

From Strategy
to Execution

THE TEFEN TRIBUNE

Spring issue, 2009



Business Excellence in a Turbulent Market

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how it became a
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Maximizing profitability
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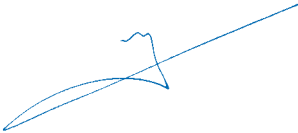
The financial benefits of
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Business Excellence in a Turbulent Market

The basic instinct for companies in times of crisis is to activate their survival mechanism, but sometimes they forsake strategic thinking due to the uncertainty of the situation. It is actually in times like these, during the world financial crisis of this past year, that a company's adherence to its strategy is most crucial. Clearly, a company's core strategy does not change; it remains committed to its vision, objectives and long-term goals, products/services and main target markets. The new situation could change the pace of the strategy's implementation and influence its direction and focus. For instance, the crisis could produce great opportunities, within our strategy, due to market changes, client changes and the state of our competitors. Studies show that a recession is a time of dramatic volatility in the markets; more than 20 percent of the companies that were positioned in the lowest quarter of their industry (performance-wise) rose to the upper quarter at the beginning of the 2001 recession in the United States. On the other hand, 20% of companies in the upper 10th, who probably had let their guard down, fell to the bottom quarter. In other words, these are times of great danger but also of great opportunity. So how do we prepare for implementing the strategy? Implementing a strategic plan in an uncertain market is nothing like a "classical"

strategic plan. Keith Ludeman, chief executive of the Go-Ahead Group, illustrates this approach. In his interview he explains how a flexible strategy and willingness to make changes contributed to the group's success. Some strategies are well-suited to times of crisis when demand volumes decrease; coordination between the operational and the sales and marketing divisions helps foster maximum profitability for the organization. This strategy is presented in the article "S&OP – A Bridge over Troubled Water," which talks about focusing on scenario management in times of uncertainty. In times of crisis there is pressure to reduce unnecessary activities, but that isn't always the right choice. For example, social responsibility and sustainability issues can provide financial benefits to the organization. Organizations should embrace these values – not solely for the sake of humanity but mostly for the economical rationale that stands behind it. For example, the crisis gives the company a chance to come down from its ivory tower and create empathy and a sense of sharing with the community, which will turn them into partners even after it ends. In the article "Why businesses should commit to environmental initiatives," you'll find that beyond social values and involvement in the community, the shift toward environmental management has immediate

financial benefits. Another important factor, especially in times where new clients are hard to come by, is maximizing profitability from existing clients. In the article "Bridging the gap between prescriptions and sales," you can learn how a pharmaceutical company deals with this issue using a structured model that allows it to better understand clients and their needs. Alongside the reforms, recession is a good time for reorganization. One of the best actions you can take is effective management of inventory. In the article "Fine-Tuning Materials Management in the Health-Care Industry," you'll learn how financial difficulties required US hospitals to reorganize and standardize their inventory management system. Strategy consolidation in times of uncertainty is highly important. An organization that doesn't have the courage to think ahead and maintain its business focus will find that instead of holding the wheel and steering the company along the desired path, it will be at the mercy of market fluctuations and risk being wiped out by competitors.



Aaron Lichtenstein, CEO
Tefen

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Devolved Management in a Highly Regulated Industry

Go-Ahead CEO Keith Ludeman explains how a flexible strategy and willingness to make changes contributed to success in the UK transportation market

By Graham Clews and Alan Erskine

Keith Ludeman is a chief executive who knows exactly how he wants to run his business. So much so, in fact, that he personally chairs more than 120 board meetings each year, scrutinizing the performance of his Go-Ahead Group's subsidiaries using a

combination of a stack of data and some good old-fashioned eyeballing. His personal management style is key to the effective execution of Go-Ahead Group's strategy, which focuses solely on operating businesses it understands, in geographi-

cal areas it knows well, by empowering local management to make autonomous decisions.

For the Go-Ahead Group this means devolving a huge slice of decision making to the bus companies, train operators and other transport-service



businesses that make up its portfolio.

This currently includes: franchises to run three railway companies, operating mainly commuter services into London; nine bus companies, chiefly in large towns and cities around England; and airport ground-handling and car-parking services. The operation of the UK public transport system by the private sector is a young business that has only just celebrated its 20th birthday.

Empowering local brands

Ludeman, like Go-Ahead's two previous chief executives, is a first-generation manager in this youthful industry, but with significant experience of running bus companies while they were still part of the public sector. He has continued his predecessors' strategy at Go-Ahead of eschewing a large centralized structure dictating to subsidiary companies, instead pursuing an ethos that public

transport is a local business where Go-Ahead's customers make relatively simple journeys over fairly short distances. Many of those passengers are daily commuters who recognize the local brands they use; Ludeman's goal is to empower those local brands to deliver to their own market in the way they best see fit. "That local focus and understanding of culture in those businesses means we are able to establish good-quality businesses that provide a

Go-Ahead - Key facts

- Headquarters: London, UK
- Employees: 27,500
- Listing: London Stock Exchange, FTSE 250
- Bus Passengers: 1.6 million every day
- Rail Passengers: 0.9 million every day
- Revenue*: £2,199.1 million (2007: £1,826.9)
- Divisions: Bus, Rail, Aviation Services
- Operating Profit**: £144.9 million (2007: £118.1)
- Rail operation is the busiest in the UK and is responsible for nearly 30% of all UK passenger rail journeys.
- Will operate the UK's first high-speed domestic rail service across Kent into London St Pancras, dramatically reducing current journey times.
- 3,400 Buses. Share of London bus market: 20%.
- Aviation division is one of the largest independent providers of aviation cargo and ground handling services in the UK.
- Parking operation 'Meteor' is one of the UK's largest off-street parking operators, managing over 70,000 parking spaces.
- First public transport company to have been officially certified with the Carbon Trust Standard after taking action on climate change.

* For the financial year ended 28 June 2008

** Before amortization and exceptional items. For the financial year ended 28 June 2008

good-quality service and earn us a good-quality margin," he says.

But how does Ludeman devolve power from the center, while ensuring that Go-Ahead's subsidiaries turn in strong performances, particularly in an industry where strong government regulation is a common theme?

Although successive UK governments have been happy for private operators to run the UK's public transport system, they have kept a controlling hand on the tiller through a series of requirements. Operators have to meet a range of benchmarks including reliability, punctuality and cleanliness of services.

The execution of Go-Ahead's strategy is based on a fastidious attention to detail coupled

with strong oversight from Ludeman himself. He meets with the board of Go-Ahead's 12 subsidiaries 10 times a year, using a wealth of performance and financial data to ensure the devolved management is on track.

"I really do believe that the guys in the field are far better placed to make the decisions than I am," he says. "What I need from them is money, in simple terms. So they have to produce a corporate plan for me each year which details how they are going to develop, four-week period by four-week period; how their business will produce a profit; and demonstrate that it will grow every year, unless there is a very good reason why it shouldn't. "Within their agreed corporate plan, pretty much everything

"That local focus and understanding of culture in those businesses means we are able to establish good-quality businesses that provide a good-quality service and earn us a good-quality margin"

Perhaps unsurprisingly, considering its integral importance to his business, Ludeman describes franchise winning as "an extremely specialist space"



is up to the local managing directors. They can raise ticket prices when they want and negotiate their own salary structure with unions. But if they spend too much on wages, for instance, they must claw it back elsewhere.”

Preparing winning bids

The implementation of Go-Ahead’s strategy for each subsidiary is almost entirely predetermined. The rail franchise bids are produced by a team entirely separate from those running the day-to-day bus and rail businesses. It’s a huge cost for Go-Ahead, but it’s an absolutely vital investment.

