Many companies today have lost sight of production excellence. They have focused on expanding business and plant networks across borders, and they have tried to become more market driven. In doing so, they have overlooked opportunities for improving the capabilities and performance of their manufacturing operations.

In one case, a large beverage company focused its market-oriented organization on acquisitive expansion. After decades of this approach, management discovered that performance at its bottling facilities varied widely, with limited sharing of best practices. In another situation, when a chemicals company reorganized into business units that targeted each of its customer groups, its new structure resulted in plants run by as many as three different business-unit managers. Although these individuals possessed strong business knowledge, they lacked experience in production. Inevitably, production efficiency slipped.

Fortunately, rapid and major improvements in production are possible, especially in industries that have similar plant setups in various locations—such as consumer products, metals, industrial components, paper, and chemicals. In many companies, isolated pockets of excellence already exist somewhere in the production system. Even some of the most uncoordinated production networks typically have strengths that simply have not been leveraged or extended.

Opportunities for Action

Production Excellence: Unleashing the Power of the Shop Floor

Identifying Opportunities for Improvement

In our experience, most companies are able to achieve improvements of 10 to 35 percent in value-added production costs; in two to four years, many can move from middle-of-the-pack performance to the top quartile of their industry. Signs that such opportunities exist include the following:

- Plants have similar products and processes, and are located in different regions or countries
- The sharing of best practices and standard operating procedures is limited
- Production is organized locally as part of regional or country organizations
- The organization is market driven, with management focused primarily on and talent deployed mainly in sales and marketing
- The company often ranks low on industry benchmarks of operational parameters

The issues that most companies need to address are the absence of a group perspective on operations, limited sharing of best practices across plants, and an unenthusiastic approach to cost reduction. The solution to these problems, however, is not to launch targeted initiatives in an effort to eliminate inefficiencies; instead, companies should establish an approach that creates long-term value based on continuous improvement, capability, and culture.

The Path to Production Excellence

Launching a groupwide efficiency initiative is often the best way to achieve quick performance improvements and build continuous improvement processes. Successful companies typically follow five steps.

Establishing “Command and Control.” On their own, local efforts might succeed in achieving one-time improvements, but a comprehensive, systemwide effort is needed to ensure that best practices and common improvement tools are captured and implemented throughout the company. To achieve consistency across plants, a
company must establish a structured program and ensure that all local improvement projects are run in a disciplined manner and in accordance with the overall program.

Senior managers must drive home the importance of the program and press for progress. They may even need to lead the effort. At the very least, management must dedicate substantial effort upfront to selecting the right people to work in the program and to exploring how best to share learning across plants. It is critical to identify strong performers and release them from their everyday duties so that they can participate in improvement work at different locations.

To get started, many companies chose to benchmark key performance indicators (KPIs) and to identify the areas in which individual plants lag best practices. Selecting a set of KPIs—indicators that are actually key for performance and that can be precisely defined and interpreted across countries with widely varying factor costs—is crucial not only for benchmarking and target setting but also for driving continuous improvement over the long term.

**Learning from Pilot Programs.** Typically, running a pilot program in one or a handful of diverse plants helps a company learn quickly—identifying relevant tools and best practices that should be rolled out throughout the organization. In deciding where to start, several alternatives are possible. One consumer company began with its worst-in-class plant in order to achieve maximum impact as quickly as possible. Another company started in a plant led by an influential opinion leader among the plant managers. The manager strongly opposed centralized efforts, but once won over, he was instrumental in securing support and cooperation for the program from his peers.

A paper company took a particularly aggressive approach to performance improvement by subjecting its best paper mill to the initial review. A team of efficiency experts and local managers systematically scrutinized what were already best-practice operations—and identified the potential for improving performance by yet another 13 percent. The company held up its findings as the “new, improved best in class,” making a compelling case that every paper mill could improve performance by implementing the initiative and deploying the tools, methodology, and 27 specific best practices identified at the top mill.

**Tapping into Knowledge on the Shop Floor.** KPIs are important, but they can’t tell the whole story. It is equally important to talk to a large number of plant employees across all levels. A great deal of knowledge about how to make improvements already resides in any plant organization. Furthermore, engaging the entire organization in the improvement process ensures employee buy-in and empowerment. It also accelerates the improvement process by establishing a work environment in which employees are willing to start correcting problems as soon as they are identified.

It can be particularly effective to charge the local team first with investigating and detailing the problem areas in a plant before considering solutions. Only after the issues are fully explored and understood—and data about the actual processes are documented—should the team begin thinking about opportunities to solve the problem. Starting with a “clean slate” and operating without conventional limits on what is possible often lead to breakthrough initiatives and dramatic changes in performance.

One wastewater treatment plant learned just that. The plant’s production line had been running at low efficiency for several years after installation. A number of experts had tried to fix it without suc-
Yet putting the trust in the plant’s own operators and providing them with appropriate analytical support fixed the problem in eight weeks.

**Demonstrating Results.** Another essential is to demonstrate results quickly in one or a handful of plants not only by providing evidence that the potential for improvement exists but also by taking steps to implement identified solutions fast. In our experience, most plant improvements should be implemented fully within 18 to 24 months, with 25 percent of the work completed during the first 3 months and another 25 to 35 percent of initiatives implemented within 9 months.

For example, within nine months after kicking off its performance-improvement program in pilot plants, a global consumer company had already implemented 50 to 60 percent of the initiatives. The evidence from these successes was so compelling that the company was able to quickly expand the program to its remaining 15 plants, ultimately improving value-added production costs by 25 percent over three years.

In addition, large, complex improvement projects require rigorous follow-up efforts to ensure that people are held accountable and to prove that changes have taken effect. By investing in a strong follow-up system and continually communicating progress and quantifiable results, companies will also help convince even naysayers of the project’s value.

**Investing in People.** Our experience has shown that the companies that attain production excellence are those that devote a great deal of energy to training employees, building capabilities, and identifying best-practice pockets in various functional areas and in different plants. Providing training on improvement tools and project management—as well as cross-plant training of project leaders and functional managers—is particularly vital. Several successful companies, for example, have established “production academies” that provide specific instruction and real-life case studies on identifying improvements in such areas as maintenance operations, waste management, and labor relations.

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Continued expansion and market orientation are essential for most businesses. But the fact is that most industrial and consumer companies have between 40 and 70 percent of their cost base—and often almost all of their assets—tied up in production. As a result, excellence in production often sets highly profitable companies apart from mediocre counterparts.

Indeed, several companies have already been successful in transforming their entire culture into one of continuous improvement and operational excellence, ingraining performance-improvement tools and thinking into the business system. By deploying a set of tools and improvement processes tailored to their own situation, they are able to continually fine-tune performance across different locations—even across diverse businesses. For such top-performing companies, these shop-floor capabilities have helped create new structural competitive advantages. For other companies, the question can only be, How long will they wait?

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