

BEVINGTON
G R O U P

Restructuring

Risks and Opportunities

Restructuring refers to a broad range of corporate practices

- Change of reporting lines
- De-layering
- Off-shoring
- Plant close-down
- Line close-downs
- Mergers, Acquisitions, Divestments
- Redundancy programmes
- Financial restructures – including refinancing

The headlines are replete with examples of companies considering major structural changes

- Qantas – Off-shoring
- ANZ – Off-shoring
- Autoliv – Line restructure
- Ford – Plant closures
- Golden Circle – plant restructuring
- Dairy Farmers – plant consolidation/closure
- Crane – Metals division restructuring
- Kodak – Workforce and facilities downsizing
- Fosters Wine Division– merger with Southcorp
- Automotive – global and local impacts (e.g. Ion)

However, the problem appears to be that some industries are suffering
– even though others are still extremely healthy

- Input costs are increasing beyond normal year-on-year trends
 - Petroleum products
 - Other raw materials
- Employment costs are rising
- Faltering consumer growth in consumer spending and housing construction
- Productivity is declining (1.1% decline in June Qtr)
- Import competition driven by stronger Australian dollar
- So, overall the economy is healthy, however certain sectors are particularly challenged

Restructures - A Perennial In Corporate Life

Restructuring has always been a part of corporate life

As the world changes, organisations they must adapt or performance will suffer

- Customer needs change
- Technologies develop
- Input prices rise and fall
- The number of products and services grow or shrink
- Global competition emerges or lapses
- Social and regulatory environment changes...

Customer needs change

- Product specifications or even entirely different products
- Market price
- Information requirements that “wrap around” product delivery
- Sales volumes
- Logistical requirements
 - Product volume
 - Delivery frequency
 - Delivery Locations
 - DIFOT requirements
 - Damage reduction targets
 - Packaging changes
- ...

Technologies develop

Technologies create just as many threats as opportunities, are your competitors doing any of the following?

- Using technologies to lower service costs, e.g.
 - Online ordering and servicing
 - Pick-to-light logistics systems
 - Internet deposits
- Leveraging off technologies to lift sales e.g.
 - Online product packages
 - Salesforce tools to price
 - Guaranteed service times from manufacturing to banking
 - Using outbound marketing to lower the cost-of-sales and increase volumes
- Using technologies to change faster e.g.
 - Flexible remote workforces linked globally.

Input prices rise and fall

- Oil price
- Base metals price
- Transport costs
- Labour costs
- External service costs
- Technology costs.

The number of products/services grow or shrink

- Growth can lead to a plethora of product and service variations
- As the number of products and services increase this can strain the processes so that the Proof Points fail
 - Errors in the product
 - Speed of delivery
 - Failure in ancillary services or relationship e.g. billing
- Furthermore the cost-to-serve can balloon
 - Multiple variations to process
 - Cost of fixing errors
 - Frustration leading to staff churn
- Finally, there may be a substantial Reputational as well as Operational risks of failure.

Global competition emerges or lapses

- Lower unit cost manufacturing offshore with increasing quality
- Lower unit cost servicing offshore
 - Call Centres
 - Application development
 - Information Technology support
 - Middle and back-office processing
- Desire to enter growing markets leading to a redirection of funds
- Local resource shortages e.g. mining

Let's not forget the changing regulatory requirements

- SOX
- IFRS
- CLERP
- Money Laundering Regulations
- OH&S
-
- Responding to community environmental expectations

The Consequences of Environmental Change

As the environment changes organisational processes and structures become misaligned with today's reality

- Some teams are over-loaded
- Others are over-resourced (but how can you tell?)
- Processes start to atrophy over time
- Ability to meet current customer needs deteriorate
- Ability to deliver services in a “lean” fashion declines
- Under-utilised managers, determined to add value, can “create work” which actually gets in the way.

Creating a need for a Refresh of structure and processes

- Stop doing the Tasks that do not add value (or Defer or Reduce Volume)
- Reduce the error rates
 - Increase customer satisfaction
 - Decrease the cost to fix errors (often as high as 30%)
- Put Tasks and Activities where they can most effectively and efficiently be executed
- Increase the time spent on tasks that do add value
 - Reducing client churn
 - Increasing new customer acquisition
 - Increasing quality (to match customer requirements – watching for over-service)

Are Restructures a Good Idea?

