

**Thinking Dimensions Global**

QUARTERLY

# CEO P.O.V.

**“Mining” for EBITDA:**

*Delivering Substantial Results in 30 days*

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## “MINING” FOR EBITDA:

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### DELIVERING SUBSTANTIAL RESULTS IN 30 DAYS

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*POV of article: In this economy effective companies have already reviewed their business functions, policies, contracts, product pricing and market size to minimize cost, increase revenue and maximize EBITDA. All have immediate issues to address, yet many overlook long-term, chronic issues, particularly in their operations, that drain profitability. Why? Chronic issues have been around a while, are not likely reported any longer, may not be visible to customers or management, or are viewed as normal cost of business. Such issues must be consciously “mined” in order to take meaningful corrective action and deliver the hidden financial rewards.*

**Issue:** In late 2011 a leading global packaging supplier had recently completed its’ second acquisition in 2 years and needed to bring the new businesses in line with corporate cost, profit, and EBITDA targets for FY2012. The company had conducted a thorough review of their product, market, policy and pricing positions (per their strategic plan) and had initiated changes to align global profitability goals. But the EBITDA targets still appeared at risk. They needed to “kick-start” their profitability goals and fast.

The charge: The organization’s leadership and Thinking Dimensions (TD) commissioned The EBITDA Project:

- Find \$500K of EBITDA savings opportunities
- Resolve the issues in 30 days
- Gain CFO Validation of EBITDA impact

**Approach:** Robustly engage the company’s new Quality Program to apply TD’s proprietary root-cause analysis (RCA) tool on operational issues at three manufacturing locations – US, Canada & UK.

The Quality Program provides the common structure to administer the project via a single methodology (RCA tool) per the focused goal in a 30-day timeframe.

***Companies  
must take  
a “fresh”  
look at their  
business to  
recognize  
the chronic  
problems that  
they live with.***

**Lead the EBITDA Project (Who has the common structure, skills, issue knowledge, and responsibility to deliver results?)**

In this organization, the Quality group was the selected function to identify, monitor, correct, and manage acute and chronic operational problems. The company in mid-2011 had re-designed a robust corporate Quality Program to encompass the needs of their expanding global business. The Quality Program had been deliberately designed to drive EBITDA value and not be just a quality assurance department addressing customer complaints and collecting data.

As part of this Quality Program, each global site had a dedicated team skilled in an advanced RCA methodology that guaranteed expeditious issue resolution. This RCA tool fixed acute customer quality concerns and was instrumental in finding and resolving the various chronic issues that plagued the manufacturing sites and depressed EBITDA.

The Quality Program (Group) was the natural entity to:

- 1) Provide a common, systematic quality structure globally -- same process, metrics, responsibilities, and skills
- 2) Identify, monitor quality issues per their operational insight
- 3) Prioritize quality issues relative to -- strategic goals, cost impact, customer satisfaction, regulatory/legal requirements
- 4) Apply a common RCA tool to determine issue corrective action
- 5) Validate the \$EBITDA value of corrective actions

**Execute the EBITDA Project (Identifying, solving and implementing validated issue resolutions)**

In the next 30 days three company sites located in different countries assembled their quality teams and with support of Thinking Dimensions completed the following:

**Conferenced to understand project objectives and schedule.** This was the first time the new quality program was challenged to meet a specific corporate goal - \$500K EBITDA opportunities in 30 days. It was imperative to communicate the goals, approach and timeline of the project, but equally important, the new global quality teams were working for the first time toward a common purpose.

***A High-visibility  
global project  
with  
challenging  
goals and short  
timeframe  
requires a  
leadership  
entity to have a  
common:***

***Structure to  
communicate  
and manage***

***Tools and Skills***

***“Sense of  
responsibility”  
to deliver  
results***

**Identified issues to be addressed.** Each site team, comprised of seasoned lower and middle managers, identify 3 -5 issues to address. Unsurprisingly, 90% of the issues were chronic (around for multiple years) with only 10% acute (around <6 months).

Issues were prioritized according to strategically focused criteria. This ensured appropriate resource utilization of people and money in delivering results relative to the issue's significance:

- 1) Strategic Alignment –addresses a key product, market problem
- 2) Scope of the Problem – size, recurrence, duration
- 3) Technical Concern – complexity of issue, time to resolution
- 4) Customer Relationship – impact to customer satisfaction
- 5) Costs – current costs, historical costs
- 6) Risks – legal, regulatory, recalls
- 7) EBITDA impact – estimated \$dollars saved

**Conducted RCA sessions to identify issue corrective actions** - Besides resolving the root-cause of issues, the quality team participants reconfirmed their RCA skills previously developed during the earlier Quality Program design. This further honed the team's ability to conduct future EBITDA projects without consulting support.

**Implemented the corrective actions** – Most corrective actions entail a change in procedures, process, equipment, or management oversight. To guarantee full resolution success, each issue resolved had its own corrective action implementation plan.

