Customer profile

Building a healthy business

Over the past two years global medical devices manufacturer, Mölnlycke Health Care, has implemented Oliver Wight Integrated Business Planning. Anders Klinton and Don Harding of Mölnlycke talk about the challenges they faced, and how they have reengineered the business to align the supply chain, planning and strategy en route to achieving Class A status.

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The Mölnlycke name goes back to 1849 when the company was founded as a textile manufacturer. Today, it is recognised as one of the world's great innovators in the design and manufacture of single-use surgical and wound-care products. The company has enjoyed continuous and strong growth in all its markets over the past 10 years, particularly in Asia and the US, with some key product families notching up 20% growth year on year.

"Our company is based on constant product innovation," explains senior VP for supply chain management, Anders Klinton. And therein lies the issue. The focus had historically been on innovation and customer care, with little attention being paid to formulating a single supply chain management process, or ensuring decisions made in the supply chain were in line with the overall business strategy.

Headquartered in Gothenburg, Sweden, Mölnlycke Health Care has a global reach. With markets in more than 80 countries around the world, dedicated sales offices in 30 countries and raw materials and parts sourced globally, there is continuous pressure on the business to extend the supply chain.

The manufacturing operations are spread across six European countries as well as Malaysia, Thailand and the US. Each manufacturing site is equipped to manufacture highly specialised products, making it impossible to swap production between factories to follow the changing dynamics of the marketplace. It is, however, in the nature of these highly specialised products that the greatest complexity lies.

Supply chain complexity

The company is managed through two divisions. The surgical division produces a full line of surgical products ranging from high volume manufacture of caps, gowns and facemasks through to high quality Biogel® surgical gloves

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and antiseptics. The wound-care division produces a range of conventional and highly advanced wound dressings as well as products for skin conditions such as eczema and psoriasis. However, over the past 10 years both divisions have developed specialised service offerings that have significantly impacted the supply chain.

The surgical division purchases and assembles all the materials and products required for complete surgical interventions, delivering them as sterile self contained kits directly to the hospital in readiness for scheduled surgery.

A surgical kit can contain anything up to 100 items, and the specifications are not only determined by the operational procedure, but also by the region, the individual hospital, and often by the individual surgeon, increasing the manufacturing and supply chain complexity.

The wound-care division has developed a negative pressure wound-care product which encourages healing by creating lower pressure in the wound. Some are sold, others are hired out. Setting up and managing the hire scheme has involved some complex tracking as patients tend to take the equipment with them between hospitals and care homes.

In all of these transactions the customer is an individual hospital, which introduces a significant level of risk. "They change," Klinton explains. "The doctor, with his unique kit, may decide to speed up the operation or delay it, and may not inform us. The ordering process is not as advanced as that of an industrial business. And our customers, particularly in Europe, require 24 to 48 hour delivery times."

Need for change

This complex supply chain had historically been managed as a number of separate entities. However it was not only growing, spurred by a nine-fold company growth between 2000 and 2010, but also increasing in complexity at both ends of the operation. Capital was tied up in inventory and there was a lot of it. Small wonder Mölnlycke regarded supply chain management as something of a dark art and saw the need for change.

Sales & Operations Planning (S&OP) was discussed at executive board level, as a means to bring the supply chain under one umbrella and align the business strategy, planning and delivery as a single management process. “Our owner at that time was a private equity company, and the focus was on cost,” Klinton says. “Flexibility and lead times were not on the table. It was a very short term view.” As a result S&OP was shelved in favour of initiatives that would drive short term benefit.

The turning point came in 2007 when Mölnlycke was acquired by Investor AB, a company that had a completely different objective: to build its interests in the long-term. “Under Investor we made the decision to go for it. And we decided that, as this was a long term initiative, we should make sure we did it correctly and set it as the standard.”

Structuring change

In fact Mölnlycke opted for advanced S&OP, through Integrated Business Planning (IBP). IBP extends the concepts established by S&OP to all aspects of company planning and execution, with the aim that the executive leadership team continuously achieves focus, alignment and synchronisation among all functions of the organisation, from the customer, sales and marketing to product development, manufacturing and financials.

Working very closely with business improvement specialists, Oliver Wight, from January 2009, the company began the five step process for unravelling and redesigning the business management flows to achieve integration across the organisation. However, this had its challenges. “While our wound division had been relatively stable over the last three or four years in terms of organisation structure, the surgical division has changed significantly,” explains Mölnlycke project director, Don Harding. “The surgical organisation structure was extremely complex and, at times, was needlessly complicating the process design.”

