Case Study

Operational and Financial Restructuring

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Customer Profile

Industry	Office Products
Number of employees	125
Annual revenue	$ 65,000,000

The client designs, builds, and distributes office products and contract manufactured components and systems; the majority of its products are sold to large office product commercial and retail outlets throughout NAFTA. Contract production is produced for multiple, unrelated industries in need of specialty manufacturing of plastic blow molded components.

- **Established in 1998; a premier supplier of custom made office products**
- **Revenues in 2007: $65 million**
- **Profit in 2007: ($1.2 million)**
- **Two locations in one Midwestern state with the corporate headquarters located in a different state**
- **Assigned to the special assets group (SAG) of a large Midwestern bank due to continued profit losses and declining working capital**
- **Inventory levels in excess of $9.4 million**
- **On-time deliveries were 82%; penalties in excess of 5% of shipments**

Business Situation

Neither the manufacturing nor distribution facilities were performing at profitable levels. Consistently late deliveries, scrap rates exceeding acceptable production levels, inaccurate production schedules leading to continuous production disruptions and unplanned changeovers, as well as deficient problem solving skills leading to excessive nonstandard labor were all negatively affecting the company's performance.

The primary lender had become increasingly concerned over the liquidity issues of the firm. Account payables had risen to unacceptable levels, leading to raw material shortages. Deliveries of raw material interruptions forced "panic" plant changeovers and significant increase in work in process (WIP) material. Finished goods inventory was damaged due to redundant handling, was overproduced to support an unrealistic and irrelevant efficiency metric, and had ballooned due to overproduction of unwanted customer product.

Technical Situation

A Team of EDSI Consulting's Operational and Financial Restructuring experts were infused into both the corporate headquarters and the manufacturing/distribution facilities to perform an assessment of the situation. The issues were prioritized and breakout teams were tasked to gather performance metrics to determine the baseline state of the operation.

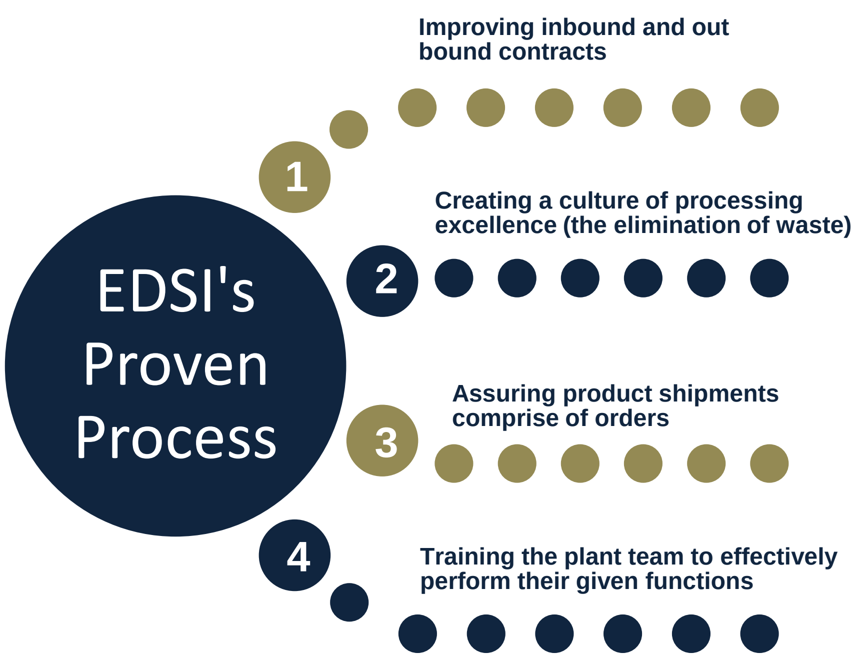
Two independent teams were established to address the two primary issues:

Team 1 was tasked to improve the communication between the primary lender and the company to better present the turnaround plan for the firm, given that the primary Lender had moved the company into the SAG.

Team 2 was tasked with improving the manufacturing and distribution operations to reduce operating costs, mine cash, and streamline material processing and shipments.

Team 1 focused exclusively on cash forecasting from operations and developing a clear channel of communication with the lender. This included creating cash flow projections, a turnaround plan in a format easily presented to the lender, and identifying target opportunities for potential investigation and resolution by Team 2.

