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## CASE STUDY: SCM OPTIMISES DELIVERIES AT BLÉDINA, FRANCE

*Blédina, one of the leading French producers of baby foods, saw its customer service levels decline after a reorganisation of the distribution network of its owner company, Danone. After a thorough business process reengineering project, Blédina enhanced and redesigned its processes within the supply chain, introducing a supply chain management (SCM) software system based on an SAP® R/3® ERP system<sup>1</sup>. Through the implementation of the business process reengineering project and SCM, Blédina is making considerable headway towards achieving its strategic goal of maintaining a 99% customer service level.*

### Case study fact sheet

■ Full name of the company:	Blédina (Group Danone) HQ: Villefranche sur Saône (F)
■ Location (HQ / main branches):	Plants in Steenvoorde (F), Brive (F), Villefranche sur Saône (F) Distribution centers in Brive (F), Bondoufle (F)
■ Number of employees:	1,459
■ Sector (main business activity):	Baby foods (milk and powdered milk, cereals, ready meals, fresh food)
■ Year of foundation:	1906
■ Turnover in last financial year:	549 million € (2004)
■ Primary customers:	Hypermarkets, supermarkets, pharmacies, hospitals
■ Most significant market area:	France and 60 other countries
■ Focus of case study:	SCM
■ Key words:	SCM, ERP, integration

### Background and objectives

Blédina, a wholly owned Groupe Danone company headquartered in Villefranche-sur-Saône, is France's leading producer of baby foods. With over 1,000 product lines in liquid and powdered milks, diversified foods, and desserts, Blédina has captured a market share of 45% in France, Europe's largest consumer of baby foods.

<sup>1</sup> R/3 is an integrated software solution for client/server and distributed open systems

In 1997 Danone executives determined that the grocery companies, with the exception of Blédina, were not a strategic activity and began divesting them in 1997 and 1998. With the Danone divestitures (when Danone divested its grocery companies, it disbanded the common distribution network) and the changes in the distribution networks of Blédina's major customers, Blédina had to reconfigure its own distribution network that wasn't meeting any longer the standards of its clients.

Blédina reacted to declining customer service levels by initiating a business process reengineering project. The company set a goal of achieving and maintaining customer delivery performance above 99% by enhancing and redesigning processes within the supply chain. This included the introduction of a new forecasting process that takes into account inputs from the sales and marketing organisation, including customer and market behaviour by season; a supply planning process that provides long- and medium-term visibility into raw material requirements; and production planning processes that provide enough flexibility to react to sudden changes in customer demands.

The giant grocery chains and distribution groups (which may include food and non-food retailing stores, as well as restaurants) dominate the French channels of distribution, controlling 60% of the market. Given the low profit margins in food retailing, many of them have centralised and integrated functions such as buying, physical distribution, and payment. Some groups have further leveraged their power by creating joint purchasing arrangements with each other. At the other end of the spectrum, hypermarkets and supermarkets within a group have been given the option to buy from suppliers not on central purchasing list. With ever-greater concentrations of buying power, food retailers are asking for more and more when it comes to quality, price, traceability, logistics and services.

The company had to select supply chain management software that not only met its process requirements, but also could be integrated with the disparate best-of-breed solutions that were in place for sales, finance, and production management. Moreover, Danone had instituted a master plan to adopt common business systems globally, using its ERP system (SAP® R/3®) as the foundation.

## **e-Business activities**

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In 1998, Blédina created two multi-product distribution centres at Brive-la-Gaillarde and Bondoufle, supplied by its three plants. Deliveries to supermarkets and hypermarkets, which account for some 80% of Blédina's client base, were made from the closest distribution centre to the client's warehouse. They were also responsible for managing logistics for direct shipments from plants to customer distribution centres. But the right processes and systems were not in place to produce a high service level at the beginning. By early 1999, the service level slid to 92%, meaning 8% of the deliveries would be late or wrong. This was creating a problem for retailers, where profit margins are slim and stockouts mean loss of revenue. Moreover, when supplier service levels fall below 98%, retailers levy severe penalties, ranging from 16% to 32% of the value of the product, depending on how late the delivery is.

