

# Project Nirvana

SAP implementation and the adoption of supply chain best practice helped Sancell Australia halve its working capital, reduce materials purchasing costs by \$600,000 per year, and save \$200,000 a year in pallet handling. Paul Sullivan reports.

Sancell Australia is a joint venture partnership between SCA Hygiene Products — a leading European business, and Carter Holt Harvey — one of Australia and New Zealand's largest packaging and forest product corporations. The company has operated in Australia since 1978 and employs 250 people, primarily in manufacturing.

Sancell locally manufactures feminine hygiene products under the brand of Libra and bladder weakness products under the brand of TENA (pronounced 'tenna'). Some products within these brands are imported through SCA's overseas plants.

Sancell use Carter Holt Harvey's (CHH) distribution network in the region. CHH take the customer order and deliver product out of its DCs alongside their tissue products.

Although CHH and SCA had already implemented SAP, Sancell had little visibility of their inventory and orders. The supply chain lacked a common technology platform.

Rapid expansion over the last five years was also threatening to overwhelm its supply chain processes, which were running on non-integrated systems. Sancell was using (Proton) for inventory management and off line spreadsheets for core logistics functions, such as forecasting and production planning.

Poor end-to-end supply chain visibility and complex supply chain planning problems became real issues.

"Our inherent processes suited a small business. The growth in company size and the increasing number of SKUs meant we were losing a bit of control," admits John Carnaby,

Sancell's company secretary and executive sponsor of the business process re-engineering project.

One third of Sancell's goods are purchased offshore ready-made. Of the goods it manufactures, 80 percent of specialist raw materials are purchased from Europe. Lead times of three months meant any inaccuracy in production planning cost it dearly in air freight charges. Conversely, overproduction occasionally resulted in stock obsolescence.

In a project called 'Nirvana', Sancell decided to transform its supply chain processes by implementing SAP and seeking the most rigorous supply chain certification in existence — Class A MRP II certification.

In layman's terms, Class A demands non-duplicated supply chain processes to achieve on time delivery of correct goods at least 95 percent of the time. Key performance indicators are demanded for all major supply chain processes, including forecast accuracy; supplier performance; production planning; distribution requirements planning; inventory recording accuracy; and master data accuracy.

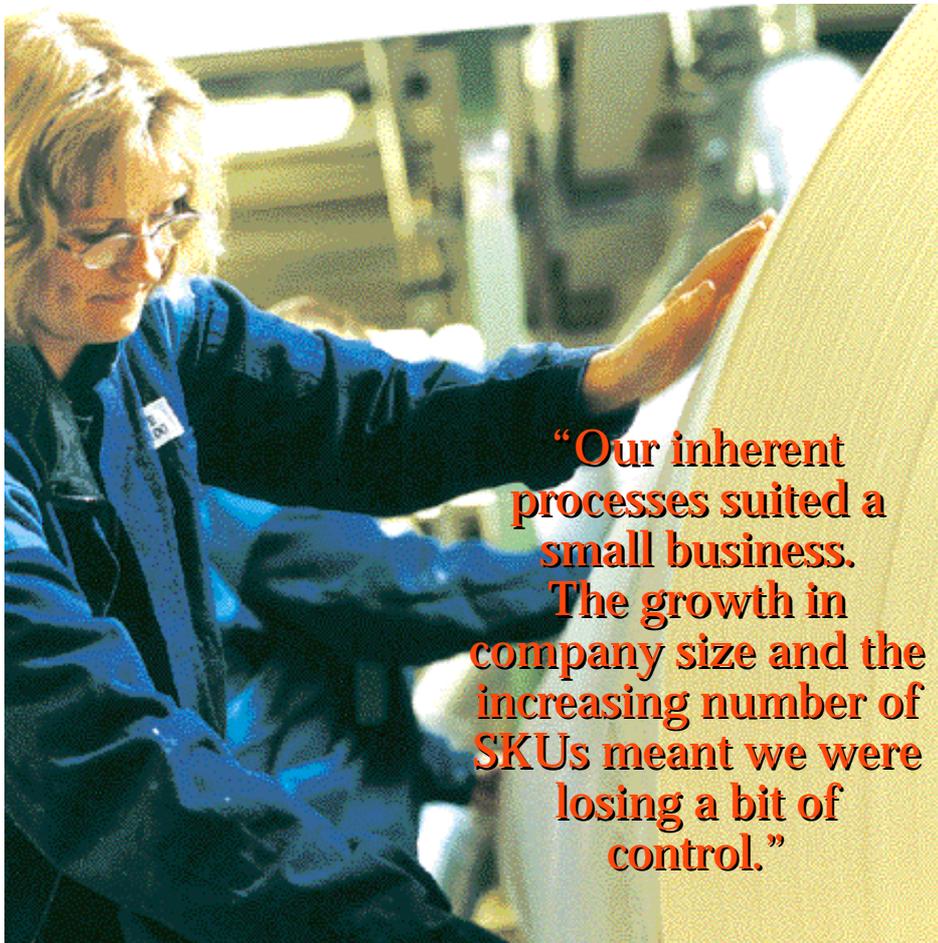
Project 'Nirvana' was split into three stages and, even before it went out to tender with the SAP implementation, the company was hard at work on stage one:

- to understand MRP II processes;
- develop blueprints for every supply chain function.

