Presented by...

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Director,
Vector Consulting Group, India
FG’s Business

Fleetguard Filters – A leader in filtration solutions for air, fuel and lube systems for automotive and industrial markets.

Part of the Cummins Group,
Preferred OEM supplier to HCV makers and leader in aftermarket.
• This is the story of a company which decided to take up VV inspite of facts indicating that VV is not at all possible.

Hope this is an inspiration for companies where VV conditions exist
Starting conditions

When we decided to go for the Viable Vision in early 2005 we were-

• Sales- 35 USD mill
• PBT of 12%

• Of which 80% of which was to OEM segment
• 10% to the After market (Retail)
• 5% to Exports and
• 5% to Institutional segment
Our Viable Vision

Our Viable Vision - Achieve a profit of 25 million in four years –

• Normally this would take a sales of about 250 million i.e. doubling of sales. This will require a huge investment which is also a big risk as we are dependent only on OEMs.

• The way out- achieve the profit with minimum investment i.e. if we can achieve the target profit with about 150 mill sales.

For this, for the next 4 years
Sales to increase by 30% each year
Profits to increase by 50% each year.
Viable Vision for FG - Obstacles

• Limited sales-
  • FG has 80% of its sales to OEM segment and nearly all of it is as a single source supplier
  • FG is already supplying near 100% on time to the OEMs
  • In OEM business, for any growth, FG is dependent on OEMs increasing their business. OEM segment is growing at just 10%
  • Can sell in retail at prices higher than the OEMs

• Pressure on Throughput
  • OEMs are always pressurizing for price reductions
  • 70% of the material cost is steel and 20% paper. Both were increasing rapidly

• Increasing Operating Expenses-
  • Will increase substantially as we have to continuously build infrastructure to be able to our customers adoption of the new technologies.
So no Viable Vision for our company!!

But we are determined to achieve a Viable Vision

But then-How?
Our Viable Vision

Sales to increase by 30% each year
Profits to increase by 50% each year.

Can happen only if Throughput grows much faster that OE

Leverage points-

• Increase sales – in segments other than OEM
• From existing capacity (with minimal increase in investment)
• Seek segments with higher throughput to compensate for throughput decrease in OEM sales.
The foundation

• Our determination

• Dr Goldratt has been gracious to provide us the vision in every possible meeting we could have with him.

• FG aligned with Vector Consulting Group to make this happen.

• Dr Goldratt advised “You are in safe hands”
<table>
<thead>
<tr>
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<th>Project100</th>
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<tbody>
<tr>
<td>1</td>
<td><strong>Strategy</strong></td>
</tr>
<tr>
<td></td>
<td>(FG is solidly on POOGI)</td>
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<tr>
<td></td>
<td>FG has bottom line of Rs 100 Cr ( PBT) in year 2010</td>
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<tr>
<td></td>
<td><strong>Parallel assumptions</strong></td>
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<tr>
<td></td>
<td>For FG to have such rapid growth in bottom line in 4 years, the thru-put must grow <em>(and continue to grow)</em> much faster than OE.</td>
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<td></td>
<td>Exhausting FG's resources and/or taking too high risks severely endangers the chance of such rapid growth opportunity</td>
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<td><strong>Tactic</strong></td>
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<td>Build a decisive competitive edge, and the capabilities to capitalize on it, and service big enough market without exhausting FG's resources and without taking real risks.</td>
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<tr>
<td></td>
<td><strong>Sufficient assumptions</strong></td>
</tr>
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<td></td>
<td>The way to have a decisive competitive edge is to satisfy a client’s significant need to an extent that no significant competitor can.</td>
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</tbody>
</table>
We needed to implement:

**Tactic:**
Build a decisive competitive edge, and the capabilities to capitalize on it, and service a big enough market without exhausting FG's resources and without taking real risks.

- TOC will help in release at least 50% additional capacity
- Are other segments big enough?
- If yes, what is the decisive competitive edge to dominate them?
- High dependence on OEM is risky
Big enough markets & DCE?

OEM segment-
• Though we are single source for the items we supply, we do not supply all the items
• We don’t want to compete on price and harm our throughput further
• We identified the significant needs of the OEMs

Fast and reliable new product development
• Today the OEM are introducing / changing products frequently and have very short time to introduce the new product.
• Once product is accepted we become single source and capture sales for long term.

Decisive Competitive Edge:
• VMI
• Develop new products reliably in 1/2 the lead time- CCPM
Big enough markets and DCE?

After Market-
• Very unorganized market and very price sensitive (we thought!)
• We were just 20% of the market
• Our distributors had stockouts and surpluses (4 Inventory turns)
• Our reach in retailers (5000 of the 50000) and range (10%) was very limited

Decisive Competitive Edge:
Enable the distributors to achieve 36 inventory turns at 100% availability of wider range
Big enough markets?

**Institutional segment**- earth movers, mining equipment, etc

- Current market share- 2%
- Currently serviced by distributors who buy material from Singapore. Buy 1-2 containers in a semester.
- You can imagine the unreliability to customers as the distributors try to liquidate the forecasted material at the first opportunity.
- The customers had no option but to keep a stock of more than 6 months to avoid unavailability of spares.
- And the customer requires to change filters every 7th day.

