



Smith & Nephew

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Benefits at a glance

- ▶ *Manufacturing capacity increased by 20%*
- ▶ *Average order size up 60% in some markets*
- ▶ *Greater visibility with a clear 24-month picture of the demand*
- ▶ *One set of financial numbers*
- ▶ *Silo mentality eradicated*
- ▶ *Improved inventory levels, with SKUs reduced by 50%*
- ▶ *More efficient and effective decision-making*
- ▶ *Winner of The Manufacturer Logistics and Supply Chain Award*
- ▶ *OTIF up from 72% to 95%*

Customer profile

Business improvement gets advanced treatment

Following ongoing changes to its product portfolio and plans for growth, Smith & Nephew embarked on an Integrated Business Planning programme with Oliver Wight to improve its business processes and performance: three years on, manufacturing capacity has increased by 20% and order profitability in some markets has doubled – and now the company has won a major industry award for the management of its logistics and supply chain.

Inspiring
Business
Performance


OLIVER WIGHT



“IBP enabled us to align our sales strategy with our operational capability and supply chain design.”

Paul Adams
Supply Chain Director
Smith & Nephew

Smith & Nephew employs over 8,500 people worldwide and generates annual revenues of \$2.6 billion. Its Wound Management Division supplies dressings, pharmaceutical products and electronic devices to 38,000 customers in 124 markets around the world and its systems manage over 35 million transactions a year. The company, headquartered in Hull in the UK, has three internal manufacturing sites and 40 JV/outsourced sites located around the world.

Back in 2003, Smith & Nephew had effective processes in place, but they were disparate across the global organisation with no alignment to the business strategy; neither was there visibility of that strategy across the business, and whilst funding was held centrally, decisions on investment and new product introduction were being driven by ‘who shouted loudest’.

Paul Adams Supply Chain Director: “Our demand forecast was not aligned with our financial forecast or operational forecast and we were over-optimistic as a business about what could be achieved. There was a culture of underperforming by chasing overstretched targets, which had a negative impact on motivation. This led to us not achieving some of our business objectives, when logically,

we should have. In new product development (NPD) we were taking too long to launch products and then often missing the launch dates. We found ourselves asking, ‘why can’t we do what we say we are going to do?’”

The ambition was to introduce a clear global focus and direction for the business, whilst eradicating duplication from its processes and removing unnecessary competition for funding. Smith & Nephew engaged specialist consultancy firm Oliver Wight, to help with the project. With the full backing of the company’s executive management team, an IBP coordinator was appointed to lead and develop the new ways of working. In addition, a full-time programme manager was appointed, Liz Dixon. Liz set up a three-man, cross-functional project management team - representing



the company's commercial, supply and innovation (product development) functions - plus the participation of a team of 50 'ambassadors' to roll the project out in international markets. Using Oliver Wight's Integrated Business Planning framework, the team was able to design a programme without having to make wholesale changes in every area. Liz Dixon: "We didn't want to reinvent everything for the sake of it because we had a lot of good S&OP practices in place; what we didn't have was a global way of working and we didn't look far enough ahead." The programme (which Smith & Nephew calls Integrated Business Planning - IBP) extends the principles of Sales and Operational Planning (S&OP) throughout the entire organisation. Paul Adams (chair of the panel responsible for introducing the IBP programme) explains: "There were bits of the Oliver Wight S&OP process operating around the global organisation. We pulled them together as best we could, but we kept hitting a ceiling because we weren't getting engagement across all the commercial areas - it was seen as a process that only helped improve the service level and to make manufacturing more efficient. In other words, the order fulfilment guys were the only ones dabbling with it. We'd got our global on-time and in-full service level up from 72% to 95% but

that wasn't good enough or sustainable. The appointment of Oliver Wight helped us reconfigure what we were doing with S&OP. We reset the context by getting the executive team educated in the new Oliver Wight IBP process and the importance of its philosophy spanning everything from new product development through to alignment of financial, supply, portfolio management and sales strategy."

The latter appointment of a new head of business planning (Rangana Choudhuri) helped link corporate strategy into the operational plans and finally to individual objectives. There became a greater cross-functional understanding and awareness of individual roles and responsibilities throughout the business. After a year-long programme of training and education, the benefits started to come through. The company established a clear, 24-month picture of its organisation. It now works to one set of financial numbers and has an understanding of its capabilities and capacity in relation to demand, whilst all plans (for projects and new product launches) are assessed against the global strategy. The company is now able to balance short-term issues against the long-term, avoiding the sort of knee jerk reaction that Paul Adams says, "Used to send energy all over place."



