



## Market Insight Report Reprint

# The EY/P&G supply chain alliance comes to market

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## Introduction

Traditional supply chains have been developed to be as lean and cost-optimized as possible, but the result is that there has been limited investment in technology, and the data used to inform decisions is low quality. During the pandemic, supply chain management became a newsworthy topic; consequently, many organizations are considering the robustness of their supply chain models. For the past 10 years, Ernst & Young (EY) has been working with Procter & Gamble (P&G) to transform supply chain operations of non-compete companies by creating more than 400 smart factories enabled by P&G's Integrated Work System (IWS). Now EY and P&G are bringing a broader suite of digital tools to further enable other organizations.

### THE 451 TAKE

Operators working in supply chain areas such as, say, manufacturing flow management often feel that digital transformation is something done to them and not for them, which leads to employee disengagement and an inability to yield continuous improvement. EY with its Smart Factory, powered by P&G IWS, is attempting to turn this on its head by embracing the principle that you need smart people for a smart factory and by systematizing employee empowerment as the foundation of continuous improvement. The EY/P&G alliance is coming to market to implement IWS for organizations that want to deploy EY Smart Factory – taking advantage of EY management know-how and P&G deployment expertise. Of course, the proof of this offering lies with how quickly prospective clients can run the transformed processes without external support.

## Context

EY provides global supply chain and operations consulting services via 3,500 supply chain experts, 2,000 IoT professionals, 6,000 nearshore and offshore delivery staff, and 7,000 data and analytics professionals. EY has a supply chain reinvention framework supported by assets that use technologies such as blockchain, machine learning and robotics, and it has developed the EY Supply Chain Intelligence Platform (SCIP), which is a global supply chain analytics engine.

Within this portfolio, EY has created its EY Smart Factory to help manufacturing executives develop, implement and drive global operational excellence programs in a connected and centrally controlled system that has access to a database of leading practices, methodologies, tools, training and analytics. Through the EY/P&G supply chain alliance, the two companies are jointly marketing EY Smart Factory, which brings together operations strategy, industrial IoT and shop floor operational expertise, all powered by P&G's IWS, which positions the offering as a people-centric approach to digital transformation.

## Strategy

Supply chains are in transition, and EY sees its alliance with P&G as showing clients 'what best in class looks like.' The alliance between the two companies has been in place for more than a decade, but it has recently expanded to combine P&G's Supply Network Operations 'ways of working' intellectual property with IWS as part of EY Smart Factory. The offering provides a highly documented, digitized approach to operational transformation that is centered on human activities and reflects the co-innovation EY and P&G have done on the future of the supply chain.

Supply chain transformation projects typically struggle with two problems: the codification of processes for the digital era and the change management required in implementing new ways of working to create high-performance work teams. Only by addressing both of these problems can organizations lower the transformation risks and ensure ROI improvements.

Even the tech industry has come to understand that factory transformation is not just about tooling, and to be practical, it needs to be operator- or technician-centric. This means that if the aspiration is for zero-touch operations, then attention needs to focus on creating a human culture of empowerment to engage operators at the forefront of the approach. The more than 10 years of co-innovation between EY and P&G has led to the creation of 400 Smart Factories, resulting in savings for clients of \$15bn, as well as reduced cycle times of over 50% and improved factory efficiency of 20-40%, according to the companies. At the heart of the transformation has been the IWS, which is a corporate program to drive common culture and common standards across all functions and job levels in all factories. The ethos of IWS is that as smarter equipment generates data and insight, it supports smarter people to make decisions and take actions. In this way, the digital tools are placed in the hands of employees who are trusted to make decisions based on the data and insights provided by the tooling, and then contribute to those insights in a cycle of continuous improvement.

The EY Smart Factory includes a Smart Deployment Console based on a self-service model that generates a self-improvement plan for each team of workers so that as members log in, they are ready for the next activity with additional information provided, including learning materials for specific tasks as part of Smart Daily Management. AI-based insights contribute to Smart Process Optimization with operators coached in new improvements so that the full value is realized from the technology.

EY believes the world is on the way to an autonomous future for supply chains, with the development of self-driving supply chains using blockchain and neural networks. A prototype of this type of operation is demonstrated at EY's wavespace facilities.

Recognizing that it is a big emotional shift to transform a supply chain into an autonomous system, EY typically starts with getting the strategy, metrics and standards right in an area such as planning and warehousing. In parallel, operations can be centralized – as P&G did by creating a center of excellence for the digital technology and getting teams to start driving innovation to address their pain points.

