



CASE STUDY

UNIPART - A PROCESS FOR CHANGE

One of the biggest, and continuing, industrial success stories of British business in recent years can be found at the Unipart Group of Companies. But even such a progressive company knows that it cannot stand still and is now re-focusing and re-organising Unipart DCM - its Demand Chain Management division.

Worldwide Business Solutions Group was brought in by the division's managing director to introduce activity-based management (ABM) into the organisation. The long-term objective was to identify and remove waste, creating only value added positions with well defined internal customer and supplier relationships. This would focus change activity and accelerate progress to world-class status.

The initial step was the production of an activity based cost (ABC) model of the organisation to enable management to understand the true cost implications of doing business and to identify new opportunities which would be available if the processes were aligned to the needs of the customers.

A prime objective of the ABC model was to help develop a rate card structure upon which internal clients could be charged for DCM's services. This was a fundamental task as, at that time, Unipart DCM's clients were charged primarily by sales value based fees for the storage and handling of parts - whether that part was a complete engine or a packet of washers. This charging mechanism was prone to inaccuracies and sometimes contentious when it came to agreeing internal budget cross charges with sister divisions.

Introducing ABM

The management team charged with getting the activity based management project off the ground recognised the problems that the fee system was causing: client sales could fall and so reduce fees, at the same time stockholding increased and put up storage costs.



Again, a customer could order little and often - which did not reflect the relatively high physical cost of receiving. In addition, the fees not only did not cover the cost of handling high cubic volume, low value products, but also penalised low customer volume, high value products.

The new rate card had to be satisfactory and equitable to both customer and company. It had to be easy to understand, fairly reflect the costs which were incurred, be based on easy to audit measures and contain safeguards against major adverse changes.

Before this could be achieved, the team developed a detailed plan to introduce activity-based management into the organisation. The first step was to brief all managers on the ABM concept and what would be required from them and their colleagues. The introductory tasks covered areas such as process mapping, and activity analysis. Managers were encouraged to review their input to the model building process with the project team.

The end result was the identification of the cost drivers within the organisation and the collection of the driver data - the most time consuming job of all. In total, over 100 drivers from 29 different courses were identified, ranging from the number of UK and export customers, parts stocked, new product introductions, vendor defects, customer queries etc., etc.

A relatively large number of drivers were used to provide sufficient detail to allow the correct construction and interpretation of cost information provided by the ABM model.

Identification of the cost drivers led to the creation of rate card product groups, which were aligned, to coincide with those areas where significant cost differences occurred. For example, the total cost to DCM of serving an order line for a bodyshell is very different from that of a packet of washers. In all, 12 product groups were created ranging from panel work, body shells and glass to power train components, security stores items and exhausts.



Road to World Class

After a series of intensive workshops where the whole management team had the opportunity to understand the principles of the world class company and ABM, and clarify and agree the corporate goals, critical success factors and inhibitors, the major cost consuming processes were identified and targeted for re-engineering.

Initially, six process improvement teams were formed covering new part introduction, receiving, order processing (both physical and administrative), supplier development, vendor qualification and quality - and each was told to start with a clean sheet of paper. The teams were to ignore existing inhibitions, constraints and sacred cows, told to use the knowledge gained from existing process analysis and define the ideal process. They were then asked to consider how to bridge the gap between 'today' and the ideal.

Process Improvements

Over a period of 12 months, work continued on identifying all the process improvements required to put Unipart DCM on the road to being a world-class organisation. Too numerous to identify in detail, these ranged over understanding customer expectations, new process controls, simplification and reduction of process tasks, costs and lead times, development of job training procedures for critical activities, training in problem solving, development and implementation of benchmarking and re-engineering implementation plans.

The hard slog paid off. The project team's findings were presented to the board and all the major steps to process improvements were accepted. Implementation began immediately during 1993 with presentations to employees on the re-organised divisional structure.

The organisation structure proposed was now based on DCM's business processes, not on the old, conventional, functional lines, which were in a number of respects illogical and inefficient. There were to be three major process groups, each under a director.



Parts marketing incorporates inbound planning, packaging, pricing, client marketing, customer services, including administration and central claims.

Replenishment covers inventory management, vendor development and vendor management. Vendor management is carried out in multi-skilled teams responsible for electrics/accessories, body & trim, engines/mechanical parts. Typically each cell contains five people - purchasing, supplies, quality assurance, inventory management and planning. Also contained in the replenishment process are non-product and facilities purchasing, inspection, accounts payable, packer management and goods receiving.

The third process group is customer orders, including planning services, picking and packing, despatch and distribution, new business and finance. Although one result of the re-organisation has been the stripping out of a management layer, growth in the business and a halt to recruitment avoided the need for redundancies and management were absorbed into other jobs.

Employees

Successfully implementing such a far-reaching re-organisation required a major communications exercise, starting with the senior managers who would be the most affected and who had to learn how to run the business in the new way it has to operate.

Subsequent briefing sessions, explaining the totality of the re-organisation covered all remaining managers and staff. This was followed by presentations by each process director to smaller groups, explaining how they individually fitted into the new processes.

The message was blunt: much hard work was needed to implement the re-organisation and process changes if they were to succeed. In particular there was a requirement to understand and measure what they were trying to achieve.



To ensure that the overall objectives are reached, the business development team is currently setting a series of key measures, with targets, for every employee involved. These targets are to be reached over the next four to five years.

These are now regarded as unreasonable or impossible objectives, but are designed to encourage and support employees to change the way they do business. Normal continuous improvement would not meet targets - the programme concentrates on the core problems and requires step changes to be successful.

Although it will be at least two to three years before full benefits of Unipart DCM's re-organisation will be reaped, the changes are already showing through. Performance is better than budget and in many areas profit is increasing.



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