The design process took about six months, and has been a matter of continuous re-evaluation and evolution throughout.

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“Without that, the process would just be a matter of sharing information, and that’s what we have computers for.” Initially the structure was organised around the business units, but then realigned to a divisional level. Further work revealed this cut out key decision makers in the business units, so work was done to incorporate them into the process. Then, in a final twist of complexity, the business units were disbanded. “So I would call this continuous improvement,” says Harding.

Making it happen

Complex though the redesign has been, the real challenge – as with any change process – is at the human level. And after a slow start, one of the most significant steps toward successful implementation came when Harding took up the project management role on a full-time basis rather than part-time. “It was like flicking a switch in terms of the speed with which the project moved forward,” he comments.

Oliver Wight partner, Stewart Kelly says that the first hurdle, and arguably the most important, was to gain complete and active participation from the board. “Without it, failure is almost inevitable,” he believes. But participation can come in various degrees, from lukewarm sponsorship of the process to full commitment.

“The difference between the two can be likened to the good old English breakfast of bacon and eggs,” Harding explains. “The chicken is the sponsor and the pig is committed. I wanted the executive to be committed to this process,” It’s interesting that by illustrating the point in this way, Harding must be one of the first people to get away with likening his CEO, if somewhat obliquely, to an animal of the porcine variety. It must have been persuasive: “As it turns out, I couldn’t have asked for more input and commitment from the executive.”

Gaining buy-in from middle and upper management levels also took off in January 2010 when Harding performed a baseline assessment of the company’s performance based

on the Oliver Wight Class A checklist. By taking senior managers from both divisions through the relevant chapters of the checklist he was able to establish the company's current performance level. "They had a day of pain, but at the end of it, boy, had they bought in. We had some really tough discussions about what was required, what we were currently doing and what we needed to do. And out of that we got total ownership."

One of the constructive criticisms to emerge from the exercise was the use of the name S&OP to describe the project. The consensus was that it didn't represent a system that integrated and managed the entire business and did not make it personal to Mölnlycke. From this, the Mölnlycke Business Management (MBM) system was born. "That's had an interesting impact on a lot of people. It's ours, and it's how we manage our business."

The workforce, meanwhile, reacted to all these changes in the usual ways. There were those who needed constant reassurance that the executive was truly committed to the process; there were the 'wait and sees', the sceptics and the cynics, and some who had worked with Oliver Wight before on similar processes. Persuading them all to let go of their previous habits and embrace the Mölnlycke-wide system proved quite a challenge.

MBM overcomes forecast bias

One of the central pillars of the Mölnlycke business culture is its customer focus. "I'm immensely proud of that, but it turns out it was driving a significant forecast bias," Harding says. Company products undoubtedly save lives, and reliable delivery on time and in full is critical to hospital function. As a result, the sales force and business directors are dedicated to absolute reliability. "Our sales people and those responsible for creating the forecasts were deliberately creating them high to ensure supply." In essence, they did not trust the supply chain to deliver, and over-forecasting was leading to significant inventory stocking.

A huge amount of effort, particularly from senior management, was put into explaining that with good

