

APQC's
2011

PROCESS CONFERENCE
AND MEMBER MEETING

NOVEMBER
7-11, 2011

HOUSTON,
TEXAS

APQC AND THE
HOUSTONIAN
HOTEL, CLUB & SPA

SHIFT YOUR THINKING >>

THURSDAY, NOVEMBER 10: BREAKOUT SESSIONS BLOCK 2: 11:10A.M. – 12:10 P.M.

Turnaround of a Business through the Transformation of Physical Distribution (PI)

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Presentation Flow

- Background
 - Business
 - Role
 - Build-up to the current state
- Current State: effect of the decisions
 - Manufacturing
 - Physical Distribution function (PDF)
 - Transportation
- Critical Voice of Customers (VOC)
- Critical KPIs
- The emerging roadmap



- Turnaround
 - Phase 1: Survival
 - Phase 1: Consolidation
 - Phase 2: Growth
- Lessons Learnt

Brief background – the Business

- 26 Distributors across the country
- Field Force under 4 RMs → Sale By the Distributor
- SCM → Sale To the Distributor (Company Top line)
- 8 weeks' inventory on replenishment mode ~ 2% cost
- Pay on Sale Terms with the Channel
- 5% margin to the Distributors

- Corporate Management Committee for strategic decisions of the Company
- Pharma Management Committee for the business
- Similar matrix structure for other functions and services
- Driven by Vision → Mission → strategic Direction → Organization and Leadership
- Adoption of the TQM concept in 1990
- Focused development of profitable businesses

Brief Background – the Role

- **Strained performance of the Division**
- Concerns even after closure of high cost manufacturing
- Mandate → At first the Materials Management function
- Subsequently → the Distribution and Planning function



- Line management responsibility to implement suggestions
- Two-week ratification study by our Canadian counterpart
- Suggested I appoint a Consultant for assistance – Not done!
- Dove full steam into rapid implementation

Background – Build up to Current State

Start of the initiative a year after these structural changes had been completed

Current State - Effect of the Decisions

From Single site
Own Mfg.



To multiple site
Contract Mfg.



Decision to farm out manufacturing to distant Third Party Manufacturers (TPMs), therefore, resulted in:

Goods meant for regions stuck at Origin!

Current State - Effect of the Decisions

Backlash of the factory closure was significant on PDF:

- Distributed responsibility for dispatches → smaller loads at the company warehouse
- Transporters refused to place trucks at warehouse for small loads.
- Carting Agents were appointed to consolidate loads at our warehouse and deposit them with the transporters.
- This led to ↑ transportation costs besides consuming time.
- Again, since PDF staff worked out of HO, coordination with warehouse personnel became an additional step
- The resultant process put in place was tortuous!

