

Pitcher IT

Supply Chain Consulting

This Edition

- 2 CASE STUDY – NATIONAL CAN INDUSTRIES SAP IMPLEMENTATION
- 3 SUPPLY CHAIN PLANNING – MAXIMISING YOUR REVENUE
- 5 SUPPLY CHAIN PLANNING – CONTINUITY

The new financial year has begun, and while the medium term outlook for business is one of caution and containment, we are experiencing a very strong start to the financial year. But it is important to seek ongoing improvements through increased cost efficiencies and potential savings across IT and the broader business.

For that reason, in this issue of Pitcher IT we highlight Supply Chain Consulting – a new area of consulting services offered by Pitcher Partners focussing on procurement, logistics and warehouse management. We will look at how the Supply Chain can be used to optimise efficiencies and major financial savings.

We continue to see the growth in IT Governance by Boards and Audit Risk Committees, who have shown particular interest in Business Continuity Planning (BCP) and Disaster Recovery Planning (DRP) across their organisations, especially Supply Chain.

We recently presented at the Australian Institute of Project Management (AIPM) Victorian Forum on the topic of “Project Management is easy...people make it hard.” The day was well attended and a very successful event.

Our marketing activities planned for the next couple of months are two Breakfast Seminars to be run during October. The first will focus on the Vendor Selection and Systems Implementation and the second on the benefits that Virtualisation is bringing to BCP/DRP projects.

These seminars will focus on client case studies highlighting the positive results we achieve for our clients. Invitations will be sent out very soon. If you are interested in attending these events please contact Danielle Codrington on (03) 8610 5198 for further details.

Our Microsoft .NET practice continues to grow and win larger custom development projects for new clients. We have now built several large and complex web based solutions for new clients this year.

The most recent of these developments has been for the state government. Some of our staff recently attended the Microsoft

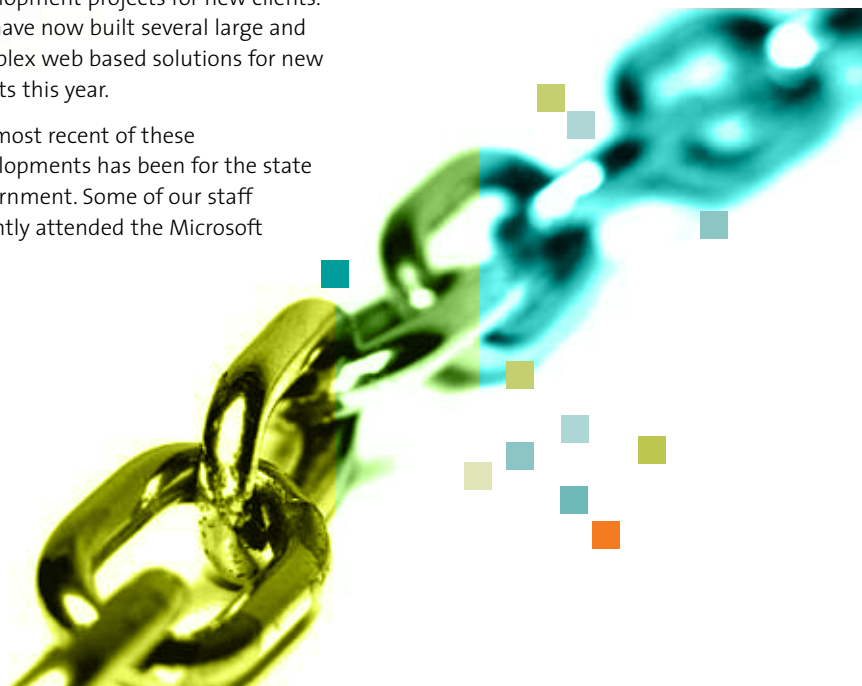
Business Partner Conference learning about the new and exciting initiatives that Microsoft has on the horizon. This continues to be a key strategic area of the IT Consulting practice.

Until next time, enjoy the read.

