Supply chain transformation: a blueprint for success

A case study examining how we helped Fresenius Medical Care EMEALA transform its supply chain operations, enabling it to make cash savings of 15 million euros from the reduction in stock holding and laying the foundations for future growth.
This case study brings to life the journey which Fresenius Medical Care (FME) has been on over the last three years in redefining supply chain management across Europe, Middle East, Africa and Latin Americas. Along this journey, Ernst & Young has helped coach and support the FME team, enabling them to achieve some significant milestones in what has been a challenging and exciting transformation initiative for an organization which is on the way to become the world’s leading renal therapy company.

The transformation project was named SCALE, which stands for Supply Chain ALignment EMEALA (EMEALA represents Europe, Middle East, Africa and Latin America.) SCALE launched in early 2009 and was a key strategic initiative in laying the foundations for the future growth of the company. As Dr. Emanuele Gatti, Global chief strategist and chief executive officer EMEALA said at the time: “As we seek to transform FME into a leading renal therapy company, reliability in supply chain performance is a key success factor in our strategy.”

With more than three decades of experience in dialysis and innovative research, FME is the world’s largest integrated provider of products and services for individuals undergoing dialysis because of chronic kidney failure. FME is widely regarded as the organization which sets the standard in terms of treatment for patients with this condition, which affects just under two million people worldwide.

The following extract from the annual report 2009 gives an insight into what FME stands for: “Together with our employees, we focus on pursuing strategies that will enable us to uphold our technological leadership. As a vertically integrated company, we offer products and services for the entire dialysis value chain. The highest medical standards are our benchmark.”

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Transforming the EMEALA supply chain operations

For FME, supply chain is a key driver in not only supporting the growth of the business, but also generating cash and laying the foundations for the future, such as an integrated business model and harmonized, cross-company working practices.

Thomas Dimt, at that time Head of commercial department and logistics EMEALA, observed: “A key part of our mission in building FME into a leading renal therapy company is that we continually face the challenge across the company of how best to re-invent ourselves in a fast changing business environment. How best to change the way in which we are organized, the way we work together and collaborate to ensure that we achieve both business and personal goals as well as deliver real benefits and results.”

This challenge is especially significant in the highly cross-functional and complex world of FME’s supply chain operations. Here, there is a focus on core processes that must always be “done well” across all functions and countries throughout the EMEALA regions. The goal is to ensure that FME efficiently services the needs of both its internal and external customers.

These core, supply chain processes include:

- Producing accurate forecasts that drive the supply chain process
- Optimizing stock levels so as to balance efficiency and customer service
- Sharing transparent and reliable information for decision-making

These ambitions are clearly reflected in the goals of SCALE which include:

- Striving for simplicity and efficiency
- Reducing complexity and barriers
- Aligning and transforming processes, tools and organization across the supply chain

Leaders who serve

Discussions between the FME supply chain leadership team and Ernst & Young began in 2008 when we were engaged to provide support at company headquarters in Bad Homburg, Germany. Initially, this involved some executive coaching for the head of the supply chain operations, concerning potential reorganization issues. We were also asked to help in developing the content for the annual Logistics summit meeting, which was scheduled to take place in Portugal in October 2008.

Leadership wanted to use this summit meeting to introduce the need for change and the intended mission to transform supply chain operations, getting people involved and creating the momentum for change.
These initial interventions were very successful and, in early 2009, SCALE was established with Ernst & Young as a strategic advisor. Since then we acted as "transformation guides" and "change coaches", working alongside the supply chain leadership team and the SCALE workstream leaders to help them launch and drive forward the SCALE initiative.

Setting sail from Porto

We started the journey of exploration and transformation in Porto, Portugal, when the supply chain EMEALA logistics team came together for their annual summit. This was a key moment. An opportunity to really create momentum and connect with those people who would be most involved and affected by the transformation project. We agreed upfront with the leadership team that the whole meeting would focus only on the need for transformation. In this way, they were involved right from the start in the plans for the new initiative.

The theme for the Porto summit in November 2008 was “managing change together.” Working with around 60 members of the global team, we spent three days building the case for change across FME’s supply chain. Dr. Emanuele Gatti reinforced the importance of supply chain both in safeguarding cash flow and in laying the foundations for the company’s future growth.

The Porto summit was key not just because it provided the opportunity to engage people in the need for change within the organization’s global supply chain operations, it was also the start of generating a real feeling and need for a common “community of spirit” across the different supply chain functions.

