

Case Study 2

Capacity Consolidation

This project took place in 2001 while I was part of Tyco Healthcare.

Tyco hold a premier position in the provision of Urology support in Europe particularly in the German market selling urine bags and urine meters under the Kendal brand name.

These devices are assembled in a Tyco plant in Germany near the banks of the Danube and not too far from Munich.

On a plant visit I was told of the excellent supplier relationship that the plant had with the local moulding company who even held stock for them on consignment. This interested me and I expressed a desire to visit the sub-contractor the next time I was in Germany. I also took away several examples of the moulded components which did not seem to me to be of the highest quality, although clearly fit for purpose.

A visit later in the month took me to our Tullamore facility in Ireland where I was able to discuss the quality issues with the plant engineering manager who had extensive experience of plastic moulding. Our conversation moved to the component cost and issues of capacity and it became clear that a possibility existed to mould the components in Ireland more cheaply than we could in Germany and to use some of the spare capacity in our Tullamore plant and help to control our overhead cost recovery a little better.

Two months later this project was fully costed and approved by European management. However it still took 14 months to complete.

Needless to say the external moulding company in Germany was far from happy but investigation had showed that part of the reason for their higher costs, other than the needless stockpiling of finished goods, was the inherent unreliability of the tooling. Most of the tools were old and of small capacity and were kept going by the expertise of two old toolmakers. The Consignment stock was in fact just a response to the “It’s working –just keep it running” attitude that had developed. My German colleagues were paying a handsome premium for their components, although this can often happen in longer term relationships with suppliers where a combination of lethargy, comfort and apathy conspire to maintain the status quo.

The first step was to establish what tooling needed to be replaced and to establish a tool building programme. This was done using a Portuguese based toolmaker. Our second aim –run in parallel with the first was to build up stock of certain components to allow us to move and refurbish those tools which had sufficient capacity and still had reasonable reliability. This was a more difficult challenge but we were able to come to an accommodation with the German moulder after a period of negotiation which allowed the safety stock to cover the transfers to be built. Of course the other factor was trying to avoid moving too many tools at the same time and overstretching the technical and engineering

resources in our Irish plant as we went through the process qualification and re-establishment of process latitude studies.

Even allowing for the increased costs of transportation and the costs of the capital depreciation on the new tooling we were able to make savings of \$500,000 per year. We also had a much more responsive supply chain which strengthened the demand planning and capacity planning in both the German and the Irish plants.

Perhaps the most significant bonus was the breakdown of the barrier that had existed. The Irish plant was an old Sherwood Medical plant and the German one an old Kendal plant. Historically the two companies had been rivals before both becoming part of Tyco. A lot of that rivalry still existed at the start of this project, subsequently these plants have gone on to work together on other projects.