Frank Zahra – Executive Director

frank.zahra@pitcher.com.au

Telephone (03) 8610 5192



Case Study – National Can Industries SAP Implementation

National Can Industries Limited (NCI) is a leading Australian packaging manufacturer with facilities located in Australia, New Zealand, Fiji and PNG. The company produces and supplies an innovative range of high-quality metal and plastic packaging products and services in a wide variety of industrial and food applications.

In early 2006, NCI recognised that their existing ERP system needed to be replaced. Although the solution had served the company well for nearly 20 years, the application developer had discontinued product development, and vendor support was becoming increasingly difficult to obtain. In addition, the company was seeking to streamline, consolidate and standardise their processes which had become fractured and inefficient.

“NCI was welded to the legacy application. Each of the plants had customised the solution for their individual requirements, and as a consequence, business processes varied significantly across the company.”

NCI embarked upon a System Selection exercise with Pitcher Partners Consulting, and SAP ERP was chosen as the solution. Implementation of SAP commenced in March 2007 and the company went live on 1 July 2008 for the thirteen Australian and New Zealand based sites.

One of the key requirements of the project was to provide full supply-chain product visibility and costing. Satisfying this requirement in the implementation phase of the project was challenging for the project team. The legacy application had been implemented on a ‘Profit Centre’ model. Over time, this had led to non-standardised business processes at the various manufacturing sites, and data that was not readily ‘standardised’ to accommodate a single solution.

Supply Chain Visibility

It had long been recognised that the success of internal decision-making had been compromised and impeded by the lack of transparency of product costing and availability across the entire supply chain, from coil purchases to finished goods distribution costs.

This was further complicated by the fact that the internal supply chain for a finished product within NCI can be quite complex. For example, in the manufacture of a steel can, coil steel may be cut into sheets at one plant, transferred to another plant for slitting and component manufacture, then transferred to yet another plant for final assembly and distribution to a customer.

Historically, the purchase of the primary raw material – steel coil – was centralised, while most of the other purchasing decisions across the company were decentralised.

This meant that there were multiple suppliers and significant variations in the purchase price for raw materials across the company. The first step in improving the purchasing efficiency of the company was to move to a centralised purchasing model.

Ultimately, this change in business process facilitates better buying decisions and standardisation of raw materials costing across the company.

In order to keep track of costs incurred in producing the end product, it was imperative we ‘build’ a standardised set of data. This had to support the cost accumulation for each of the possible production routes that a finished good takes within NCI.

Again, as the plants had been largely autonomous in the way they operated, there was little data consistency across the manufacturing plants. Extraction and manipulation of the data into a ‘standard’ format was a time consuming, and resource intensive, activity.

Utilisation of MRP functionality within the legacy application was limited. Additionally, three separate databases were used for different market segments. This made production planning and inventory management decisions very difficult to execute.

To address this, cross-plant MRP functionality was developed, enabling demand to flow from customer forecast, through cross-plant supply requirements, through to raw materials’ purchasing needs.

Pitcher Partners Consulting has supported NCI throughout this journey. They were responsible for the project management of both the system selection and implementation phases of the project. It may take some time for the SAP ERP solution to settle in, but the implementation has positioned NCI well for better management of the entire supply chain, in an ever-increasingly competitive market environment.



Paul Engelman
Senior Manager
Telephone (03) 8610 5346

Supply Chain Planning – Maximising your revenue

So, you have installed your new ERP. It's all bedded down. It cost a lot and took a huge effort across the organisation to get it in. Now we sit back and count the savings... Hang on, what savings!!!

You know, unfortunately the above scenario is an all-too frequent occurrence. Many a CEO & CIO have said, "the savings predicted by the ERP are just not there. They may be able to get consolidated reports in much less work, however the resources to maintain the system have consumed any productivity savings." So now what?

Well, don't despair. Let's look at the process in a little more detail and determine where we can achieve a business performance gain, remembering we do need a solid foundation of the new ERP to be able to launch our new business initiatives.

