

Client Profile

Client: The Small Equipment Division of Construction Equipment Manufacturer (OEM)

Product Lines: Small construction equipment lines

Headquarters: United States

Revenue: Parent Company, >\$50 Billion USD

Participating Client Functions

- Finance
- Product Management
- Cost Accounting
- Manufacturing
- Supply Chain

Expertise Used in Project

- Financial statement analysis
- Value stream mapping

“Without external help, I could not have effectively shown the benefit of modularity to my group vice president. Our old accounting paradigms were holding us back, but Hiller Associates helped us move beyond that. They gave us a clear view of the performance of the different businesses we owned.”

RANDY, CLIENT EXECUTIVE PRODUCT MANAGER

A executive product manager identifies \$11.1 million annual profit by looking at the effect of product modularity on the supply chain



Challenge

Randy, the executive product manager for small construction equipment, was asked to present the state of his business, including each element the supply chain. He needed to present to his division president and to the parent company’s group vice president. Randy was also asked to quantify (1) how his business performed versus Randy’s main competitor and (2) how much Randy’s plans for product modularity would improve the business.

Over the years, Randy’s division had acquired or divested different parts of his product’s supply chain. However, every time a business was acquired, it was consolidated through the financials of the assembly plants in Randy’s division. Therefore, it was very difficult to understand the financial performance of each of the elements of Randy’s supply chain.

Randy’s plan’s for product modularity would have complex effects on both the parts of the value chain that Randy’s company owned, as well as the parts owned by external partners. What would these effects be? What parts of the value chain would win or lose from modularity? What parts of the value chain should corporate acquire or divest? Hiller Associates (HA) was engaged to help Randy answer these questions.

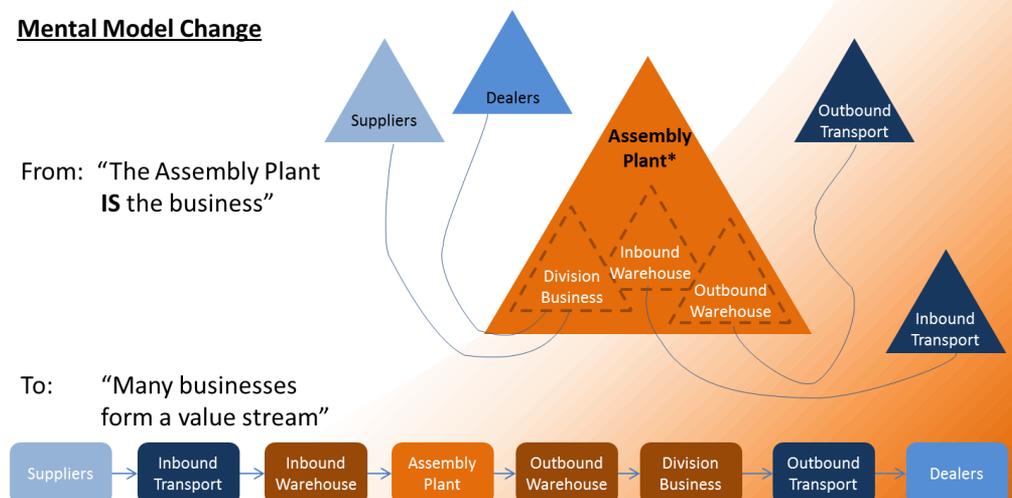
Discovery and Solution

During the initial investigation, HA discovered that in order to answer the client’s questions, the client’s financial mental model needed to change. The client had also looked at all parts of the value chain the they owned as one entity, which was dominated by their assembly plant.

Mental Model Change

From: “The Assembly Plant IS the business”

To: “Many businesses form a value stream”



* Orange denotes parts of the value chain owned by the client

About Hiller Associates

Hiller Associates is a business performance consultancy that specializes in Product Cost Management (PCM), helping discrete manufacturing companies reduce product cost, whether the product is before or after launch.

Our practice sits in the nexus between design engineering, finance, purchasing, and manufacturing. HA has helped Fortune 1000 clients save tens of millions of dollars through our Product Cost Management engagements. If you have a challenge with Product Cost Management in culture, process, roles, or tools we would like to help.

However, this assembly plant-centric view was not the reality of the supply chain. HA first helped Randy change his company's mental model to reflect financial and physical reality. HA was able to disaggregate the various parts of the value chain, and treat each as if it were an individual company. Next pro-forma financial statements were created for each of these independent entities.

When looking at the various business owned by the client, it became clear that the value created and captured was not equal among all entities that comprised the value stream (neither internally nor externally). This discovery provided an opportunity to change the business relationships so that value was better distributed and cast a light on possible problem areas at the client.

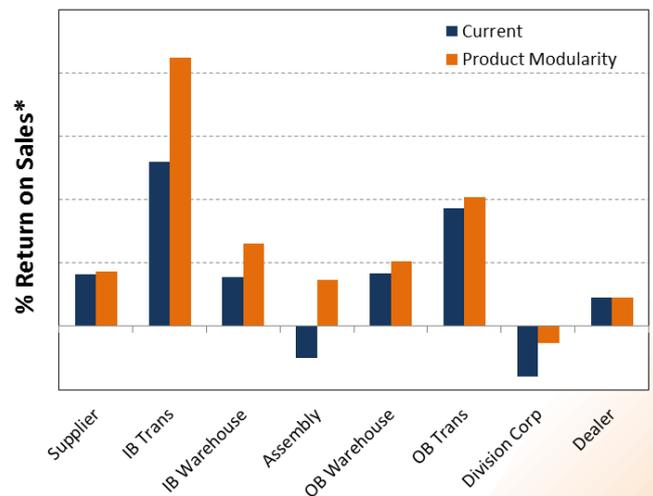
With the businesses separated, it also became possible to more accurately compare the client's performance with its competitor's performance, and Randy's plan for product modularity could be evaluated.

Results and Impact

After analysis, it became apparent that the client's value chain was likely more than \$130 million annually less efficient than their main competitor.

However, Randy's plan for product modularity would improve almost every part of the client's value chain (including external partners). His plan would improve the total value chain by over \$46 million dollars a year. For the parts of the value chain that were owned by the client, Randy's plan for modularity would add \$11.4 million annually to his product line's bottom line.

Randy presented the current state of his business to the group vice president and other members of the parent company's executive office. The executive office was Impressed with how precisely Randy understood the whole value chain for his product lines. They authorized his plan to pursue product and supply chain modularity, and Randy shifted his focus to implementing the promising and challenging modular transformation.



* Actual Numbers hidden to protect client confidentiality