In the spring of 1999, Blédina senior executives quickly launched an all-encompassing business process reengineering project to establish and maintain the client service level at 99% or better, while controlling supply chain costs by leveraging supply chain processes. The management steering committee, led by the supply chain director, created a task force of 26 people from throughout the company and gave it 15 days in which to analyze the existing supply chain processes and propose a new and more effective configuration.

At this point, Blédina was using different best-of-breed software solutions for finance, sales, and production. These company applications had been integrated, but there were gaps in the processes, often sub-optimally filled by manual procedures. In addition, these problems impacted several other operational areas (which ultimately also contributed to the distribution problems), such as:

- Procurement: because Blédina was not able to accurately plan purchasing of milk and other foods on the basis of seasonal price variations, it was not able to ensure the lowest price.
- Production: lacking real-time data on changing needs, Blédina could not schedule staff optimally.
- Marketing and sales: lacking swift, accurate information on results of promotions and new product launches, the company could not produce timely forecasts, nor could they plan future promotions with certainty.

After careful analysis of the supply chain processes and the reorganisation required, the team focused on:

- Answer customer requests satisfactorily
- Decrease out-of-stock occurrences and the resulting impact on profits
- Provide purchasers with medium and long-term visibility into raw material requirements
- Streamline industrial activities by considering capacity constraints on bottleneck production recourses and lower inventories.

The supply chain effort, which began in 1999, culminated in a full rollout of the system between July 2001 and mid-2002. The system has been operational since then.

In February 2000, the team began its search for a suitable SCM system. Among their major requirements was the system's capability to integrate with the company's existing ERP and legacy systems and to cover all planning aspects of Blédina's supply chain, end to end. In May, Blédina selected SAP APO, a component of mySAP SCM.

*"In our search for a supply chain management tool to deploy our new logistics processes, we looked both at the market as a whole and at the other solutions already used within the Groupe Danone," said Patrick Mornieux, manager of information systems at Blédina. "Since Danone had just selected mySAP Business Suite for its entire management system, with the intention of extending the system to its subsidiaries, the parent company suggested we take a closer look at this system to see if it would meet our needs. Since the newest release at that time corresponded well with our requirements, we decided to opt for SAP".*

The new system's implementation began at Blédichef in July 2000. Blédichef is the division responsible for producing ready-made meals for babies and was selected as pilot project referred to internally as Blédichain for the SCM implementation. The first phase of the implementation involved the deployment of capabilities that would enable the company to plan sales demand, plan and validate the release of finished products and their deployment to distribution warehouses, and plan and schedule short- and medium-term production at a detailed site-by-site level. The next 10 months, were divided into 2 months of general design work, 6 months of detailed design, and 2 months of testing.

After the system was deployed in June 2001, Blédichef realized more major improvements. Finished goods and work-in-progress inventory for this product family were practically halved, while delivery service levels between 98% and 99.5% were maintained. This was achieved due to improved forecast accuracy, which resulted in better use of production resources and better deployment of the finished goods to customer distribution centres. The success of this phase marked the beginning of the second phase – the rollout of the system to other product groups.

Over a period of almost a year, this system was rolled out to the various product sectors one by one. Today, the system is a fully integrated part of Blédina's IT solution landscape, enabling smooth execution of business processes.

## Impact

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The main outcomes and impacts of the project were:

- A **long-term forecast of demand and supply** requirements. The new SCM system has enabled Blédina to forecast demand and plan 24 months in advance. This has been a great improvement compared with the previous situation, which was essentially pen and paper-based, in the case of production planning and were much less precise and nowhere near as reliable. Blédina can now take into account specific characteristics, such as seasonal variations in sales of soups and fruit juices. Demand planning can also be used to create weekly projections for specific retail outlets and client categories such as supermarkets, healthcare establishments, exports, and subcontractors.
- Feasible **production & resource planning and monitoring resource loads** and utilisation. On the supply planning side, Blédina uses the supply network planning capabilities of the new system to calculate of the net requirement of finished goods. This calculation is based on defined target days of supply per product family or per product with a possible variation in time. Blédina is now able to create multiple versions of the finished goods distribution plan and analyze them using the component's simulation capabilities to select the optimal solution. Before implementing supply network planning capabilities, Blédina had a general inventory policy of having the same average inventory level at all of its sites. Now it is able to designate minimum inventory levels tailored to each of its distribution bases.