Ludeman will run a team of 50 staff working for up to eight months preparing a bid and brainstorming ideas for potential growth. It can cost the firm £3 million each time, but winning a single rail franchise will produce a sizable chunk of Go-Ahead’s annual £2.119 billion turnover. Its Southern rail operation, which renewed

its franchise in 2004, for instance, turns over £557 million annually, and no franchise – no business!

Perhaps unsurprisingly, considering its integral importance to his business, Ludeman describes franchise-winning as “an extremely specialist space.”

Potential competitors, including some from elsewhere in Europe who have sought to enter this market, have spent vast sums taking advice, largely from consultants, to put their bids together for them, he says, adding, “This can cost £3 million, £4 million, £5 million or £6 million, and in some cases they have nothing to show for it.”

“We now have a very good market knowledge, which may not be a unique selling point, but it is very important,” Ludeman says. “It’s a barrier to entry of a sort and a source of competitive advantage. Some people who used to work for train companies sell their advice as consultants, so

there is an industry around the franchising model. But there is no substitute for your business having the intellectual property itself. And that’s what we have because we do nothing but the UK. I bid for rail franchises personally, I have bid for London bus routes personally, so I understand the process.”

Operating in such highly regulated industries “would probably drive anyone with a strong entrepreneurial bent nuts,” Ludeman says.

Go-Ahead’s rail companies are required to attend four weekly performance-review meetings with the Department for Transport, where they scrutinize a pack of data as detailed as Ludeman uses for his monthly board meetings. The secret to working within these very tightly defined boundaries, Ludeman believes, is to ensure the contract is absolutely right before you sign it. “If you bid an overly ambitious contract, you are always going to struggle

Keith Ludeman's tips on how to run a business in a highly regulated industry

- Ensure local markets are best served by devolving management.
- Give devolved managers the freedom and resources they need to manage effectively.
- Numbers tell you almost everything, but personal management style is also very important.
- Create detailed growth plans for the life of a franchise.
- Invest early in a newly won franchise to harvest the benefits in later years.
- Reputation is everything where franchises are awarded.
- Spend big on preparing franchise bids.
- Know your business inside out.
- Ensure you select effective staff.

to deliver it," he says. "But if you win it at the right price, you've got scope for growing the margins in those businesses." The work that goes into bid preparation is not only vital to win the business, and to make sure that the contract is deliverable, but it also produces a template for growing the business during the short life of a franchise.

This finely detailed pre-planning process results in a formula for developing the new business from the moment the contract is signed.

"It's all in the bid, 100 percent," Ludeman says. "So how do you put a bid together? You look at the revenue on day one of the franchise, put all the macroeconomic drivers into your model. Then you decide what you are going to do with the business to grow the

revenue and make it work. "If you're installing new ticket gates at railway stations, say, you buy the gates, get them installed, make them work, employ the staff, grow the revenue. And there are literally dozens of work-streams in each franchise.

"The quicker you deliver those, the greater the cumulative growth of the business."

After the franchise is won

Once the franchise is secured, the investment obligations start immediately, but revenue generation is the operators' risk. Go-Ahead is investing £26 million in the first two years of its recently won London Midland contract in order to reap the benefits in the remaining five years of the contract.

"If you bid an overly ambitious contract, you are always going to struggle to deliver it. But if you win it at the right price, you've got scope for growing the margins in those businesses"

"Invest in your business, don't expect to get through on a shoestring and give managers the information they need"



Not everything can be done immediately; it may take some time to provide new rolling stock, for example, but refurbishment of railway stations and “softer” developments, such as staff training, will be kicked off immediately.

Ludeman adds that it is “absolutely fundamental” to run the business effectively and efficiently once the franchise has been won. “Don’t try to cut corners: Do it properly and professionally; that then generates you the reputation, generates you the revenue

and wins you new business,” he says. “If you run it badly you might be paying penalties and you lose your reputation. “You always have to be a credible bidder and operator to your procurement agency, in this case the UK’s Department for Transport. If you were to fail in some way, financially or from a safety perspective, you would just never get another franchise.”

Running efficient businesses requires the “empowerment, autonomy, competence and confidence” of individual

management teams, Ludeman believes. Consequently, Go-Ahead invests heavily in staff training to give managers the skill-sets they need to do the job.

The decentralized management structure, he says, produces a stronger esprit de corps at Go-Ahead’s subsidiary companies than at more centralized competitors, and the freedom and autonomy filters down to the staff on the ground. Realistic bid prices give staff more room to move, producing increased motiva-

Go-Ahead Group history

The UK’s public transport industry began its journey into the private sector when the Conservative government broke up and sold off the National Bus Company in the late 1980s. The Go-Ahead Group grew out of that process when the Northern General Bus Company, based in Gateshead in the northeast of England, was bought out by its management in 1987.

The company bought a number of smaller northeast bus companies before making its first major acquisitions of Brighton and Hove Bus and Coach Company, and Oxford Bus Company in the early 1990s. The Group continued to expand and was floated on the London Stock Exchange in May 1994. In the mid-1990s the still-public London bus network was disaggregated into 10 “parcels” and sold off. Go-Ahead bought London Central, and Keith Ludeman led a management buyout of London General, which was then acquired by Go-Ahead 18 months later.

The rapidly expanding group moved into railways when state operator British Railways was privatized in 1994. Go-Ahead bid for two of the 27 train-operating franchises, winning the right to operate the Thames Trains and Thameslink services. Go-Ahead, through its Govia arm, which is a joint venture with French transport firm Keolis SA, now operates three rail franchises: Southeastern, serving southeast London, Kent and Sussex; Southern, operating routes from much of the south of England to London; and London Midland, which operates through the heart of England, connecting London, the Midlands and the North West.

Go-Ahead has also expanded into aviation, operating ground-handling business Aviance UK, as well as Meteor Parking, which provides parking at major UK airports.

tion, Ludeman believes.

“The most important resource you’ve got is your people. Business management books are no substitute for hard-earned experience,” he says. “Resources and equipment are very important. You can have the best people in the world, but give them a bus that breaks down every five minutes and no means of analyzing data, and they won’t be able to run their business. “Without data, managers can’t manage. Invest in your business, don’t expect to get through on a shoestring and give managers the information they need.”

For a firm like Go-Ahead, with a loose structure but very tight scrutiny from the center, managing accounting information is vital.

Ludeman is, he says “only as good as my management accountants.”

Without good-quality data his monthly board meetings become worthless as an exercise in scrutiny.

Growth strategy

Historically, Go-Ahead Group’s growth strategy has been conservative, in contrast to its peers and competitors. First, National Express, Arriva and Stagecoach grew by buying firms in Europe, the US and elsewhere with mixed success. Go-Ahead would only expand within the UK and only where economic growth was predicted, where there could be “organic” growth in the business, and where there

was an intensively operated bus network.

Go-Ahead has since diversified, and it has not rejected the idea of overseas expansion entirely. But for a firm that concentrates so heavily on its primary market, running public transport in countries with significantly higher barriers to entry would represent a major hurdle. And Ludeman says the risk of trying to replicate their models in markets that are not as friendly to public transport may be too great.

His predecessor as chief executive decided that Go-Ahead had reached “critical mass” in the rail and bus business and he moved to acquire more permanent operations to supplement the time-limited franchises. The firm stuck to the “transport service” business by operating ground-handling firms at Heathrow and Gatwick airports, as well as taking over a major airport-parking concern, Meteor Parking. Go-Ahead has also run a taxi business and owned a chain of pubs.

But with such a tried-and-tested system, straying from the business model the firm understands so clearly can be risky.

