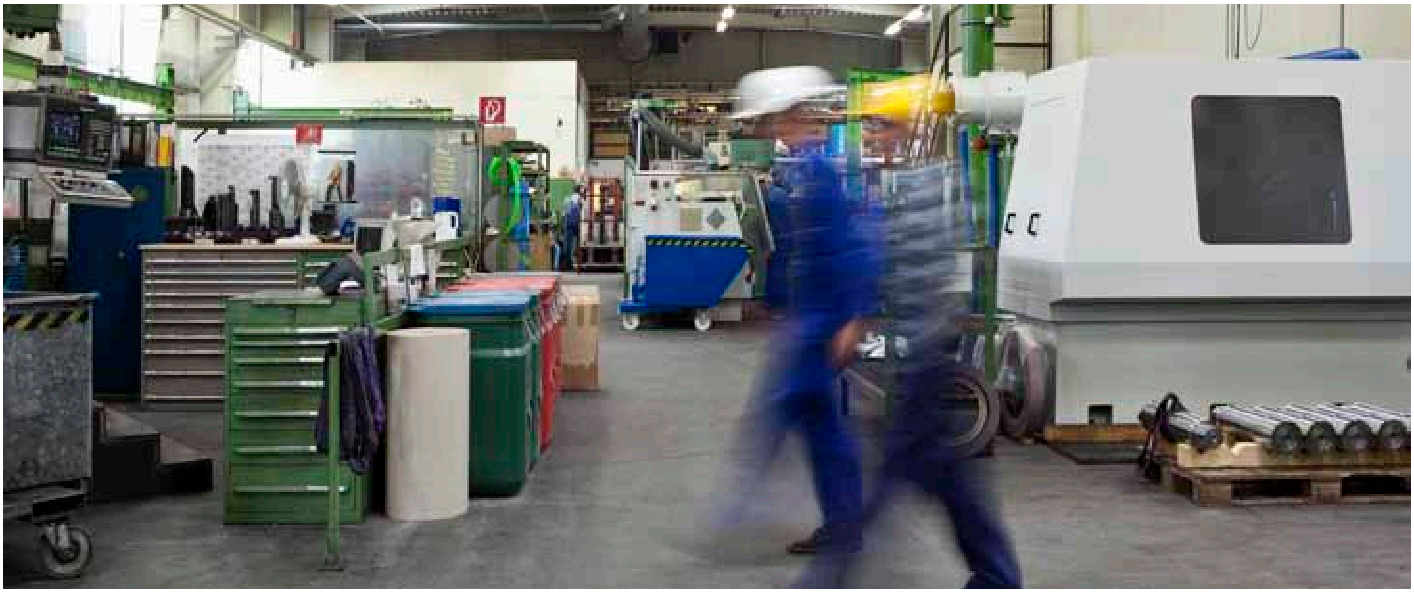
KPMG in the **US** helps identify **US$120 million** in estimated **annual savings** for a global leader in **manufacturing**



A global equipment manufacturer needed to improve the profitability of one of its large divisions. In 2008, the division underperformed financially even though unit sales were up year-on-year. In the first half of 2009, due in part to the economic downturn, sales volume substantially decreased. The division had reduced headcount by almost 30 percent as a cost control measure, but profitability levels still lagged behind expectations. The KPMG engagement team was called in to assist in analyzing the situation and in developing improvement recommendations and plans.

The KPMG team assisted the client in shifting their immediate focus from analysis to execution of cost reduction and operational improvements. At the same time, long-term planning was initiated to help the client better position themselves in anticipation of future market growth.

Many challenges needed to be addressed before the division could return to profitability. A large portion of the division's spend was through third-parties outside the client's effective control. In addition, decision-making was hampered by a lack of accurate, complete and timely information. The division also needed to significantly improve the sourcing and procurement of major components to reduce erosion and improve their competitive posture.

Client benefits:

- Identification of potential savings to help return a major corporate division to profitability
- Reduction of inventory levels by about 50 percent
- Increased effectiveness of product pricing and control of dealer discount programs
- Improved visibility and management of transportation costs
- Enhanced competitive position of the division for future growth

An assessment of operations, procedures and pricing

The KPMG team conducted a broad-based assessment of key functions across procurement, manufacturing, logistics (including transportation and warehousing), demand planning, inventory management, and other key areas. With this assessment in hand, KPMG specialists then identified and analyzed potential improvement opportunities that would impact and help sustain profitable financial performance.

These improvements included new sourcing and procurement contracts that better leveraged an understanding of product pricing.

In the past, transportation costs had been embedded in the product prices. The KPMG team helped to separate these costs so the client could better manage their transportation expenditures while also improving shipping procedures. In addition, enhanced inventory management practices designed by KPMG specialists led to an approximate 50 percent reduction in inventory levels creating further cost reductions.

The KPMG specialists also identified opportunities to improve margins by revisiting and enhancing current pricing tactics for key product groups. Team members introduced a global pricing strategy based on anticipated demand within each country that was more consistent. This strategy helped stabilize the client's pricing and introduced guidelines and strategies to help them better control pricing in the future. This action alone led to a projected annualized top line impact of US$50 million.

Significant savings and operational improvements

After only six weeks, KPMG specialists had helped the client to identify an estimated annual savings of US$120 million. In addition, due to quick implementation of key recommendations by the project team, the client realized approximately US$3 million to US$4 million in savings within a two-week period after the completion of the project. Based on these savings, as well as increased revenue through better pricing, the division returned to profitability.

Equally important, the KPMG team helped implement methodologies and procedures that continue to support improved performance and a strong competitive posture for the division.

> **With accurate, timely information, companies can substantially improve operational efficiencies and curb unnecessary costs.**
>
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