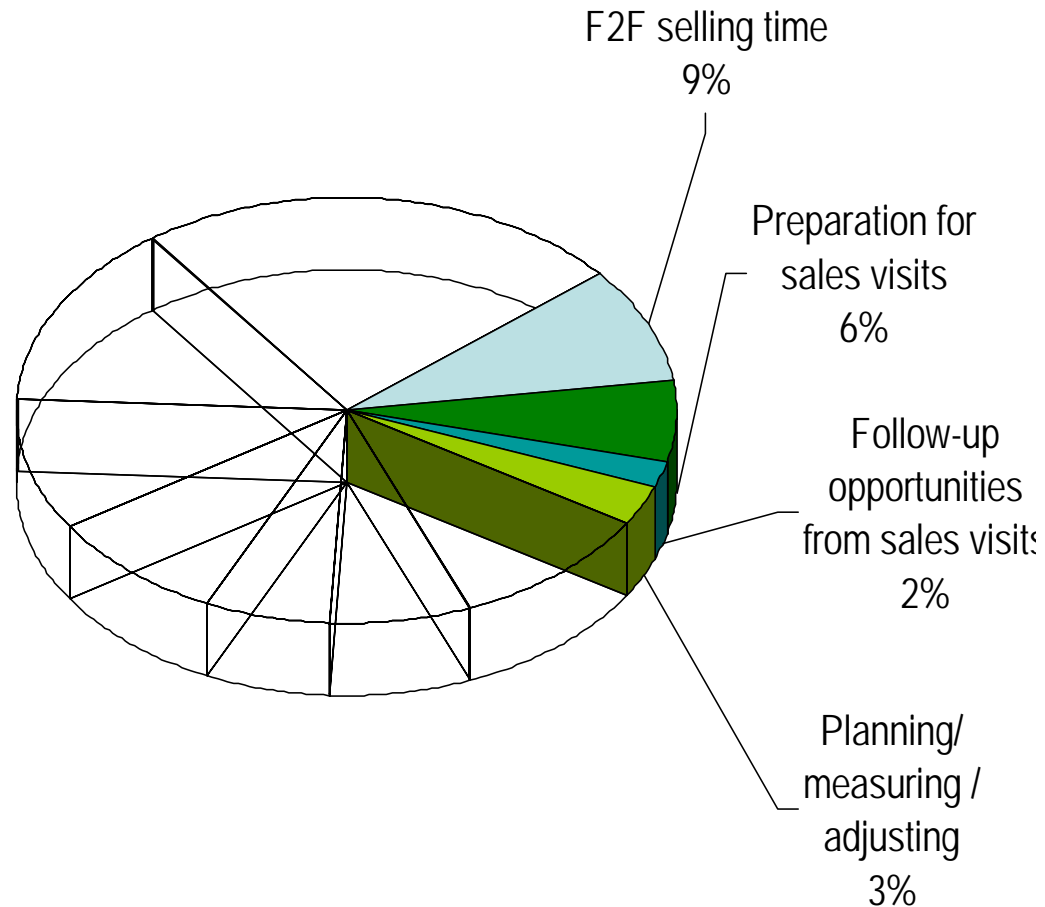
Are restructures a good idea?

- Restructures are simply a part of commercial reality – whether “good” or “bad” depends on the underlying strategy and the effectiveness of the execution
- They can re-vitalise struggling organisations, by
 - Aligning processes, policies, procedures and staffing levels to customer needs
 - Reducing costs
 - Enhancing revenues
 - Providing opportunities for talented and committed management and staff
 - To restate the Mission and Values in a way that allows people to “opt-in” or “opt-out”
 - Provide clear signals to stakeholders about the determination of an enterprise to succeed