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Liz Dixon
Programme Manager
Smith & Nephew

Liz Dixon again: “Rather than just plan to increase factory shift work because the demand has gone up, for example, we look at the situation more closely, ask what has changed; take a company-wide view, stand back and verify decisions against our strategic plans.”

The biggest benefits have been in the visibility the IBP programme has delivered, allowing the company to establish a set of priorities against which all plans and projects are assessed - profitability is key of course, but there are others such as trade-offs between investment in products and development of our operational capability across geographical markets. Projects have to be coordinated and aligned and line management now automatically does that. Any silo mentality (by territory or by product) has all but been eradicated, with IBP becoming the vehicle for encouraging and motivating engagement and alignment across multiple markets and products. Through the IBP programme, the organisation has also changed the sequence of its processes to better suit its business model - sales, marketing and management meetings are now spread throughout the month rather than all being held on the last two days of the period. This change allows for effective

problem solving in what Adams calls a 'joined-up' fashion. “It’s about doing things in series rather than parallel,” he says. “Otherwise you’re all trying to do the same thing at the same time.”

Some activities previously categorised as projects have been reallocated as ‘part of the day job’ and the number of live projects (previously numbering a hundred or more) has been whittled down to just a dozen or so at any one time. As new projects come on board the company now decides whether to re-prioritise, delay or move forward to invest. Again everything is linked back to the corporate plan. So the process works but what are the numbers? One of the best examples says Adams is in channel design and management: “It’s a classic problem in many big organisations; if the supply chain is poorly designed, there will be a negative impact on profit. If your business objective is to push revenue growth, and you release sales people into the market, you will probably get a whole set of new accounts, all generating small orders - it’s spray and pray. In our case for any order under £50, the cost of fulfilment - for us and our customers- is more than the value of the order, yet we have been receiving thousands of orders



under that value. IBP enabled us to align our sales strategy with our operational capability and supply chain design; we changed our business model completely introducing channel intermediaries to better service small deliveries that helped us remove unnecessary noise from our supply chain. That instantly delivered 3 margin points in net profit in one European market alone, with similar results in many others. Inventory dropped and now Smith & Nephew offices supply fewer delivery locations with larger orders.” In fact average order size in some Smith & Nephew’s markets has increased by up to 60%, whilst SKUs have been reduced by 50% following consolidation. Customer delivery time is also faster, with pan-European warehousing delivering to customers within 24 hours - in one market alone, the number of monthly complaints from customers on distribution quality has reduced from 100 to just 5.