- **Deployment of finished products** to distribution centres. On the logistics front, Blédina uses the deployment capability of the new system to monitor the target stock level (in pallets, tons) versus available stocks at distribution centres. This ensures that safety stock levels are maintained accordingly, thus minimizing the risk of shortages and delivering correct quantities of stock to the distribution centres. The deployment of supply network planning capabilities also allows to monitor the distribution centres' fill rates against their target performance.
- **Real-time tracking of sales** at retail outlets and adjustment of production and inventory accordingly. *"We use this tool to track individual activities within the supply chain, enabling us to react quickly when there is a situation that needs attention",* said Mr. Mornieux. *"We are able to create alternative plans for meeting our target days of supply and these plans are then reported to executives for consultations and decision making. Moreover, at any time, Blédina management is able to view the global load on the plants to assess their performance as well as usage."*

Through the implementation of the business process reengineering project, Blédina is making considerable headway towards achieving its strategic goal of maintaining a 99% customer service level.

The most important key performance indicator of success is undoubtedly customer satisfaction. Mornieux emphasized that *"The strong performance of our new processes and our reliance on the system have meant that we have totally regained their confidence, to the extent that some of our clients, including Carrefour and Auchan, have deployed collaborative solutions with interfaces linking them to our sales management systems."*

As already pointed out, by December 2001, Bledichef had achieved and maintained a service performance level between 98% and 99.5%. At the same time, work-in-progress and finished goods inventories were almost halved during this period. Other internal goals that were met after the implementation of the new SCM system are:

- **Forecast accuracy** has been above its target line by an average of 5% year on year. By 2003, overall forecast accuracy had improved by 6% when compared to 2001.
- **Production capacity utilization** has improved by an average of 19% – between 2001 and 2003, Impacts on business relationships with suppliers and/or customers Impacts on production processes
- Work-in-progress and finished goods inventory between 2001 and 2003 were reduced by 25%, while inventory days of supply were reduced by 20%.

Blédina plans to extend the use of the new system's optimization capabilities to include economical parameters and functions in their supply chain planning process. *"SAP APO will enable our plant at Steenvoorde to plan its milk procurement on the basis of seasonal price variations to make sure it gets the lowest price. The fact that we know our long-term needs makes this all easier,"* said Bledina's Plant Director, Mr. Denis Périllier.

Collaboration through sharing the demand and supply information with business suppliers and customers is expected to make the supply chain processes of Blédina more efficient. Last but not least, through the implementation of the new system, Blédina, like its parent Groupe Danone, will adopt standard business systems.

## Lessons learned

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Enhancing and reengineering business processes within the supply chain was key to the success of this project. More importantly, people had a very significant role in the assessment of the situation and in the implementation of the system: a close collaboration was established among all the people involved in the supply chain, including sales and marketing, purchasing, production planning, manufacturing, distribution, administration and finance, and information systems. The enterprise-wide project mobilized 12 of the company's employees and up to 10 specialised consultants, although ultimately 30 employees were involved.

The SCM system now matches the quality of the complex traceability system of Blédina: the company not only dictates the quality and care of the livestock and the milk used in its products, but, for each milk cistern delivered, the company can identify the farmer and the cows that produce the milk, the date of delivery, the completion of bacteriological controls, the tank into which the cistern's milk is poured, the product and container in which it is used and sold, the distribution centre it went through, and the final reseller.

Using a common tool for all logistics chain players offers complete visibility of the supply chain, from sales planning (where Blédina had no tool before) and production planning (where basic tools were previously used) all the way to inventory management. The transparency of the data and the ease of updating them enabled Blédina to react more efficiently to changing situations.

The most important corrective actions were to increase the stock level and to manage out-of-stocks in terms of priority, with a cycle rule to satisfy the customers one by one. The ultimate sign of success was customer reaction: Blédina has totally regained its Clients' confidence, to the extent that some of them have deployed collaborative solutions with interfaces linking them to Blédina's sales management systems.

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*This case study was conducted by Databank on behalf of the e-Business W@tch.*

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