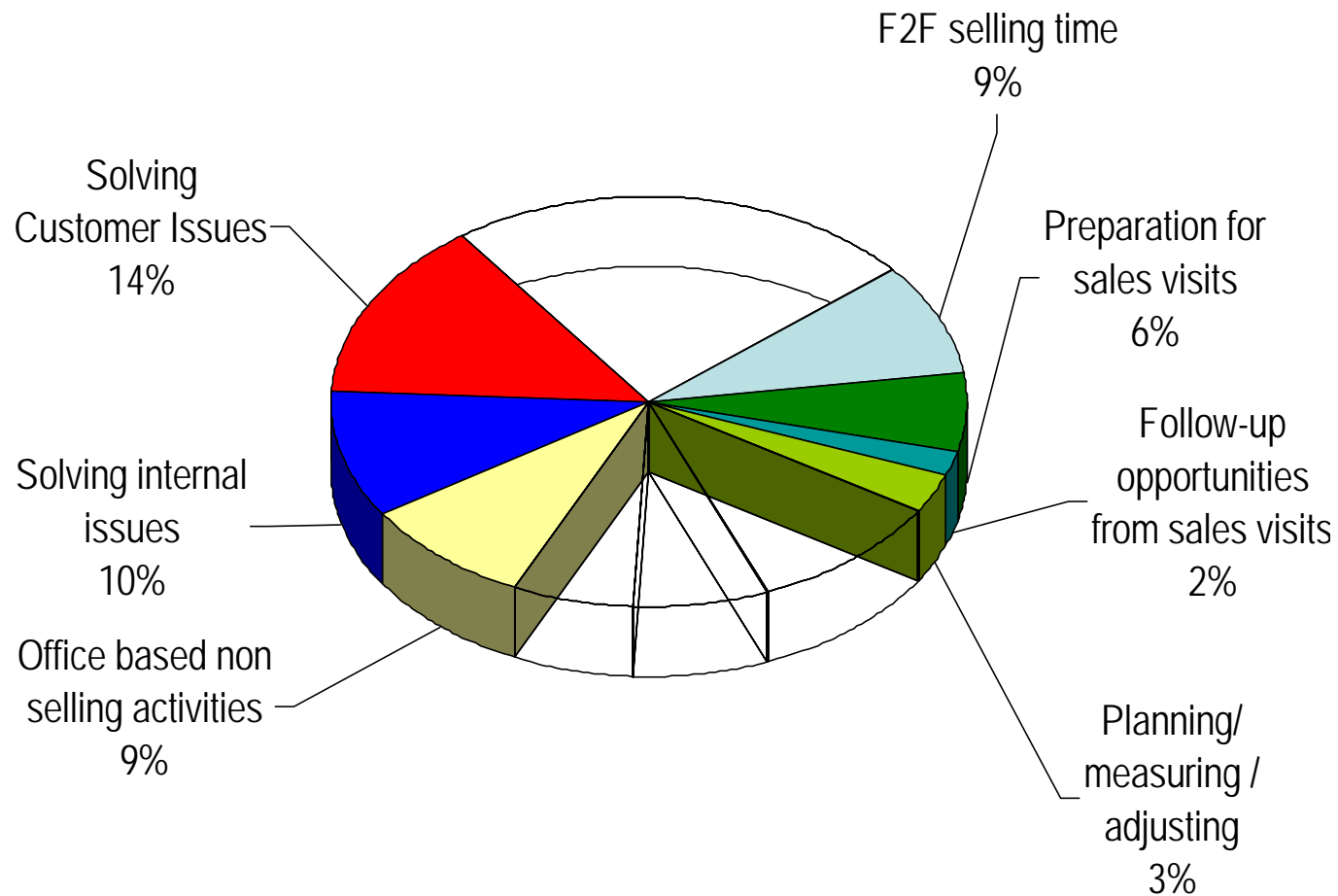
Counter-intuitively, Restructures can support Sales growth

