



Coffee Break

What is Budgeting, Tactical and Strategic Planning?

Transatlantic Family Tradition - What is Budgeting, Tactical and Strategic Planning?

Writer

*Frank P. Neuhaus, Aurício Soares dos Santos
Founder and Co-founder of iManagementBrazil Ltda.
São Paulo - Brazil*

Photos & Illustrations

*iManagementBrazil Ltda.
iStudioBrazil, Brazil*

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Preface

A family business from Northern Europe decided to set up a branch in Brazil about half a century ago. The family of entrepreneurs is a traditional supplier to the automotive industry and produces highly complex metal parts of smaller formats.

The founders boarded a ship in Europe and made their way to Brazil, where they purchased land in the state of São Paulo and built the factory. In this epoch, Brazil was an absolutely closed market - suppliers and customers were manageable. The first machines were also brought along in the ship by the founders.

In the following decades, the company developed excellently - the high quality level on site, ensured constant profits and increasing sales volumes. The pure local companies during

this time could not oppose productivity and quality.

Boom in the first decade of the new millennium. In Brazil's last boom phase (2005-2012), sales exploded, although the national market had meanwhile produced enough competitors. However, the volumes required by the Brazilian automotive industry were so high that there was enough to be made out of the cake for everyone.

The crisis explodes. When the crisis broke out completely in 2015 and volumes shrank by up to 60% within a few months, the Brazilian branch was forced to receive money from the European parent company every month to cover running costs.

As so often observed, the reflex to start a reorganization began immediately. This means in almost all cases: reduce personnel and bundle functions in one person. The administration was also streamlined by the parent company in Europe deciding to outsource all administrative functions, apart from the management function of controlling. This decision was taken extremely quickly and



without any real examination of the service provider's content.

After some time, the European parent company had to realize that outsourcing was not the solution. The reported figures remained incomprehensible and economic results continued to collapse. On the one hand, one had to realize that one had fallen for a service provider who promised to master the office functions, including the associated processes, within four to eight weeks. The HQ also began to suspect that the problem had to be dramatically deeper and wider.

The situation becomes uncontrollable. At that moment, iManagementBrazil was contracted to manage the local company and to undertake the necessary analyses and implementations on the way to a profound reorganization or restructuring. At that time, the company lost approximately US\$ 25,000.00 per day, with some 180 employees.

Da-hoc analysis. The analysis of the sales side as well as the production and internal organization resulted in the following picture:

1 The outsourcing partner had made completely untenable promises and did not have the competence to take over the service. The outsourcing of administrative tasks has further accelerated the crisis and increased the lack of transparency. The service provider came from Northern Europe and "created" a relationship of trust with the client through its cultural background.

2 The key account sales had been completely dismantled during the crisis and transferred to the previous CEO. Costs should be saved.

3 The number of technical complaints has been increasing continuously for about three years. The activities of continuous improvement had fallen victim to cost-saving measures. There were also problems with delivery reliability. The establishment of Supply Chain Management, which had already begun, was discontinued for cost reasons at the outbreak of the crisis.

4 The company had its own internal tool shop for new tools and maintenance. The employees working in this field had the highest salaries and absolutely not market-conform hourly rates for machines and designer hours.

5 70% of the machinery was obsolete and partly still came from the time of the founders. Productivity was far below standard.

6 Over the years, a gulf had opened up between the core team of the founders and the later joined staff and both informal groups did not work hand-in-hand.

The impression is growing that the symptoms of the company crisis were already there before the outbreak of the Brazilian crisis.

Consistent implementation. After a successful analysis (10 weeks) and coordination with the European parent company, the iMB management team started to implement the necessary measures. iManagementBrazil has used our 360-degree analysis tool developed over the last three years for the ad-hoc analysis. The processes are examined in great detail, the competence of the existing employees is evaluated and one of them takes a close look at the entire



sales process. Subsequently, a profound human resource profiling is carried out. Usually the profiling is then later passed on to a personnel consultant to renew the management team.



