

Bauhinia Coatings Group

(Subsidiary of Yip's Chemical Holdings Ltd)

Pursuing Operations Excellence while Improving Cost Structure



Yip's Chemical Holdings Limited focuses on the production and sales of petrochemical products including solvents, coatings, inks and lubricants. It is the major producer of acetate solvents in the world, China's major manufacturer of ink and one of the leading coatings brands in the country. Yip's Chemical, headquartered in Hong Kong, is listed on the main board of the Hong Kong Stock Exchange (HKEX: 00408). Its R&D center is located in Shanghai Zhangjiang Hi-Tech Park.

Bauhinia Coatings Group is a subsidiary of Yip's Chemical. It is one of the leading brands in China with its business covering architectural coatings, industrial coatings and resins.

"The Achieving Change Together project (ACT) with Renoir has helped improve our ability in management and execution. This is an important step in strengthening the muscle of the enterprise, and seeking changes amid stable progress to achieve the vision of Towards a Century of Revered Leadership"

Nat Wong
Co-CEO - Yip's Chemical Holdings Ltd

"ACT has produced significant real cost benefits and led to more managerial benefits that are beyond numbers."

Winnie Yau
Co-president - Bauhinia Coatings Group

Key Results

Return on project investment > 3:1

Raw material consumption loss reduced by 38%

Production cost per kg reduced by 20%

Inventory turnover days of finished goods reduced by 56%

Reduction of product peak inventory levels leading to a 50% reduction in warehouse space requirements

ANALYSIS

In order to cope with an increasingly challenging business environment, Yip's Chemical continues to pursue process excellence, management effectiveness and costs structure optimization. To explore the opportunity, Renoir Consulting was engaged to conduct a comprehensive business analysis for one of the subsidiaries - Bauhinia Coatings Group. Upon the completion of the analysis, Yip's Chemical was impressed by Renoir's way of demonstrating opportunities by facts and data and decided to conduct a 30-week project called Achieving Change Together (ACT).

PROJECT APPROACH

The ACT project was instigated with the following objectives:

- Establish the Huiyang Plant production management control system to better control production and quality and improve efficiency and lower raw materials loss;
- Optimize the sale and operation procedures to balance demand and supply, reduce inventory levels of finished goods, rationalize SKUs and improve supply chain agility;
- Improve the purchasing strategy, raise the efficiency and effectiveness of bargaining techniques and reduce raw material costs by joint initiative purchasing and R&D;
- Improve the logistics management control system to reduce waste, increase efficiency and lower costs;
- Introduce a sales management control system to improve the efficiency and effectiveness of sales activities (piloting in Shanghai architectural coatings sales dept.);
- Shift management behaviors from experience-based/fire-fighting to fact-based/active problem solving.

In order to achieve the above objectives, the project comprised 5 workstreams, namely:

1. Huiyang Plant Production and Quality.
2. Sales and Operations Planning.
3. Procurement.
4. Logistics.
5. Architectural Sales.

IMPLEMENTATION

After establishing Management Action Teams for each of the workstreams, the joint Yip's Chemical and Renoir team completed the following main activities:

Huiyang Plant Production & Quality

- Implemented a management control system, including an improved production planning process and short interval controls relating to materials/yield. Central to the management system was the KPI dashboard which highlighted cost, quality and efficiency such that variances could be addressed proactively.
- Established a preventative quality control system covering Failure Mode Effectiveness Analyses (FMEA), product first pass yield assessments and root cause analyses.

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- Improved formula accuracy through prior testing and established packaging and inspection control procedures.

Sales & Operations Planning

- Established a new strategic stocking model to track and optimize product inventory levels.
- Implemented short interval control mechanisms to increase the proactivity of planners and reduce peak level of inventories.
- Optimized processes to improve the accuracy of sales forecasting and improved S&OP procedures to balance supply & demand.
- Streamlined product mix by reducing the number of SKUs.
- Established mechanisms for stronger coordination among departments to reduce waste of resources and foster ownership.

Procurement

- Optimized the procurement management control system to become more systematic and data based and to prevent dormant stock.
- Implemented a Kraljic Model analysis tool to form clear management logic for purchasing of raw material depending on type of material.
- Established a bargaining tracking mechanism to enhance proactive bargaining behavior, including monitoring of raw material market price trends in order to minimize feedstock cost.
- Drove the cost reduction program between procurement and R&D which achieved results through the substitution of raw materials and formula optimization.
- Established a supplier performance evaluation and rectification system to improve the quality of raw materials supply.

Logistics

- Optimized the storage and transportation management control system, which included batch and first-in-first-out principles.
- Improved storage efficiency while reducing costs by eliminating waste through various quick-win initiatives. Strengthened on-sits 6S management to reduce warehouse space and meet the audit requirements of customers.
- Established an optimization model for production to reduce long-distance transport and improve logistics efficiency.
- Introduction of 3PL and improved the transportation bidding procedure and the scheme of carrier evaluation.

Architectural Sales

Following models were developed through the pilot project in Shanghai sales department:

- Development and implementation of Sales Effectiveness Management Control System, covering daily reports, distributor inventory checking and the collection of local market intelligence.
- Shifting the focus of "sell-in" (selling to distributors) to "sell-out" (to the end customers via distribution channel) to better understand the real demand in the channel and strategize actions needed.
- Application of strategy tool e.g. competitiveness matrix, channel potential assessment matrix to help identify opportunities with focus of developing plans for deepening channel penetration.

Major results from the pilot project in Shanghai were:

- Sales revenue project period vs base period increased sharply.
- Drastic increase in channel penetration (new sub distribution stores).
- Following models were further rolled-out to major cities in China by the project taskforce after the pilot period.

RESULTS

All areas within scope achieved a significant and measurable improvement in performance. In addition, the objective was to lay the foundations for future gains through robust management control systems and develop a culture of continuous improvement. Yip's Chemicals is now in a better position to meet the challenges of an extremely competitive market.

"The success of ACT 1.0 has triggered the action of improving efficiency and reducing costs. This will help capture more opportunities for the coming and challenging year."

Eddy Fung
Co-president -
Bauhinia Coatings Group

"ACT project made a difference in how people think and do, making our management more reasonable and wiser."

Su Jing
Head of Operation -
Hang Cheung Coating

THE RENOIR GROUP

Renoir Consulting is a world leader in sustainable, implemented change. Founded in 1994, Renoir has offices located in North and South America, UK, Europe, Middle East, Southern Africa, India, China, South East Asia and Australasia. With over 300 fully employed and highly trained consultants, their work across a wide range of industry sectors gives them a broader perspective of the issues facing your business, allowing them to be sensitive to your unique challenges, culture and specific business issues. This cross-pollination ensures truly effective, rapid and sustainable solutions.

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