- Think of Restructuring as Task and Activity restructuring and then address what people should be doing - for example your Sales Force
- Address channel conflict
- Improve execution where processes are too disaggregated
- Improve customer retention
- Merge or Acquire to combine capabilities
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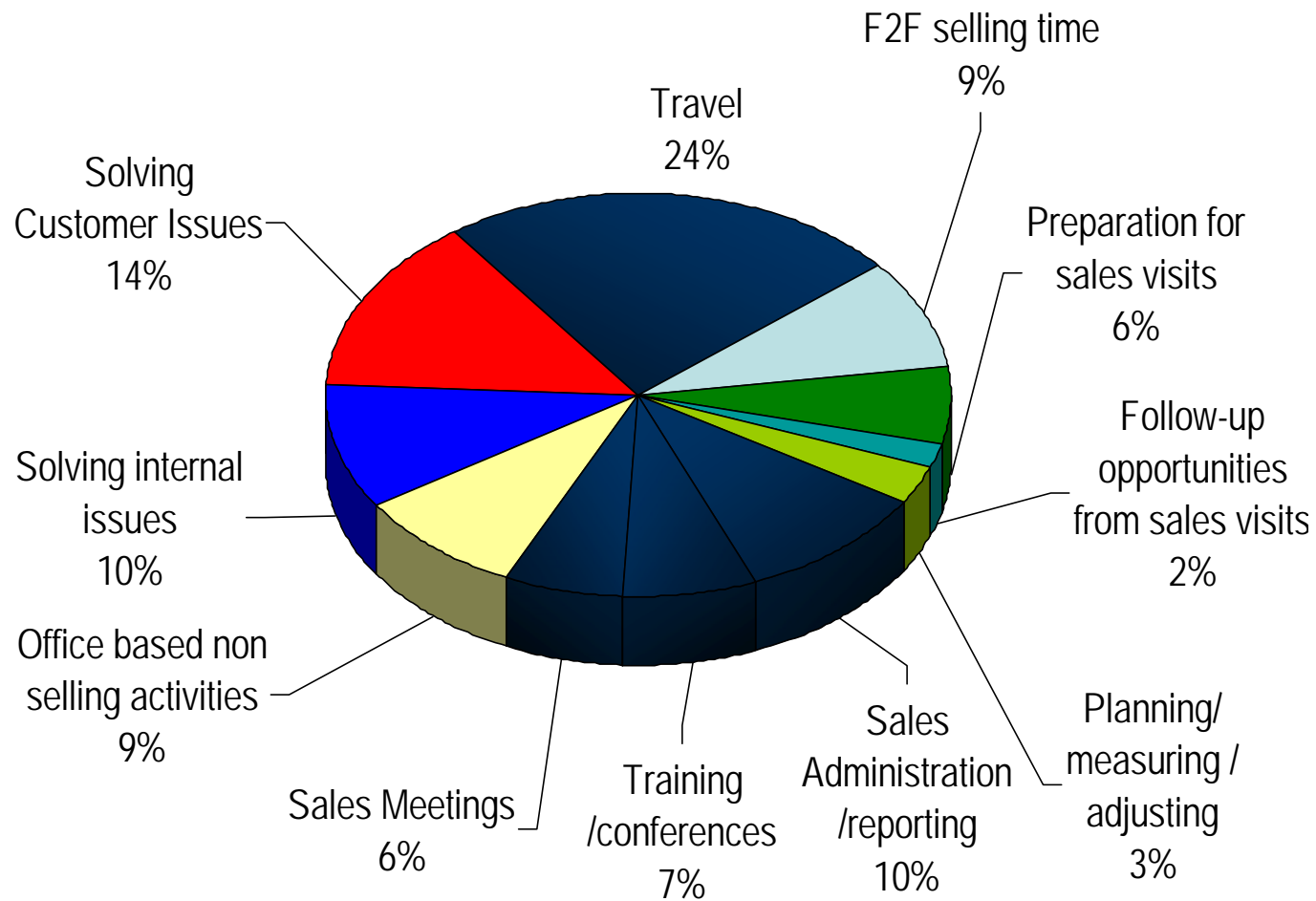
In a number of cases we see sales representatives distracted from selling & planning activities...



