SIRF Roundtables

SA Manufacturing Excellence Roundtable

Competing Internationally

18 May 2005

Product Development as a Competitive Strategy
by Richard Stone, Operations Manager, Sola Optical

Richard gave an excellent presentation and indicated that he is available to speak with people who attended the roundtable, but prefers not to have either the presentation or notes circulated or placed on the website. We respect his choice.

Benchmarking for International Competitiveness
by Richard Niedzwiecki, Program & Engineering Manager, Electrolux Cooking Plant

Electrolux Global Product Councils will reduce the number of product platforms and brands the business supports, and choose the sites that will produce. At Dudley Park, Electrolux produce household and professional cooking equipment. To stay in business we must compete internationally. Benchmarks are only the start of the story.

At Dudley Park, Electrolux produce 2000 units per day and have a capacity of 2400 per day. The Kan Ban production system has a batch size of one.

Electrolux have a 40% share of the Australian market. Market share is falling under price pressure from low cost Eastern European and Asian manufacturers raiders such as LG from Turkey, supplying builders who buy on price, and from high level entrants such as Miele and Smeg, serving premium customers.

Electrolux retained Bain International for 8 weeks to conduct a benchmark study of competitor product and capabilities including make or buy data. The business could benefit from low cost purchasing. Competitors are not waiting. Improvement is too slow. Speed is critical.

Australian best case reductions achieved 9% but the target was 19%. We needed a change in our competitive mindset. To cut 5% is hard; to cut 40% is easy.

Electrolux conducted a very wide program seeking to reduce complexity across the whole business and to transform each business process.

In marketing and brand strategies, they aim to avoid proliferation. One opportunity was to reduce the number of exclusive brands and models. The business had a long tail of low volume models and could drop 55% of models and lose only 6% of sales.

Purchased cost comparisons pointed to opportunities to outsourcing wiring harnesses and press parts, saving cost.

They improved core competencies and value adding in manufacturing through changes in their training and production systems and their organization. They developed specialized assemblies and invested in technology. There were direct materials savings.
Direct labour savings arise from improving line stability, reducing interruptions and speed losses could all contribute upto fell 45% improvement and customer service call rate improved.

We can all read articles about the China cost, and their advantages in direct materials and labour costs.

Implementation.

The outcome is stronger brand differentiation, reduced duplication, more global purchasing for non core activities such as offshore press parts and stronger global control. Platform standardization created opportunities for vendor managed inventory for all two suppliers. Central project control provides the owners with access to information.

Teams are everywhere. Line balance teams meet weekly analyzing each line in turn. They have generated 270 brainstorm ideas offering low investment high value changes.
Man machine charts reduce the time people spend waiting for access to work. Daily standup meetings (2 per day) engage workforce in improving line balancing and lead to disruption free production.

To date:

- Direct FTE's are down 33%. Including lower overtime and more outsourcing, people are working less to produce the same volume. Productivity units per person per day are 47% up.
- SKU's are down 42% and the service call rate is down.
- Materials are up less than target.

Stage 2 will deliver the remaining savings. A separate assembly precinct within the site will consolidate 7 assembly facilities in one and allow line side quality auditing.

Electrolux will upgrade Product Development using a stage gates system and weekly kpi reports.

Competitive Strategy and Future Directions
by Peter Gardner, Director Manufacturing, Asia Pacific TI Automotive

TI in Asia Pacific is an unlisted UK company specializing in fluid carrying and brake systems. The origins of the firm in Asia Pacific were in Tubemakers and Bundy. Tl acquired the equity in 1996, merged with Smiths in 2000 to form Smiths Group PLC. The automotive business demerged in 2001.

TI has strong experience in the Asian region. TI Asia Pacific explored China in 1970's, forming a Joint Venture in Korea in 1979 and in China in 1987. They also have a strong presence in India, Australia and a growing presence in Japan plus a plant under construction in Thailand.

Joint Venture plants are very difficult and better results arise from using Chinese managers.

Success factors include being first on the ground and taking an entrepreneurial attitude. The down side includes is local competition making look alike product.

Automotive customers want suppliers to integrate into global network, a global platform.

The future is in China and India. They produce quality product using global technology. Throughout the region our focus is generational leap in quality. Local technologies do not sell to global customers. Low cost China is a mirage; many business costs are high.

The quality environment in the Asian region is becoming more demanding. It is necessary to train, automate, and use best practice techniques. China wants global technology from its partners such as VW in China and Hyundai in India.

Labour costs are lowest in Korea, China, India, Thailand in declining order. China labour costs are rising 6 to 8% pa. Staff retention in China is very difficult and salaries are rising rapidly. There is no longer prestige for an engineer working with a western company, and so salaries are high and it is difficult to retain quality staff.

Other costs are high in China and India. Regional logistics and infrastructure are a big challenge. TI have 30% of inventory on water for 4 to 5 weeks. Total Inventory is $20 million, and half of that is raw materials.

TI found it difficult to sustain profitability of their tube making operations in Australia, but wanted to retain local supply for their Australian clients.

Tube is a raw material and tube plants absorb technical resources which could be better used investing in new technologies. The tube and coating lines were subsequently closed and relocated to TI China.

Locating tube manufacturing in China places it centrally, near customer investment and near the skills required. Retaining manufacturing of components and products in Australia better uses our technical resources.

This decision resulted in profit growth for both TI Asia Pacific and TI Australia. This avoided save the business decision of closing the whole Australian operation.

Lessons Learned

If you are a pioneer you must understand the market. Find your niche and never underestimate the competition. Not every business is global. Maintain your Competitive Advantage.

Accommodate business needs, products, technologies, and customer demand in your strategy. Plan well and implement on time, using best practice. In international competition speed, flexibility and resilience are essential.

Site Visit

Members enjoyed a site visit to Hendersons Automotive SA.

Scott Mutton provided an overview of the business approach to competing internationally, through focusing on more complex and sophisticated assemblies and using modern equipment effectively. The site visit demonstrated these philosophies at work.