

Manufacturing Realities

Breaking the Boundaries of Conventional Practice

Contact:

Booz Allen Hamilton

Karen Guterl

guterl_karen@bah.com

(212) 551-6516

or

Makovsky + Co.

Rachel Lohman

rlohman@makovsky.com

(212) 508-9656

MANUFACTURING IS MOVING TO THE TOP OF THE CORPORATE AGENDA, FINDS NEW BOOK FROM BOOZ ALLEN HAMILTON

Global Survey of Manufacturing Leaders Reveals Need to Redefine Role

NEW YORK, October 24, 2006 – Manufacturing is moving to the top of the strategic agenda for leading corporations, reveals a new book from management consulting firm Booz Allen Hamilton. Companies that develop an effective manufacturing strategy can capture a competitive advantage over the many companies whose manufacturing strategies have remained unchanged for the last 20 years.

“Manufacturing Realities: Breaking the Boundaries of Conventional Practice,” published by strategy+business Books, presents new viewpoints on the costs, hidden value and opportunities in 21st century manufacturing, using examples from Toyota, Procter & Gamble, and others. In the book, Booz Allen also examines the role of the manufacturing chief, unveiling findings of its 2006 survey of manufacturing leaders at more than 50 companies in the U.S., Europe and South America.

Responding to increasing pressure to show results, heads of manufacturing are likely to favor short-term change initiatives over long-term restructurings. The Booz Allen survey found, for example, that 42% of manufacturing executives consider that investments in manufacturing must produce positive returns in 18 months to be considered successful.

“Manufacturing is a complex mix of physical and human systems; quick fixes are possible, but companies that are not willing to invest time and resources now will end up paying later,” said Dermot Shorten, Vice President of Booz Allen. “Because major manufacturing changes don’t pay off for at least 18 months, and sometimes as much as 20 years in certain industries, promising efforts are often dropped when senior management changes or loses interest.”

Such shortsightedness can affect the long-term success of a company’s manufacturing operations.

“This ‘manufacturing myopia’ is the inevitable outcome of isolating the manufacturing strategy, rather than linking it with the overall corporate strategy,” Mr. Shorten said.

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According to Booz Allen, companies need to invest the time and resources to address manufacturing productivity as a long-term, organization-wide strategic imperative. This means peeling back the layers of their manufacturing operations and those of their competitors so that processes, advantages and disadvantages can be viewed clearly.

Companies often overlook the benefits that can be gained from benchmarking competitors. An overwhelming majority (91%) of manufacturing leaders identify cost competitiveness as a high priority. Still, only 33% said they understood their own detailed cost structures, as well as those of their competitors, very well. Thus, in two out of three cases, only internal information is driving companies' cost-reduction decisions and target-setting.

Manufacturing Strategy for the 21st Century

Booz Allen has identified four dimensions of manufacturing that can be the gateways for companies to achieve short-term gains and long-term advantage:

Technological Distinctiveness. In 2004, according to Booz Allen analysis, only 10.2% of R&D budgets at the top 500 industrial companies were set aside for process innovation, down from 15% in 1980. Procter & Gamble is one successful manufacturer that has bucked that trend and has used in-house machine development and internal process innovation to protect its competitive advantage, for example, letting shop-floor employees lay the flow of machinery and design machines themselves.

Network Sophistication. Most companies organize production and supply operations on a project-by-project basis and do not envision their manufacturing system for what it must be: a global, flexible supply chain network that can be reconfigured anywhere as market conditions change. In a novel implementation, a European manufacturer of air-conditioning supplies built its factories on freighter ships that could be moved from port to port as the seasonal marketplace changed.

In-Plant Transformation. In greenfield locations, elite processes can be designed into factories from the beginning. In brownfield plants, however, where it is common to find high fixed costs and overstaffing, installing "intelligent tools" and "lean solutions" is ineffective. "Despite knowing this, too often manufacturers will push a lean program through an overstaffed plant," noted Booz Allen Vice President Conrad Winkler.

Labor Modernization. Modernization must take place around each location, as labor issues vary significantly. Engaging the workforce within the broader organization also should be a priority. Toyota sends manufacturing employees on sales calls. Danone, Harley-Davidson and Mercedes-Benz are all known for plant communities that take part in sales and marketing. Mercedes encourages customer-to-factory interaction by inviting customers to pick up vehicles at its plants and talk with workers.

"Very successful companies make certain that their manufacturing employees are among the first to emotionally promote their products," said Mr. Winkler.

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Who Manages Manufacturing?

Direct responsibility for manufacturing may reside with a COO, a senior executive who oversees only manufacturing, a business unit general manager, or a country or regional chief. Booz Allen found that two-thirds of respondents' manufacturing plants are managed by a corporate COO or senior vice president of manufacturing; the rest are managed by the leader of a division, business unit or region.

Previously, the head of manufacturing was often promoted from the shop floor, but today companies want their manufacturing leaders to have a range of experience to address a broader cross-functional agenda. Fifty-four percent of manufacturing chiefs hold degrees in technical studies, 30% in business administration, and 26% in other areas, such as life sciences.

The responsibilities of the manufacturing leader have become broader. Nearly half oversee customer service, and 47% oversee process R&D. The range and reach of the manufacturing chief's job vary among companies and within industries.

Manufacturing Realities: Breaking the Boundaries of Conventional Practice, edited by Jeffrey Rothfeder and Georgina Grenon, with an introduction by Peter von Hochberg, Kaj Grichnik and Dermot Shorten, may be ordered at www.manufacturing-realities.com, Booz Allen's website to share leading ideas about manufacturing. Visitors to the website can download additional content, read summaries of chapters, see video clips of our manufacturing experts and obtain a free copy of the book by filling in a Manufacturing Leaders Survey.

About Booz Allen Hamilton

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Providing consulting services in strategy, operations, organization and change, and information technology, Booz Allen is the one firm that helps clients solve their toughest problems, working by their side to help them achieve their missions. Booz Allen is committed to delivering results that endure.

With 18,000 employees on six continents, the firm generates annual sales that exceed \$3.7 billion. Booz Allen has been recognized as a consultant and an employer of choice. In 2005 and in 2006, *Fortune* magazine named Booz Allen one of "The 100 Best Companies to Work For," and for the past eight years, *Working Mother* has ranked the firm among its "100 Best Companies for Working Mothers."

To learn more about the firm, visit the Booz Allen Web site at www.boozallen.com. To learn more about the best ideas in business, visit www.strategy-business.com, the Web site for *strategy+business*, a quarterly journal sponsored by Booz Allen.