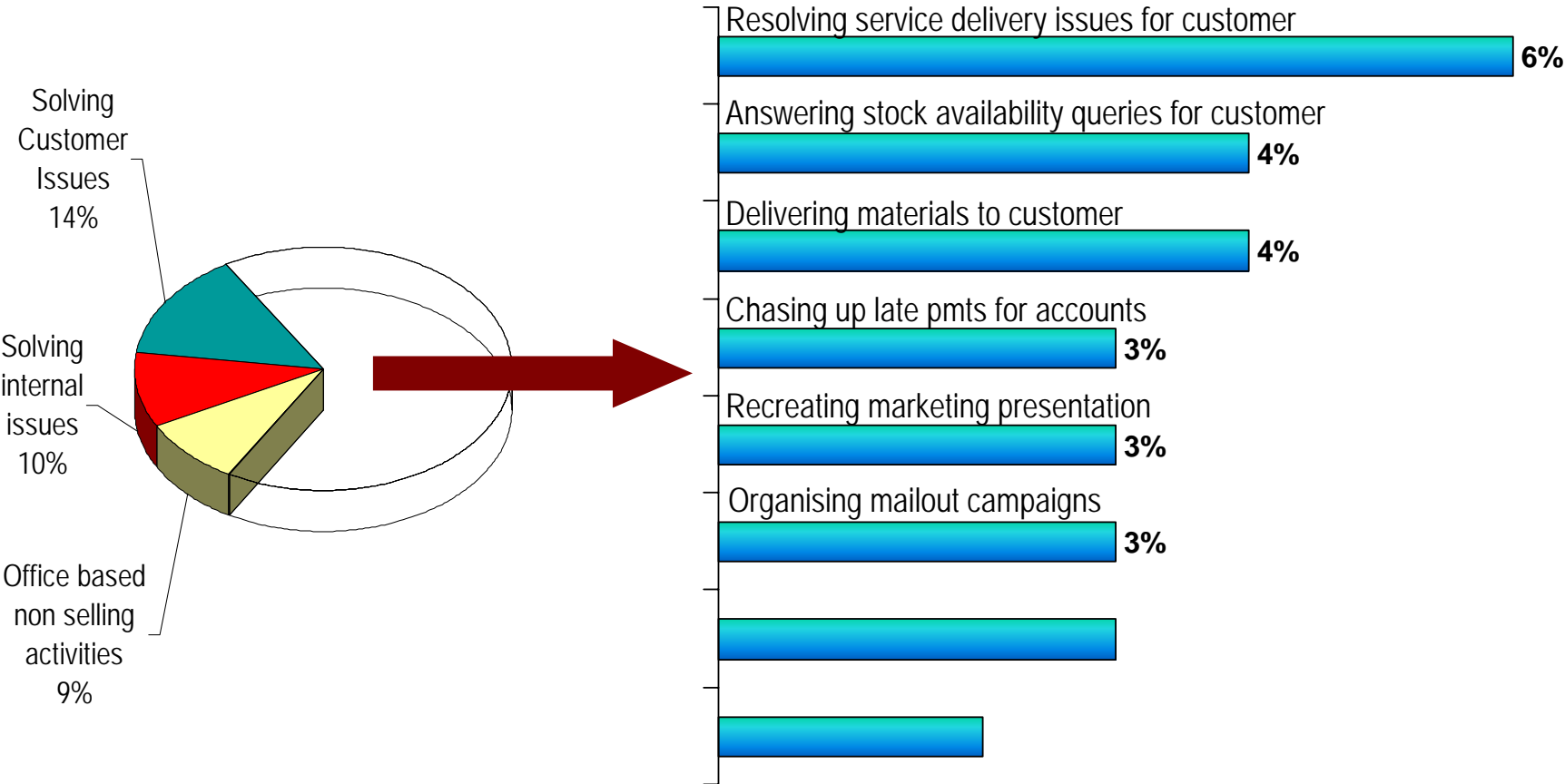
...dealing with customer issues and internal administration



...not to mention travel, training and administration



We can delve deeper to see the causes of the “distraction from sales”



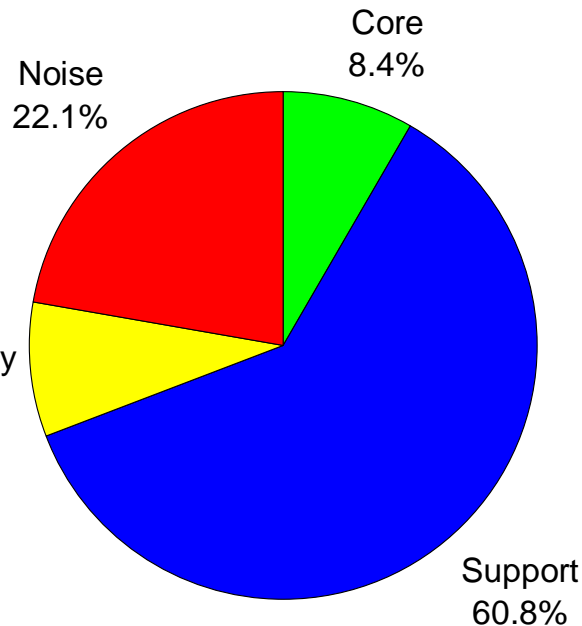
Finding more than one day per week spent addressing Noise issues and less than 10% of time focussed on critical Core selling activities

Noise Examples

- If necessary refer to appropriate internal contact
- Follow up with internal contact when resolution deadline expires
- Identify short coming (service quality)
- Contact adviser with outcome re problem
- Follow up with admin if not received agency number

Discretionary Examples

- Network (at professional development days)
- Liaising with interstate offices



Core Examples

- ID key prospects in database
- Conduct meeting with customer
- Select adviser to contact
- Follow up with any leads made on the day

Support Examples

- Schedule time on system
- Conduct necessary research
- Travel to and from venue - car

What are the Risks?

