



CASE STUDY

VALUE OPPORTUNITIES

- **GLOBALLY IMPROVE DISTRIBUTION FLOWS: MAINTAIN EXCELLENT SERVICE LEVELS WHILST AVOIDING OVERSTOCKS AT LOCAL WAREHOUSES**

TXT E-SOLUTIONS RESPONSE

- **SALES & OPERATIONS PLANNING;**
- **TXTDEMAND: DEMAND FORECASTING**
- **TXTPLAN: REPLENISHMENT PLANNING**

RESULTS

- **VISIBILITY ACROSS ALL AFFILIATES**
- **INVENTORY REDUCTIONS OF 15% REPLICATED EVERY YEAR SINCE IMPLEMENTATION**
- **INCREASED FORECAST ACCURACY: MAPE IMPROVEMENT OF 30% IN THE FIRST YEAR OF IMPLEMENTATION AND A FURTHER 20% IMPROVEMENT IN THE SECOND YEAR**
- **MORE STRUCTURED SAFETY STOCK CALCULATIONS BASED ON FORECAST ACCURACY**
- **REDUCTION IN WORKING CAPITAL (INVENTORY SPECIFIC)**

Chiesi Farmaceutici

CHIESI REDUCES INVENTORY BY 15% AND IMPROVES FORECAST ACCURACY FOLLOWING S&OP EUROPEAN ROLLOUT

COMPANY PROFILE

The Company, founded in Parma in 1935, is today an international reality in the pharmaceutical market. With global operations consisting of 22 direct affiliates, 3 manufacturing sites, and 4 research centers, the Group has over 3,000 employees. The four research and development sites (Italy, France and United States) employ more than 300 people, while the three manufacturing facilities employ about 600 people. Chiesi's technologies and products are available in over 50 countries through a strategic alliances network of international pharmaceutical groups developed both on a global and local scale. Historically, the continuous development of the Company has been based on strategic planning for innovation, internationalization, socially compatible economical values, and use of effective organizational structures. (www.chiesigroup.com)

COMPANY INFORMATION: ONE SYSTEM, ONE VISION

The Chiesi Group's growth has been achieved over time through both incremental sales as well as through

acquisitions and has fueled the need for process standardization. The effort that took place was part of a significant process re-engineering project based on Sales & Operations Planning (S&OP). More specifically, Chiesi approached S&OP with the following objectives: process formalization across all affiliates, synchronized demand and supply, as well as reduced stock outs and obsolescent inventory through greater forecast accuracy.

Corrado Snaiderbaur, Chiesi's Corporate Demand Manager, explains "The implementation of TXT was an indispensable prerequisite for S&OP. For successful S&OP – Snaiderbaur continued – you need systems, processes and people: we began by redefining our processes, we then involved our teams and finally selected TXT e-solutions as our preferred technology; TXT has proven effective in delivering the S&OP process we had mapped out".

DECISION-MAKING SUPPORT, NOT JUST REPORTING

"Specifically – Snaiderbaur added – we needed visibility on sales forecasts; we

"Right from the start, I knew that TXT's technology, together with our commitment to S&OP practices, would yield significant results for the business, but I must say those results have exceeded my expectations. Not only have we obtained those benefits extraordinarily fast, in the first year of implementation, but also these results have been replicated in other countries in the second year: the project is generating continuous improvement rather than just a "quick win", and this is experienced by all our main European affiliates. Our plan is to soon involve all subsidiaries at a global level!"

Corrado Snaiderbaur, Corporate Demand Manager - Chiesi Farmaceutici

looked for a solution which not only allowed us to see the data but could help in efficiently generating those numbers. We also adopted the same approach with the management of our replenishment and inventory processes”.

The pharmaceutical sector is particularly complex and features:

- *Large product portfolios to accommodate national variances*
- *Regulated minimum production lots*
- *Products with a varying shelf life – risk of expiration*
- *A variable demand for promoted products*

In order to support planning in such a complex environment as well as improve overall visibility, Chiesi has selected TXTDEMAND and TXTPLAN, two solutions which are part of the TXTPERFORM suite for Demand & Supply Chain Management.

The two solutions, now at an advanced stage of implementation and currently being used by over 80 employees respectively, support collaborative Demand Forecasting, synchronized to Replenishment Planning for a closed loop Sales & Operations Planning process.

THE SOLUTION

Snaiderbaur explained “Through the use of the TXT solutions we initially achieved a key benefit for the project of improved visibility over our subsidiaries. Today we have a single database which gathers daily information from all countries. These are made available and elaborated through TXTDEMAND and TXTPLAN”.

Snaiderbaur elaborated further by saying “Beyond the benefit of visibility, with support from TXTDEMAND we have also improved our Demand Forecast generation process. TXTDEMAND is an

effective tool which connects perfectly to the needs of the forecasting process. Forecasts today are based more on data analysis and less on each planner’s specific experience. The solution allows for the periodical revision of plans which before was difficult to obtain with such a rigid approach. Moreover, when forecast revisions are carried out, a gap analysis with respect to the end-of-year budgets are immediately available. We appreciate the ability of TXTDEMAND to produce financial information as well” Snaiderbaur commented.

Demand forecasts obtained with TXTDEMAND become input for replenishment planning which is executed with TXTPLAN. The solution supports Chiesi in the management of safety stocks, minimum orders and expiring inventories whilst ensuring the right level of visibility across stock levels for every country.

The implementation of the two TXT solutions together with Chiesi’s own effort to revise their internal processes is now producing important results.

THE RESULTS

Within a year of the 2007 S&OP rollout in Germany and UK, Chiesi saw inventory levels reduced by 15% and a 30% improvement in MAPE (Mean Absolute Percentage Error). In its second year and following the successful rollout to France and Spain, Chiesi reported a further 15% reduction in inventory and an additional 20% improvement in MAPE across all live regions with peaks of 41%. This brings significant ROI to the company and continued value to the project.

With the help of S&OP and a formalized calculation of MAPE, Chiesi has also put in place a structured safety stock calculation based on forecast accuracy: visibility of forecast accuracy by item allows Chiesi to define safety stocks at an SKU level. The subsequent reduction in working capital specifically inventory value, the latter being a key financial KPI of the S&OP project has brought outstanding benefits to Chiesi. It has strengthened the level of executive commitment as well as contributed to S&OP becoming part of the company DNA.