“Aviation is the business we have least experience with and, unsurprisingly, that is the least performing part of our business.” says Ludeman. In these circumstances the autonomy for individual managing directors, which is usually such a strength for Go-Ahead, can become a weakness if

Realistic bid prices give staff more room to move, producing increased motivation, Ludeman believes

“Without data, managers can’t manage. Invest in your business, don’t expect to get through on a shoestring and give managers the information they need”



the central oversight is blurred through lack of industry knowledge.

Political skills

The UK's privately run public transport system is almost unique in its setup, and the industry's integral relationship with central and local government demands keen political skills from Ludeman and his managing directors out in the field.

"At the local level, establishing a relationship with local councillors, government officials and planning departments is an absolute must for the local managing director. "It's vital," he says.

At a national level, Ludeman meets with the UK's Secretary of State for Transport and the relevant ministers for buses and railways. The current gov-

ernment's system of special advisors, who work closely with ministers, means he has to bring them onside too, and he's equally keen to charm the relevant shadow ministers.

The personal touch

The execution of Ludeman's management strategy is data driven, but he's also a stickler for face-to-face meetings that allow him to use the managerial instinct that's flourished during his career.

"The numbers tell you a lot, and the numbers are not just financial," he says. "Mileage operated, quality of service, how many accidents you've had, what's the punctuality like, how's the customer satisfaction? I've got a whole load of data that tells me how that business is performing and that tells me everything.

"But also you can eyeball your managing directors and know who's bullshitting. I know the good teams and I know the bad teams. I know the best team and I know the worst team. "Video conferencing is a waste of time. It has to be face-to-face, they have to turn up and make an effort to produce all the information; it's a discipline. It takes a lot of time and effort, but it's well worth it."

This style of management works only with a chief executive who knows the business inside out. When Ludeman moves on, Go-Ahead will either have to find a manager cast from a similar mould or run their business differently.

Graham Clews
Alan Erskine,
Managing Director, Tefen UK

Bridging the Gap between Prescriptions and Sales

Effective treatments supported by sound sales and marketing strategies maximize prescription shares for pharmaceutical products. But is that really enough to unfold a drug's full revenue potential?

By Luca Vegetti

The equation “number of units prescribed equals number of units sold” holds very rarely for pharmaceutical products whose consumption does not take place in controlled settings such as hospitals. Poor adherence to prescribed treatments may be due to a variety of factors, including intolerance to side effects, patient-perceived lack of

effectiveness and administration difficulties (e.g. self-injections); this affects, to different degrees, the majority of diseases whose care takes place at the patient's home. This issue has been increased by the recent trend, common in both Europe and the United States, of reducing hospitalization in favor of territorial care, in an effort to drive down

the average cost per patient, especially for longer-term diseases.

Non-adherence represents one of the most relevant health-care challenges today: On the one hand, it costs billions of dollars in lost revenues to the global pharmaceutical industry; on the other hand, it often increases overall costs for health-care



providers or insurers due to the higher likelihood of complications and hospitalizations. Studies on the incidence and impact of this phenomenon are usually pathology-focused; the punctual quantification of overall costs associated is complex, so that an accurate quantification of the overall financial impact is not readily available. However, with several medical studies confirming non-adherence rates often in the range of 20% to 30% of the prescribed population at 12 months for long-term diseases (e.g. Parkinson's and multiple sclerosis), the economic relevance becomes manifest. While adherence has tradi-

tionally been perceived as an issue of the health-care delivery system, taking the initiative to tackle the problem presents a growing opportunity for pharmaceutical companies to generate significant economic returns, directly and indirectly, especially in those therapy areas where the impact of lost revenues is highest.

These initiatives can lead to improvements in two significant areas:

- Boost to sales volumes at no incremental sales efforts, maximizing the value extracted from the existing prescription base;
- Improved relationships with

the economic and administrative actors influencing the sales process of pharmaceutical products (e.g. regional agencies), supporting them in reaching their own health-care targets.

How can a pharmaceutical company design, develop and implement such an initiative?

There are two main steps to be followed:

- deeply understanding patients, the “consumers”;
- defining how to approach the health system.

This requires trying to get a deeper involvement (when improving the relationship with economic buyers is a primary goal of the initiative) with an “institutional marketing” approach, or aligning key actors to receive regulatory authorization.

Gaining an in-depth understanding of the end-users of medical treatments provides excellent insights about the root causes of non-adherence behaviors and how these could be acted upon to eliminate, or at least reduce, consumption barriers; this usually can be achieved through a four-step process:

- Get to know and segment non-customers: What is the actual non-adherence incidence? What are the characteristics of the patients in which it is concentrated (previous treatment history, stage of the disease, access to insurance, socio-demographic factors)? What are the characteristics of patients with the highest risk of turning into



Case 1 – Partnering with regions to reduce overall cost of Gastro-esophageal Reflux Disease care

Gastro-esophageal Reflux Disease (GERD) occurs when the lower esophageal sphincter (the valve separating the esophagus and stomach) does not close properly, allowing acid to back up into the esophagus; it is a chronic condition and may lead to more serious medical implications.

Several drugs are available for treatment, even though they usually account for roughly 40% to 50% of the overall health-service cost of care; costs (both medication and others) rise quickly for patients migrating from a mild to a severe stage of the disease, a risk increased by the frequent non-adherence to both prescribed treatment and prescribed modifications to the individual's lifestyle.

A leading global pharmaceutical company had to contend with reference prices for GERD treatments in some regions of a large European market, leading to a potential loss of up to 60% of turnover and a risk of adoption of this scheme in all other regions.

The company approached the issue in regions still without a reference-price system by partnering with them to support achieving budgetary goals by shifting the focus from the overall cost of treatment to enhanced prevention and, especially, improved compliance for mild patients. In the partnership, the company supported regions both in the design of levers (screening and prevention packages; case management system to enable follow-up, monitoring and outreach on mild patients) and in their implementation in pilot roll-outs. This value proposition of "helping the health system to create additional funds (or saving resources) whatever the product choice" proved credible and effective, also avoiding stringent clinical trials or requirements of ethics committees.

The pilot tests provided satisfactory results. For the NHS, total pathology cost-oriented measures proved to be more beneficial than pure medications price-cutting, and also offered administrators a politically desirable outcome: savings through better health-care management. For the company, it avoided the expansion of price-reduction risk, while creating incremental revenues through more systematic screening and enhanced compliance.

Non-adherence represents one of the most relevant health-care challenges today: On the one hand, it costs billions of dollars in lost revenues to the global pharmaceutical industry; on the other hand, it often increases overall costs for health-care providers or insurers due to the higher likelihood of complications and hospitalizations

“non-customers”? Are there patient clusters characterized by irregular consumption, while others who discontinue altogether? This preliminary activity can rely on a mix of retrospective studies analysis and ad hoc activities; it provides a comprehensive per-

spective on “non-customers,” including their characteristics, larger and smaller clusters, and a preliminary set of non-adherence predictors.

- Identify adherence barriers along the whole patient flow: What are the main factors turning patients into “non-cus-

tomers”? What are the most critical steps experienced by patients while moving across the different stages of their care path? At what stage do they discontinue treatment – if they ever started it? A detailed mapping and analysis of all the occurrences experi-

Case 2 – Designing and implementing direct patient-support systems to boost multiple sclerosis treatment adherence

Multiple sclerosis (MS) is an autoimmune condition affecting the capability of nerve cells in the brain and spinal cord to communicate with each other; its course is characterized by relapses (acute attacks) leading to disability increases and intervals of disease stability. While no final cure is known, there are some drugs in the market (disease modifying therapies – DMT) enabling to slow disease progression, mostly by preventing new relapses and the ensuing disabilities. With an aggregate worldwide value of several billion dollars, the market for multiple sclerosis is dominated by four companies; R&D pipelines suggest further entrants into this highly profitable market.