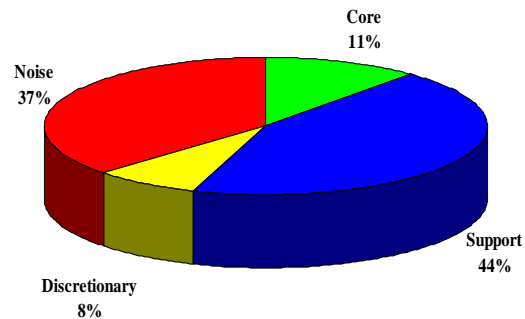
So, Restructures are necessary, and provide opportunities, but they do carry very significant risks

- Key Tasks and Activities which were performed under the old structure can get “lost between the cracks”
 - Quality challenges
 - Customer responsiveness
 - Billing issues
 - OH&S challenges
 - Reputational or regulatory risks
- Staff and middle management may become disengaged, disappointed and even angry
- Sales can be impacted due to
 - Staff distraction and dis-empowerment
 - Poor account handover

How many of you have seen these sorts of Restructuring outcomes?

- The Restructure happens but the work remains
 - Increased pressure on existing staff
 - Decline in staff morale / presence of cynicism
 - Loss of key personnel
 - Personnel return as higher paid contractors/consultants
 - Key processes are damaged
- Sales drop in-transition
- Customer service is detrimentally impacted
- The processes are just as inefficient as beforehand – there are just fewer people to fix them

Furthermore, who will fix the problems if key personnel are Restructured out?



Sales

- Handle Stock shortage
- Address product delivery error
- Respond to billing error
- Handle Customer Complaints (service quality issue)

Distribution

- Order emergency replenishment
- Chase short pick
- Address delivery error
- Document receiving error
- Adjust product size specification

Healthcare

- Correct data entry errors
- Search for thermometers
- Chase Pharmacy for drugs
- Cook extra unplanned meals
- Clean dirty theatre equipment

Branch

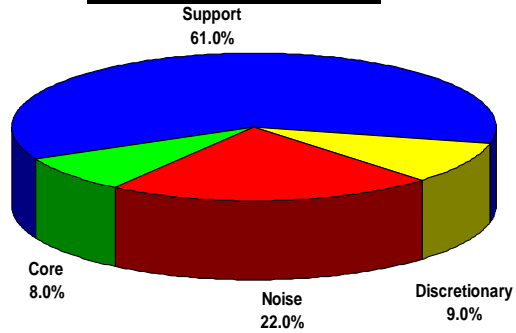
- If cannot find account number then conduct search with computer
- If can not contact customer then chase up references
- Get more information if required by manager
- Chase up head office for approval
- Follow up on any missing documentations

Production

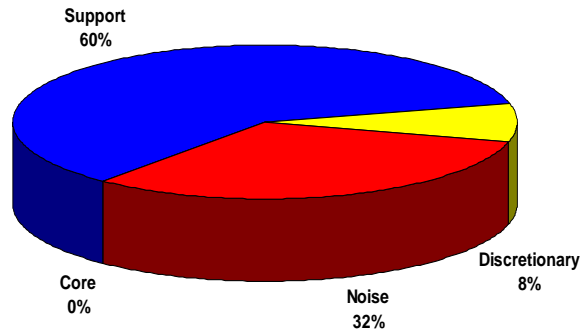
- If quality threshold breached then investigate cause
- Recalibrate machines if inbound size variation occurs
- If staff absent, organise replacement
- If conveyor breaks down, call maintenance

“Noise”, or the time spent addressing problems, can account for 2-4 days a fortnight