Such plans afford the VP of Quality a tool to communicate and report actions required to resolve issues, associated costs, and scheduled completion dates. Implemented actions allow the VP of Quality and CFO to validate past versus future EBITDA value relative to the effectiveness of the corrective actions.

**Validated EBITDA** – Corporate executives had one question - How do we know EBITDA improved?

The answer requires quantifying the current/past EBITDA impact and comparing it the future impact when the issue no longer exists. The timeframe for measuring any positive EBITDA is to extend only for 12 months – even if the issue resolved had been around for years. Companies manage in calendar or fiscal cycles of 12 months, so they need to compare EBITDA value from one year to the next.

***How do you  
validate  
improved  
EBITDA from  
RCA corrective  
actions?***

***Quantify past  
EBITDA impact  
of unresolved  
issues and  
compare to  
the future  
EBITDA impact  
when the  
issue no  
longer exists!***

Therefore, how do we know EBITDA improved? The costs absorbed and EBITDA lost in the previous 12 months is now costs saved and EBITDA improved per the effectiveness of the corrective actions.

**Product B – VP of Quality & CFO EBITDA Validation Worksheet (example)**

Current/Past EBITDA Impact			Resolution Actions	Future EBITDA Impact			EBITDA Savings to be Validated 2012	
Revenue	\$2,810,541		1) See Implementation Plan	Revenue	\$2,810,541		Jan	\$6,004
	\$1.59/unit	+Selling Price			\$1.59/unit		Feb	\$9,686
	1.77M units	X Volume			1.77M units		Mar	\$9,686
	15,000	-Credit/Returns			15,000		Apr	\$9,686
-Variable Costs	\$2,958,583			-Variable Costs	\$2,846,033		May	\$9,686
	2,630,063	+Direct Materials			2,630,063		Jun	\$9,686
	197,520	+Direct Labor			197,520		Jul	\$9,686
		+VMOH					Aug	\$9,686
	\$123,000	+Credit/Returns (Mat'l)			\$18,450	-Credit/Returns (@85%)	Sep	\$9,686
	8,000	+Investigation/Re-run			0	+Investigation/Re-run	Oct	\$9,686
+1st Level Margin (Contribution)	-\$148,042			+1st Level Margin (Contribution)	-\$35,492		Nov	\$9,686
-Less Operating Expenses	\$524,320			-Less Operating Expenses	\$524,320		Dec	\$9,686
	349,040	+Ope			349,040	+Ope		
	175,280	+SGA			175,280	+SGA		
		+FMOH				+FMOH		
2nd Level Margin	-\$672,362			2nd Level Margin	-\$559,812			
EBITDA Impact					\$112,550	Net EBITDA Impact	Total	\$112,550

**Monitor the EBITDA Project (Tracking performance results and sustainability over time)**

**Results:** True effectiveness of the RCA implemented corrective actions are only assured if the quantified EBITDA targets for the pending fiscal year are sustained and delivered as planned - \$500K in improved EBITDA opportunities in 30 days. The below chart makes visible to the organization the per-month EBITDA attained for resolved operational issues. Any fluctuation or deviations of projected verse captured EBITDA is data for further investigation or decision making.

Now company executives can manage EBITDA performance via data and confirm the ROI on the investment to improve profitability.

**EBITDA Project Performance Report**

Resolved Quality Issues	Site	Total EBITDA Projected	Site Controller Validation of Attained EBITDA Per/Month (3)												EBITDA Value Captured	EBITDA Value Remaining in FY 2012
			J	F	M	A	M	J	J	A	S	O	N	D		
Product A	Can	\$59,600	✓	✓	✓										\$59,600	\$0.00
Product B	UK	\$112,550	✓	✓	✓	✓	✓								\$46,896	\$65,654
Product C	UK	\$23,500		✓	✓	✓	✓								\$8,545	\$14,955
Product D	US	\$154,550			✓	✓	✓								\$46,365	\$108,185
Product E	US	\$34,757			✓	✓	✓								\$10,427	\$24,330
Product F	US	\$115,192				✓	✓								\$25,598	\$89,594
Projected EBITDA :		\$500,149													\$197,431	\$302,718

*Make  
EBITDA  
Project  
data results  
visible to  
aide in  
future  
performance  
management*

This article was authored by Keith Pelkey, Partner Thinking Dimensions, St. Louis, MO (USA) office.

Thinking Dimensions is a global consultancy that assists clients in resolving strategic and operational issues.

We bring proven decision making methodologies to assist clients battling growth, cost, and security challenges. Our process- driven **KEPNERandFOURIE™** thinking technologies guide the development of effective corporate strategies, operational improvements, and ITRCA solutions. All of our client solutions recognize decision making is the foundation of performance.

Thinking Dimensions is led by Drs. Charles Kepner and Mat-thys Fourie who have over 60 years of combined thought leadership in process consulting. Today, TD Partner and Associates in over 20 countries throughout the ASIA-PACIFIC, EMEA and AMERICAS regions deliver expedited results on pressing business issues.