Team 2 was assigned to improve plant operations and employed EDSI's proven process of focusing on four areas:



Benefits

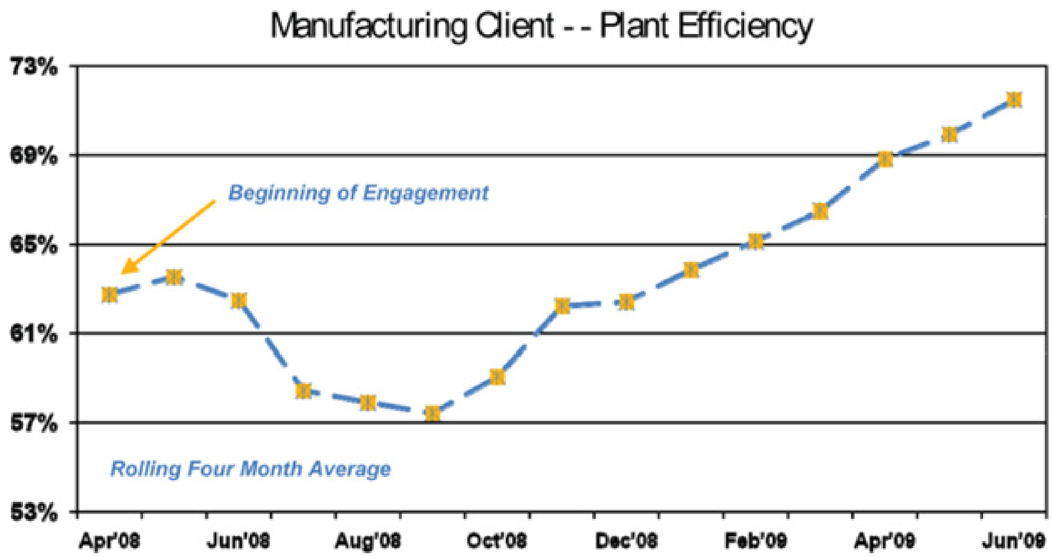
Over a period of six months, these teams worked hand-in-hand with the client to incorporate a lean enterprise within the walls of the manufacturing facility and corporate headquarters. This included:

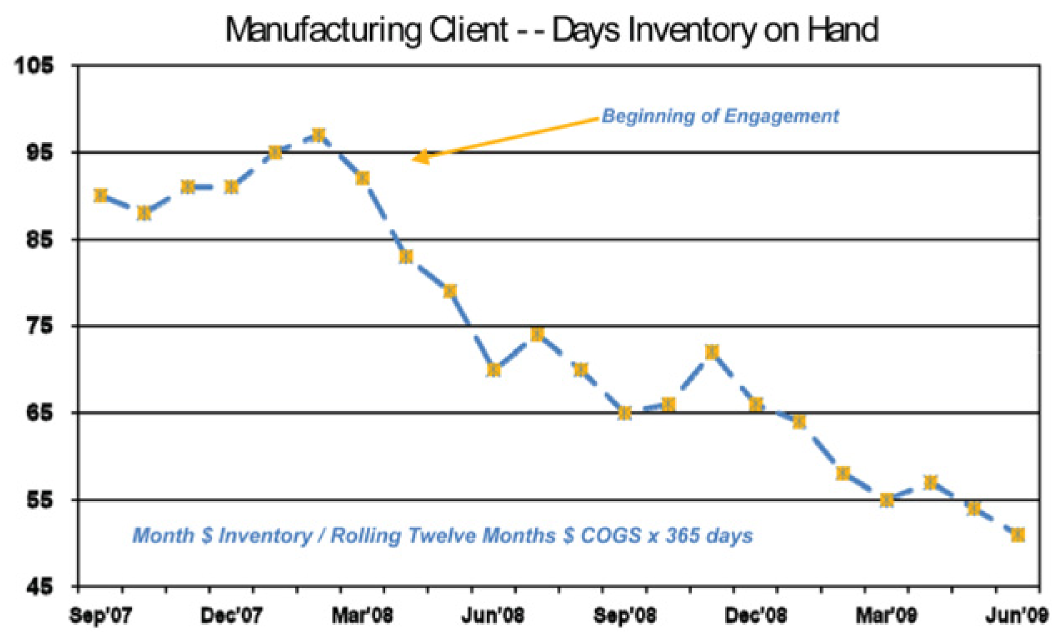
- **Setting achievable metrics for each production cell**
- **Defining work processes for every product (2000 plus skews produced during the calendar year)**
- **Drastically reducing unusable inventory including the conversion of unusable material to sellable product**
- **Negotiating payment schedules and Kanban supply agreements with suppliers**
- **Selling older inventory at reduced prices to raise working capital**
- **Correcting manufacturing deficiencies and quality issues**
- **Establishing a single piece flow throughout the facilities for all products**

An especially critical function was to establish a lockdown production schedule to permit the plant to schedule raw material, tool changeovers, and manpower to match customer demand. This "pull" method of production significantly reduced waste in the system.

The outcome of this intervention was a 59% reduction in onsite inventory, on-time deliveries metrics improved to over 98%, revenue per direct labor hour grew 41%, and working capital requirements were slashed by 29%.

Onsite Inventory	On-time Deliveries	Revenues per Direct Labor hour	Working Capital Requirements
↓ 59%	↑ to 98%	↑ 41%	↓ 29%





The Company returned to profitability in the fourth month of the engagement. In the following full year, profits soared to 9% net with substantial bonuses paid to all employees.

Furthermore, the ownership was able to withdraw $1 million of seed capital and successfully negotiated a new, favorable lending agreement with the existing lender to cover future working capital and potential acquisitions.