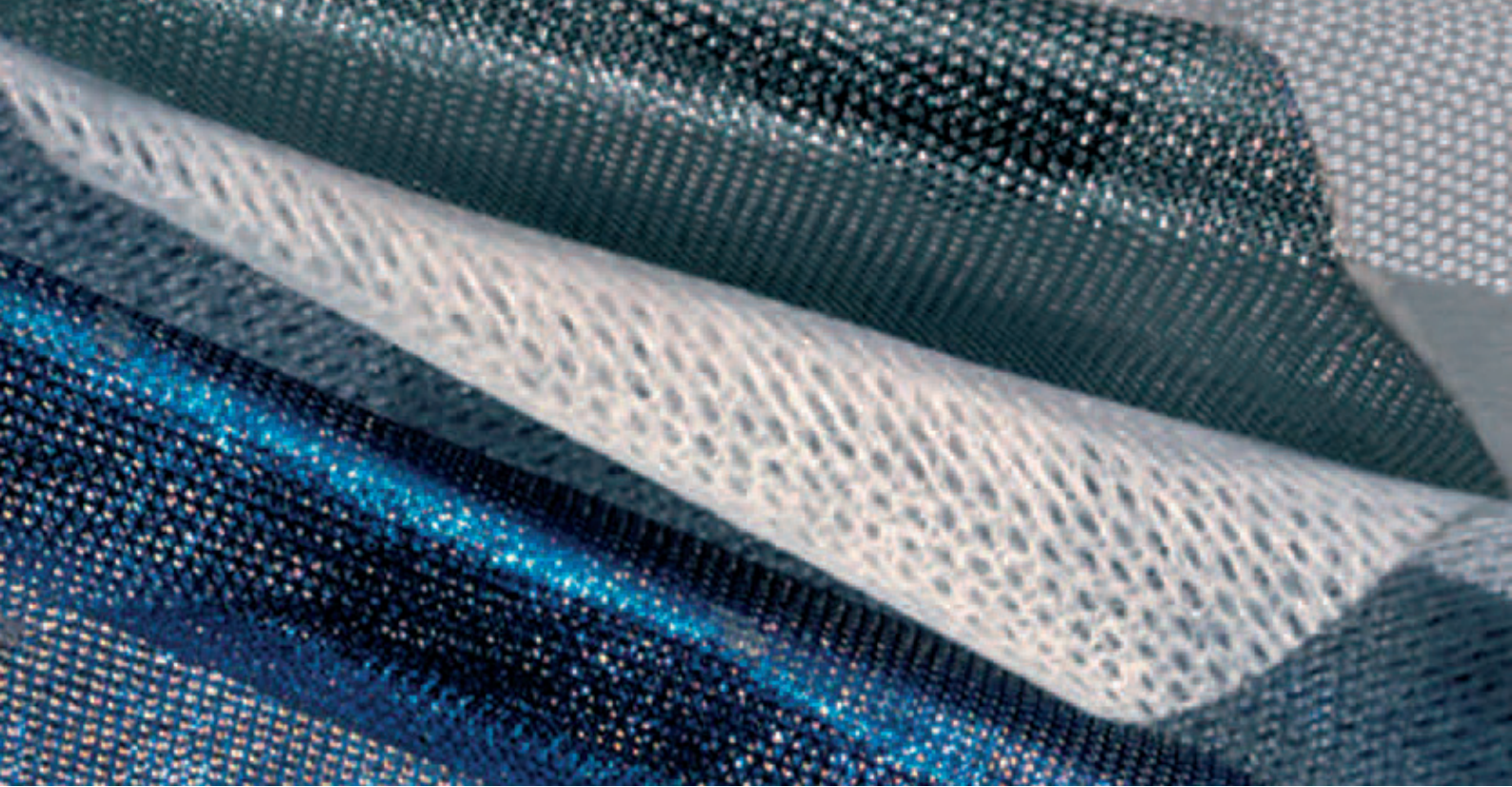
Liz Dixon says a culture change was inevitable with some people being less involved in decision-making than they were before. “We used to have 30 or more people in planning meetings, but now it is a much smaller group. The meetings are action-oriented and we make decisions

much faster. The supply team at the manufacturing sites receive demand from the commercial side of the business and are tasked with meeting the required demand (on the basis of a rolling 24-month horizon), whilst contributing to the resolution of any gaps in the forecast.” Paul Adams says demand forecasts are now used to develop annual and strategic plans, and the business constantly uses them to challenge individual markets about what they’re forecasting to sell; changing the culture of the organisation from one of ‘accepting the norm’ to one of being proactive and challenging. “It’s uncomfortable at first but then it normalises as people recognise it’s better that way.”

IBP has also added visibility to the company’s existing ‘stage gate process’ for NPD. The ‘stage gate process’ was already an area of excellence for Smith & Nephew, each new product having to pass through a series of approval ‘gates’ as part of the development process. So successful was the combination of IBP and ‘stage gate process’ for NPD that the two have also now been applied for all project work. Progress on those projects is visible via display boards throughout the business (including on the factory floor) so the entire organisation can see the current status. Smith & Nephew’s mission statement is ‘to help people regain their lives’ and the effective supply of product is critical. On September 11th 2001, as the world watched in horror at the events unfolding in New York and Washington, Smith & Nephew immediately flew burn care products to New York; it was the first plane in the air after 9/11. And in Bali 2003, Smith & Nephew donated nearly one quarter of all advanced wound products within 24 hours of the bombing.

This year, the company’s achievements were officially recognised when Smith & Nephew won the Manufacturer 2006 Logistics and Supply Chain Award ‘for the strength of its supply chain strategy; its corresponding business performance; improvement operational activities and progress; and its commitment to communication’.

Now in its third year, the Oliver Wight programme is helping the company hit ambitious targets and maintain double-digit annual growth despite difficult market conditions. We continue to develop and strengthen our IBP processes recognising we have a long way to go, but improving as each day goes by.



Oliver Wight has a 40 year track record of delivering business improvement to some of the world's best-known organisations. We believe that sustainable improvement can only be made through your own people. So unlike other consultancy firms, we transfer our knowledge to you, which means you can achieve performance levels and financial results that last.



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