

CGMA[®] CASE STUDY

COST
TRANSFORMATION

Bob Cortese, CPA, CGMA
Canadian Controller,
CTS Corporation



*Create a business that is not just leaner,
it's more competitive too.*

Case study:
BOB CORTESE, CPA, CGMA
CANADIAN CONTROLLER
CTS CORPORATION



At a glance

Company	CTS Corporation
Current role	Canadian Controller
Industry	Electronics
Market	Canada
Website	ctscorp.com

Whilst employed as Controller at CTS in Canada, CGMA Bob Cortese was involved in developing a suite of cost management initiatives. As a result, profits increased, costs were reduced and efficiencies in supply chain and production were maximised. In addition, an inclusive culture was created that made employees throughout the business an integral part of its success. Here, Bob shares with us some of the principles that guided this transformation.

In my 30 year career in finance, IT and supply chain, I have worked in various sectors, including aerospace, industrial waste disposal and recycling, electronics and a stint at the US Department of Defence. I qualified with CIMA in 2010 and this provided me with the insight into what was occurring around me that I was not seeing – it gave me a holistic approach. The pieces came together and a vision of what was possible and how to get there became much clearer.

My most recent role as Controller for CTS Corporation, a global designer and manufacturer of sensors, actuators and electronic components, presented an amazing opportunity to combine the experience I had gained over the years and contribute to a significant overhaul in the way the company carried out its business.

Maximise capacity, minimise duplication

CTS had assembly lines for 3 major products. We found that there were also other capabilities in the plant but over time certain functions had been outsourced to external suppliers. When we took a closer look at our capabilities and the issues we were dealing with in relying on external suppliers, we developed a costs model to start repatriating components. It's not that our supply base was ineffective; we had just grown complacent and accepted the status quo. It was time to rethink why we were in business.

Over the next 18 months, we brought back every component (over 50) and created a very robust stamping and moulding capability. We changed the culture of the organisation and improved our profit margins by 4-5% overall. As a knock-on benefit, we had almost zero waste, the quality of our product improved, we were better able to control our inventory and use of manpower, scheduling became more efficient and we were able to build better relationships with the smaller number of suppliers that we still needed.

Streamline the supply chain

When looking to bring down costs, a key area that can benefit from extra scrutiny is your supply chain management. It's not enough to simply seek out the lowest cost suppliers.

We built a supply chain team to oversee the entire process from customer order, through operations and maintenance, down to the supply base. We invested time in creating strict internal processes. We implemented a new reporting format for use across all production lines, so that they were each using the same decision-making criteria. We developed relationships with our suppliers, often meeting face-to-face, which allowed us to understand their issues, frustrations, lot-sizing strategies, lead times, processes and culture. We started to use a 52 week forecast to let our suppliers know what we would be ordering over the course of a year. This helped with their scheduling and made them more comfortable dealing with us, which in turn strengthened our negotiating position. By creating a cross-functional supply chain team, we eliminated so many hand-offs, that at times it felt as if issues and decisions were addressed in seconds rather than taking days and multiple emails.

It took approximately 18 months for this new system to become our working norm, but it was such a success that it was soon adopted by the company in other locations as well.

Engage your workforce

You can't just demand a 10% reduction in spending, for example, and expect your staff to magically achieve it. You need to have the leadership of experienced leaders who have the respect of the employees, can create a vision and are able to leverage the people, technology and processes involved to realise that goal.

To link up the leadership with the workforce, we devised an innovative programme, Quick Kaizen, to encourage a 'we' culture and facilitate constant communication between staff at all levels. We made a conscious effort to appeal to those who may have felt disenfranchised and make them part of the solution, ensuring that they understood the bigger picture and the impact that their role could have on the collective goals of the business. Everyone was asked to identify for themselves what could be improved in the business and the supervisors backed them in making the necessary changes.

We backed up this initiative by developing extensive in-house training, conducted by our own staff, to every employee. Empowerment was expected – it was not the 'phrase of the day' – and every employee was expected to lead a Quick Kaizen every year. We gave them the tools and the confidence to go forward and an organisation that expected this as a standard operating practice. The new attitude was one of 'can-do'. If anyone ever complained about an issue it was down to them to find a solution. This caught on immediately. Giving due recognition of individual achievements improved morale and eliminated dissatisfaction as well. Making it clear that failure is acceptable, we were able to work together to find the lesson that turns each failure into a useful experience.

On a practical level, it's important to make sure that any instructions, files and/or forms that were not already eliminated were easy to access and understand.

Act quickly on decisions

We found that if an action that had been identified as necessary was not taken forward within 24 hours, it likely would not happen. To complement our cost management initiatives, we made sure the organisation was set up to support quick implementations. So, for example, we instituted a Code Red process, to address any potential issue with quality, equipment, manpower or a supplier. A meeting of relevant personnel can now be called within 10 minutes and attendance is mandatory, regardless of what you might be working on at that moment, to make sure the problem is dealt with straight away, with the right people in the room. If there was some bureaucratic process getting in the way of a quick implementation, we sought to change that too.

Over the course of 3 years, the overhaul that we carried out at CTS resulted in improving our inventory turns from 12 to over 50 every month, scrap fell from 2% to negligible, supplier on time delivery (OTD) went from dismal to over 99%, customer OTD exceeded 99.5%, employee engagement increased and frustration diminished, productivity (efficiency x utilisation) increased from 70% to 95%, freight costs dropped by 35% and expedite costs were eliminated, on and on. By engaging the workforce and creating a 'can-do' culture versus one of hesitation and bureaucracy we brought out the best in our people, the financial results was icing on the cake.