Treatment of multiple sclerosis is hampered by significant non-adherence issues. Long diagnosis time and poor communication at diagnosis, administration through self-injection, adverse effects, lack of a structured medical and social follow-up, and patient-perceived treatment ineffectiveness are just some of the causes leading approximately 25%-30% of patients -- as confirmed by several medical studies -- to discontinue the prescribed treatment within 12 months. Additionally, efforts by the health system to tackle non-adherence issues are usually very poor, as there are no infrastructures or services that allow a punctual post-prescription follow-up; at most, some limited

services are provided at the local level by patient associations.

This “vacuum” of presidium of the post-prescription phase provided pharmaceutical companies an opportunity to step in, designing and delivering additional services to support patients in keeping compliant to the prescription made. A detailed mapping of the patient flow (from prescription to end of treatment) enables the identification of “critical points,” which can be ranked in terms of the impact or feasibility of solution (costs, ease of implementation) and around which the company can build different service components (such as self-injection guides or the provision of in-house nurses) and their delivery systems (directly, especially where no legal constraints are in place, or through patient associations or the national health service).

Detailed studies in settings where pharmaceutical companies provided patient-assistance services demonstrate a significant impact (and ROI), even in the short term, in terms of patient compliance; indirect benefits are achievable in terms of increased prescriptions due to a higher confidence in physicians. Additionally, this approach provides a potentially valuable defense for the incumbent product against potential new entrants with a more favorable adherence profile (e.g. tablets versus self-injection), reducing the threat of market share dilution.

enced by a patient and of all the interactions with the different actors (GPs, hospitals, specialists, health system, insurance, relatives, other care givers) from the time of initial presentation to the physician until the end of the care path highlights key consumption, barriers and the underlying rationales.

- Map actionable levers: What are the main service components that could help overcome the barriers mapped along the patient flow? Is there anything the pharmaceutical company may do to lessen consumption barriers experienced by patients, eventually focusing on specific target

clusters? What are the priority actions and the expected results? What are the desired interactions with institutional health providers and how can they be managed? Are there opportunities to build or improve the relationship with economic and administrative buyers?

- Design intervention packages: Are there viable and cost-effective actions the pharmaceutical company may put in place to support treatment adherence – maximizing the value generated from actual prescriptions? What are the markets in which this solution is to be implemented? Are there specific legal issues

The four-step process:

- Get to know and segment non-customers
- Identify adherence barriers along the whole patient flow
- Map actionable levers
- Design intervention packages





or delivery requirements to be dealt with at the national level? Is it appropriate to envisage a “hot-housing” approach before planning a widespread launch? Who are the key individuals (medical, administrative) for whom an early involvement is to be planned?

Identifying and detailing a potential intervention strategy is not enough; its implementation must take place in someone else’s domain: that of the institutional health-care providers. Two different approaches and strategies may be envisaged, depending on the goals and priorities of the pharmaceutical company. At a minimum level, it can opt for a “low involvement” approach: communicate the initiative at the appropriate institutional level (national, regional), get all the required regulatory approvals and keep an update communication channel on the results of the initiative. Alternatively,

the launch of an adherence-focused initiative may involve a co-delivery with health-system actors, whereby the “front-end” provider is usually the health system, while the pharmaceutical company adds specific resources or components to reinforce some aspects of care provision. There are various factors that affect the results of these two models (there may be a range of different outcomes between the two extremes):

- Pharmaceutical company goals: whether the primary objective is a sales growth by increasing treatment adherence, or strengthening the relationships with key influencers in administrative positions;
- Initiative interdependence with institutional health-care delivery: the more the initiative foreseen is interconnected to the existing care pathway (e.g. case management, such as in the first case discussed), the higher the need of co-delivery

with the health system, while a more stand-alone approach can be undertaken in the case of an initiative that complements the health-care offering, for instance with a post-prescription follow-up (e.g. the second case presented, on multiple sclerosis);

- Product lifecycle stage: a higher degree of involvement might be envisaged, for instance, for a new treatment that is to undergo its market launch, often within a broader effort aimed at determining reimbursement status or formulary position;
- Legislation: while some national legislations (in particular in the US) facilitate direct contact between a pharmaceutical company and a patient, others (such as, to different degrees, the European ones) impose more barriers, favoring (if not almost requiring) a co-delivery solution (where entities such as patient associations might be a substitute for health-system bodies). The final issue, once an initiative has been designed and the involvement of institutional health actors has been defined, is how to organize and align resources. At a higher level, this implies putting in place governance mechanisms: from an operational standpoint, detailing the competences needed and sizing the resources required to run the initiative. As the type of competences and the nature of resources required is somewhat different from the core of a pharmaceutical

company's operation and will likely have a temporary nature (due to product lifecycle and ROI considerations), different make-or-buy solutions must be evaluated to identify the most cost-effective solution.

How widespread is this model today? Are there any potential pitfalls that must be taken into consideration while considering such an initiative? Do actual results justify this kind of investment?

Adherence-focused initiatives sponsored and undertaken by pharmaceutical companies are somewhat more common in the US, mostly due to lower regulatory barriers and the size of the revenue potential to be gained back. Anyway, despite the difficulty of coping with a highly fragmented legislative environment, these kinds of initiatives are gaining a foothold and demonstrating their relevance also in Europe, as the multiple sclerosis case suggests.

Beyond legislative concerns, there are at least two important potential pitfalls of the model that can explain why these initiatives have been lagging behind in EU with respect to the US, and can thus provide insights for developing and fine-tuning further efforts:

- The complexity of managing a multitude of health-system actors (usually different bodies at local, regional and national level) not always aligned in terms of priorities and agenda;
- The difficulty in quantifying a proven ROI, as these initia-

tives might be beneficial to the whole market for a given treatment, without significant impacts on market share (thus favoring competitors who did not invest money in the initiative).

There are also important factors that point to an increased relevance of this kind of initiative for the sales and marketing strategies of pharmaceutical companies:

- Significant changes, both from new legislation issued in several key markets and from the ethical codes of pharmaceutical companies, on the scope of marketing instruments, and the necessity to find new destinations for part of the marketing budgets;
 - A track of previous experience in the design and management of adherence-focused efforts, whose best practices can provide significant support in overcoming the two pitfalls mentioned above.
- The most relevant consideration remains the bottom-line impact. Data on actual non-adherence enable a back-of-the-envelope calculation of how large the potential revenues (and profits) to be recouped, while results from similar initiatives (the multiple sclerosis case discusses good examples) provide a sense of how such efforts can turn into a moneymaking tool, enabling the company to fully capitalize on its sales and marketing budgets.

Luca Vegetti,
Project Manager, Tefen Italy

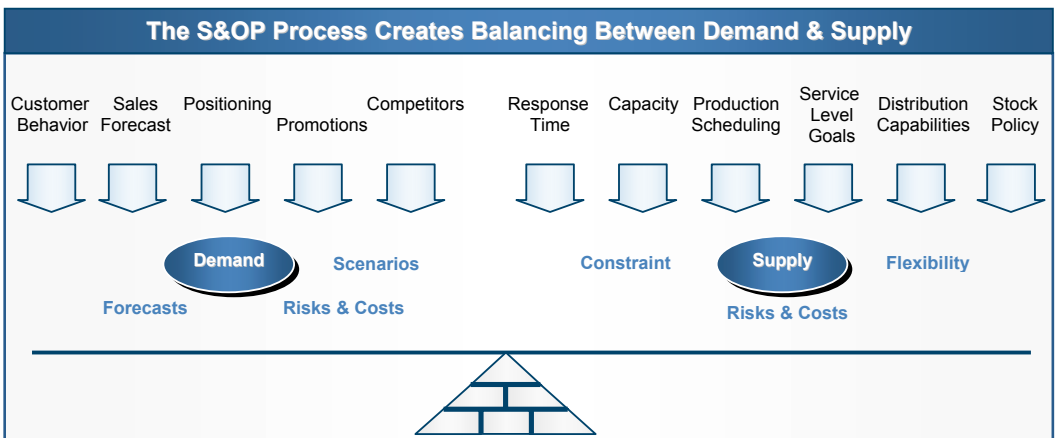
the more the initiative foreseen is interconnected to the existing care pathway, the higher the need of co-delivery with the health system

S&OP – A Bridge

Troubled Water

During the current financial climate, companies must cut costs to survive.