Let's remember the fundamental business measure:

profit = revenue – cost.

So, when we talk about business improvement we are really talking about two levers: we increase the revenue, and decrease the cost. I know this is a very simplistic view, however, let's look at how these facets can be reviewed and planning business projects can result in an increased profit.

Increase the Revenue

So how is an ERP going to increase my revenue? Well, the easy answer, in isolation, is IT'S NOT. However, with the ERP as a foundation, what else can we do? Here are a few ideas:

- » Reduce delivery/promise lead-time
- » Allow customers to own the management of their orders
- » Be flexible to your customers
- » Understand ordering patterns
- » Manage/offer volume discounts
- » Loyalty programs
- » Live up-sell & cross-sell based on real-time inventory positions

Decrease the Cost

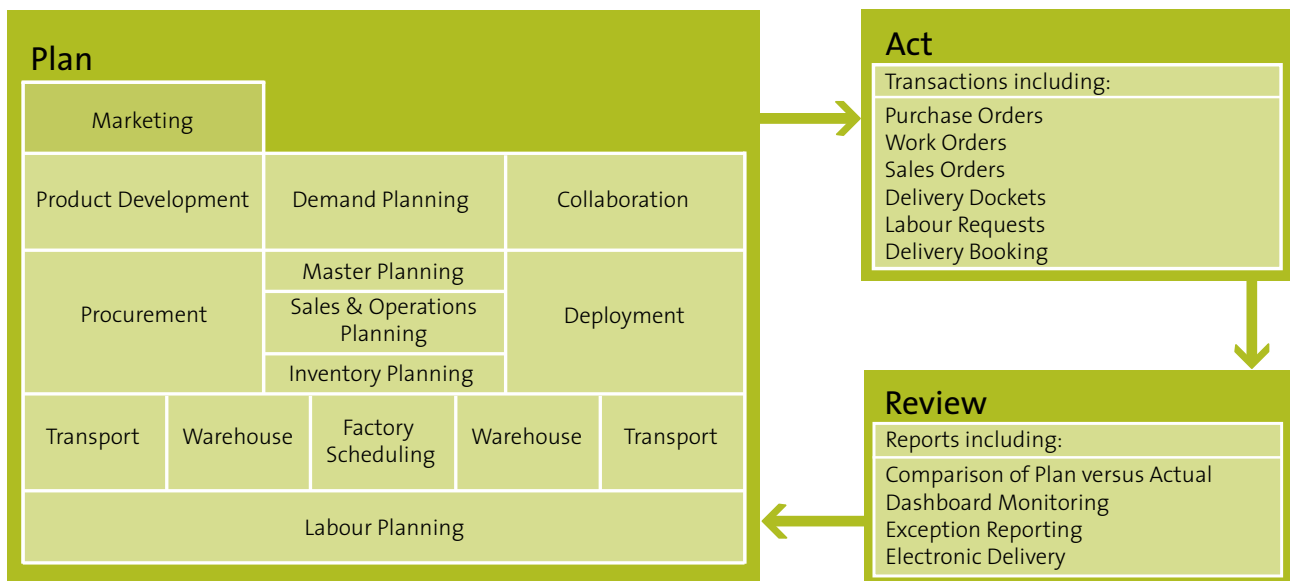
Costs can be managed well from an ERP, however, have you the correct policies and procedures to ensure the correct

decisions are made? Decreasing costs can come in a number of forms, including

- » Reduce inventory holding cost
- » Increase throughput
- » Minimise inventory moves ('Touches')
- » Decrease quality defects/reduce rework
- » Increase supplier payment terms
- » Decreasing the customer's payment terms
- » Defer Purchase Orders
- » Analyse batch size vs. age conundrum
- » Transportation

In summary, improving Supply Chain efficiencies requires a planned approach. Typically, a 'roadmap' of improvements needs to be defined, reviewed and actioned. This plan needs to work around the 'Plan > Act > Review' method where we constantly plan around what efforts will achieve the most benefit for our business.

