

'The fundamentals in our business must be reconsidered and LEAN is the means to do that.'

At Nestlé Waters, LEAN is fundamental to the company's long term strategy to attack a difficult marketplace. Jonathan Rennotte, who leads one of the practice areas for LEAN at Nestlé Waters, explains how everything from out-of-stock to legal fees is being transformed.

Jonathan Rennotte leads the Goal Alignment practice area for Nestlé Waters, a division of Nestlé SA. Goal Alignment is a pillar in Nestlé's worldwide LEAN programme 'Nestlé Continuous Excellence'. Jonathan is the former Director of Talent, Performance & Learning for Nestlé Waters and in a career spanning 17 years has held senior HR management roles in Europe, North America and Asia.



Why did you decide to launch this programme?

Many companies do LEAN for marginal efficiency gains, cost or headcount reduction, but the following statement really gets to the heart of why we're doing it: *'Nestlé Waters has launched a global transformation, involving our people in transforming their day-to-day activities into more and more value for the customer. The aim is to generate a new way of doing business that will ultimately become Nestlé Waters' key competitive advantage.'* We call it 'Nestlé Continuous Excellence' or NCE, our path toward a LEAN enterprise. Like virtually all the big FMCG's, the 2008 financial crisis confronted us not with a short term problem that needed a short term fix; it gave us pause to take a long, hard look at the fundamental assumptions by which we operated day to day. Our industry is difficult-trying to make money carrying a product any distance that weighs as much as water does, and costs as little as water does. So LEAN has become our theme in our long-term strategy to attack a difficult industry and a volatile marketplace. The fundamentals in our business must be reconsidered and NCE is the means to do that.

You are going slowly so that change becomes deeply embedded. Is there any danger of a loss of momentum?

I would say no, because Nestlé is a very patient company. Internally, we have had a saying for many years: 'evolution, not revolution'. Of course, there is always the pressure from the business expecting results in the very short term, but it's a healthy tension. The long-term orientation of NCE is the consistent message of our company management. They have shown patience and trust in the system of NCE. Managers have specific incentives built around short-term outcomes; that's normal. So the risks lie largely at the levels of execution because LEAN is known to actually cause some performance setbacks in the short term if you're building it right. You suffer a little bit in order to gain a lot in the long term. We have been fortunate to experience only a little of that so far in our 3-year journey.

A LEAN Institute survey showed that middle

management resistance is a key obstacle to overcome. Did you find that?

Yes, and it remains the key to this journey continuing successfully or stalling. It had a lot to do with the ingrained ways of getting business results that were being challenged by NCE. Imagine that I'm the Sales Director heading a national sales organisation. I suddenly have people coming to work alongside my team who call themselves 'LEAN' experts and they're working with my people to help sales people to question the way things are done and improve the work, a little bit each day. Of course I'm going to be sceptical. I don't need anybody to help me improve sales-that's my job and I'm good at it! LEAN change agents tend to underestimate the importance of this personal threat felt by middle and senior managers, and it can lead a LEAN programme to fail.

I've got an HR background and have always believed the Change Management principle that support for a transformation initiative is most difficult to generate in the front line employee population. But in NCE, it's not true. Take the example of a front-line saleswoman: she gets to remove some of the irritants to the customer; things that she was always trying to highlight

to management as obstacles to her work, or hindrances to customer satisfaction. Her job improves; her work becomes more interesting! But it doesn't make her boss' job any easier and that's the irony of this - the front line employee stands to gain more than her boss. Her irritants go down, her customers are happier because she's more available and responding to their needs, and problems are systematically raised and dealt with at the root. But a middle manager will often feel disintermediated from the work and certainly from his traditional levers of influence. 'Why, they have the ways and means to address problems without always escalating to me? But I have all the managerial experience-that's the value that I add!' So the critical question is: Can a manager change their mindset to see themselves as an orchestra conductor, a facilitator of the successes of others? Most managers didn't sign up for that set of competencies, but it's the essence of what it means to be a manager in a LEAN company.

Do you give them specific training to overcome this?