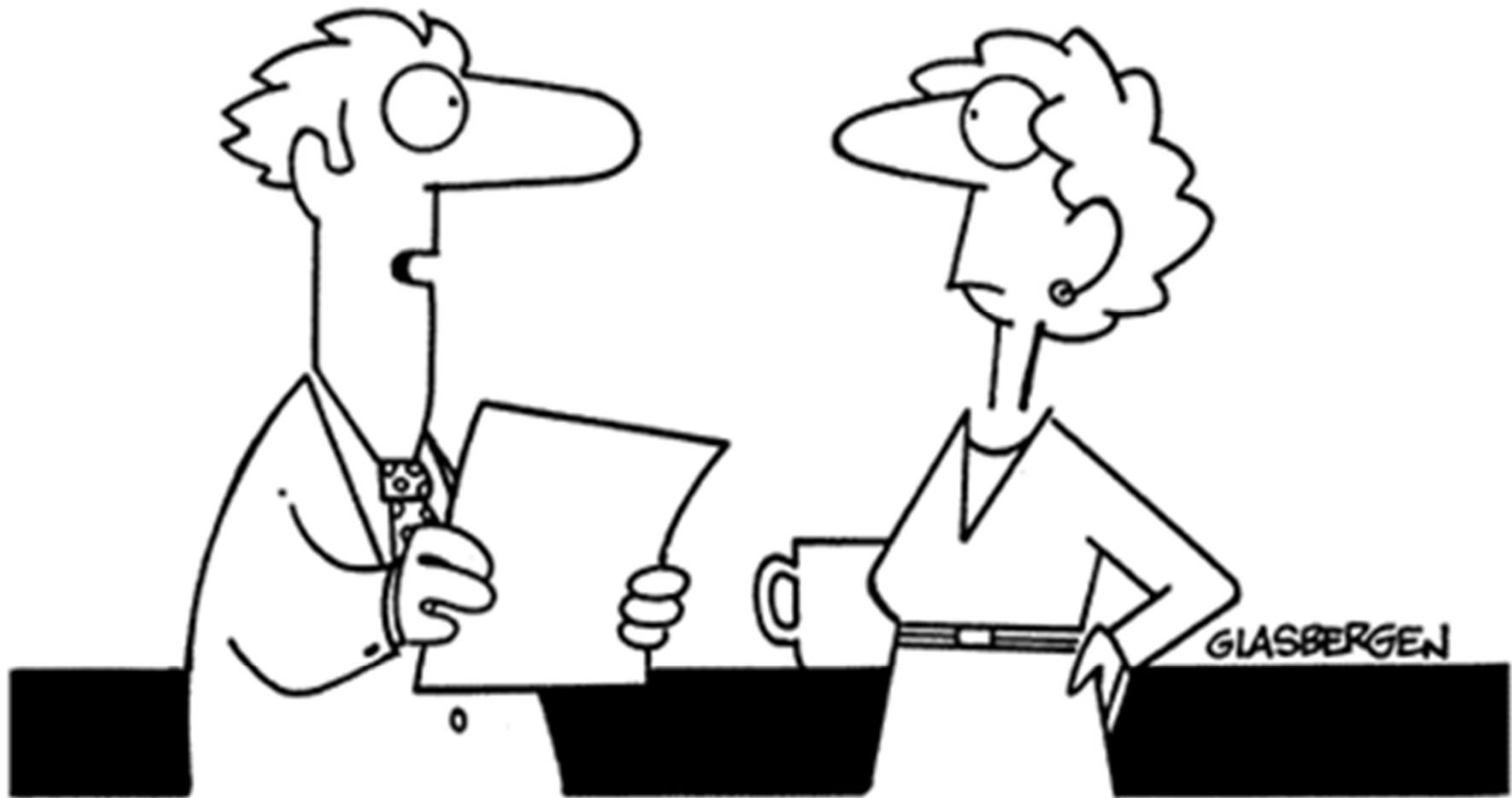
Current State - Effect of the Decisions

Performance assessment as part of the take-over diagnostic study revealed:

**Optimal Minimum Lapse time
was 9 days after we knew stocks
were available!**

**Too many steps in the process
Goods were stuck at the
Warehouse!**

Current State - Effect of the Decisions



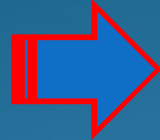
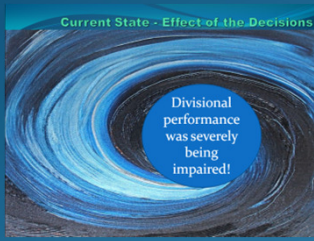
“It took us five days to figure out how to finish our project two days early. That’s why we’re three days late.”

Current State - Effect of the Decisions



Divisional
performance
was severely
being
impaired!

Current State – Critical VOC



Resultant end state dynamics

- RMs had lost faith in PDF
 - On a WYSWYG mode!
- Their time was consumed in follow-up for goods
- Little time for Sales Calls for ↑ product prescriptions
- Sale was severely impacted
- The regions needed more material to make the numbers
- Another vicious cycle in the whirlpool set into motion again!

Ultimate end result:

My initial days felt like this!

The emerging roadmap

Writing on the wall was clear:
Survive first; progress next

Rapid
implementation
Significant results in
3 months

Successful partial
implementation

Turnaround Phase 1: Survival

Rationale for the changes:

- Servicing requirements of sales was to be on replenishment
- Degenerated to requisition from regions due to the unreliable PDF process
- PDF Process change therefore became primordial

No questions now;
review after 3 months;
acute pressure from
parent Co.



