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Manage Change

CIP as EBITDA lever in the foundry

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Introduction

The world will look **different** after Corona, the experts agree. There are very different ideas about what the world will look like. In relation to the sales figures of the automotive industry, expectations fluctuate strongly for both 2020 and the following years. Due to the high level of dependency, this also applies to the production figures of the foundry companies.

The particular problem with all forecasts is to first estimate the end of the corona crisis. But expectations also diverge considerably after the end of the Corona crisis. The number and weighting of the various influencing factors pose particular challenges for the experts. At one point, however, everyone agrees that the economic impact and the temporal impact will be significantly greater unlike in previous crises.

Even if we currently have the feeling that we do not even know the present, we must now **deal intensively with the future** and **shape it**. Despite the many unknowns in this process, we know that the technological, but above all the economic challenges will reach a new dimension. In the rear future there will be no production volume like before the crisis. Most foundries will therefore lack the essential EBITDA lever of the past, the permanent increase in production volumes, for the foreseeable future.

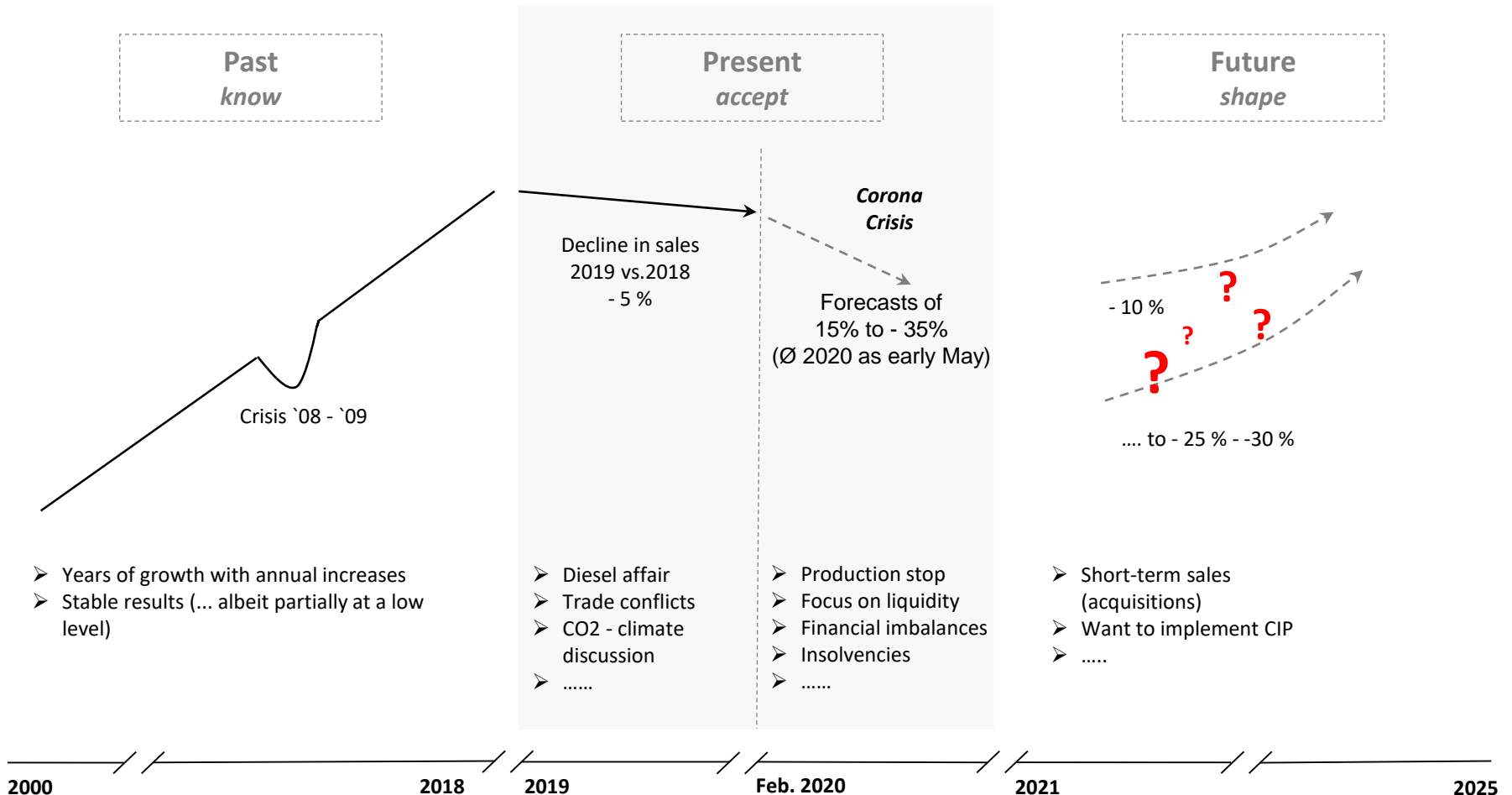
In the past few weeks, securing liquidity has been the sole management priority, the **continuous improvement process**, as the **most important EBITDA lever**, must now move to the same level.