One of the first things we did at the summit was to identify the perceived strengths and weaknesses in FME’s supply chain operations. Then we developed expectations for the future. (as summarized Figure1).

**Figure 1. Supply Chain Alignment EMEALA**

<table>
<thead>
<tr>
<th>FME before</th>
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</thead>
<tbody>
<tr>
<td>• High stock levels</td>
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<tr>
<td>• Low forecast accuracy</td>
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<tr>
<td>• Lack of flexibility</td>
</tr>
<tr>
<td>• Missing transparency</td>
</tr>
<tr>
<td>• Targets in conflict</td>
</tr>
<tr>
<td>• Diverse and unconnected systems</td>
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<table>
<thead>
<tr>
<th>FME tomorrow</th>
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<tbody>
<tr>
<td>• Demand driven</td>
</tr>
<tr>
<td>• Global process optimization</td>
</tr>
<tr>
<td>• Customer focused</td>
</tr>
<tr>
<td>• Optimization across company</td>
</tr>
<tr>
<td>• Proactive</td>
</tr>
<tr>
<td>• Transparency</td>
</tr>
<tr>
<td>• Common SAP based platform</td>
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</tbody>
</table>

- Transforming the way we work across the supply chain
- Ensuring reliability in our supply chain performance
- Supporting the growth of FME as a leading renal therapy company

Source: Fresenius Medical Care
Other sessions focused on introducing the overall objective and goals of the new program and there was also some specific training around how to embrace, be ready for and get fully involved in the upcoming process of change.

During the summit, we also asked participants to make short videos which, working in breakout groups, they scripted, designed and filmed themselves based on proven methods from the Ernst & Young advanced solution center. This team-building exercise gave them a voice through which they could express what they saw as the benefits and advantages of transforming the supply chain operations.

Participants also brainstormed what they believed were the necessary principles for country involvement and which would prove to be key to the program’s success. The results of their brainstorm are summarized in Figure 2.

Finally three key messages were agreed by all participants as the driving principles for the new initiative (see Figure 3).

**Figure 3. Driving principles for the new initiative**

- Ensuring reliability of supply chain performance
- Driving change in the way that we work together
- Enabling “one supply chain community”

Source: Fresenius Medical Care

**Change-leadership in action**

In parallel to the Porto summit, we worked with the existing FME supply chain management team to develop the vision, mission and values for what would be the new, integrated supply chain operations. We did this via a series of very challenging facilitated workshops.

Following the workshops, once the vision, mission and values had been agreed, we then started working at a more detailed level with the leadership team to develop the tactical milestones and deliverables that would form the foundation for implementing the new business model.

The leadership team members described these workshops as enlightening because they not only had the chance to discuss the practical details of the proposed changes but also it was their first step towards operating as change leaders. The beginning of their own personal change journey.

The output from this intensive series of leadership workshops is articulated in Figure 4.

**Figure 2. Brainstorming results**

<table>
<thead>
<tr>
<th>Active country participation to ensure that in standardizing our supply chain processes together we:</th>
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<tbody>
<tr>
<td>• Consider freedom for entrepreneurship/local needs</td>
</tr>
<tr>
<td>• Build strong understanding of new processes and provide excellent training on IT tools to ensure that we are able to use them properly</td>
</tr>
<tr>
<td>• Ensure that we do not complicate work more than today</td>
</tr>
<tr>
<td>• Guarantee availability of goods in the markets</td>
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</table>

<table>
<thead>
<tr>
<th>Countries are therefore be expected to:</th>
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<tbody>
<tr>
<td>• Provide input/resource to each phase of the project</td>
</tr>
<tr>
<td>• Nominate local people to prepare for/lead SCALE transition</td>
</tr>
<tr>
<td>• Be open for change</td>
</tr>
</tbody>
</table>

Source: Fresenius Medical Care

“We followed a simple rule which was to give the overall SCALE program a series of distinct targets at a strategic level while having specific and tangible tactical milestones and change goals.”

