



Putting the power back into the supply chain

In process industries such as chemicals, supply chain effectiveness can make or break a company. By turning around a business that was headed for serious decline, Celerant Consulting helped to deliver almost \$28 million in immediate cost improvements, plus create an organisation with the skills and behaviours for long term competitive advantage.

Double-Edged Sword

Business success can be a double-edged sword.

Take the case of a leading global chemical company. With customers in more than 120 countries, and manufacturing facilities in 18 countries on five continents, business looked as if it was booming.

But the reality was different. Market share, return on sales and operating profit were all in decline.

The cause of the problem was clear - performance was simply not good enough. The company was struggling to keep up with market and customer needs. For example, less than 60% of deliveries arrived on time in full.

To paper over the cracks, \$47 million in excess inventory had accumulated. Efforts to attract and retain customers for the company's products centred on providing excessive service offerings.

But such measures failed to address the true symptoms of the challenges, offering only a short-term fix to a more deep-seated operational challenge.

FRACTURED ORGANISATION

Clearly there was an urgent need to get to the bottom of the operational issues causing the poor performance, before the company lost even more ground to its competitors.

Celerant Consulting (Celerant) was called in to conduct an analysis of the supply chain for the company's North American operations.

The regional president suspected that the problem was a combination of process and behavioural issues. And he was proved right.

On the one hand, inaccurate sales forecasts were leading to inventory build-up and lower levels of customer service. These forced disruptions in the production schedule, worsening the inventory and service situations even further. Key customers had inventory parked in their consignment sidings, just to make sure it was available when they needed it.

Deeper investigation of the factors affecting performance showed that employees sometimes lacked skills relevant to their job. Communication between units - such as sales and customer service, or marketing and production - was also lacking. Duplication and non-value-adding effort needed to be addressed across departments.

Results

- Cost savings and operational improvements included:
- \$10 million in inventory right-sizing
- \$5.3 million from eliminating non-value-added activities
- \$4.2 million in railcar leases
- \$3.3 million in production rationalisation

"Celerant was key to helping us elevate the skills of our people, so that they could assume the leadership roles that they needed to assume."
Business Leader



TRANSFORMATION IN ACTION

A new design for the organisation was an important first step in reversing the performance slide. Key elements included: introducing specific linkages between organisational units; formalising who had responsibility and accountability for key business practices and activities; clearly defining the roles and responsibilities of each position; and eliminating activities that were duplicated or did not add any value.

However, the crux of the design's success lay in turning what looked good on paper into a day-to-day operational reality.

A new demand planning and forecasting system was installed. This replaced the inefficient make-to-order system that had contributed to massive excess inventory, and also to excess transition material which had to be sold at a loss. Further improvements came from cutting the work in progress inventory and the finished goods inventory.

The company's railcar retention system was another target for action. The railcar fleet had grown to 4,600 vehicles. Railcars were spending an average of six weeks at customer sites, so costs were very high. Celerant developed a fleet-sizing model based on statistical data about customer requirements and product deliveries. Using this model, the company was able to reduce its fleet to just over 800 railcars and cut the average detention time by a week.

Our Results are Front Page News

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A third major initiative was the introduction of customer segmentation. Previously, there was little to identify which of 40 service offerings should be offered to which customers. Unprofitable customers were receiving some very expensive services, with no benefit to the company. Celerant turned this around by introducing a clear definition of customer categories. By segmenting customers according to their profitability and growth potential, the company was able to define suitable service level agreements for each. With the expensive special services reserved for the top 20% or so of customers, return on the company's investment was much more secure.

FRESH MINDSETS

None of these changes would have taken root in the organisation without changes in the way people worked. More than a change of actions was required. People had to approach their jobs with a different mindset: with a desire to communicate, to be effective, and to enable their colleagues and the people they managed to do their own jobs more effectively.

Collaboration between Celerant and the company's human resource personnel and senior executives produced a robust matrix of the skills needed for each position in the redesigned organisation. This allowed the development of training and development plans for all employees. A combination of technical skills training and leadership development was called for. People received training across a range of areas, from computer skills to meeting management. Celerant

"There were so many disconnects in our organisation prior to Celerant coming in. For example, there was a big disconnect between sales and customer service. Celerant's analysis pinpointed all of the various areas where sales was putting responsibilities on customer service when it wasn't really their job. Through Celerant's process we were able to align all of the work that needed to be done. We are now a 21st century company." President, North America Operations

also designed and ran workshops designed to improve people's abilities in team building, strategic goal setting, and open communication.

Experience shows that attempting to change people's mindsets before changing the way they work – so that they can "think their way into acting differently" – rarely yields the desired results.

Celerant's approach – getting people to "act their way into thinking differently" – meant introducing the new organisation processes and systems as rapidly as possible, and then working with employees at every level to ensure implementation was successful and sustainable.

This would not have been possible without the strict implementation of new Management System (Celerant's proprietary MCRS®). Developed jointly by Celerant and the chemical company, these systems ensured that people were measuring the right things, and aiming for quantifiable results in line with the company strategy, rather than "doing things the way they had always been done here".

The key performance indicators installed by Celerant across the company allowed each employee to see how he or she affected the company's performance. This had a highly positive impact on staff morale and motivation.