Yes, and that is a distinctive aspect of the way Nestlé implements LEAN. We give managers a lot of support, but we don't find that training is

‘You are changing the culture. It’s one little brick at a time. The culture changes as the mundane, daily, ‘insignificant’ little behaviours change.’

the answer. I often call training the ‘car wash effect.’ People can be all clean and sharp, but in a few days they’ll be back in the operational environment where it’s going to rain and get muddy, and then they’re going to default to behaviours that worked for them in the past. So training is an important element, but it’s not the whole answer. Most of what we do is better termed ‘shadowing’ and ‘accompaniment’ in the work. Our NCE coaches work alongside managers for the first 6-9 months. We support, ask questions, and give feedback to them. We’re a sounding board for their own frustrations with the NCE ways of working. We try to raise their comfort level with the change while increasing their independence, so that they can manage the NCE way on their own. We put a bunch of tools in the hands of our internal change agents and we equip them to support our managers and help them understand what they’re getting into with NCE and overcome the obstacles that are bound to occur. It’s not a one-time push, it’s ongoing. If you look at any given business or any part of that business, they’re at different stages of managers developing self sufficiency on NCE behaviours.

Are all LEAN changes generated by internal agents?

Most of them. The pilot was conducted with an outside consultancy, but the initiative cannot be run sustainably from outside. People will be won over by results and it’s our own people that will convince internal stakeholders the best, and they indeed become evangelists after seeing the results. That’s the approach we’re taking. We piloted NCE in France, then seeded our next implementation in Italy by bringing to

Italy two team members who had participated in the pilot, and so on. We keep propagating the capability that way internally.

How long was the French pilot?

9 months. Now the NCE work in France has progressed to more sophisticated levels of application.

And it was in every aspect of the business?

NCE hasn’t touched every aspect of the Waters business yet, but it will. There’s no HR example, but almost every other function has been touched one way or another. Customer Service, Head Office, Marketing, Field Sales, Demand Planning and Transport. Even Legal, the processing of litigation has come in scope and significant financial gains were made there. So it’s a full company initiative.

NCE reached our factories first, actually. Many of them are now moving beyond foundational NCE work into TPM, ‘Total Performance Management’, a system which is based on LEAN thinking that is specific to production environments.

Where do your biggest opportunities lie?

Many people use LEAN to ‘manage the denominator’: to cut. But we use it for both the numerator and the denominator and if we have a choice we’ll choose to grow the numerator.

For example, in one European market, the Sales field force found an enormous amount of waste in their work: 30% of their time was waste that they could take out right away. But they didn’t lay a single person off; Nestlé does not use NCE to lay anyone off. To the contrary, the teams chose to use that extra time to increase their visits to stores by 25%.

Obviously if they’re visiting more stores they will generate more revenue. That is top line, ‘numerator’ effect. We hear stories of companies that identify waste and cut it out like it was cancer. For us, our company is our people and Nestlé keeps that commitment. If we had cut people, then in the next phase of NCE, you can imagine that everyone would be far less cooperative and enthusiastic. So, for a number of reasons, we’re not going to take people out. We redeployed them and said: ‘OK, you’re now freed up from all this wasted activity, you have x number of stores per month to visit,’ and that has made a huge impact in the first year of a phenomenal turnaround in a very difficult water market.

Have there been other brakes on implementation?

The most significant is our sheer capability to expand NCE. You need people who know it and we’re not going to hire fleets of people. So that’s a limiting factor and it slows us down, but in a sense it fits our model because it creates an impatience in the business. People hear about NCE’s success in other markets and say ‘When is it going to be my turn?’ But it’s a constraining factor when we have so few people with years of experience in applying NCE. That’s a huge brake on our speed and our scope. But some might say that’s not a bad thing - we do it well, we do it in depth and we take our time.

There’s another factor which is a challenge for us even now: how to do this in a company like Nestlé with over 140 years of history. We’ve got ways of working that aren’t even written policy any more, they’re just the way things are done. There’s also an enormous amount of written policy which is very direct and uncompromising. The Nestlé Group has set up this initiative despite the fact that our company culture carries

with the complexity that comes with all large multi-nationals. We need a common approach to NCE, but the danger is that we become too rigid, too prescriptive, too needlessly complicated. The beauty of the approach of NCE is that it starts and ends with value as defined by the customer. That creates a powerful simplicity.