Juergen Peukert, Ernst & Young
Figure 4. Articulating the strategy for the supply chain organization EMEALA

**Vision**
- We stand for:
  - Reliable
  - Customer focused and
  - Integrated supply chain across EMEALA driving FME cash flow

As a key success factor we enable FME to become a Renal Therapy company

**Mission**
- We understand our markets and customers
- We balance customer requirements with financial and supplier resources
- We support the FME strategy of an integrated business model
- We strive for simplicity and efficiency
- We continuously improve our cash positions

**Values**
- We are open and honest
- We are committed to quality
- We are team workers and collaborate across borders
- We are looking for continuous improvement
- We are professional and open for change
- We are cash flow minded

We, as the supply chain EMEALA organization get there by:

<table>
<thead>
<tr>
<th>Strategic objectives</th>
<th>Drivers</th>
<th>Mission</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply chain transparency for fact based, optimized decision making</td>
<td>Supply chain transparency for fact based, optimized decision making</td>
<td>Integrated operating model supply chain for driving a seamless supply chain in balance</td>
<td>Empowerment of the supply chain community for enabling and motivating our employees</td>
</tr>
<tr>
<td>Our strategic objective is to create transparency on the supply chain performance, inventories, cost, SLAs and policies in order to balance customer requirements with financial and supplier resources.</td>
<td>Our strategic objective is to agree on key performance indicators and service levels reflecting FME strategic goals, driving reliability and performance across value chain.</td>
<td>Our strategic objective is to build aligned supply chain processes across the company and to understand our markets, customers and suppliers in order to drive supply chain performance.</td>
<td>Our strategic objective is to collaborate within the supply chain community based on defined roles and responsibilities, core values and knowledge, in order to achieve operational excellence, simplicity and efficiency.</td>
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</table>

Source: Fresenius Medical Care
In mid 2009 the SCALE change leadership team decided that a broader coalition from across the EMEALA countries and functions should be mobilized and empowered as key influencers and sponsors for the transformation process at a local country level.

Consequently, a supply chain network of change ambassadors was set up. The network quickly became involved in working closely with their country general managers, particularly in the rollout of the new sales and operations planning process launched as part of SCALE.

This SCALE “guiding change coalition” within FME is represented in Figure 5.

### Charting for success

The SCALE program presented a series of complex challenges across three dimensions (Figure 6): people, process and technology. These challenges can be summarized as follows:

- Orchestrating a series of parallel workstreams across the complete span of supply chain operations
- Each workstream with its own scope, stakeholders, timeline, deliverables and go-live date including specific impact of change assessments
- Integrating the work of an organizational design initiative with the more operational workstreams

### Figure 5. SCALE guiding change coalition

Every operational unit impacted in the project plan will be engaged

<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale project team</td>
<td>“Build processes and tools; coach rollout teams”</td>
</tr>
<tr>
<td>Scale ambassadors</td>
<td>Supply chain champions</td>
</tr>
<tr>
<td></td>
<td>Initiating change sponsors “Provide strong backing and sponsorship”</td>
</tr>
<tr>
<td></td>
<td>Country General Managers/Plant Managers “Own rollout with personal objectives”</td>
</tr>
<tr>
<td></td>
<td>Change Implementation Leaders “Drive country rollout”</td>
</tr>
<tr>
<td></td>
<td>Country rollout team “Execute rollout processes, behaviors and tools”</td>
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</tbody>
</table>

Source: Fresenius Medical Care

### Figure 6. SCALE is the program delivering this supply chain transformation

Supply chain standard

- New shared processes
- One integrated system
- New “one team” setup

Common approach across all functions and countries

Transition framework for smooth implementation

- Supplier → Production → Central Warehouse (CWH) → All Local Warehouses (LWHs) → Customer
- | Headquarter |
- | Countries |

And building one supply chain community across EMEALA

Source: Fresenius Medical Care
Managing the many critical linkages between the output of the different workstreams while managing the critical path for the implementation of the overall SCALE program

Managing the ongoing rollout of the program deliverables through a series of waves or pilots

Sharing lessons learned during the journey and tracking the real tangible values being realized

And building one supply chain community at the same time

We followed a simple rule which was to give the overall SCALE program a series of distinct targets at a strategic level while having specific and tangible, tactical goals for the separate workstreams.

Team charters were completed by all of the SCALE workstreams. As well as covering the usual issues such as scope, timeline, deliverables, roles, work-plan, linkages and dependencies, these charters also became another change instrument by addressing the potential areas for transformation and change impact (see Table 1).

<table>
<thead>
<tr>
<th>Table 1. Potential areas for transformation impact</th>
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<tbody>
<tr>
<td>Criteria</td>
</tr>
<tr>
<td>Resulting change impacts to be managed</td>
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<td>Potential resistance to these changes</td>
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Source: Fresenius Medical Care
All hands on deck

In the words of the SCALE Program Leader Joachim Hoehler: “With over 30 people from our supply chain management team actively involved in SCALE and with the participation of representatives from all the EMEALA countries in the project, we are truly building one supply chain community.”