However, planning is never as simple as it sounds. Look at the diagram below, where we have focussed on the plan section of the diagram.





Planning comes in many areas:

Product Deployment – Plan new products, with steps including understanding your market and determining what product offerings are required. This step will need reviews with procurement to understand delivery lead-times and costs. Additionally, the actual demand will need to be established through a demand plan.

Demand Planning – The steps to establish what we think the 'true' demand will be. This will mean linking to any collaboration module where we can see customers' views of their demand. A forecast which could be based on previous sales, market intelligence and historical limitations based on production issues is also required.

Collaboration – Usually limited to electronic transactions passed between client and supplier, but can also include unstructured information such as telephone and meetings, etc.

Procurement – Understanding of suppliers' capability, lead-times and costs. Plan around suppliers' busy times; understand international holiday periods, e.g. Chinese New Year.

Master Planning – The long term centralised planning function of an organisation. Typically strategic in nature, we will plan for sourcing locations, warehousing strategies, inventory levels.

Sales and Operations Planning – This is more a process than a software solution. We should ensure future sales plans and promotions are communicated to the manufacturing and distribution teams. It is also a 360

degree process that allows for feedback to sales of production/supply issues and over stocks.

Inventory Planning – So we know we need inventory to cover variations in demand, but how much? IP typically looks at safety stock and allows you to determine the 'risk' i.e. variations of demand and the potential impact. That is, sometimes it is OK to run out of inventory if the costs of holding are high.

Deployment – Planning on how we interact with our customers. Part of deployment is the area of CRM systems, however, as CRM does not tend to involve transactional data, deployment covers the total area.

Transport – Planning both inbound and outbound transport. Aim to maximise utilisation of resources both inbound and outbound. Plan to optimise full truck loads. Communicate short and long term plans to transport companies, avoid the expensive 'You call – we haul' scenario.

Warehousing – Ability to plan utilisation of warehouse space, balance work during the day. Optimise both delivery times on receipt and despatch as to not delay transport.

Factory Scheduling – Plan the day-to-day operations of the factory. We try to minimise down-time through job changes and ensure adherence to the overall planning function.

Labour Planning – Labour will be required throughout the overall process.

Optimisation projects in each of the above areas can provide benefits, often within a short time-frame. Short time-frame projects keep the organisation focussed on the outcome without other business initiatives distracting the

original objective. Optimising all will provide the most improvement, however this can take longer and have additional risks due to this longer timeframe.

Where do I Start?

What is needed, however, is an overall plan on planning! This should detail how to achieve the above, and where the organisation needs the improvement most urgently, with the shortest payback (sometimes known as catching the 'Low Hanging Fruit'). The above shows a 'roadmap' of a complete planning solution. Some organisations may find they do not require all components, e.g. Warehouse Planning, however what is required is an analysis of what components should be covered together with expected payback and the costs of the project.

Finally, remember to set up KPIs before you begin on any business improvement exercise. In this way, you will be able to measure the tangible benefits each project has delivered.

Pitcher Partners Consulting can help you review your existing supply chain operation and achieve a first class planning function that will provide operational payback.



Marcus Simkin
Senior Manager
Telephone (03) 8610 5477



Supply Chain Planning – Continuity

What would you do if there was a major disruption to your supply network?

Any disruption to an organisation's supply chain would incur enormous cost and inconvenience to your organisation, and may result in loss of customers and/or suppliers.

It is important to ensure that there are no vulnerabilities or weaknesses in your supply chain. Too often, companies set up their own business continuity plans (BCP) in isolation, leaving holes and gaps in the supply chain and making them susceptible to disruption. If the supply of a key component or product is halted by a vendor, provision of the end-product or service will immediately grind to a halt.

Supply chains can be very complex and often cover a number of different locations and sites. As global marketplaces become smaller, supply chains are becoming increasingly more complex and geographically dispersed. The result is that they are more vulnerable to interruption so require a BCP that encompasses the entire supply chain.