**Decisive Competitive Edge:**

Guarantee for Availability at very low stocks (15 days)
Big enough markets?

Exports- as sourcing company to Fleetguard worldwide

- Our performance in terms of delivery and new product development was very poor
- Market share negligible

Decisive Competitive Edge:

- 100% reliability at shorter lead times
- New product development reliably in 1/2 the lead time
The Viable Vision

So we had to address four segments with different DCEs i.e. different SnTs

- OEM
- Retail
- Institutional
- Exports

CCPM

SNT

Consumer Goods

SNT

GFA

SNT

Reliability

SNT
Build - Capitalize - Sustain

- OEM
- Retail
- Institutional
- Exports

New products
3:1 Capture opportunities

Build
3:7 High Throughput
Sustain
3:8 Load Control
3:9 Capacity elevation

3:1 Consumer Goods
GFA
Reliability

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Build - Capitalize - Sustain

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OEM
Retail
Institutional
Exports

CCPM

Base Growth
2:1 Inventory Turns Comp. Edge

GFA

Reliability

Build
3:1 Produce To Availability

Capitalize
3:2 Inventory Turns Selling
3:3 Expand client base
3:4 Maximizing Throughput

Sustain
3:5 Capacity Elevation

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Build- Capitalize - Sustain

CCPM

Cons consumer
mer

Goods

Base Growth

2:1 Reliability
Comp. edge

GFA

Build

3:1 99%
DDP

Capitalize

3:2 Reliability
Selling

Sustain

3:3 Expand
Client Base

3:4 Load
Control

3:5 Capacity
Elevation

Retail

Exports

Institutional

OEM

Retail

Exports

Institutional

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Build- Capitalise- Sustain

OEM

Retail

Institutional

Exports

CCPM

Consumer Goods

Reliability

Base Growth

2:4 GFA Comp. edge

Build

3:1 Ensure Availability

Capitalize

3:2 Proposal Design

3:3 GFA Selling

3:4 Expand client base

Sustain

3:5 Prevent deterioration

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Challenges-

Operations-
• MTO and MTS in the same plant

CCPM-
• Skilled engineers not easily available
• Unpredictable interruptions from OEM clients

Distribution-
• Distributors did not have any IT infrastructure
• The retail market was very unorganized
Challenges-

Institutional segment-

• Even infrastructure for ‘Build’ did not exist.

Exports-

• Needed to develop new products in half the lead time, and reliably
Achievement so far - BUILD

- MTO - more than 95% OTD
- MTS - 98% availability at PWH and regional warehouses
- CCPM -
  - Rate of new product development has doubled
  - While lead times have decreased to nearly half
- Distribution -
  - Distributors are enjoying near 24 inventory turns
Achievement so far - Sales

• Around **30% increase in sales OLY** for each of the 3 years, even at a higher base each year

• I.e. we nearly **doubled our sales in 2 years**

• **Inspite of sluggish market growth**
  • 20% in 2006
  • 10% in 2007
  • 5% in 2008

• FG is the **fastest growing company** in its product category
Achievement so far - Sales increase

On track for Viable Vision -

<table>
<thead>
<tr>
<th>Segment</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>OEM</td>
<td>21%</td>
<td>34%</td>
<td>20%</td>
<td>18%</td>
</tr>
<tr>
<td>RETAIL</td>
<td>33%</td>
<td>50%</td>
<td>67%</td>
<td>100%</td>
</tr>
<tr>
<td>INSTITUTIONAL</td>
<td>60%</td>
<td>67%</td>
<td>100%</td>
<td>88%</td>
</tr>
<tr>
<td>EXPORT</td>
<td>60%</td>
<td>67%</td>
<td>100%</td>
<td>75%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>24%</td>
<td>38%</td>
<td>32%</td>
<td>30%</td>
</tr>
</tbody>
</table>

OEM sales has shifted from 80% of total sales to 70% of total sales though the sales have doubled in two years
Achievement so far - Profits

• Around 50% increase for the first two years and 40% in 2008.

• Most of the competition has been increasing profits at about 10%.
Achievement so far

• Profits increasing by 50% each year, over LY in spite of
  • T% being reduced by-
    • Steel prices have increased by nearly 100% in the last one year- decreased the overall throughput by 6%
    • OEM and other segments not increasing prices proportionately

• Our OE in 2008 was double that in 2006.
  We had no choice but to invest in machines /lines to comply with new standards and technology required by the OEMs. Result

Could have been much better

We could have achieved, in 2008, near 80% increase in profits over 2007 as against the 40% increase.
Critical Success Factors

- Belief in the Strategy and Tactic tree
- Belief in the three principles
  - There are no complex systems
  - People are good
  - There is always a WIN-WIN solution
- Management participation in transition- i.e. no delegation of the change management
- Vector’s immense understanding of the SNT and strong belief in TOC. They perseverance with process deployment is unique (stubborn!!)
Presenters

Niranjan Kirloskar is the Managing Director of Fleetguard India. He is actively leading the Viable Vision project for the company.

Kiran Kothekar is Director of Vector Consulting Group, India. He has been consulting in TOC for the past 7 years. He is also Director in Goldratt Group. kiran@vectorconsulting.in www.vectorconsulting.in