

Productivity Improvement Process

Overview

Our productivity program is mainly a operational cost improvement program. It looks at the business processes and all controllable cost elements in the business unit. Based on your needs and requirements we identify jointly with your key employees the potentials for improvements. It generates significant improvements within the operation and strenghts the competitiveness of your company.

Advantage:

- ◆ Clear methodology, analytical approach, concentration on facts
- ◆ All people of the investigated unit will participate, therefore high motivation for changes
- ◆ Use of the employees creativity leads to high saving potentials
- ◆ High employee identification with the changes they have defined themself
- ◆ Based on on the intensive employee participation in conjunction with a systematic implementation process a high degree of realization success will be achieved

Results based on ↓ *finished projects*

- **25 - 40 % Reduction of controllable cost**
- **80 % of saving potential will be implemented within 12 month**
- **Investment for realization usually < 5 % of saving potential**
- **Realization success > 90 %**
- **Optimized business processes and organization**

Cost Saving Assessment

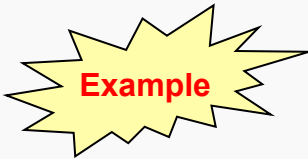
- Prior start of the productivity analysis process there will be an assessment regarding the probable saving potential, based on the actual cost structure and all cost elements of the unit (representative time frame).
- This methodology to assess the saving potentials upfront is based on approx. 30 executed projects and has been adjusted/improved in an iterative process with each project finished. The saving potential prior project start can be assessed with a probability of > 85 %.
- Beside the proposition of the potential cost savings the most likely implementation time will be also projected based on an algorithm derived from closed projects. The algorithm has been defined based on the actual implementation time vs. the projected time in the project plan. The result of the forecast has been proven as a good fit to the reality.
- With this saving assessment picture gets the management prior project start a basis for discussions regarding requirements and to set objectives for the upcoming project work.

Cost Analysis based on Activity Based Costing (ABC)

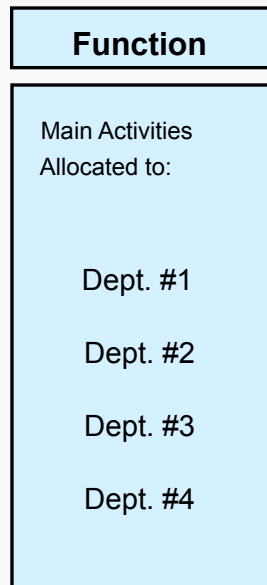
Costs are generally connected to activities and therefore can be applied to them, so that productivity potentials can be evaluated in a quantitative and qualitative way.

- **Make the cost transparent**, i.e. the costs of all cost elements will be applied one-time for a representative time frame (6-12 month) to the key activities in a very comprehensible way for all people.
- The advantage is, that the cost are no more longer anonymous, so that the real distribution of cost vs. activities generate aha-reaction among the employees. By understanding the story, the employees are more motivated to contribute with their ideas in the change process project.
- The adjusting screws for process and productivity improvements gets visible and can adjusted based on the goals.
- Based on the established cost transparency the cost awareness gets stronger, i.e. the costs are not perceived abstract anymore.
- The result of the analysis provides the management and employees an excellent overview and insight of the flow of all cost in detail and therefore a common cost understanding will be generated.
- Processes changes and changes in the organizational structure will be visible and comprehensible regarding impact on activities.