Special times require special consequences. Only foundries that now consistently recognize and implement the necessary changes will retain their market position even after the crisis.

Past, Present, Future? Sales development automotive and foundry industry

After Corona, the foundry industry will no longer be the same as before.

We know the **past**, we must accept the **present** and shape the **future**.



CIP as EBITDA lever in the foundry

Triggered by the substitution of many vehicle parts (focus: powertrain) by aluminium casting applications, the foundry industry has grown steadily since the 1980s. The influence of this growth of 5% and more per year has meanwhile taken a firm place in the foundry's earnings planning. It was only through this sales growth that many foundries were able to keep the quality of earnings constant over the years, albeit often at a low level (Ø EBITDA of German light metal foundries in 2017; 8.3%).

However, the management focus of the past weeks was not on earnings forecasts, but on the topic of liquidity. A detailed and rolling liquidity forecast (basis: worst case scenario) is currently the most important company report of the top management. Deriving KPIs are extremely important as early warning systems and have at least temporarily replaced other key figures.

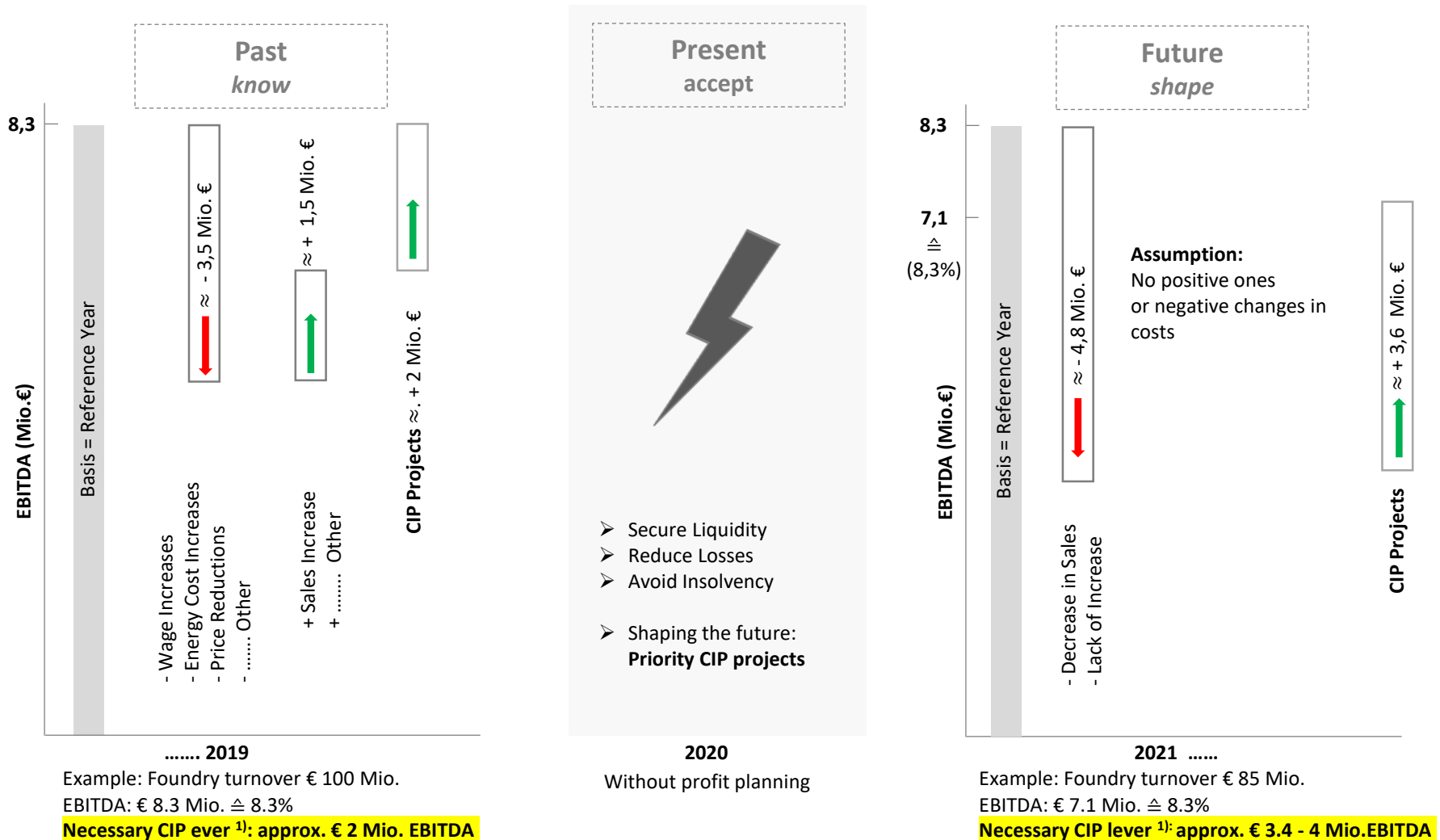
In addition to the necessary and correct focus on the present, the foundries must now deal with the future with equal intensity and shape them. The companies will only be successful if new opportunities and known approaches are successfully implemented in **CIP projects with an EBITDA effect** and transferred sustainable into the company result.