Turnaround Phase 1: Survival

The deed and the fruits:

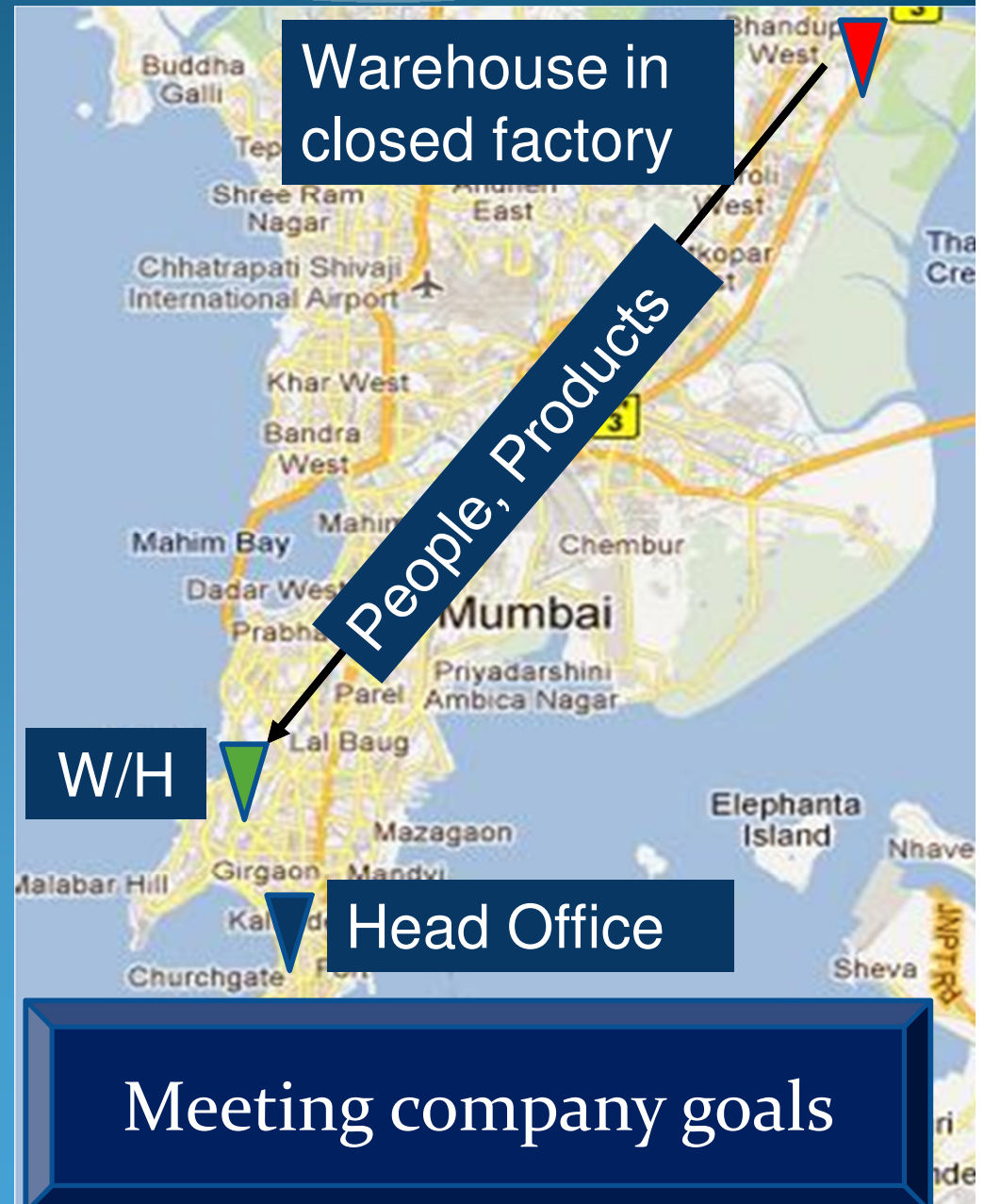
- Physical Stocks taken to identify a starting point
 - Weekly requirements derived and shipments planned
 - Carting Agent eliminated, carriers informed one day before
 - Assembled goods before truck arrival - completed Invoicing
 - Dismantled all documentation except Plan and the Invoice
-
- We dropped to 4 invoices/distributor/month : < 110 invoices/month against 650; errors eliminated
 - Reliability of goods receipt on time ↑ dramatically > 97%
 - Follow-up for non-receipt/non-delivery virtually eliminated
 - Released time for more productive work – Stock reconciliation
 - Corrected errors of past 3 years - stock accuracy to 100%!
 - Receivables dropped by INR 90 million ~ 0.9% margin improvement!