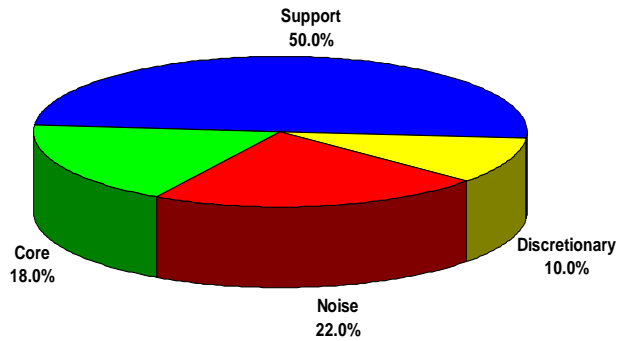
Sales Force 1*



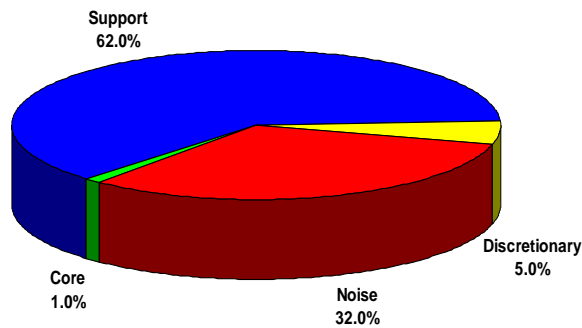
Supply Chain 1*



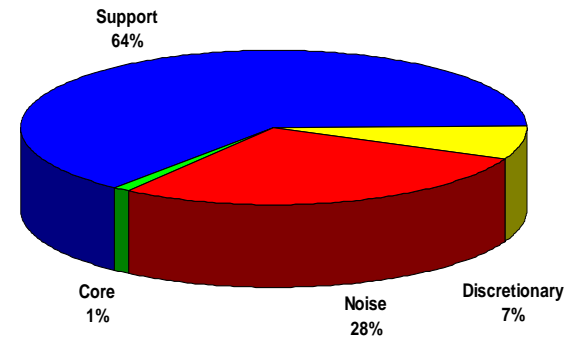
Finance 1*



Transport 1*



Hospital 1*



How should we respond to the Risks?

To be sure of Restructuring success it is important to be able to answer a number of critical questions

- Can we clearly articulate the objectives and the assumptions underlying the changes?
- Can we clearly articulate why each element of a restructuring change drives profitability?
- How will the new processes operate under a different structure?
- Will the tasks that are done change in the restructured environment?
- How will staff be engaged and their concerns addressed?
- How will customer communication occur?
- What are the key risks to the business during and after transition?

There are really three central challenges

- To quickly understand the detail of what really goes on pre-Restructure. If we do not understand it how can we effectively change it?
 - If each Role subject to Restructure has 20 Activities and each Activity has 20 Steps. Then how do you understand what 50 Roles are doing (1000 Activities and 20,000 steps)
- To put Tasks where they most sensibly belong?
- To reduce non-value adding tasks?
 - Handling errors and delays (address the error – e.g. product, distribution etc)
 - Reducing administrative load (e.g. report production, ad hoc questions, poorly structured policies)
 - Pruning inappropriate product or services (generally high Noise for level of profitability ratio)
 - Removing unnecessary steps from processes (e.g. inappropriate signoffs or unclear accountabilities).