S&OP process can be the solution



During the current financial climate, characterized by a drop in demand and increased uncertainty, companies must cut costs to survive and emerge stronger. One of the key areas that can be improved is the planning and coordination between sales and operations divisions. The risks and costs involved in making wrong decisions are higher than ever, and better planning is required. The S&OP (Sales and Operation Planning) process is defined as a collection of organizational processes whose goal is to achieve maximum

profits for the organization through coordination between sales and operations divisions. In a 2006 survey conducted by international research company Aberdeen (The Sales and Operations Planning Benchmark Report, Aberdeen Group) of 200 companies in a variety of fields around the world, 70 percent of them said they were improving their S&OP processes. The survey found a correlation between implementation of S&OP practices and the organization's business and operational performance.

The most prominent characteristic of leading companies (best in their class) is the transition from "tactical" practices, which usually suffice with meetings to coordinate sales and operations, to "holistic" practices, which look at the organization's bigger picture and work according to a bigger picture of demands. This bigger picture is especially important today, when organizations are becoming more global and the span of control is becoming wider. The holistic approach refers to a person or a company as a "whole"; it requires a broader

over

By Zohar Yami, Golan Meltser and Rotem Greener

look at all internal and external factors (emotional, physical, social, economical, environmental, etc.).

Four foundations

The basis for success in an S&OP process is built on four foundations:

1. Management commitment

The key success factor is the commitment of senior management to the process. Many companies have failed because they did not receive management's support and

acknowledgement for the importance of the process. A primary tool for achieving commitment and ensuring the success of the process is appointing someone to supervise the process, a senior manager who receives direct responsibility and authority for implementing the S&OP process. This person is usually from the supply chain, but this is not a requirement.

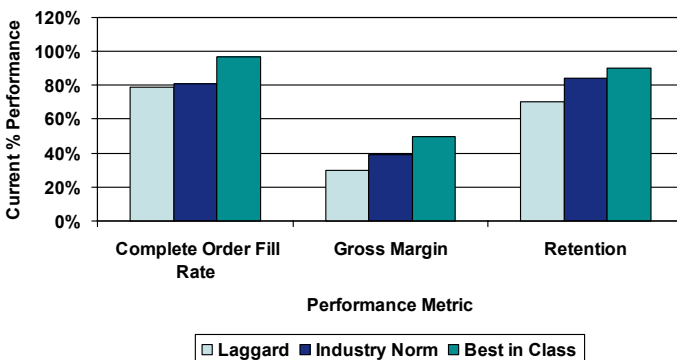
2. Creating a uniform and agreed database

(one number). Without agreement on numbers, there can

The most prominent characteristic of leading companies (best in their class) is the transition from "tactical" practices, which usually suffice with meetings to coordinate sales and operations, to "holistic" practices, which look at the organization's bigger picture

The key success factor is the commitment of senior management to the process

S&OP Practices are a Prime Determinant of Business Performance



be no orderly discussion of meeting demands.

Rani Sagiv, Nestle Israel's vice president for overseeing its supply chain, which manages 2,500 products for thousands of customers, calls the process Consensus Demand Planning. "Agreeing on basic numbers is the key to an effective process," he says. "Before creating such a process in collaboration with global Nestle, we wasted a lot of time and energy agreeing on the right numbers."

But achieving agreement on the numbers is not enough: to deal with changes in demand, optimistic and pessimistic scenarios must be anticipated.

For each of those scenarios, a collection of responses should be prepared, including backup plans that shorten the response time. These scenarios also include addressing the product's lifecycle.

This process allows a more holistic vision of the change in the KPIs (Key Performance Indicators) and their effect on the entire supply chain. In many cases, there is the tendency to waste a great deal of time gathering information, when most of the information is not critical to the decision-making process. The company should focus only on information that can be used to make decisions (turning

information into knowledge). The 80:20 rule is especially important when analyzing demands.

The use of designated information systems should be implemented. There are a number of such systems on the market, the leading ones being Oracle's Demantra and SAP's APO. This type of system interfaces with the existing ERP system and provides a bigger picture of all functions and eliminates the need for Excel tables that usually create a cumbersome and non-standardized process. There are also designated systems for optimizing links in the supply chain. For instance,



there are systems that perform optimization of raw material and product inventory based on the required service level (such as ToolsGroup DPM). These systems are based on statistical analysis of historical data combined with forecast data; they enable a quicker and more precise decision-making process, eventually leading to reduced inventories throughout the entire supply chain. The Dixon Company, a seller of computer equipment (over 64,000 SKUs), implemented this type of system and achieved a significant reduction in inventory while maintaining the required service level.

"In two weeks we were able to reduce stock breaks in stores by 50% and by 35% in the central warehouse," said Alejandro Esposito, a Dixon Group systems manager).

3. KPIs

As with every process, KPIs are the key tool; they allow us to examine performance and measure success over time.

The key customary KPIs are:

a. Demand Planning Accuracy (DPA). This measures the level of forecast accuracy. The calculation is based on measuring the absolute percentage of deviation weighted on the product level between forecasts and actual sales. Measurement of absolute deviation determines that a situation of sales beyond forecast is also undesirable over time.

Companies implementing high levels of S&OP processes usually reach an accuracy percentage of 85% over time. "The very fact that the sales division is measured by parameters that affect the entire supply chain created a balance in management meetings. Suddenly, everyone realized it was not only the operations division that was affecting the flexibility and stability of the chain," said a supply chain deputy manager for a Romanian consumer goods company.

b. Master Scheduling Accuracy (MSA). This measures the correspondence between the manufacturing plans and actual manufacturing. The calculation is based on measuring the percentage of absolute deviation weighted on the product level between the manufacturing amount planned and the actual amount manufactured. This parameter is an indicator of the extent of changes to the manufacturing plan throughout the week and month.

c. Out of Stock. This measures the percentage of products that were (at a certain point in time or on a periodic average) under the predefined level. During the S&OP process, minimum required levels of inventory should be determined by weighting historical data, storage and logistic constraints, and the required level of service for the customer and product.

d. Order Fill Rate. This is the percentage of orders supplied

Rani Sagiv, Nestle Israel's vice president: "Agreeing on basic numbers is the key to an effective process"

"The very fact that the sales division is measured by parameters that affect the entire supply chain, created a balance in management meetings"

	S&OP at a basic level	S&OP at a medium level	S&OP at high level (best practice)
Control and Planning	Emphasis on quality of forecast	Emphasis on meeting tactical work plans	Emphasis on meeting overall strategic plan for satisfying demands
Information systems	Simple Excel analyses	What-if scenarios	Information is included in the company's chief information system, usually by supportive designated interface
Organizational interfaces	Interfaces between specific divisions	Cross-organizational interface	Interfaces with customers and suppliers throughout the process
Range of plan	Weekly/monthly	Monthly/quarterly	Quarterly/yearly
Leader of process	Middle management	Senior Executive	Senior Executive

in full and on time. This is a strict parameter that assumes that any order that was not completely filled, even if supplied on time (or vice versa), compromises the level of service.

