



TRACC[®]

people • practices • results



Fonterra:

**Using a Learning Site/Centre to accelerate
the Operational Excellence Journey**

Brent Taylor

Director NZ Operations



Overview

Our presentation covers...

- **Fonterra & our Operational Excellence (OE) journey to date**
 - Journey overview & Early Lessons Learnt
- **Where we found ourselves 2008**
 - Check>Adjust - Act differently... How?
- **Creation of Our “Go See” Destination**
 - Learning Site
 - Learning Centre
- **What have we achieved**
 - Outside Te Awamutu - Practices & Performance Improvement
 - Within Learning Site
 - Using Our Learning Centre
- **Our Plan - where to from here**
- **Closing Thoughts**

Fonterra's Value Chain

Our numbers...



4.5 million cows
11000 CoOp farmers



20 billion litres of milk



500 tankers



Research



Millions of consumers

1000's of Customers

25% NZ GDP
40% Traded Dairy Products
2.3Bn Tonnes Dairy Products
~\$11Bn US * Sales



85 origin sites



280 destination ports
100+ destination stores



1,500 voyages



11 origin ports



90 origin stores

16000 staff
Trading in 150 countries
local offices in 30 countries



New Zealand – 24 primary sites, 4 secondary processing sites

Australia – 7 manufacturing sites, 5 liquid & chilled sites

Joint Ventures - Dairi concepts, Soprole, Prolesur, DPA, Jamaica, Pharma Lactose (50 sites)

Secondary Processing – Saudi, Mauritius, Malaysia, China, Sri Lanka

Other liquid & chilled – Malaysia (2), Sri Lanka (1)

Other - third party manufacturers, co-packers



Largest & Smallest Milk Processing Sites



Largest Powder Plant In World





Our Journey

The Timeline, a decade of change...



Phase 1
Ad hoc
Implementation

Phase 2
Multi Site Rollout

Phase 3
Leadership
Engagement

Phase 4
Covering
Value Streams



2000-01
"TRACC"
Starts in
legacy
company
2 areas

2002-04
Fonterra
integration priority
*"Manufacturing
Excellence"*

2005-06
Expansion at
all
manufacturing
sites

2006-08
Benchmarking &
Strategy Deployment
Alumar Internship
"Operational Excellence"

2009-10
Learning Site/Centre
**'Fonterra Trade &
Operations' Formed**
"OE Acceleration"

Key Events

Watershed Moments...

2001
**Fonterra
Formed**

**"Need to
get across
all sites"**





**"Need to 'Go See'
& learn what the
Best Do"**

**"Need to
improve entire
value chain"**




- **Leadership Understanding:** Critical to success! Must translate from **passive support** to **active leadership** to make real progress. Initially misunderstood “Top Down leadership - Bottom Up implementation” focused on bottom up, leaving teams in vacuum to ‘get on’ with it!
- **Role of Operational Management:** Must **lead & manage** implementation from outset **to achieve specific business outcomes**. Formal up-skilling started too late, as did international “Go see” initiatives therefore vision & change to be led was not initially understood.
- **Value Stream Thinking:** Initial focus improving manufacturing, if left too long risks inefficiencies. Once stabilised in core activity, broaden to **build capability across business functions** achieving full effectiveness of improvement investment, reducing silo thinking & sub optimisation.

- **Union Engagement:** **Partnership** key strength of our approach. Need to understand what ‘partnership’ means & where boundaries lie otherwise risk unnecessary debate & mistrust. Up-skilling Union reps important as could constrain ability to engage proactively.
- **Support Resources:** **Capable & experienced support** resources cannot be ‘too disconnected’ or ‘too connected’ from line leadership. Leadership cannot delegate change process & their role in leading it. Need to create ‘pull’ for support in building improvement systems.
- **Performance Measurement:** Be clear about purpose - **cultural change or driving business performance?** Initially we chose former, conscious decision not to track benefits. Little focus on delivering ‘quick wins’, senior management questioned ‘value’.
Understand now **Practice v Performance model** focus on both elements.



- | | | |
|---|---|--|
| 1. Early stages of Strategy Deployment process |  | 1. NZ Manufacturing leading process thinking, shallow elsewhere |
| 2. Wide range of improvement activity across multiple parts of business |  | 2. Not always aligned or focused on same goals, lack holistic approach |
| 3. Small central OE team co-ordinating focused improvement Loss & Waste |  | 3. Improvement activity seen as “add on” to other operational activity |
| 4. Embedded OE support resources model after structured change review process |  | 4. Unclear how to effectively use resources resulted in mixed application approach dependent on local skills |



- | | | |
|--|---|---|
| 1. Strong application of TRACC & improvement tools |  | 1. Immature understanding of building systems & sharing knowledge |
| 2. Heavy investment in formally educating leaders (Diploma in Competitive Manufacturing) |  | 2. Lacked practical experience of leader behaviours in continuous improvement environment |
| 3. Operational leaders competent in crisis handling |  | 3. Leaders inexperienced in proactive improvement activity |
| 4. Many 'Go See' trips by range of leaders, strong sense of value of guided approach |  | 4. Lack of local 'Go See' examples & role models for local improvement environment conditions. Focus internally, need to look outside. |

Hitting the wall, have to do something different to get different results

Reflection: Check > Adjust Approach But where to learn?