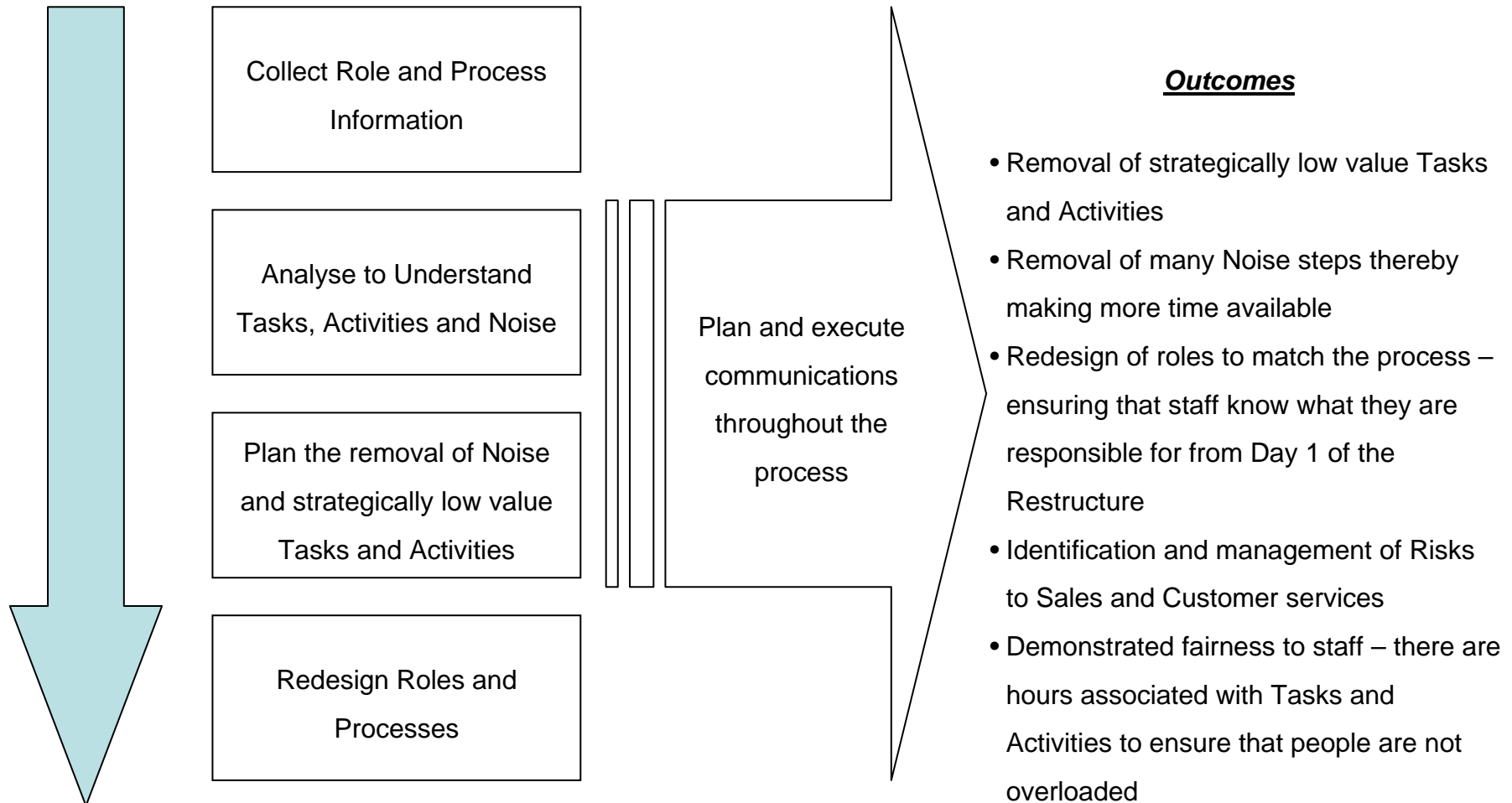
An organisational Restructure should move the work where it is most effectively performed

- Having the right staff and management optimizing their focus on where they add the most value and
- Refocus teams on their 'core' activities (drive profitability) distributing other work
- Simplification (reduction of interfaces, handoffs, duplication, product mix + variation) to allow this focus to happen. This is often a process reengineering outcome
- It is about putting the work where it is most effectively performed within the organisation as a whole.

Understand what people really do before you start

- It is essential to understand what people do before restructuring their roles
- Without understanding what people actually do in an organisation's overall process then it is not possible to predict the outcomes if that role is restructured
- The challenges are that
 - Job descriptions (if they are available) usually do not provide anything like enough detail to understand a role and how long it takes to perform any given task or activity
 - Manuals are often out-of-date and simply do not reflect the reality of the current role
 - Procedures documents reflect the way the job “should be done” not what is “actually done”
 - None of the documentation available is likely to tell you where processes fail and therefore how much time is required just to fix up problems.

There is a way to deal with this – it's all about understanding what is going on in your organisation



In Conclusion

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- Restructures can revitalise an organisation, but they are fraught with risks – we have probably all seen poorly executed Restructures
- We suggest that there are a number of Critical Success Factors to successful Restructuring
 - Clear strategic rationale
 - Great communication
 - Understanding what people really do “today”
 - Designing their roles so that they can cope “tomorrow”
 - Using a detailed understanding of the processes to manage risks to Sales and Customer services