The **administrative processes of accounting and payroll** were again **in-sourced** and handed over to a small and very competent group. The focus was on the timely recording and posting of all transactions as well as the preparation of an updated cost center plan. Furthermore, a special focus had to be placed on cash flow planning in order to inform the parent company in good time about required cash requirements.

An operationally oriented **supply chain manager was contracted**. Together with this new employee, the representatives of quality assurance and the management, the existing problems were documented, **openly communicated to the customers and bindingly resolved according to a coordinated schedule**. Requirements planning in production was intensively coordinated with customers and **changed from chaotic daily planning to weekly planning**. A monthly release planning was also agreed with the automobile manufacturers in order to be able to better plan the necessary capacities.

For **toolmaking**, a separate **strategy development process** began and a subsequent **business plan** was drawn up, using the comparison with suppliers outside the company. It quickly became apparent that the new tools business was completely in deficit, but it was possible to cover costs in the area of tool maintenance. Thus, the tool construction was reorganized into a **project management center** for tools with a **reduced machine park**. The specialists were held in the company and **intensively trained** in project management. The new task was to specify the technical requirements together with the customer, define the production methods, determine the appropriate manufacturer for tools and manage the timeline at the early stage of a new product development. Tool maintenance was largely converted to **annual**

planning, as most of the tools belonged to the customer. This minimized the administrative effort of production control and made it much **more productive**.

The machine stock was subjected to a thorough examination of the manufactured parts, margins and state-of-the-art production technology. The result was that **entire sectors had to be completely shut down**. On the one hand, most of the traditional standard parts produced had not been adapted with the customer in terms of price for years, and on the other hand, the mechanically controlled machines were far beyond any productivity standard in the world.

Immediately iMB started to **contact the customers** and to communicate the situation openly. The aim was to secure at least price adjustments to the current level. Alternatively, production would be discontinued within a reasonable timeframe. In the course of these discussions with the system suppliers, it became clear that a considerable number of identical parts had already been purchased internationally for years. In these cases, we completely stopped production of the parts within a few days and shut down the affected machines.

The "new" company is to be created. A completely new business plan should also be drawn up for the emerging "new" company. But what was the "new" company? What should the business model be? We knew very quickly that our client would not survive with the remaining traditional metal parts and the measures listed above. There was no new source that could bring sales and profits to the old level and provide real added value for customers.

Break with traditional planning. As in previous years, iMB's change management team has observed the widespread desire of clients to draw up a strategic plan with a view to the next three to five years. The management from Europe wanted to participate intensively in the process and took two weeks to stay in Brazil.

As in most cases, immediately it became clear that strategic planning only meant budgeting, i.e. cost and sales planning, as well as updating it over a period of up to five years. This showed once again the fear of uncertainty and future assumptions - in other words, the real strategic planning. Above all costs and misleadingly also sales can be planned and thus the fear of uncertainty becomes controllable.



To minimize doubts about the future, so-called strategies are developed that raise the least doubts: the standard budget as well as the worst and best case scenario. The worst case scenario is then adopted as a jointly adopted budget, or strategic plan.

Over the years and through the projects, we at iMB have learned that this approach is not wrong, but bad, as managers, regulators and investors remain in a comfort zone. **Especially in times of such an existential crisis, this approach is not helpful.**

From our experience, this poor approach is based on the premises of planning, i.e. on cost-based thinking - costs are plannable, easy to control and therefore ideal planning elements. They create security. Of course, costs have to be planned! However, this is not part of the strategy but of resource planning and thus tactical planning.

The poor approach is continued by transferring the high security in cost planning to the revenue side and assuming that costs and revenue can be planned. The bad and often even wrong assumption is that budget planning generates the business plan and that it is then a strategic planning.

How often can be observed if sales planning is missed: "... That's all we could have done. We have invested hundreds of hours in planning..."

The iMB reorganization team presented the above-average planning methodology we had tried and tested for years. **Only one business plan is developed. This plan is not a strategic plan but part of tactical planning.** This is pure resource planning.

