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From India: A Production Implementation

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ABC is one of the group companies of a large-family owned industrial house supplying machines to refractory manufacturing units. It was started 30 years ago, and employs about 200 people. ABC has good manufacturing facilities for fabrication, heavy and precision machining, and assembly. It used to supply machines designed in-house. ABC had a good reputation as a supplier of quality machines in the refractory industry. The turnover was ranging between Rs. 70-100 million, and the net profit margin was 8-10%.

The industrial environment was changing rapidly. Steel and cement plants, the prime users of refractory, were experiencing the effects of increased competition coupled with low growth in demand. Cost reduction became imperative for all the organizations in these sectors. Demand for refractory was shrinking month after month. If plants in steel and cement sector were experiencing difficulty in maintaining margins, refractory industry was fighting for its very survival.

In this environment where ABC's customers were finding it difficult to

hold their head above water, demand for ABC's machines shrunk drastically, and margins were under severe squeeze. ABC experienced loss of Rs. 4.5 millions in 1997-98, Rs. 5.0 million in 1998-99. As the demand for their propriety products literally vanished, ABC started accepting orders for special machines and equipment as per their customer's design. The margins reduced further. The already difficult situation worsened in the first half of 1999-2000. The loss in the first half increased to Rs. 7.2 million on a turnover of Rs. 22.5 million. This situation was increasingly unbearable for the owner. He could not go on funding losses in the hope that the market would improve in future. The owner decided that he had no choice but to close the business shortly thereby jeopardizing the livelihood of 200 families.

At this stage the owner came across Dr. Goldratt's best selling business novel *The Goal*, and became aware of the concepts of the Theory of Constraints (TOC). The situation described in the book *The Goal* was no different. The plant manager in this book was asked to turn around the plant in three months or face closure. The owner asked me if I could take up the challenge to help him turn around his plant using TOC concepts in six months if not in three!

I was excited, and apprehensive at the same time. Excited-as I had the opportunity to make a difference in the lives about 1000 humans, and apprehensive- could it be done?

The team decided to apply TOC as all other strategies had failed, and they had nothing much to lose any way. They decided to focus on their scarce resource-cash, rather than trying to utilize all the resources all the time.

Results for next six months were quite different. Turnover for next six months increased to Rs. 45 million, and moreover the profit, yes profit, was Rs. 4.0 million. Will the same trend continue in future too! Well their lead time to supply equipment dropped to almost half of their earlier promised time. Today they have more orders than ever before, and hopefully they would continue to make more and more profits.

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