Why?

Brazil:
Best Practice
Manufacturing Plant
TRACC Maturity 4.7



Who?

What?

- Pre Work – Before Arriving
- TRACC manuals
 - The Toyota Way by Jeffery K Liker.
 - The Toyota Way Field Book by J Liker & D Meier
 - Creating a Lean Culture by David Mann.
 - Decoding the DNA of the Toyota Production System by Steven Spear & H Kent Brown..
 - TPM for work shop leaders by Kunio Shirase

**2 Fonterra Staff on
6 week internship
Another 18 On
Benchmarking Visits**

**Outcome: 96
Page Internship
Report –
Presented
Findings &
proposal back to
Fonterra**

Establish a **Learning Site**:

- Experiment with driving deliberate, accelerated development in best practices & performance on selected site, design to achieve a very high standard **ahead** of what is being achieved elsewhere
- Review all aspects of site operation, inclusive of support requirements.
- As site reaches high level, provide benchmarking & learning for other teams within Fonterra
- Te Awamutu & leaders from Internship selected to lead & manage change process

✓ **Established
May 2008**



Establish **Learning Centre**

- Located with Learning site
- Providing OE leadership programmes that can be directly applied to improving operations back on the Learning Site
- Providing OE programmes for other Fonterra site teams, who will have opportunity to apply their learnings directly back on their site, linking with Learning Site activities - e.g. Kaizen events

✓ **Established
Jul 2009**



What did becoming “Learning Site” & “Learning Centre” mean for Te Awamutu?

- **Sheltered Incubator** for piloting Value Stream Business system thinking & ideas
- Permission to **Challenge Boundaries**
- Adequately **resourced** to test concepts, experiment & train others
- Dedicated **leaders** to **drive change**
- Credibility built through **performance** reflecting **practices**



- Create **Fonterra Business System** & **Go See model** of world class
- Prove “Dairy Factories” are **not the exception** in Lean world
- Establish **credible performance improvement** for all our stakeholders based on rigorous best practice application that is quantifiable
- Build **Leadership Capability** that can achieve Operational Excellence across the our Value Chain
- **Maximise TRACC investment** by **leveraging** internship & benchmarking activity

Beyond Te Awamutu:

- Developed “**The Fonterra Way**” consistent one way taking Operational Excellence across our value streams & entire business
- **Holistic business improvement strategy** captured in Fonterra Trade & Operations Management System
- **Strategy Deployment** process aligning activity across 6 core themes (*Safety, Customer Focus, People, Productivity, Sustainability*)
- Implementing SAP Modules (*e.g. Asset Care, Warehousing*) consistent with Operational Excellence principles
- Wide spread adoption of concepts & language defined at Te Awamutu **helping build the right culture**



Beyond Te Awamutu:

- Dramatic **reduction in H&S injuries** (82% in last 3 years)
- **Improved Quality** performance for customer & from shareholder suppliers
- **Greater visibility** of internal customer connection from factory to store
- **Reduced customer complaints**
- Developed & implementing OE Acceleration strategy around **value chain clusters** focused on major business elements required to drive performance improvement
- Building **Value Stream Optimisation** approach to more effectively meet customer demand & grow capacity
- Introduced Gallup creating awareness of **challenge faced engaging all staff** in the business of business
- *Still much to do though...*

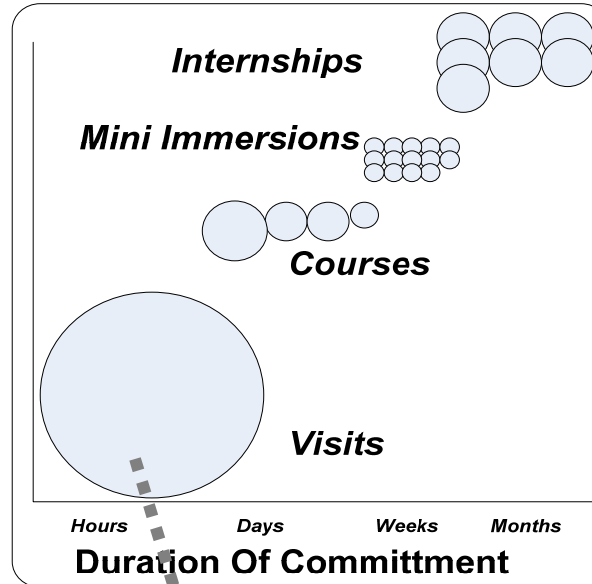


Within Learning Site:

- **Management system** used as business wide model for daily operation & continuous improvement strategy across business
- Consistent **strategy deployment** process focused on delivering sustainable improvement in 5 key areas:
(Safety, Process Stability via operational & leader standard work, Asset Reliability via Business Centred & Co-Operative Maintenance)
- Acknowledged as **business wide role models** for implementing best practice specifically:
 - Leading and Managing Change
 - Three tiers of Daily Management System
 - Co-operative Maintenance
 - Health & Safety initiatives *(Daily Safety Dialogue, Incident & Hazard reporting)*
 - Growing understanding & staff engagement in Operational Excellence efforts
 - A3 Problem Solving
 - Product Customer Acceptance
 - Dynamic training using One Point Lessons

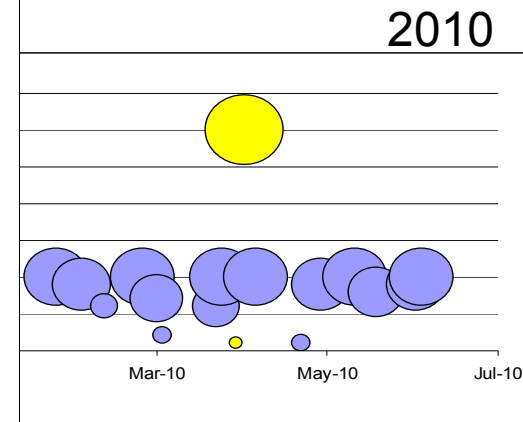
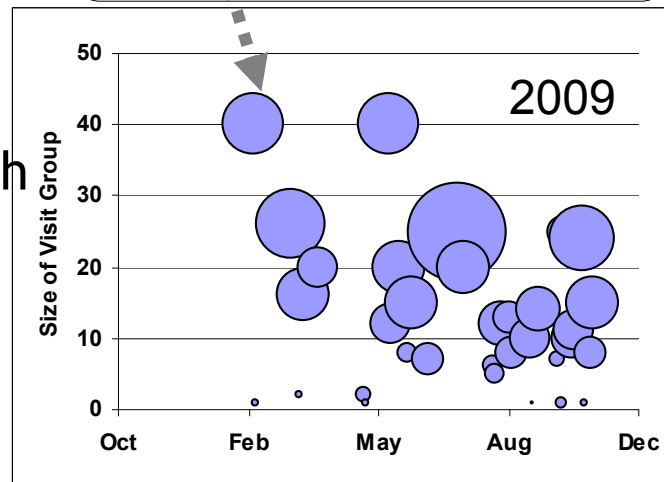
Using Our Learning Centre:

- Broad range of standard & **tailored offerings** to all levels of leadership from Shareholders to CEO to Union, from Mid Mgrs to shop floor leaders
- Wide **knowledge sharing** influencing across full Value Chain via OE Community
- Basis for revised implementation approach & “The Fonterra Way”
- Universal positive feedback & support for concept



Programmes conducted in first 1.5 years

- ✓ 780 visitors & learners
 - ✓ 5000 hours invested
 - ✓ 795 days deep learning
- As at 8 Sep 2010



- **Deploy “The Fonterra Way”** broadly across business to grow customer satisfaction & employee engagement in continuous improvement
- Refine “The Fonterra Way” as our consistent approach by piloting, checking, adjusting & scaling as necessary
- Reorganise business, remove silos & embrace value stream thinking
- Continue to develop our Learning Site\Centre to offer a range of options to build **Global Operational Excellence leadership capability**:
 - Learn by doing @ Learning Site facilitated by Learning Centre
 - Provide learners practice in “safe” simulated environment @ Learning Centre
 - Theory, coaching & reflection time used by learners to develop tailored personal change plans for application at home & integrate w\other development offerings

- **Focus on People**
- Initially we imperfectly **applied TRACC without thinking**.
Leaders must lead & think their way though what change they are leading
- Have to **deeply understand how to build a business system** that operates based on your own current condition & where business needs to be
- Direct adherence & blind **application of methodology will not build business performance & capability alone**, need to understand business system & its cycles
- **Strategy Deployment is essential** (use of A3's as key tool) helps get People aligned, leadership capability built & talent developed
- **Creating a Learning Site/Centre** allows people to learn by doing in a safe environment, see what rigorous application & deep thinking looks like & challenge business thinking



**Thank you –
*Your Questions?***