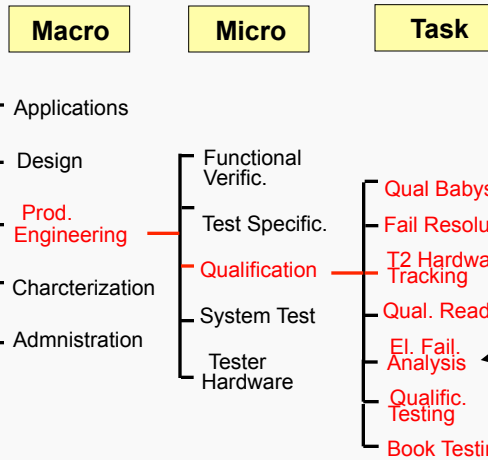
Activity Based Costing



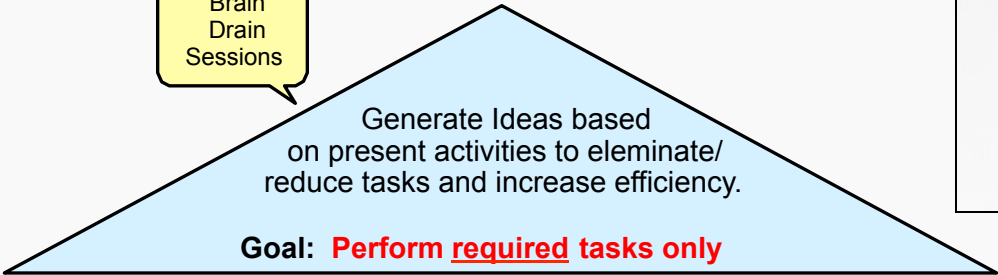
Base Activities



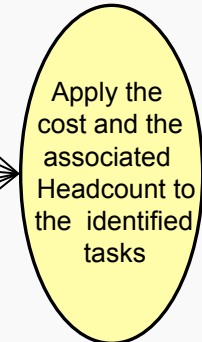
Activities broken down to 3 Levels



Brain Drain Sessions

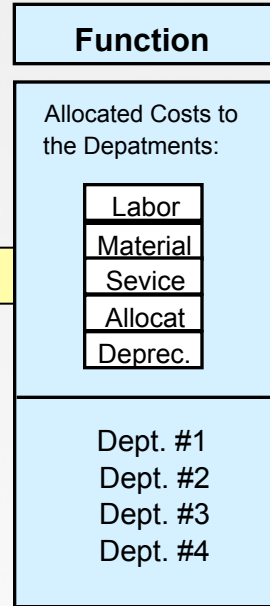


Headcount / Cost



Present process of cost allocation

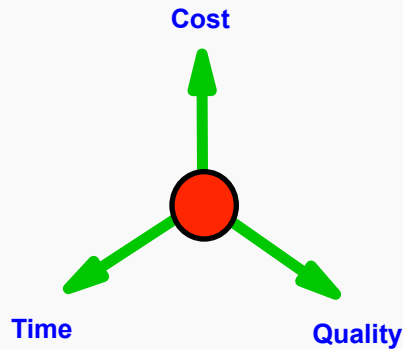
Base Cost



Success Factors

The process addresses all success factors simultaneously

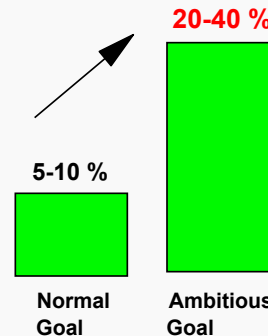
- ▶ Reduce cost of bad quality
- ▶ Reduce cost of development
- ▶ Optimize project process flow



- ▶ Accelerate product implementation
- ▶ Accelerate development process
- ▶ Accelerate product availability

- ▶ Increase Yield in Mfg
- ▶ Reduce development cycle time
- ▶ Improve design reliability

Ambitious Goals (Hurdle)