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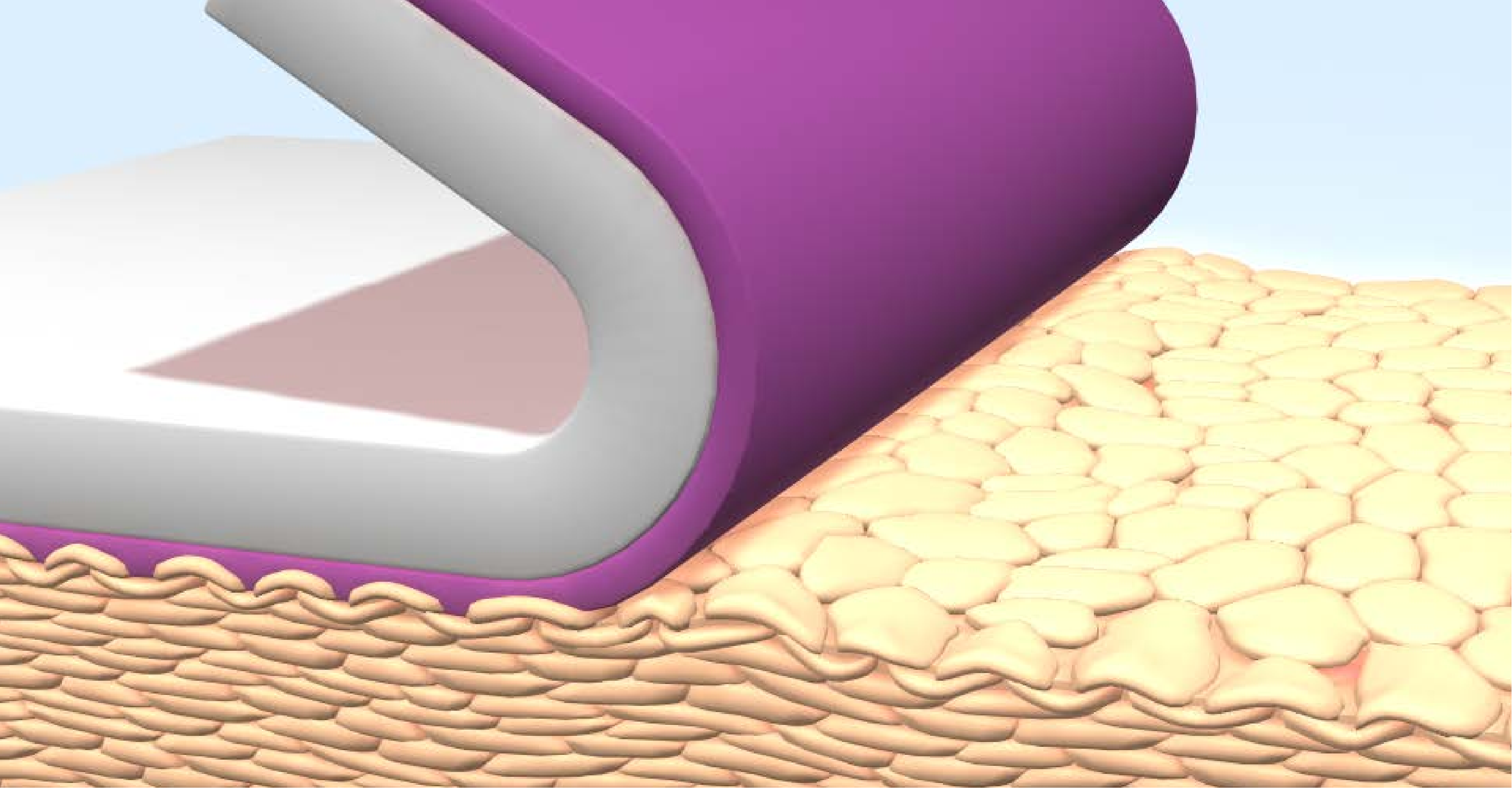
forecast accuracy and good planning, managed through the MBM system the supply will be reliable. "Almost overnight the bias started to drop, and has continued to do so. We're now achieving low average bias in most areas," Harding says. "But we did underestimate the amount of work it would require, because there were some pretty ingrained behaviours and we didn't want to risk losing that customer focus. It's an ongoing and continuing process."

The concept of continuous evolution and improvement applies to all areas of the MBM system. Financials have always been an integral part of the process, and initially much of the data was gathered on spreadsheets by Harding himself. "The most recent step for us has been getting our financial community even more engaged and responsible for creating the figures, feeding them through into the process and deciding how they want to them to look."

The company uses SAP Advanced Planning and Optimisation to generate the demand figures. These were originally fed into Cognos BI for demand reviews of both value and volume, and into Cognos Planning for quarterly financial forecasts and budgeting. However, there was the potential for the data to diverge. The data analysis is now in the process of being changed. All the financial reports are to be produced out of Cognos Planning, including the quarterly reports and a monthly refresh of data through the MBM system, and the demand review will continue to be fed from Cognos BI for volume. Meanwhile Cognos Planning will also be used to take a snapshot of the MBM data for budgeting purposes.

In January 2011, Mölnlycke was awarded Class A status by Oliver Wight for its implementation of the MBM system. But as with all good business management systems, this will doubtless continue to be honed and improved, delivering further benefits to the company and the health sector it serves. "We have achieved a significant milestone, but the journey continues. We're now looking at other aspects of the MBM, including demand reviews, and integrating the product review financials. It's all about continuous improvement," Harding concludes.



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OLIVER WIGHT

Oliver Wight EAME LLP
The Willows, The Steadings Business Centre
Maisemore, Gloucester, GL2 8EY

T: +44 (0)1452 397200
email@oliverwight-eame.com

www.oliverwight-eame.com

Oliver Wight Asia/Pacific
118/3 Male Street, Brighton,
Victoria 3186, Australia

Oliver Wight Americas
P.O. Box 368, 292 Main Street
New London, NH 03257, USA

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