Turnaround Phase 1: Consolidation

- Having demonstrated the advantage of a “Central” Warehouse, we were now running short of ergonomic space in the current facility.
 - We thus moved back to the Warehouse in the closed factory premises
 - Only Executive staff allowed – reduction from 12 to 5 people!
 - The balance people redeployed
- Even this move proved transitory as we later learnt!
 - Disposal of the real estate meant we needed to move out!
 - Pressure yet again, since the earlier warehouse was not serving the purpose adequately!
 - So what choices did we have?

Turnaround Phase 1: Consolidation

- We redesigned the existing warehouse to better international standards
- After completion of all renovation, we moved back to the warehouse within the city!
- We had brought in time bound deliveries to Distributors while reducing transportation costs by 12% - Lower freight through load consolidation!



Turnaround Phase 2: Growth

- This led to only partial implementation of recommendations:
- Only Institutional Sales terms rationalized.
- More time sensitive transportation not adopted.
- Hence, further inventory reduction was not targeted.
- And therefore, margin reduction was not implemented.

Although convinced the revised process was far more effective, staff in PDF too felt the pressure for performance! In the Indian scenario, such sentiments rule, yet they are never explicitly stated!

For reasons best known then, it never occurred that communicating with concerned Management Committee members was crucial!

Equally, it never occurred even once during the phase of survival that there was a lot more to one's performance than just work!

The Invaluable ones:

- The critical focus: Organizational benefit vis-à-vis Perception of individual value
- Inevitable influence of 'people' in business
- No matter how life threatening, communication is critical
- The "Lead manager" need not be alone!

Lessons learnt

Strategic
Alignment

This fourth tenet
enables Measurement

Configu

The next two tenets
about dynamics of
Improvement &
Change
The central tenet
to any agency

Lessons learnt



Strategic Alignment

Before

Manufacturing
decision not
drilled down end-
to-end
PDF misaligned!

After

PDF Goals aligned
to business needs;
timely availability
of stocks ensured

Lessons learnt



Process Models

Before

Process had evolved more with the encountering of unanticipated problems

After

Process transformed to serve the fundamental goals of Distribution

Lessons learnt



Tools &
technology

Before

SD system served
identified needs
which by
themselves were
questionable!

After

Revised
functionalities
imparted to SD
with the help of IT.
Served PDF needs

Lessons learnt



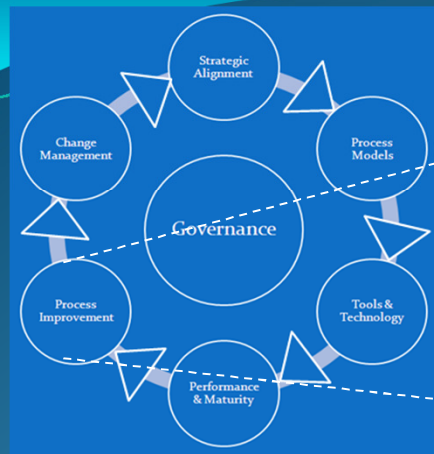
Performance
& maturity

Before

No yardsticks
existed; hence no
assessment of
fitness for purpose
was possible

After

Ensured fewer
documentation
through robust
process design



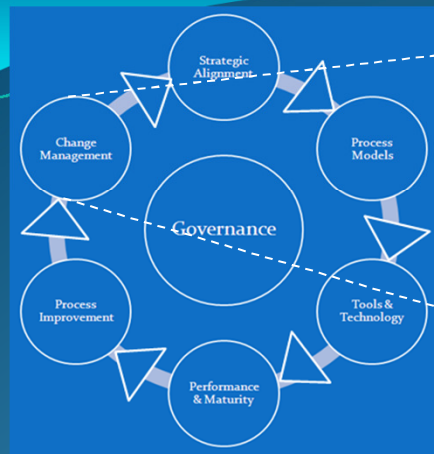
Process Improvement

Before

Unplanned
inefficient process
had only bred
further inefficiency

After

The two moves of
the W/h during
consolidation
phase helped
strengthen PI



Change management

Before

No concerted action planned for any change

After

Revised philosophy of PDF explained to all concerned in the Division

Thank You!