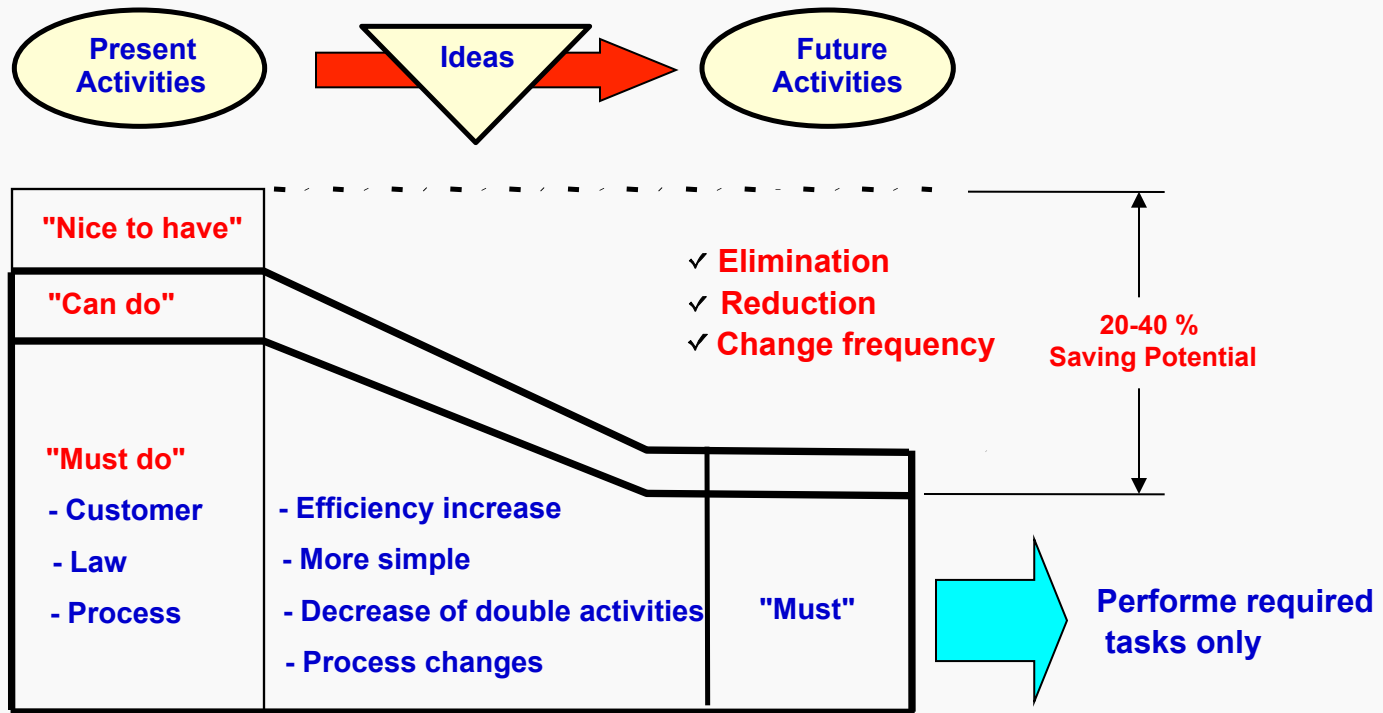
Success through:

- ▶ Stimulate employees creativity
- ▶ Questioning todays doing
- ▶ Think about basic changes
- ▶ Don't look for obvious changes only