For each parameter, a quantitative goal should be defined at the beginning of the process. The goal will usually be based on the baseline plus a certain percentage of improvement; it is updated as needed. The calculation method should create maximum transparency between the various functions.

"The actual measurement, even before making any changes to the process, led to an improvement of 10% to 15%," said the supply chain deputy manager for a Romanian consumer goods company.

4. Management Routine

The S&OP process must be based on a series of forums

and meetings at regular intervals and with predefined agendas. Creating designated processes increases the commitment to the process.

Predefining the agenda allows for short and purposeful meetings. Endless discussions that go on into the night do not contribute to the employees' motivation to implement the process. S&OP meetings with a predefined agenda can be very short and purposeful, which increases the efficiency of the decision-making process.

"Our management routine enables better control of the process implementation," says Rani Sagiv, "and is an efficient tool for communicating the improvement in the business results achieved throughout the process."

The S&OP process is a collection of reality-driven processes, without which companies would have a hard

time growing over time while maintaining their operational flexibility for changes in the business environment.

In these times of uncertainty, we cannot suffice with the correlation between supply and demand and with using the tools that we have used so far. Implementing S&OP processes can build the necessary infrastructure for the company to exit the crisis quickly and create a significant competitive advantage with minimum exploitation of resources. Proper implementation of the method and adhering to a number of simple principles can sometimes constitute the difference between survival and failure, which is crucially important today.

Zohar Yami, Partner, Tefen IL
Golan Meltser, Senior Project Manager, Tefen IL
Rotem Greener, Project Manager, Tefen IL

Fine-Tuning Materials Management in the Health-Care Industry

Exploring the benefits of standardizing your inventory management system all the way to the supply closet

By Erik Eisenman

As the ramifications of the world financial crisis become more apparent, businesses, institutions and organizations

are taking stock of how they operate in an effort to cut costs and cope with budgetary problems. Those who de-

pend, in part, on endowment income, including hospitals and health-care organizations, as an example of a major seg-



Fine-tuning

ment in the service industry, have less money to work with and are hard-pressed to maintain standards with shrinking budgets. By fine-tuning their materials management, they can save money and also serve as an example for a wide variety of businesses and institutions.

Virtually every hospital, medical center and ambulatory clinic has a materials management department that is responsible for receiving supplies, maintaining a central inventory and delivering supplies throughout the organization. Unfortunately, this is usually where the scope of the materials management department ends.

A closer look into a nursing unit, OR suite, or exam floor reveals a smaller, self-managed inventory in supply closets, nurses' stations and individual rooms. Although this is often necessary to keep supplies readily available at the point of use, the burden of maintaining the supply falls on the nurse and detracts from his or her primary job function: providing patient care.

Every patient-care area is unique within an organization and has different supply requirements based on the types of patients being seen, the level of care being provided and even provider preference. Expecting a materials management organization to understand patient and provider needs may be a tall order, but with a historical look at what an area uses, and input from

clinical staff, an inventory management system that extends all the way to the point of care is not out of reach.

True demand for supplies

The challenge in extending the control of a materials management department is mainly in understanding the true demand for supplies from each patient-care area. Nurses order supplies when they "feel" like they need more, or when inventory "looks low," because they lack the tools to understand when the inventory is actually running low.

Applying lean principles to get rid of waste and organize can help clarify the situation by removing materials that are not needed to provide patient care and creating standard locations for supplies so there is no "hidden inventory" in closets and cabinets.

Unfortunately, the question of how much to keep on hand remains. To create a guideline, use the historical ordering patterns of the area. Orders might come grouped in large numbers on a weekly basis, but the unit volume can be used to understand the daily demand of the area. Keep in mind that demand numbers need to be vetted with the clinical staff to make sure they are realistic. Once a daily demand has been established, a "par level" can be defined based on the organization's preference for frequency of replenishments and tolerance for stock-outs. The inventory locations can

then be labeled with the type of supply and the par level, so anyone walking into a supply closet or opening a cabinet can quickly assess which supplies are running low.

As supply locations become standardized, individual units and patient-care areas will no longer have outlandish supply requirements that materials management cannot understand; rather, it becomes just another inventory location with part numbers and par levels that need to be maintained. Inventory turns increase as levels are changed to reflect demand, and outdated material is virtually eliminated as FIFO strategies that are applied in warehouses are brought to the unit level. An expeditor can assess inventory levels on a regular basis and place orders on behalf of the unit, removing this responsibility from the nursing staff. Changes in demand can be quickly addressed because orders are based on usage rather than gut feeling, and the materials management department can adjust par levels and order quantities appropriately.

Setting inventory schedules

This standardization can result in improved efficiency, as set schedules are established for inventory counts and replenishment. Rather than delivering to every floor every day, inventory levels can be set to accommodate a strategy of defined order and delivery

days for each area. This strategy should account for area proximity and supply commonality to reduce overall delivery time for each expediter.

The extension of materials management into clinical areas also has implications for central inventory. As order quantities and timing become more predictable, inventory levels in the central stores can be driven lower. Central stores no longer have to be prepared for large orders that could come in at anytime; instead, they can expect orders that arrive at standard intervals for known quantities. The inventory manager will have better insight into the organization's needs and be able to set par levels accordingly.

More sophisticated organizations take this practice a step further and use it as an enabler for vendor-managed inventory. Either in the central stores area or within the clinical space, a clearly defined inventory management strategy for each supply allows strategic suppliers to manage their own inventories, greatly reducing inventory levels throughout the organization and reducing the demand for materials management personnel.

Inventory levels in hospitals or any organization can be enhanced by studying the warehouse or central storing area more closely. Delivery times can be improved by determining which departments should get their deliveries at different times during the day,

taking into consideration that the last shipment of the day should be appropriate for the next morning's needs.

If the health-care provider can reduce its inventory of medical and other supplies, it will improve its cash flow; if lower-paid employees can manage the inventory instead of highly paid staff, money can be saved.

Instead of having nurses manage the inventory, materials management personnel using bar-coding and automated dispensing machines can manage more expensive unit-price items, such as medicines. Replenishment cycles can be further improved by using interchangeable drawers in storage containers to replace expensive workers.

As health-care budgets swell and patient demand increases, it's increasingly important for health-care organizations to focus on the effective use of their resources. Increasing the scope of the materials management organization is a relatively easy way to improve resource utilization: nurses spend more time delivering patient care, the materials management staff can better plan its work to meet the needs of clinical areas without increasing FTEs, and the organization's financial resources are no longer tied up in high and hidden inventory.

Erik Eisenman, Director,
Tefen USA

The challenge in extending the control of a materials management department is mainly in understanding the true demand for supplies

Inventory levels in hospitals or any organization can be enhanced by studying the warehouse or central storing area more closely

Why Businesses Should Environmental Initiatives

Businesses have started to recognize that climate change poses both risks and opportunities, with strategic and financial implications

The world is currently facing one of its most serious challenges, with consequences that go far beyond its effect on the environment: **climate change**. Today there is a scientific consensus that human activity is beyond reasonable doubt a significant factor behind the current rapid changes in the world's climate. The production of energy using fossil fuels, and consequently the mass emission of greenhouse gases (GHG), is pushing the earth's temperature to dangerous figures. Renewable energies could be the long-term answer for this challenge, using various sources of alternative energy such as tidal waves, and solar, wind and bio-mass technologies. However, these solutions will only become efficient enough to significantly replace fossil fuels several decades into the future. Today society is committed to working fast to amend this problem and prevent a global environmental disaster. Businesses have started to recognize that climate change poses both risks and oppor-



tunities, with strategic and financial implications. Environmental challenges in recent years have increased the trend of "going green" in businesses like never before. There are two main factors that are currently pushing toward environmental-friendly business behaviors: harsher international and local regulations and the high fluctuations of fossil-fuel prices. In the category of international regulations, one major step in the fight against climate change is the Kyoto Protocol. This agreement is linked to the United Nations Framework Convention on Climate Change. The major feature

of the Kyoto Protocol is that it sets binding targets for 37 industrialized countries and the European Community for reducing greenhouse gases emissions. The business approach reflected in the protocol provides incentives through carbon trading (e.g. a company or a country finding it expensive to achieve an emission reduction can alternatively buy credits, so that the money can be used anywhere else on projects where an equivalent reduction of emissions could be achieved at lower cost). Although this protocol has not been signed by some major industrialized countries (including the

Commit to

By Guy Prooper, Calin Tudor Buzan and Chiara Garavaglia

United States), over time, both international and local regulations are increasing environmental protection all over the world.