The aim of the subsequent phase of real strategy determination is not to eliminate risks, but to find new sources of income and increase customer penetration - i.e. to increase the chances of success. In this phase, different scenarios are developed and options defined. This phase is not about developing a detailed resource plan with corresponding cost items, but about creating recognizability, situations and patterns in order to react quickly and increase the chances of success accordingly.

This approach initially met with increased skepticism among the managers from our client's European parent company. The conclusion was: If the future is so unpredictable and volatile, it is only worth making a strategic decision when future developments can be reliably forecast.

This is a very convenient interpretation because it prevents managers from making frightening decisions about uncontrollable developments.

On closer inspection, of course, this logic reveals itself as a dangerous error of thought. **If the future is too vague and volatile to make decisions, why should this change at some point? And how do the strategists recognize when the plannability is large enough and**

the volatility low enough to be suitable as a basis for decision-making? The argument is not valid, because the future will never be predictable.

Real World. The pressure at the parent company was enormous, one could not wait long, as the monthly financial requirements reached such proportions that investments in the parent company had to be postponed and thus a threatening situation emerged on the horizon.

The path proposed by iMB has been taken. The task now was to localize new business opportunities and to quickly realize opportunities in the face of shifting market realities.

As a result of the intensive customer contacts and the cross-over information from other projects at iMB, we thought we had discovered a possible new business opportunity.

The traditional core business of our client was the production of small

metal parts up to complex small dimensioned stamped parts. These parts were used in the mechanical and electro-mechanical areas of vehicles manufactured in Brazil.

Although the Brazilian-based system suppliers for the exterior lighting of vehicles supplied the complete lighting unit to the assembly line, the entire value chain was generally divided into three parallel supply lines:



1. injection moulded part of the Bulb Shield,
2. punched metal grids for electric energy transfer and
3. sealing material.

There was **no supplier** for the complete lighting unit in Brazil. The system suppliers had to purchase all three main components and assemble them in a separate value-added step.

In the course of the crisis in Brazil, one of the main suppliers of injection molded parts went bankrupt. As a result of the generation of strategic scenarios, the reorganization team of iMB had **defined this scenario as a kind of "game changer"**. When the situation arose, the entire local and European management was prepared to make a quick decision. The decision was made in less than 24 hours to incorporate the business of the insolvent supplier of plastic moulded parts with the aim of becoming the system supplier for outdoor lighting. The

„A realist is a person who has the right distance from his ideals.“

- TRUMAN CAPOTE -

tools, injection moulding machines and current delivery commitments were taken over and immediately coordinated with the higher-level system suppliers and automobile manufacturers.



The previous deactivation of unproductive production areas and decommissioning of the corresponding machines had created space in the factory for the new business segment. The purchase of the sealing material was continued. However, it became necessary to adapt the material flow in the production halls and the final assembly for the complete lighting elements. The planning of the assembly processes was not created by the own production planning department, but with the MTM method involving the planners and consultants of MTM.

Consequence. The entire project took a good 1.5 years. After less than 12 months, our client's company had got off to a flying start:



40% of all new vehicles manufactured in Brazil from 2017 onwards will be fitted with exterior lighting by our client.

The economic added value of outdoor lighting is 15 times greater than traditional metal parts, resulting in a significant increase in sales. The margin is also clearly satisfactory. In connection with the implemented project management, our client will also become a development partner for the nearby introduction of LED lighting on vehicles in Brazil.

To the shareholders' delight, the local subsidiary in Brazil has not needed any more financial support from Europe for a year.

From iMB's point of view, we were able to save another company from the threat of closure. For us, it is also the fastest and "most radical" conversion of an ongoing production plant that we have ever carried out. *(FN, AS&S)*

get in touch:

Frank P. Neuhaus
Managing Director
iManagementBrazil Ltda.
São Paulo - Brazil
Tel. São Paulo:
+55 11 5522 41 98
Mobil: +55 11 9103 91 49
@mail:
frank.neuhaus@imbrazil.com.br
www.immanagementbrazil.com.