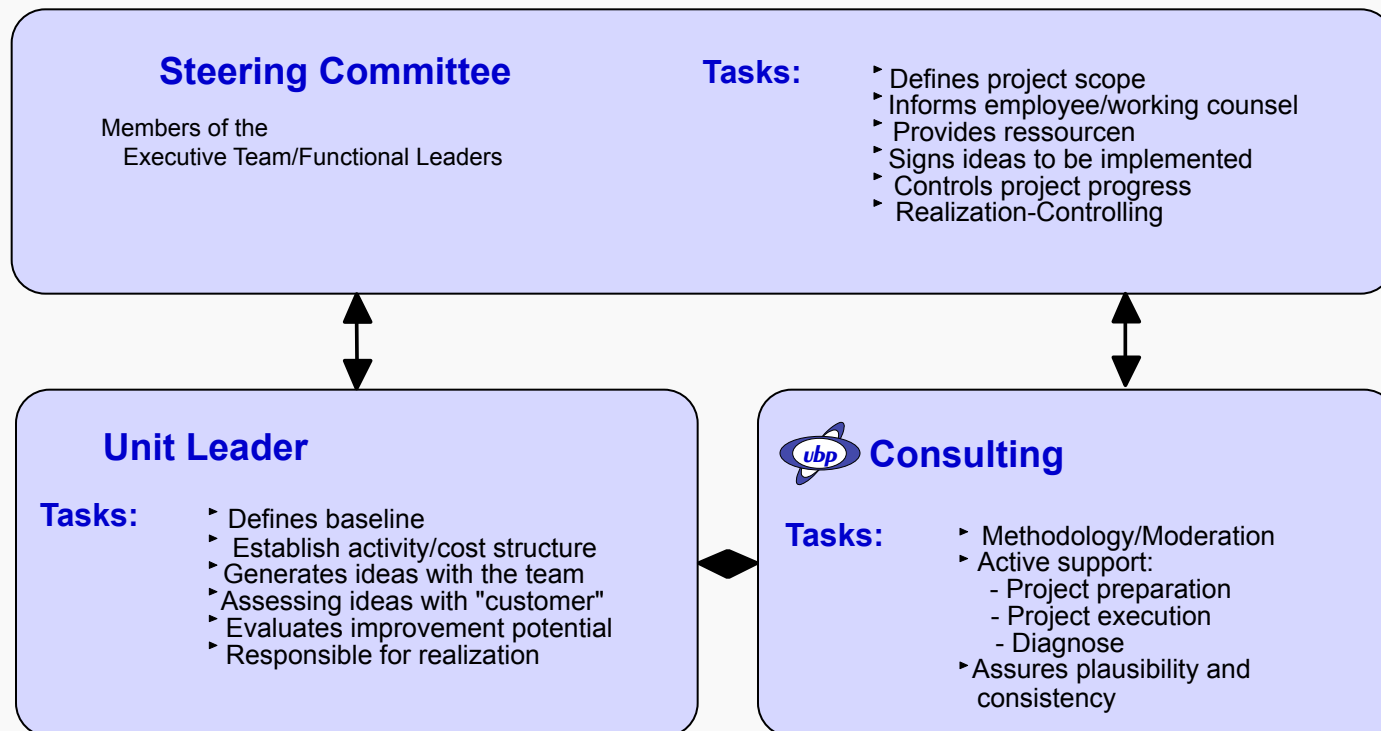
Approach:

- ▶ Differentiated hurdles based on cost element

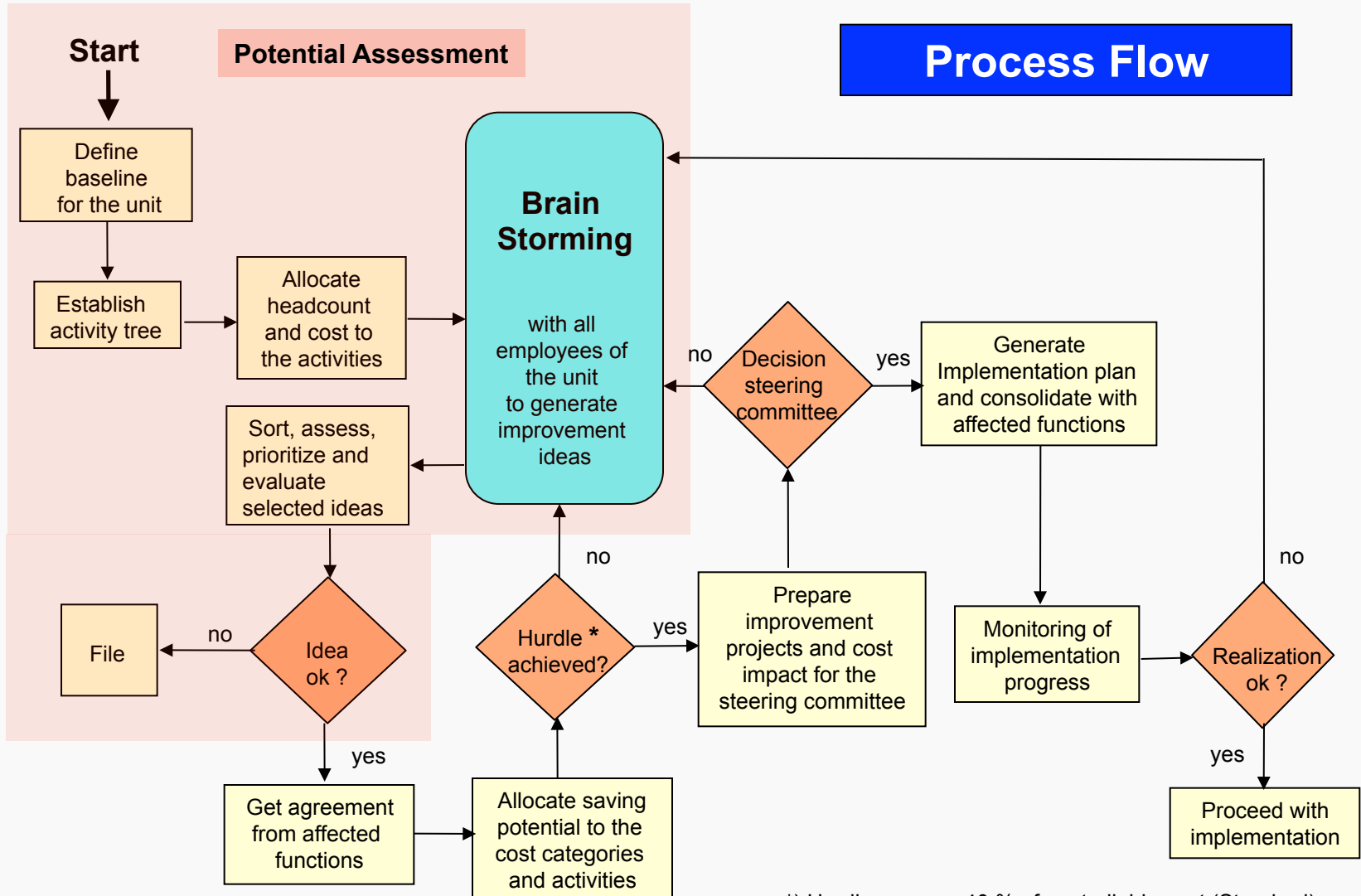
Cost of all activities and services have to be reduced to the minimum



Organizational Setup



Process flow for the entire *Ratio* cycle



* Hurdle: approx. 40 % of controllable cost (Standard)

Key data of the unit at a glance



Unit information

- Duration of Cycle (weeks)..... 12
- Team Members 6
- Brainstorming Sessions Held 10
- Unit Employees Captured 20 %
- Ideas Generated 587
- Ideas Finally Evaluated 23
(based on 278 employee ideas, delta to 587 Ideas were more of the same)

Financial information (Mio US \$)

- Total Base Cost (100 %) 26.8
- Controllable Cost (39.2 %) 10.5
- Hurdle/Target (38.1 % of Contr. Cost) 4.0/3.0
- Potential assessed by the Team 3.64
- Potential Saving vs. Base Cost 13.6 %
- vs. Contr. Cost 34.7 %
- vs. Hurdle 91.0 %

Schedule for the RATIO Project

Activity	Duration (Days)	Week											
		0	1	2	3	4	5	6	7	8	9	10	
Project Staging (Mgmt., Unit Leader)		█											
Kick-Off Meeting (Mgmt., Core Team)			▼										
Building cost data base			█	█	█								
Employee Info Meeting				▼									
Brain Drain Sessions to Generate Improvement Ideas				▼	▼	▼	▼	▼					
Idea Selection, Evaluation, Documentation & Sign Off				█	█	█	█	█	█	█	█	█	
1st Status to Steering Committee									▼				
Final Presentation to Steering Committee												▼	
Idea implementation & Realization Planning											█	█	
Realization Steering Committee													▼

Assumptions: - Unit Leader 40 % available during the project period to guarantee success
 - Core Team members (5 to 8 key experts) 100 % available for the first week, afterwards 30 % availability