The necessary CIP projects must ...

- **D...** be clearly described (goals). The profit contribution of the projects must be visible in the P&L.
- **M...** have numbers as the basis for all our actions.
- **A ...** be analysed based on numbers, data and facts.
- **I...** have the highest priority in implementation (management commitment).
- **C...** bring short-term EBITDA effects (monthly results) and be sustainable in the long term.

Past, Present, Future! Necessary CIP lever

Earnings (EBITDA) - planning... .. before, during and after Corona



¹⁾ Determination of the necessary CIP levers with simplified approaches

CIP – EBITDA – Lever

In the short term, the required **CIP-EBITDA lever** will be **twice as large** as in the past. New opportunities but also known approaches must be used. Effort and benefits must be **assessed individually**, and the projects must be **prioritized** accordingly.

<u>Process Level</u>	<u>Project Level</u> <u>CIP Projects</u>	<u>P&L</u> <u>Significant Pos.</u>	<u>Effort</u> <u>Resources</u>	<u>Benefit</u> <u>EBITDA</u>
Sales acquisition	In the short term, win existing sales	Sales	← ● →	← ● →
Strategy	Acquisition of market participants	Sales	← ● →	← ● →
Tool procurement	Internationalization (Low Cost Country)	Mat. Costs	← ● →	← ● →
Casting	Cycle time reduction	OEE ¹⁾	← ● →	← ● →
Casting / Machining	Multi-machine operation	Wage costs	← ● →	← ● →
Production (general)	Introduction of incentive wages	Wage costs	← ● →	← ● →
Production planning	Reduction of stocks	Working capital	← ● →	← ● →
Tool construction	Optimization of recycling material	Mat. Costs	← ● →	← ● →
Management processes	Introduction of key figure management	OEE ¹⁾	← ● →	← ● →
Technologies	Minimal quantity lubrication	OEE ¹⁾	← ● →	← ● →
Metal procurement	Optimization of metal management	Mat. Costs	← ● →	← ● →

1) OEE = wage costs + general costs

CIP as EBITDA lever in the foundry

Even if we do not know when the Corona crisis will end, the remaining time will definitely less every day. The companies now must deal intensively with the time after Corona. To continue as before will not be enough in most cases.

With the necessary continued focus on liquidity, the topic of **wanting change** must also have the highest priority. New opportunities as well as already known approaches must be assessed individually. The implementation priority must be strongly based on the **EBITDA effect**.

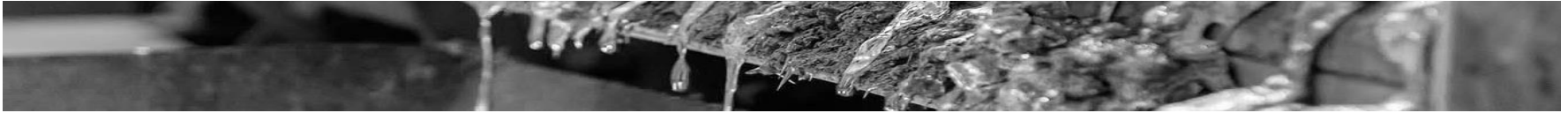
The topic:

Manage Change: “The foundry with CIP on the way to business excellence”

We would be happy to show you how we understand and assess it. We develop individual **optimization strategies** and **suggestions** for action for your company and support you with their **implementation**.

Corona Roadmap: https://www.johannes-messer-consulting.de/pdf/Corona_Roadmap.pdf

Find Partners: https://www.johannes-messer-consulting.de/pdf/find_partners_foundry_tool_maker.pdf



... we help you with the answers, and with the implementation.



“It is not the strongest or the most intelligent who will survive but those who can best manage change.”

Charles Darwin



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