone who could fill the leadership gap and immediately address the major problem areas, then hand over the torch when a permanent leader could be found and hired.

This case study presents the rapid and comprehensive impact that an interim leader can have on a distressed business while preparing the organization for a permanent executive hire.

## Leadership Starts with People

In a typical month the business shipped over 10 million units (or "eaches"). Management turnover and other issues had contributed to increases in downtime, scrap and shipping errors. Backorders had grown to more than \$1 million. All of this had a negative impact on customer relationships, in large part because on-time delivery was averaging an abysmal 55%, which was undermining the company's financial performance.

The first directive was to get the backorders down as quickly as possible. Our embedded strategic resource started that effort by getting to know everyone and trying to understand their issues and challenges. Building relationships and working with people directly is the fastest and best way to understand who will be both willing and able to help improve performance. He demonstrated his willingness to help by pitching in where needed, whether that meant picking up trash on the plant floor or helping somebody try to get to the bottom of a quality issue.

“It’s a two-way street,” TBM’s interim leader explains. “It’s easy for a senior executive to say that a site needs leadership, but the people there have to actually want leadership and want to improve for anything to change. In this case I was fortunate to be with folks who genuinely cared about the business and they cared about each other. I provided direction, structure and the expectations that we needed to improve and that it would take everybody to do it.”

Along with high backorders the site had a host of other issues in safety, quality, maintenance, tooling, purchasing, engineering, materials, and communication. With so many opportunities for improvement, it was important to make sure that everybody on the team understood how they could contribute.

In addition to the need to reinforce responsibilities and expectations among department managers, the business was missing leaders in key roles. It had a value stream management structure organized around product lines, but was weak in some functional areas. Materials were disorganized and the ERP system was not being used systematically, and engineering lacked guidance and accountability. The interim leader worked with HR to get approval for then recruit and fill engineering and material manager positions with experienced leaders.

FIGURE 1

Interim Leader Simultaneously Drives Change Across Struggling Operation		
<b>Reduce backorders, improve on-time delivery and decrease shipping errors</b> <ul style="list-style-type: none"> <li>Focus on problem areas</li> <li>Set clear goals</li> <li>Establish daily accountability</li> <li>Eliminate extra shifts</li> </ul>	<b>Engage managers in changes</b> <ul style="list-style-type: none"> <li>Understand individual challenges</li> <li>Empower people to make decisions</li> <li>Ongoing coaching and mentoring</li> </ul>	<b>Reduce silo mentality</b> <ul style="list-style-type: none"> <li>Gather input from each department</li> <li>Establish business priorities from data</li> <li>Align team around common priorities</li> </ul>
<b>Fill holes in the management structure</b> <ul style="list-style-type: none"> <li>Collaborate with HR to show need for materials and engineering manager</li> <li>Recruit, fill and onboard new managers</li> </ul>	<b>Reinvigorate productivity improvement efforts</b> <ul style="list-style-type: none"> <li>Divide project pipelines into 1) operations, 2) engineering and 3) purchasing</li> <li>Link projects by month to savings forecasts</li> </ul>	<b>Make safety a core part of the culture</b> <ul style="list-style-type: none"> <li>Establish safety metrics and tracking</li> <li>Implement Green Cross program</li> <li>Post lost-time goals</li> <li>Review safety performance daily</li> </ul>
<b>Improve individual performance management</b> <ul style="list-style-type: none"> <li>Address known issues with key managers</li> <li>Conduct yearly performance reviews on time</li> <li>Provide candid feedback and suggestions for improvement</li> </ul>	<b>Implement Management System</b> <ul style="list-style-type: none"> <li>Setup metrics wall</li> <li>Implement morning stand-up, flash meetings</li> </ul>	<b>Implement quality program</b> <ul style="list-style-type: none"> <li>Start tracking quality issues.</li> <li>Gather historical data for comparison</li> <li>Coach root-cause analysis</li> </ul>



## Meeting Customer Commitments

By the time the interim leader turned over the reins to the permanent site leader, the average daily on-time delivery rate had been improved from 55% to the mid-70% range. While there was still plenty of room for improvement, it was a significant gain that was having a tangible impact on customer relationships.

Similarly, within six months the plant's production teams reduced backorders from over \$1 million to \$270,000, with much of remainder linked to regulatory requirements. They accomplished this through planning and increased accountability for meeting daily production commitments. Each operating manager was empowered to address any bottlenecks and roadblocks to achieve their targets.

A chemical production process for a key customer accounted for much of the backlog. On one of these lines—where a third shift had been added at one point to meet customer demand—the overall equipment effectiveness (OEE) was under 30%. Through better discipline, turnover of poor managers, working with a new production leader and collaborating with engineering, changeover times were reduced by 50%. At the same time mistake-proofing methods were deployed to improve quality and output.

With the efficiency improvements and a slight decline in demand, the line eventually was able to meet production quotas on one shift. In addition to reducing labor costs, this latent capacity created an opportunity for the company to bid on new business.

Within the first month of his arrival, the interim leader introduced a performance wall to report site-level metrics and a daily flash meeting for all department managers. Previously, few visual management tools had been used, and there was very little staff communication about production or quality performance. The daily check-in—which takes a maximum of 20 minutes—is now embedded in the culture with clear expectations for attendance and support, and runs effectively without executive leadership.

## Leadership Is What Leadership Does

The interim leader also helps the department leaders better understand the job of an executive, as well as their roles and responsibilities no matter who is sitting in the boss's seat. "I tried to convey what the expectations would be for anyone in this role," our interim leader says. "I explained what executives look at, how we think and how we view the business. When there's an issue or a financial review, I tried to help people understand what the questions would be. And, more importantly, how to prepare."

On the other side he did what he could to make sure that the next leader, when he was eventually hired, understood the culture and what would be needed to move forward, without projecting his personal agenda. He sat down with the HR manager and the incoming director and reviewed the current business structure and history, explaining the culture and detailing each individual's role and responsibilities.

“Because a number of site leaders came and went before me, my biggest challenge was making sure that the team understood that they are responsible for the success of the business and for the success of one another,” the interim leader recalls. “No matter who is sitting in the director’s chair, the team members all have to understand that they are empowered to make decisions, and that we trust them to make decisions and call on one another for support.”

## Results

The company met its revenue and earnings budget for the first time under the current private equity ownership.

### Within the first six months, the business unit:

- Reduced backorders by over 70% and lowered inventory by \$1 million
- Improved on-time delivery from mid-50% to mid-70% range
- Reduced direct labor cost per piece (or “each”) by 23%
- Reduced shipping errors by 90%
- Improved overall equipment effectiveness on key production lines by 114%
- Reduced safety incidents by 40%

## TBM Leadership Solutions

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