Fossil-fuel prices are impacting both the economy and the environment. In recent years, the price of crude oil, and therefore the price of various oil products, has been dramatically unstable. The factors behind this instability are both commercial and political. Although the instability of oil prices is sometimes translated into dramatic drops (like the recent fall of more than 50 percent), the general trend is upward. Taking global industrialization into consideration, that means a constantly increasing demand for energy; since fossil fuel is a limited natural resource, we can expect continued instability in oil prices, with eventual increases to record-breaking figures. In organizations all around the world “green behavior” can come in many forms. While some environmental initiatives could have a direct positive impact on a company’s business performance, other initia-

tives might not offer immediate reciprocation. Although some environmental projects might not return the investment in the short run, they might result in a long-term financial contribution or in other benefits.

Why should businesses commit to environmental initiatives?

We believe that the answer to this question can be divided into three main categories:

- Must-have initiatives
- ROI-driven initiatives
- Human-values-related initiatives

To examine the development of environmental initiatives, we have chosen Romania as a case study. Romania has gone through two major transitions in the last two decades: the termination of the Communist regime and its entry into the European Union. Both processes have rapidly shifted its awareness to environmental protection and related legislation, thus imitating in a very short period of time processes that have taken half a century

There are two main factors that are currently pushing toward environmental friendly business behaviors: harsher international and local regulations and the high fluctuations of fossil-fuel prices



Paul Nuber,
General Manager,
Nestle Romania

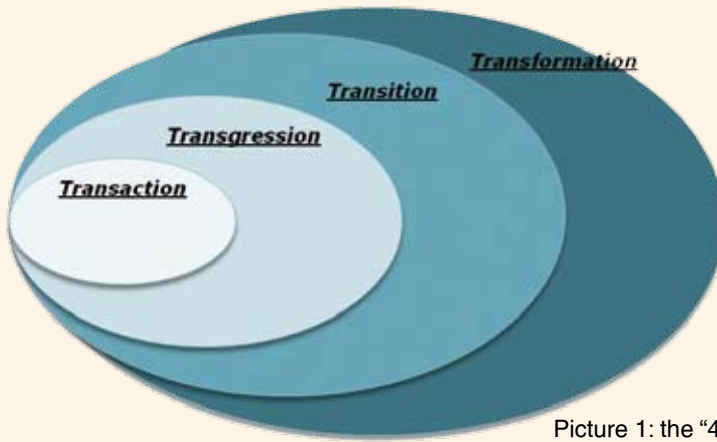


Markus Wirth,
General Manager,
Holcim Romania

HSE - health, safety and environmental

No matter which industry or sector a company belongs to, it will feel the effects of climate change. Even people skeptical about the dangers of global warming recognize that the phenomenon has wide-ranging implications. Many businesses must contend with higher costs of raw materials and energy as governments enact policies that place a cost on emissions. In addition, consumers increasingly are taking into account a company's environmental record when making purchasing decisions. Companies need to manage and mitigate their

rules. We define an initiative linked to regulatory issues (policies such as new emissions standards) as being a "must-have initiative"; companies usually consider it a pure cost. As HSE issues increasingly become a matter of business rather than of compliance, top managers are starting to consider the impact and risk of HSE problems in evaluating alternative strategies and business scenarios. Transition is the need to assess business strategies according to HSE issues in a changeover period (e.g. passage from an industrial stage to a different stage). This need is strictly linked to the



Picture 1: the "4 Ts" model

exposure to the risks associated with climate change, including lack of raw materials, water and energy. At the same time, they must seek new opportunities for profit and generate a competitive advantage over rivals in a carbon-constrained future.

Usually the health, safety and environmental (HSE) needs of a company are linked to the challenges and risks it faces in a particular phase of its life cycle (see picture1).

Transaction is the need to evaluate HSE liabilities during an M&A operation aimed at quantifying the potential risk and considering it in the purchase price.

Transgression is the need to be compliant with HSE rules and laws to avoid wrongdoing.

Transaction and transgression are the companies' most common and basic HSE needs that are satisfied by adopting codified behaviors and

existence of a business case.

Risk assessment is the first step in identifying possible business scenarios and design sustainable business models, both economically and environmentally. ROI-driven initiatives lower CO2 emissions, waste, energy and water usage, while producing economic savings.

Transformation is the need to create and implement a new sustainable business system. Creating a sustainable business system means redesigning the ecological, social and economic profile of an entire business system, using a holistic approach that involves different aspects of the business and considers the social impact of sustainability.

Human-value-related initiatives aim to introduce a business model based on social-responsibility principles. Even if the concept seems counterintuitive, human-value-related initiatives could be a business opportunity.

in more-developed countries. With a population of almost 22 million, Romania joined the EU in January 2007. The country is still one of the poorest in central and eastern Europe, but since 2000 has enjoyed a very high rate of economic development. The recent economic history began in 1989 with the demise of communism in eastern Europe, with a largely obsolete industrial base.

Environmental protection was not a great concern during the era of communism, and some of this industrial inheritance survived until 2007. Another interesting aspect is that between the years 1989-2000, pollution levels were reduced along with the decrease of industrial production due to inefficient productivity, thus producing less greenhouse gases. Due to years of permissive environmental regulations, and the strict European Union regulations imposed when Romania joined the EU, Romania was granted a transition period to comply with EU rules in specific areas concerning air quality, waste management, water quality and industrial pollution. This transition period was primarily justified by the substantial investment needed in infrastructure and technology to comply with EU legislation.

Must-have initiatives

Current environmental issues faced by Romania are air and water pollution due to industrial effluents, soil ero-

sion and the degradation and contamination of the Danube delta wetlands. According to Romanian authorities, the costs of complying with EU environmental laws have been estimated at approximately €27 billion until the end of the transition period. These regulations will affect both the private and the public sectors. The private sector has received a significantly shorter transition period than the public sector to comply with EU legislation; it also has not received support from EU funds. The industry's immediate effort, from the end of negotiations in April 2006 until entry to the EU in January 2007, was evaluated at €2.8 billion. Meeting EU environmental regulations was a bigger challenge for local and smaller companies. While these companies faced an even greater gap between past standards and the required performance according to EU legislation, allocating the capital required to close this gap was significantly harder. In many cases, multinational giants operating in Romania had an easier task facing new environmental standards. These companies were usually more prepared and, when needed, could more easily come up with the necessary investments. One such multinational company is Holcim, a Swiss-based international cement manufacturer. "On the environmental perspective, joining the EU did not have any effect on our

consumers increasingly are taking into account a company's environmental record when making purchasing decisions

According to Romanian authorities, the costs of complying with EU environmental laws have been estimated at approximately €27 billion until the end of the transition period

company, as Holcim emission standards are established internally and go far beyond respecting EU regulation,” said Markus Wirth, general manager of Holcim Romania. Between 1997 and 2007, Holcim Romania invested more than €26 million in environmental protection.