So we’re caught in a tension of ensuring consistency while at the same time creating agility and that’s going to be an ongoing challenge. That dilemma is summed up by a quote I read from two of the gurus of LEAN, Dan Jones and James Womack who said: ‘*The change agent is typically something of a tyrant, hell-bent on imposing a profoundly egalitarian system in profoundly inegalitarian organisations.*’ So there are some dynamic tensions as Nestlé establishes its LEAN approach. Every company has to customise LEAN to its own specific culture and you’re going to have some cuts and scrapes along the way as you fine tune it and make it your own.

Where have the big wins come?

One is the perennial challenge of our product being ‘out of stock’. Water is a unique product: if a consumer goes to a supermarket and one of our waters isn’t on the shelf, he typically won’t go to another supermarket looking for it. No, he’ll just pick up a water of similar price from our competitor. So, what happens with product availability at the point of sale is crucial to our business. Also, our contract with retailers carry penalties for us if we’re out of stock, especially during a promotional event. If we’re offering special prices and the supermarket has advertised for them and consumer shopping in their store can’t find the ‘Buy One Get One Free,’ then the retailer penalises us. So we lose a sale and additionally get a penalty claim against us, a double negative

Now the easy assumption is that out of stock product was a Supply Chain issue, but in applying NCE principles with the front-line salespeople, they have found that two-thirds of the factors are in their hands. So the Sales team members have looked at the issues themselves and

identified what they should do differently. They developed their own solutions using NCE problem solving, to get to the root of the problem and solve it for good. They had things under their own control that they didn’t even realise until they were given the support and focus to look at them. Doing this, the sales teams have decreased out of stock levels by 30 to 40%. That’s a huge amount of money that we’re no longer wasting.

Well, Sales and Supply might be considered obvious places to discover financial opportunity, but one of our big wins has been in the Legal department. We were losing enormous amounts of money in litigation-not in the courts, but due to our internal processes taking so long. We assumed we were handling it correctly, but as so often happens when you apply NCE to office processes you start realising how waste was hidden in the ways of working. For example, a file gets placed on a legal analyst’s desk and then tomorrow two more get placed on top of that. Generally, people deal with the one that’s on top of the pile, so we were processing based on a ‘last in, first out’ process: completely the wrong way round because the file that we really need to treat is the one that’s been waiting the longest. Of course, we get penalised the longer we have a claim outstanding in litigation. The interest and the fees on it mount quickly beyond 180 days, and we didn’t think that we could do much about that. The amount of money that we were leaving on the table is really stunning. That is not the basis on which we want to create successful partnerships with our customers in retail. So, we are now focused on what creates value mutually.

Where is LEAN taking you?

The whole point about LEAN is that the outcome is not fixed. I couldn’t tell you what the business in Italy will look like in 2015 and some of managers really don’t like such ambiguity. Imagine knowing that things are going to change, and that the specific points of the change are in the hands of your front line teams. Managers react very strongly to that message. That’s where ‘Goal Alignment’ is so important. It starts with the organisation’s business strategy and builds the

tactics and measures in alignment with that, from the ground up. So, it captures the best of the ‘top-down’ and the ‘bottom-up’ approach. The NCE ways of working are fixed, but the specific business outcomes are not.

We believe in putting NCE in the hands of the teams. We don’t know what they’re going to invent, but we’ve seen enough to know that what they’re going to come up with will be good for them and create breakthroughs for the company. It’s not possible to steamroll a company by saying we’re doing LEAN as a management directive, take this template and copy and paste it everywhere’. But by supporting people in finding a different way to run a meeting, by speaking a different way about what we measure, you are changing the culture. It’s one little brick at a time; the culture changes as the mundane, daily, ‘insignificant’ little behaviours change. Nestlé works like that, evolving and adapting in time. NCE has given Nestlé the means to continue to do that in spite of the new levels of ambiguity and volatility in the economies where we do business. We’re excited to see where this NCE journey takes us. ■