As well as the normal, more standard program management techniques and governance meeting cycles, we also worked with the FME workstream leaders to develop some additional, innovative techniques, which are certainly worthy of note due to the way in which they helped the process in FME.

A program integration meeting structure was established to run on a monthly basis. This involved not only project workstream updates but also deep dive working sessions which ran along the complete supply chain (see Figure 7).

These program integration meetings became an excellent vehicle for the SCALE team members to share knowledge and experience across each other’s areas of specialism. The opportunity this provided to learn together and often problem solve in a collaborative way, was certainly breaking new ground within FME.

We also recognized that the annual supply chain summit meetings could play an important role as milestones in the ongoing change process, and in the growth and development of FME’s supply chain community.

For example, in Porto, we identified that the supply chain teams recognized they were very good at fire-fighting and problem solving but needed to improve in proactively working together across the value chain and across countries to find better operational solutions.

In response, one of the key developments during 2009 was the establishment of bi-monthly supply chain community conference calls which were typically joined by over 50 participants, representing most of the countries within the EMEALA region. During each call, there would be a mix of project updates from headquarters and the countries, deep dive working sessions on a particular part of the value chain, and a brainstorm around operational hot spots and potential solutions.

In the following summit meeting, in October 2009, in Seeheim, Germany, the supply chain community focused on a practical walk-through of the complete new SCALE processes. With a theme of “Moving into operations” for this summit, experiences were shared, particularly from the initial pilot countries, about the benefits being realized from the new forecast and demand planning process. This meeting really signaled the birth for this community of the new supply chain operations.

By the time of the 2010 supply chain summit meeting, held near Dublin, participants at these events had more than doubled. The theme for the summit was “Landing, learning and living together” in the new, integrated and harmonized supply chain world.

By involving both sales and production in the work of the program and the summits, we were able to develop a shared goal aimed at creating a more agile and flexible production facility. An additional goal was also to develop, as well as improve, forecast accuracy and reduce stock levels.

An evening, team-building event at the Guinness Storehouse in Dublin also helped grease the wheels of change and ease the transformation toward working together across the silos!
Delivering results

Throughout 2010, SCALE was already beginning to deliver significant and tangible results:

- Inventories merged into an EMEALA replenishment hub
- Consolidation of selected warehouses into an EMEALA central warehouse
- Tax benefits leveraged as appropriate
- Do self-aligned sales and operations planning across EMEALA

Supply chain reliability today begins with forecasting. A new harmonized SCALE forecasting process and tool has been implemented and the country feedback is positive: “We can calculate forecast for products more accurately; it becomes easier to check items that have high deviation, saving time. We focus on exception handling with product managers and communication with Sales has improved.”

Alexander Gruening, Head EMEALA forecast and demand planning

In addition, the new forecasting tool, called the Demand Planner (part of the SAP Advanced Planner and Optimizer), has been implemented and rolled out in 151 markets. Sales and operations planning pilots have been deployed in selected countries to provide a platform for aligning demand and supply.

The rollout was organized in five waves during which users in more than 30 countries were trained over three days in how to use the system. Most of the training was held at head office in Bad Homburg, but there were also regional training sessions in local countries, e.g., the SCALE-workshop in Sao Paulo which brought together key users from the six most important Latin American countries.

The SCALE stock merger initiative recently completed and, by the end of 2010, FME EMEALA saw cash savings of 15 million euros from the reduction in stock holding.

“SCALE is following a well-articulated strategy, agreed with senior business management, to deliver a target of more than 35 million euros reduction of supply chain managed cash and cost positions by the end of 2012.”

Thomas Dimt, Present CFO EMEALA

Leveraging lessons learned

We also worked closely with an internal FME consultancy group, called People, Organizational Change, Implementation (POI), to complete an extensive lessons learned exercise at the end of the second year of the SCALE program. This helped to establish the framework which we used for moving forward to complete the work.

A flagship for the future

“Feedback clearly shows the SCALE program has been a tremendous success within FME. It is widely recognized as a “flagship initiative” for the company, delivering in the region of 15 million euros stock reduction within the first 12 months of the ongoing implementation of this transformation program.”

Dr. Ulrich Weingarten, Head of supply chain operations EMEALA

We are now working closely with the supply chain leadership at FME, coaching them on how to bring the program to a finish with the same professionalism and attention to detail that went into the initial launch and mobilization activities.