



Watts Industries Europe



Benefits at a glance

- ▶ *OTIF improved from 68% to 95%*
- ▶ *Improved team culture based on trust and open communication*
- ▶ *Inventory days reduced from 85 to 59*
- ▶ *Stock reduction of €4 million*
- ▶ *€300K production savings*
- ▶ *Improved new product development*
- ▶ *Integrated Business Planning roll out to other European sites*
- ▶ *Oliver Wight Class A certification for Integrated Business Planning*

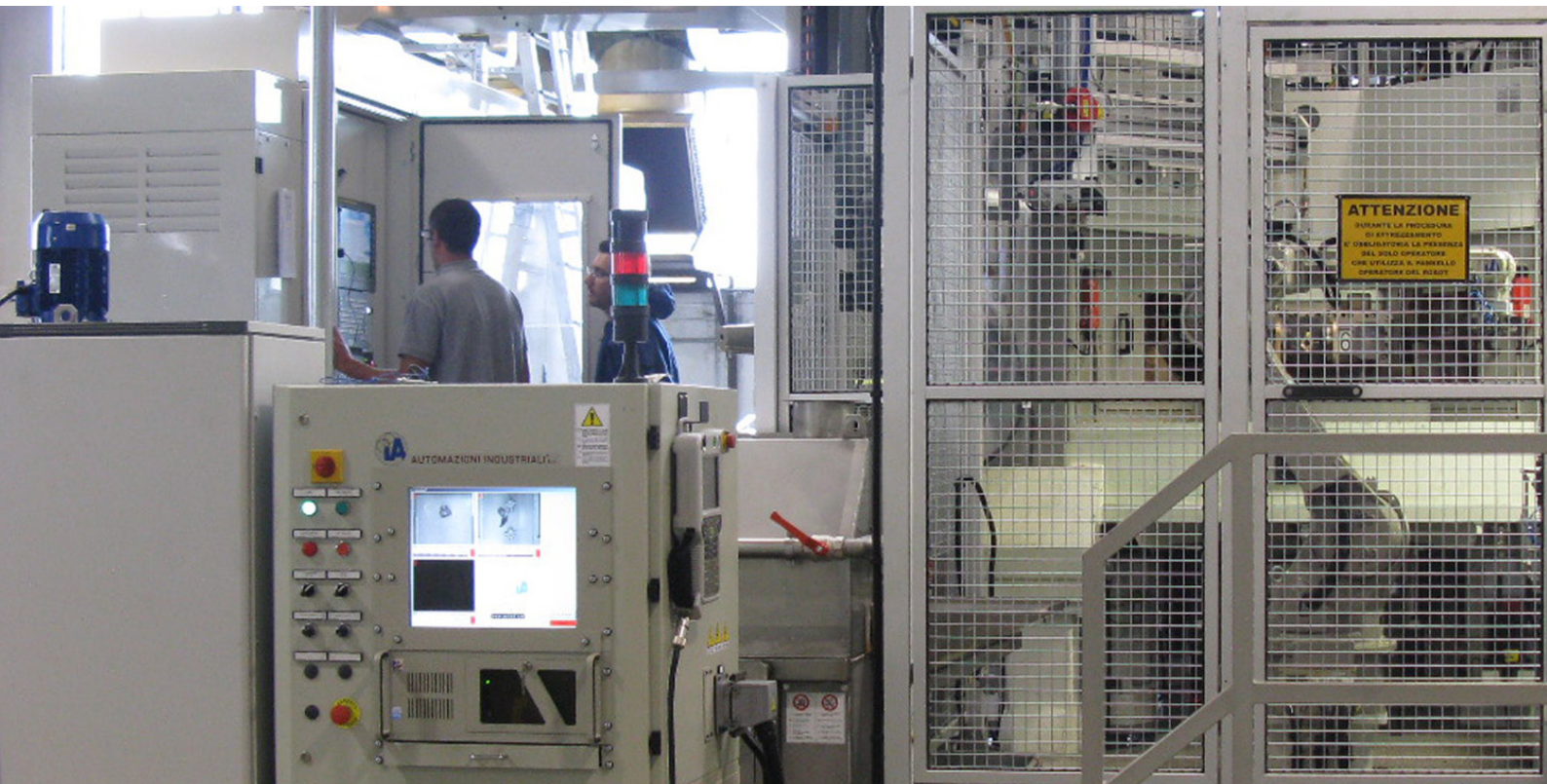
Customer profile

Performance improvement flows through Watts Industries Europe

Class A accreditation for Integrated Business Planning (IBP) at its Italian operation has been a turning point for valve manufacturer Watts Industries Europe, which now has sharper processes and techniques on tap to help drive productivity and performance. Quality, innovation and service are key characteristics that drive business success for Watts Industries Europe, part of the global group Watts Water Technologies Inc, headquartered in the US.

Inspiring
Business
Performance

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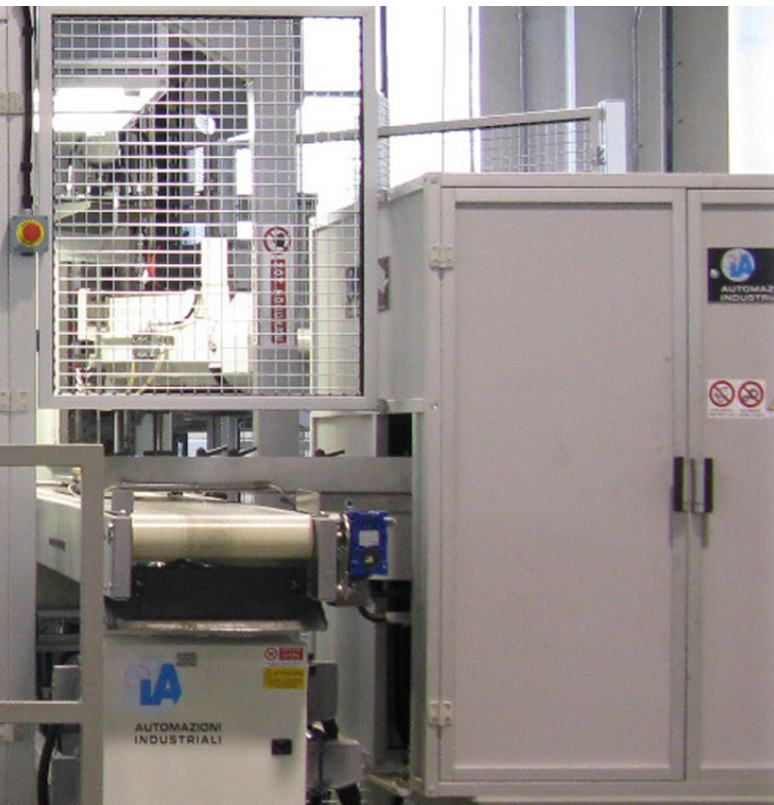
The European business, with its headquarters in Holland, is a significant operation in its own right, with an annual turnover of €330 million, 14 production facilities, the same number of sales offices and a workforce numbering 2,000. It manufactures components and finished products for the heating, air conditioning and sanitary water markets, making valves, controls and accessories. Its customer base is diverse and varies by region, but includes OEMs - manufacturers of heat exchangers, boilers, etc - wholesalers, DIY and installers.

Within the European organisation, Watts Industries' Italian operation is the largest producer of complete valves and components for intercompany use - 50 percent of production is shipped to European intercompany sites either for sub assemblies or direct to customers; the remaining 50 percent goes to trade customers. The German assembly operation is the Italian component factory's biggest customer and three years ago, the European HQ decided that relations between the two countries needed to improve considerably.

Umberto Ferretti, formerly Southern European Managing Director is now Managing Director for the wider Watts Industries Southern Europe & Central region, including Eastern Europe. "At that stage, there were serious problems

with communication and supply chain efficiency between the Italian and German operations," he explains. "Forecasting was unheard of and any meaningful analysis of demand was impossible." A new way of working together was essential if the business was to progress.