Key Questions.

There are a number of questions an organisation's management should ask when it comes to BCPs in relation to their supply chain.

In general, BCPs are about helping organisations plan for the unexpected. No one expects a disaster or interruption to occur, however, if it occurs what would you do?

Specifically with respect to your supply chain, do you have adequate plans? To answer this question you may want to ask yourself:

1. Do you understand your core business vulnerabilities or potential failure points during a major extended crisis? Including:
 - a. How do we redirect production and/or distribution capacity?
 - b. What capacity is available and how quickly can we react?
2. Do we have emergency management structures and defined roles and responsibilities in place to respond to a crisis?
3. How do you procure direct and indirect materials? Manually? How are supply chain disruptions accounted for?

Continued on page 6

4. Who is responsible for business continuity and crisis management at your site?
5. What immediate action must you take to minimise loss and liability?
6. Do you know your key support groups and BCPs? Are your plans in alignment so that you will be able to continue operations?
7. Do you need to prioritise customer demands? If so, which customers will be serviced first?
8. What is the worst case financial and legal exposure? Do you have a key contact list for individuals required to respond to the crisis?

9. How long will it take before it is 'business as usual'?

Suppliers are also key to your BCPs. You should be asking your key suppliers what plans they have to ensure the continuance of supplies to your business.

Events that disrupt business do occur. Fortunately, not that frequently. We all hear about such events as 9/11, however, it can be lesser known events that can bring a business to a halt:— a water leak from a pipe, or faulty equipment that can initiate power outage. Traffic congestion is also becoming an increasing cause of disruption.

Can you or your senior management team respond with a confident 'yes' when asked if everything reasonable and prudent has been done to be able to respond to an emergency? If no, then you will need to embark on putting plans in place for business and supply chain continuity.



Christine Wigg
Director IT
Telephone (03) 8610 5552



Pitcher the difference

MELBOURNE

Don Rankin, Managing Partner
Level 19, 15 William Street
Melbourne VIC 3000

Telephone +61 3 8610 5000
Facsimile +61 3 8610 5999
partners@pitcher.com.au

SYDNEY

Wayne Wilson, Managing Partner
Level 22, MLC Centre, 19 Martin Place
Sydney NSW 2000

Telephone +61 2 9221 2099
Facsimile +61 2 9223 1762
partners@pitcher-nsw.com.au

BRISBANE

Paul Green, Managing Partner
Level 21, 300 Queen Street
Brisbane QLD 4000

Telephone +61 7 3228 4000
Facsimile +61 7 3221 6420
partners@pitcherqld.com.au

PERTH

Bryan Hughes, Managing Partner
Level 1, 914 Hay Street
Perth WA 6000

Telephone +61 8 9322 2022
Facsimile +61 8 9322 1262
partners@pitcher-wa.com.au

ADELAIDE

Thomas Verco, Principal
160 Greenhill Road
Parkside SA 5063

Telephone +61 8 8179 2800
Facsimile +61 8 8179 2885
partners@pitcher-sa.com.au

Pitcher Partners is an association of Independent firms. An independent member of Baker Tilly International. In Victoria, Pitcher Partners refers to the Victorian partnership and its associated entities including Pitcher Partners Advisors Proprietary Limited, Pitcher Partners Consulting Pty Ltd, Pitcher Partners Corporate Pty Ltd and Pitcher Partners Investment Services Pty Ltd.

www.pitcher.com.au

Liability limited by a scheme approved under Professional Services Legislation.

The material contained in this publication is general commentary only for distribution to clients of Pitcher Partners. None of the material is, or should be regarded as advice. Accordingly, no person should rely on any of the contents of this publication without first obtaining specific advice from one of the Partners of Pitcher Partners. Pitcher Partners, its Principals & agents accept no responsibility to any person who acts or relies in any way on any of the material without first obtaining such specific advice. © Pitcher Partners 2006 PRINTPOST APPROVED PP381827/0043