## **P&G IWS**

Thirty years ago, P&G's supply chain was characterized by a number of rigid, siloed programs. The company has transformed its supply chain management by integrating systems internally from end to end, but it has unleashed the real transformative power with the development of the IWS, which enables decisions to be made at the point of action to create business resiliency and fuel investments from the resultant productivity gains. P&G has found that its approach creates a virtuous cycle of growth through reinvestment that is hardwired in the workplans of every P&G employee. In the past decade, P&G estimates that it averaged more than 5% productivity increase year-over-year from improved supply chain operations.

The basis of IWS is that time is taken to understand best practices, which are then integrated holistically into the IWS framework. Each work pillar within the system contains clear methodologies, all aligned to the same objectives and taxonomy that spans all stages of the end-to-end supply chain. For example, as the pandemic changed consumer behavior, the standards within IWS were adjusted to include COVID best practices. In this way, IWS could continue to support the changed work environment, accounting for fewer employees going into plants because of work-from-home initiatives. IWS embraces the servant leadership philosophy, taking into consideration the needs of every individual employee. Because of this, P&G was able to minimize the impact of significantly reduced staffing in plants with IWS managing the consistency of work standards.

This was all made easier because prior to the pandemic, all employees knew how to give and get coaching, how to use the IWS tools, and how to access and implement new standards. But using IWS during the pandemic means that P&G believes itself to be about 10 years ahead of where it thought it would be in 2021. This is because the crisis has accelerated the adoption of digital twins, digital cameras and so on to enable touchless operations that can deliver both productivity gains and the social distancing required during the health crisis.

EY recently hosted a virtual factory tour of P&G's Rakona site to demonstrate how IWS works to enable total employee ownership of the power of zero defects and losses. The culture emphasizes individual responsibility for safety and for building personal capability, aligned to the requirements of creating a high-performing organization driving continuous improvement. The implementation of IWS at P&G has changed work from a reactive to a proactive activity that is more methodically consistent while giving each employee more control. After making improvements, employees need to convert them into standards in IWS that feed into continuous improvement. In this way, everybody is tasked with finding productivity losses, eliminating them and improving so that KPIs can improve year-over-year. This is only possible with high employee engagement.

At Rakona, there are no external cleaning teams because the operators take responsibility for the cleanliness of the environment, with machine operators responsible for cleanliness, safety and quality so that all the base conditions of manufacture, such as dust levels, are within the direct control of the operators themselves. The 'clean, inspect and lubricate' process for each piece of equipment is available via IWS for operators to follow, and each operator owns the maintenance tasks for the equipment with no outsourcers used for plant maintenance. Each operator influences line changeover. For example, when new equipment was recently introduced, employees recommended that a hard-to-reach area that needed to be reconfigured for every changeover become an automated process. This has been implemented and now runs as a zero-touch process.

There is daily direction setting using IWS, driven by the philosophy that you do not need experts to improve because all the experience exists in-house and simply has to be used. Operators are encouraged to troubleshoot and solve issues themselves, and when resolved, the final standards need to be written clearly within the IWS, and peers need to be coached. P&G finds that IWS makes employees good work owners within three months and masters of their domain within 6-12 months. The number of people in support tasks is reduced over time as operators increasingly take responsibility for their domain.

## Competition

In the digital supply chain area, EY faces competition with BCG's Bionic Supply Chain capability; Deloitte's Supply Chain and Network Operations Services; the KPMG Powered Supply Chain offerings; McKinsey's Operations Practice consultancy; and PwC Procurement and Supply Chain Operations Consulting. Competitors from the world of IT services include Accenture's Supply Chain & Operations Services, as well as Genpact's Procurement and Supply Chain Management Services.

## SWOT Analysis

<p><b>STRENGTHS</b></p> <p>It has become a truth universally acknowledged within the tech sector that what really handicaps transformation projects is the resistance of people and processes to change, not challenges with technology adoption or the ability to create a top-down strategy. The strength of the EY/P&amp;G supply chain alliance is that the resolution of this issue is solidly and practically addressed by IWS.</p>	<p><b>WEAKNESSES</b></p> <p>The success of the EY/P&amp;G alliance will largely lie with the continuous showcasing of P&amp;G's transformed factories and empowered employees. Quite how much stomach P&amp;G's supply chain operations will have for the sales and marketing requirements of the alliance has yet to be tested, with the standards for engagement needing to form part of P&amp;G's IWS.</p>
<p><b>OPPORTUNITIES</b></p> <p>COVID-19 exposed supply chain vulnerabilities, reinforcing the need for flexible supply chains that detect and quickly respond to volatility. Companies are currently looking to reevaluate and transform their organizational structures and to build their ideal workforce. Consequently, the timing is propitious for the EY/P&amp;G supply chain alliance.</p>	<p><b>THREATS</b></p> <p>On the flip side of the credibility that proven processes and systems from P&amp;G provide EY's Smart Factory offering is whether other organizations will want to reuse another company's supply chain IP.</p>



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