Elsewhere, the European Managing Director had already gained Class A accreditation with Oliver Wight in a previous role and he organised a three day workshop to update the company's European senior management team on the developments in Sales and Operations Planning (S&OP) and its evolution to Integrated Business Planning. As a result, the recommendation was that the Italian operation work with Oliver Wight to help it shape a new business management process.



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An education programme began first in Germany, followed three months later in Italy. Although the German team decided to implement just the Demand Management chapter of the Oliver Wight Checklist, the decision was made in Italy, after just three days of training, to go much further: “We decided to implement the entire Oliver Wight Checklist and Integrated Business Planning (IBP) methodology, and go for full Class A accreditation,” says Ferretti. This was focused on Italy’s two plants, located in Biassono and Gardolo. Both form an important part of the European organisation, and the Biassono factory is one of the most important within the worldwide group.

“We decided to go for Class A in Italy, because the situation in those days was that the sales people prepared the monthly forecast but the supply team didn’t believe this forecast was reliable, so they drew one up for themselves. Reaction from sales was predictable: they saw no point trying to establish an accurate monthly forecast if it was not used by their supply colleagues. The situation continued in this downward spiral to the point where we had two distinct parts of the organisation working to separate agendas under one organisational roof.” It was clear that performance improvement could bring significant benefits.

Oliver Wight carried out a diagnostic assessment of the Italian business in July 2007. Despite also being auditors for each stage of the Class A accreditation, Ferretti says there was no conflict of interest: “They were extremely professional. They came to Watts Industries to share their knowledge and coach us, but at the same time they were Class A auditors. They were able to distinguish very clearly between the two aspects of their role and it worked very well for us.”

The initial diagnosis revealed some issues that were not always easy to accept, giving the Italian operation a frank and honest picture of their position at that time: “We could see ourselves in the mirror and realised how poor we were in particular areas. However, we knew Oliver Wight could give us the methods and discipline to change that.”

IBP can most simply be described as advanced S&OP. However, integration is what distinguishes IBP from its predecessor. It is designed for the Executive to plan the entire business - in a fully integrated way. Unlike S&OP, IBP brings a truly strategic perspective; it is a drumbeat for managing the business, linking diverse processes - in the extended supply chain, product and customer portfolios,



customer demand and strategic planning - into one seamless management process.

Progress was slow during the first few months, and there was some predictable resistance to change. Ferretti decided that he would take on a higher profile in the project: “I decided to increase my sponsorship and I established a monthly IBP meeting cycle. It wasn’t perfect, but it got the process underway and helped to identify any problems.”

By early 2008, there had been a marked improvement and the business was able to introduce some key performance indicators. Underlying cultural issues were also improving and this was enabling lessons to be learned at each stage of the process.

Looking back, Ferretti says there were some key breakthroughs along the way. “As well as the initial 3 day education programme, which lead to the decision to start the Class A implementation in the first place, the big milestones were: the diagnostic assessment; the beginning of the IBP cycle; the introduction of the KPIs, and finally the continuous improvement of behaviour as we moved from one IBP cycle to the next,” he reflects.

As the pace of change began to pick up, however, other situations arose within the organisation which caused the project to stall temporarily. Some operations had to be merged at short notice and there were also some management changes. It was undoubtedly a difficult period: “It was crisis management at a very sensitive time,” recalls Ferretti. “What’s worse, the market was booming and we were not in a position to react.”

The experience served to underline why change was required and, by the end of 2008 the project begun again. All aspects of the organisation came under the microscope and were reshaped to meet the project’s goals. “There was often a temptation to drift back to old ways and it can be difficult to maintain discipline, but we continued to stick rigidly to the path,” he says.

The final target was certification by the end of 2009. In March, another key milestone was reached with the establishment of a company-wide strategy and Ferretti says this was cascaded down through the organisation in a highly effective manner: “We implemented a communication kit which spelled out our strategy, our vision, the approach we were taking and the behaviour we required,” explains



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Ferretti. “The kits were available in every corner of the organisation, from the main entrance to the offices, to the maintenance areas and the gate house.” The message was reinforced at every available opportunity, on the computer screensaver, the back of payslips, on mousemats and on notices in the canteen. No stone was left unturned to ensure everyone understood the role they had in the new way of working.