Another example of a global group operating in Romania is Nestle.

“I believe that no country has regulations as strict as Nestle’s regarding consumption of electrical energy, gas fuel and water,” said Paul Nuber, general manager of Nestle Romania. “When Nestle entered Romania, we applied our internal regulations for the protection of the environment and therefore did not have any difficulties complying with new regulations when Romania joined the EU.”

We believe that the need to comply with tough environmental regulations will contribute to businesses’ aggregation process as more small local companies find it impossible to jump over this hurdle.

ROI-driven initiatives

When it comes to environmental ROI (return on investment) initiatives, they are usually related to the reduction of energy consumption. The growing cost of energy affects all industries, but especially businesses such as automotive producers, electronics, tourism and construction. The increase in the cost of energy is encouraging

investment in manufacturing technologies, shortening the return on investment for those projects. An example of such

that could help a business reduce its energy costs and thus provide a tangible return on investment. “Nestle has a

Largest investments required in private sector for adhering to EU environmental legislation (Capital business magazine, November 2005)

Industry	Total investments – million euros
Refinery and gas sectors	440
Steel industry	458.7
Chemical industry	559.6
Mining industry	180
Pig and chicken farms	112

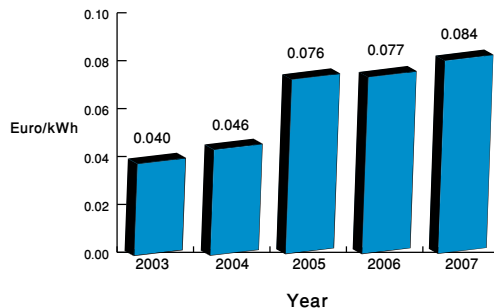
a project is the replacement of Holcim’s old kilns with modern equipment and the production of electric energy in thermal power plants. Aside from the benefits of improved manufacturing capabilities and reduction of production costs, the project has also resulted in decreased greenhouse gas (carbon dioxide) emissions. Between 2004 and 2007, the

hard policy on consumption of energy in distribution,” Nuber said. “We manage this issue strictly and constantly audit our suppliers.”

He cited the rapid changes taking place in Romania, adding, “The quality of local trucks is improving, and trucks today pollute much less than four years ago.”

Increased energy costs also

The evolution of the price of electricity in Romania based on Eurostat (European Bureau of Statistics)



total reduction of emission was quantified at 500,000 tons of CO₂.

There are also many different supply-chain investments

encourage the decentralization of production sites. As transportation costs grow, more and more companies prefer to position their pro-

duction sites closer to their customers, willing to pay the price of lower manufacturing efficiency.

Human values

Businesses today have a greater responsibility as their impact on society becomes more significant, and they do not always invest for the sake of foreseen business benefits. CEOs could point out that profits are not an end in themselves, but rather a signal from society that a company is providing things people want. By building social issues into strategy, big companies can recast the debate about their role in society. We can find many examples of the long-term business impact of social issues.

For example, in the pharmaceutical sector, the past decade's storm of social pressures stemming from issues such as public perceptions of excessive prices charged for HIV/AIDS drugs in developing countries has resulted in a general (and sometimes seemingly indiscriminate) toughening of the regulatory environment. In the food and restaurant sectors, the long-escalating debate about obesity is now resulting in calls for further control on marketing of unhealthy foods. In the case of big financial institutions, concerns about conflicts of interest and misrepresentation of products have recently led to changes in core business practices and industrial structure. For some big retailers,

public resistance to new stores is constraining growth opportunities.

And all this is to say nothing of the way social and political pressures have reshaped and redefined the tobacco, oil and mining industries, among others, over the decades. Just as important, these outcomes have not just posed risks to companies, they have also generated opportunities for value creation: in the pharmaceutical sector, for example, the growing market for generic drugs; in the case of fast-food restaurants, providing healthier meals; and in the case of the energy industry, meeting fast-growing demand (as well as regulatory pressure) for cleaner fuels such as natural gas. Social pressures often indicate the existence of unmet social needs or consumer preferences. Businesses can gain advantages by spotting and supplying these before their competitors do.

As people in Romania become more aware of the need for environment protection, more businesses operate various environmental initiatives as part of their CSR (Corporate Social Responsibility) policy. Holcim recognizes its social responsibilities and runs various programs for the benefit of the communities around its facilities. One successful Holcim story is a pilot project in 21 cities around Romania that started four years ago. The project consisted of giving to children from the 7th to 11th grades books with subjects

The increase in the cost of energy is encouraging investment in manufacturing technologies, shortening the return on investment for those projects

By building social issues into strategy, big companies can recast the debate about their role in society

Case study: The review of waste management in process manufacturing

A fast-growing company in the oil and energy sector (oil-refining and downstream) was experiencing an increase of 50 percent in waste-management costs over the last two years, which resulted in a deviation from the budget of almost 100%. The company was interested in determining the cost of waste management and optimizing effectiveness, while being in compliance to trim down costs. Tefen was brought in to identify and implement opportunities for optimization at every stage of the process.

A process-mapping exercise of the whole waste-management process enabled the quantification of full waste-management costs (from generation to disposal) and the identification of a wide array of improvement opportunities. Through database building/analysis and interviews with the involved functions (ENV, PROC, OPS) a full analysis of cost was created. A dedicated team composed of company employees and Tefen's consultants identified 21 quick-hit opportunities out of the analysis, from which seven have been considered for immediate implementation, and the related preparatory activities have been carried out. Another team carried out scouting visits, with the aim of further investigating the industry's best practices. As a result, new waste-management model guidelines were developed.

The project's benefits were significant and immediate. In the short term, packaging and collection modes were optimized and remarkable waste volumes were managed "ad hoc." For the mid term, packaging and disposal-service procurement was optimized and innovative tank-cleaning technologies were implemented. For the long term, waste-processing plants for the downgrade of delivered waste were introduced, along with the development of a global-service approach in waste management.

The economic benefits of the improvements and the implementation of the new model for waste management enabled savings in excess of €6 million per year, equal to about 30% of the total As-Is.

related to the protection of the environment. The program was financed by Holcim for two years, after which the Ministry of Education introduced this program in all the schools in Romania.

"If you want to educate the citizens of a country about the importance of the environment and how to protect it, you should start with the younger generation," Holcim's

Wirth said, citing a similar level of environmental awareness in Switzerland decades ago, when school programs were able to enhance public awareness through children. One key element of Nestle's green policy is water consumption.

"The consumption of water is strictly controlled," Nestle's Nuber said. "The water is purified and there is a policy

of minimizing consumption, even if local authorities do not impose it. There is a strong pressure to reduce consumption each year."

"Nestle has more than 260,000 employees," he said. "Add to that their families and our suppliers that have to meet our standards, and you can clearly see that our impact on society today is more significant than ever."

In conclusion, human-value-related environmental initiatives do not necessarily result in increased profits, but we can estimate that as the environmental-friendly trend grows in the future, companies committed to these initiatives will be leaders, and their businesses will profit either by better reputations or their compatibility to future and even stricter regulations.

Regarding those initiatives, Nuber said, "Being ahead in everything also includes being ahead in environmental protection. Only by acting in this way are you capable of creating long-term competitive advantages for your company."

Nevertheless, we can add that the impact of these initiatives on company values can also prove beneficial today, as employees have a stronger bond and admiration for their company values.

Guy Propper, Associate Partner, Tefen Romania
Chiara Garavaglia, Director, Tefen Italy
Calin Tudor Buzan, Consultant, Tefen Romania