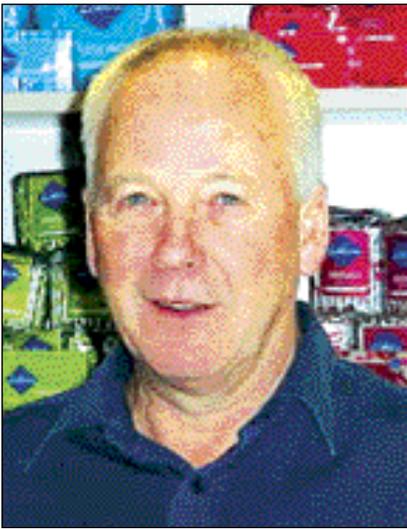
Carnaby says SAP didn't satisfy all the company's business needs. The blueprints formed the basis of SAP system design, and Sancell devoted one third of its staff to developing them. Team leaders worked with all business groups to ensure design was practical for users.

"SAP is just a technology tool. The real secret behind the success is the MRP processes, which were engineered and blueprinted into the system implementation," Carnaby says.

Management made teams cross-functional, so team members would understand the blueprints for all



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**John Carnaby: looking for Nirvana**

processes, not just those in their usual area.

Stage two of Nirvana was:

- to implement SAP,
- configured to fit the blueprints.

Sancella retained Oxygen Business Solutions to deliver the SAP project on time and on budget using a unique implementation style and process, which shared risk.

Oxygen Business Solutions configured and implemented SAP's Sales & Distribution, Production, Purchasing, Inventory Management, Finance, Costing, Profitability Analysis, Fixed Assets and Warehouse Management modules.

John Carnaby says Oxygen offered a highly cost effective solution. He also ensured their staff were a good cultural fit with Sancella's own team.

"When we went to tender for the implementation, Oxygen fielded a very strong team. They were also very willing to make changes to the team at our request.

"For example, we asked that an external project manager be appointed, and they agreed with no resistance. We interviewed every consultant, and negotiated each individual role.

"Oxygen was more cost effective than the competition, but even more attractive was that they were in a position to provide solutions they had already invented at Carter Holt Harvey. That gave them a sharp advantage over the competition — we could see and measure the proof of what they had achieved for Carter Holt."

Oxygen had developed some cost algorithm rules for CHH, which helped the SAP system select the preferred (most cost effective) DC for each customer order. If distribution from a particular location is uneconomical, the item can be placed on back order.

"We also built in the capability for paperless purchasing. The invoice is scanned and matched against the purchase order, with no manual intervention (achieving 85 percent matching)," says Oxygen's Craig Walker.

Standard KPIs were also adopted across both companies.

John Carnaby was also impressed by Oxygen's willingness to share risk.

"Oxygen offered a fixed price implementation," he says.

"If the go-live date slipped, and the scope remained the same, then extra cost was to be split 50/50 with Oxygen. I think that's fairly unique.

"The relationship was typified by trust in each other. The scoping and design didn't go into every last detail, but at no time were there big issues."

Oxygen chief executive Mike Smith says Oxygen's willingness to enter into risk sharing agreements is appreciated by customers, and helps differentiate Oxygen from the competition.

"We brought the project in on time and on budget, so the price cap was academic in the end, but willingness to share risk helps to produce confidence and trust," he says.

"The Oxygen team is also unique in being comprised strictly of senior people, so it takes fewer of them to get the job done. This automatically produces cost savings, and means implementation schedules can be more aggressive."

When implementation commenced, the hard work done in stage one paid off. The business people knew exactly what processes they wanted, and could support Oxygen in configuring SAP to achieve them.

Carnaby says he 'can't fault' the quality of Oxygen's technical design and input.

"They understood — made themselves understand — the MRP II process," he says.

"One thing we didn't get was the old message 'this system will meet all your needs'.

"They were quick to realise the processes must be right before implementation started."

The Oxygen project took seven months from beginning to seamless go-live in February this year. Craig Walker says the system was turned on and tested over a weekend, with minimal impact on shifts.

Customers continued to place their orders in the usual way right throughout the implementation.

"I think we exceeded everyone's expectations with the go-live," says Carnaby. "It was so smooth, on time

and on budget. That was noticed even up to Board level. One of the directors said to me 'An SAP go-live on time and this smooth is unheard of.'"

Expensive short term fixes such as air freighting, or building up safety stocks are a thing of the past. As a result, the amount of working capital Sancella needs has decreased by 60 percent.

Less inventory allows Sancella to save a further \$200,000 per year on pallet handling. Other ongoing savings include a reduction in materials purchasing costs of \$600,000 each year, primarily due to lower freight costs.

Sancella has also taken a big step towards MRP II certification. Sancella achieved class D certification on its first audit and is now rated class B. Class A requires process improvement in a number of areas — supplier development, data accuracy, education and training.

"We're working to implement processes to ensure we meet our performance measures and achievement to plan — changes to plan disrupt supplies and efficiency. We're also trying to rejuvenate enthusiasm in the project by getting small teams working on these issues."

Consolidation of its MRP II processes and SAP implementation — stage 3 — has an estimated completion date of end 2003. Sancella expect this will help the company achieve 95 percent customer satisfaction and increased sales.

"In areas where distribution is under our control we are now achieving 98 percent (compared to the low 90s, previously)," he adds.

John Carnaby also expects future supply-side benefits. Improved production planning on the SAP platform will enable Sancella to consolidate its purchasing of imported raw material from common (licensed) suppliers.

Sancella has also gained intangible benefits.

"From the change management process came an understanding of other people's jobs. We've moved from disparate groups to people working together in a climate that is very accepting of change.

"People have a better quality of life when things work properly, when they can have confidence in the system, when inventory is right and customers are happy.

"We haven't quite achieved Nirvana yet," he concludes, "but we're getting there". ■