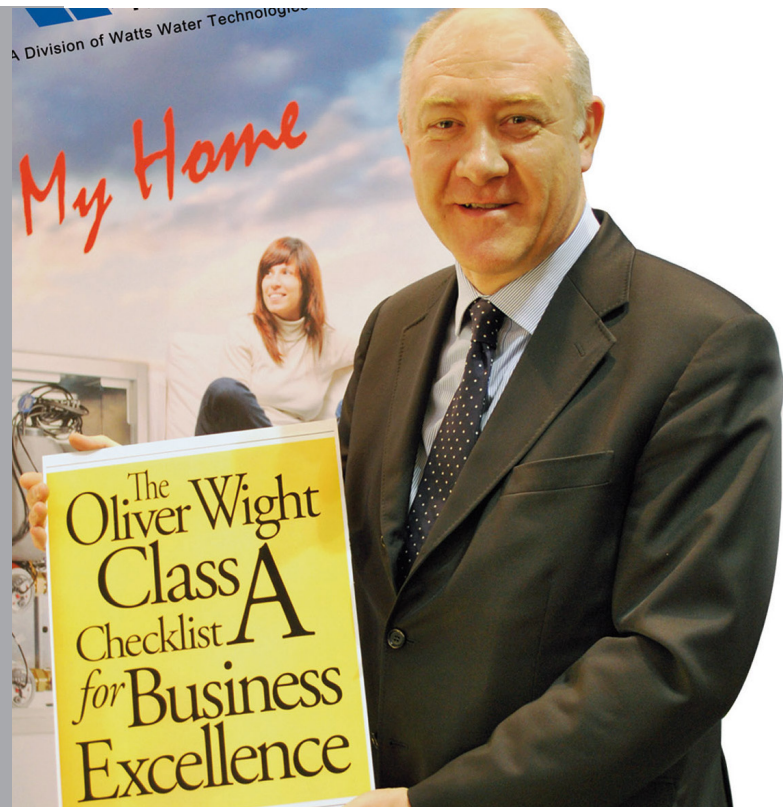
At the same time as it hit the strategy milestone, the company employed a demand manager, which was a significant departure for Watts Industries. The demand manager was recruited from the food and beverage sector and the appointment meant the organisation now had a dedicated resource to use market information to schedule demand and identify any problems. Critical, too, is her ability to gather and share essential business information: “Before, we had lots of figures, but they weren’t organised properly or easily accessible,” says Ferretti. “The demand manager was able to spot essential information, highlight trends and produce valuable data for us, so we could see where we needed to invest or improve performance.” A pre-audit meeting with Oliver Wight that summer highlighted several areas for improvement – confirming the consultancy’s ability,

says Ferretti, to separate its roles of facilitator and auditor. “We thought we were complying with the Checklist but there were a number of areas, albeit mostly minor, where we were falling short. We worked hard to rectify this during the following three months and maintained performance of 95% on our main KPI, on-time-in-full (OTIF) delivery.” In December came the final meeting for accreditation, which was also attended by European Managing Director and other senior figures from within Watts Industries Europe, clients and suppliers. “I wanted these senior people to spread the word that Class A is not a wish, it is a must,” says Ferretti.

Watts Industries’ customer service levels remain stable at between 95-96%. OTIF performance data can be listed by brand, by segment and by customer. This has enabled Watts Industries to control its relationships with customers and maintain margins as performance is measured and verified: “It makes for more of a win-win conversation with the customer and stops us getting squeezed on price,” he confirms. In fact, OTIF performance has improved significantly since the start of the Class A journey. Previous rates hovered between 68-72% and there was no recognised means for improving this. Without a clear view of demand, the company resorted to increasing stock – but

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inevitably this would be the wrong items. The result was increased inventory in slow-moving lines. “We didn’t know how to improve the situation. People think that to provide a high service level you must have a high stock level, but that is not true at all. It is difficult to convince people that it isn’t about stock; it is about demand analysis and a dialogue between demand and supply.”

Ferretti pulled together representatives from the sales and marketing department and from supply. “I wanted marketing to specify how many items they wanted and the date they wanted them, and for supply to commit to produce the right quantities in the right timeframe. Variations are always possible but communication is critical. It’s about creating a team environment with a no-blame culture, total trust and open communication. As soon as communication became positive, half our problems were already solved.”

Since Watts Industries Deutschland is the largest customer for the Italian operation, it was important to apply the same principles for them too, as Ferretti explains: “We changed our behaviour and began to view them like any other customer, not as a second-class customer just because they are part of the same company.” But it was a two-

way process and the Germans were also asked to apply similar thinking by providing more reliable forecasts. KPIs were introduced to ensure promises were met and the relationship improved significantly during 2009, culminating in a congratulatory letter from German’s top management. “This was praise indeed because when the Germans say something is good, it must be really good. It was a high performing year for both parties.”

The same approach was adopted for the Italian operation’s supply chain. OTIF delivery from suppliers is vital for the company’s success and Ferretti says this is simply down to implementing basic rules, common sense and great communication. “As a result, in the second half of 2009, while we maintained OTIF at more than 95%, we also reduced our inventory from 85 days to 59. So we were able to reduce the stock but improve service. The German operation for example, our main customer, reduced the value of stock they held from Italy by four million Euros.”

Communication was the trigger for this project from the outset – but the right communication was essential for progress. “We reduced the amount of random internal communication; ‘noisy communication’, which was just

about clarifying that the numbers were correct,” says Ferretti. “Now we produce one set of numbers, which are accepted by everyone. There is no need for clarification and we’ve saved a lot of management time.”

During the Italian operation’s journey to Class A, the parent organisation Watts Water Technology Inc had started to implement lean manufacturing techniques, which they wanted to roll out to the rest of the global sites. Ferretti and his team were not convinced that lean manufacturing should be implemented in other operations until the right processes had been identified and implemented. “We challenged the Americans, we said ‘you can’t run before you can walk’ – if demand is not clear and if the processes are not stable, you cannot go faster or improve.” A compromise was reached and the Italian operation agreed to implement the lean manufacturing methods set out in Oliver Wight’s Checklist, following its Class A accreditation.

So successful was the Italian Class A experience that Watts Industries Europe is now extending this to other sites, both manufacturing and sales locations; the Spanish sales operation & Benelux manufacturing & sales group have already been assessed. “Gradually we want to implement Class A everywhere in Europe and, in the meantime, everyone who is already Class A certified will go on to adopt lean manufacturing methods.”

For Ferretti, Class A and lean manufacturing go hand in hand, but he remains convinced that they should be implemented in the correct order. “First is Class A,” he says, “to maintain stable processes. Only then can you go faster.” As part of the US-driven lean programme, Ferretti visited a Toyota plant recently and describes what he found as his epiphany moment. Toyota’s operations excellence management told him that accurate demand drives everything.

Accreditation to Class A has transformed the business processes within Watts Industries Europe. “Thanks to IBP and Class A, I can directly attribute £300,000 of savings in production, including waste elimination from processes,” confirms Ferretti. And the benefits continue beyond production. New product development is now far more efficient, with hours attributed correctly to each product to ensure staff within R&D are directing their efforts in the right areas. “We start each project in a professional manner,

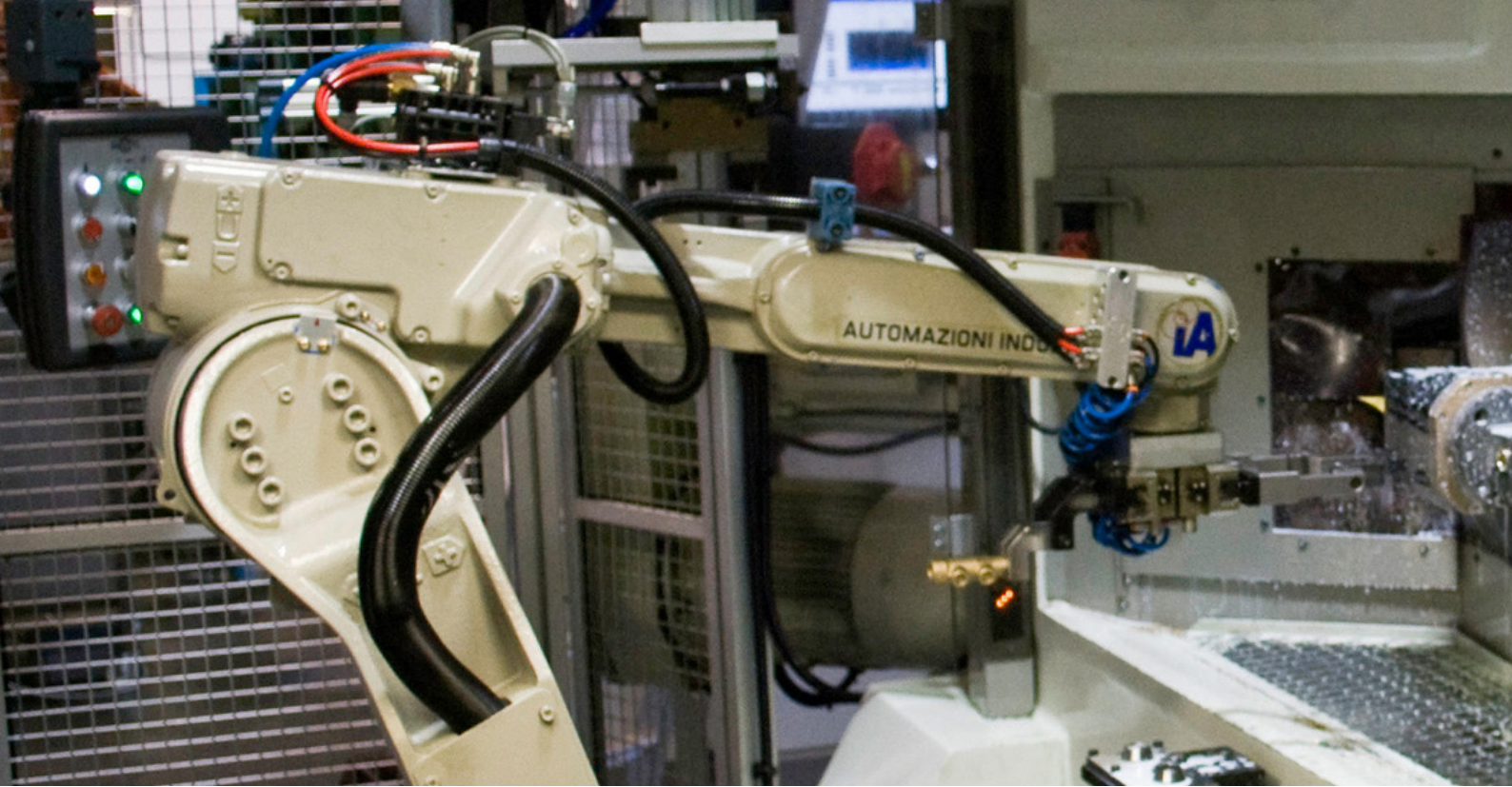
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highlighting the potential of the market, the promises from the market and afterwards whether the project has been efficient. It’s about awareness of the best use of resources.”

Since the success of the Italian Class A implementation Ferretti has taken on his wider role of MD for the whole of southern Europe. Consequently, he has also been appointed Class A champion for Spain and, more recently, for Germany. The target for both is accreditation next year. The German operation is prioritising an IT implementation but Ferretti has introduced the relevant KPIs and has again established the monthly IBP cycle. People are being introduced, in a less formal manner, to the underlying theory of Class A: “It’s not perfectly in line with Class A yet, but we have started the change management process,” he says. “I am preparing people for the new methods, so they will eventually step into Class A comfortably. I have learned the methods myself so I know what will help others to prepare for this.”

Ferretti says the biggest benefit from IBP is the structure it brings to allow improvement to take place. “Class A delivers a method and a discipline, which are critical. It acts as the strategic compass for the entire organisation,” he concludes.



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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