

MSD KEY AREA PAPER

BUILDING BUSINESS ADVANTAGE

1. Introduction

In 1993 MSD set out to change its direction, working practices and commercial focus. Major achievements were gained in 1994.

All OpCo's are following a common IT Strategy, based on business defined requirements. Companies have adopted MRPII processes to help drive down costs and increase flexibility. Two companies achieved Class "B" status, 25 companies have, or are, installing Chameleon and BPCS is now delivering benefits to companies following the earlier problems in 1991/1992. Reduction in working capital and inventory levels are now being reported around the world.

A further seven companies have undertaken three-day Business Systems Workshops, facilitated by MSD. These workshops involve the OpCo top team reviewing their critical business issues, what is required to win and how they can exploit IT to competitive advantage. These workshops are identifying local needs to increase MSD's support to Trade Marketing and consumer information, in addition to confirming the approach to MRPII and continuous improvement.

In the UK major systems have been installed successfully. Examples are TEST, MARKSMAN (Trade Mark Management & Control), FORESIGHT (In-market sales and inventory levels forecasting) in Taiwan, ACUMEN (Key account planning and control) in Duty Free, EDI links to Southampton suppliers and shippers, and introduction of the World-wide network with SCITOR and LOTUS NOTES.

The 3-volume IT Best Practices, the IT Security Policy and introduced the "How to..." series with the "How To Use the Cranfield Grid" booklet have been distributed to all OpCo's. These were further enhanced at the MSD regional conference in Hong Kong.

Finally, following a full day's discussion on IT matters by the BATCo Board on November 2nd 1994, we have re-drafted the MSD Mission Statement, updated the critical success factors and implemented a programme for improving MSD's service and delivery to its customers. Actions resulting from this work will be incorporated into the Best Practices and distributed to OpCo MSD's.

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2. MSD Mission Statement

The re-drafted mission is to:

Exploit our knowledge of BATCo's business and Information Technology to achieve global business improvements and sustained competitive advantage through world class staff and effective management of external IT resources.

3. Policies and Procedures

MSD's role is to:

- work with the business to understand needs and build solutions
- act as agents of change and stimulate new thinking
- advise on IT issues

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Where possible, internal MSD activities or processes will be out-sourced to increase flexibility and/or service, provided that it is economic to do so.

The policies and procedures to support this role are that new project developments should be owned and driven by the business (section 4), the supporting technologies must conform to the IT Best Practices (section 5) and the IT Security Policy (section 8) must be adopted.

4. Business Improvement Process

In last year's Key Area Paper we introduced a framework, called the Demand and Supply Chain, for positioning the developments planned at BATCo and the OpCos. This has been updated and appended as Appendix 1. All OpCo MSD developments should fit into this framework. It is unlikely that an OpCo can manage a range of projects for all processes, and therefore each top team will be expected to define the priority areas for their situation and initiate priority projects to support these areas. All other projects should be postponed to give clear focus on delivery of high impact projects. In Cranfield Grid terms this means focusing on the Turnaround/ Strategic quadrants, reducing the Staple/Core work to the absolute minimum. MSDs should develop standards so that Staple/Core work for a function can be managed by the function without loss of data integrity and integration.

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5. Technology Infrastructures

BATCo will continue to develop technology standards, which ensure specific systems development, lower local support costs and systems integration as required. The technology is currently based on a mix of client/server and AS/400 to gain the full productivity benefits from new technologies whilst preserving the investment in existing systems. Last year we identified a need for an element of dictate from the centre for the technology infrastructure. These standards were circulated in the IT Best Practices Paper.

6. Impact of Project BATTALION

As BAT moves towards managing a global tobacco business, defined through Project BATTALION, it is imperative that all functions and process can operate responsively and flexibly around the world. This will only be achieved through full exploitation of IT, consistently implemented in all BAT tobacco group locations.

Processes ?

Detailed common standards will be agreed for all components of the infrastructure from networks through development toolsets to application packages. The standards will identify where common packages are essential and where interfaces between systems are needed. These standards will be mandatory for all locations to adopt. We will ensure as full consultation as possible in setting these standards for the emerging Tobacco Group.

All projects and proposed IT investment should now be reviewed critically. Where possible, projects should be postponed until the agreed standards are published. Clearly a project should not be postponed if it puts the business at risk. If in any doubt about the impact of standards on a project, then contact J.A. Bottome or the relevant OpCo MSD Advisor.

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7. World Class Staff

We can only deliver world class IT through world class people. We will review the MSD competences in the UK's Skills Grid to ensure that OpCo needs are reflected. The resulting Grid will be used as the basis for identifying skills gaps and development needs.

OpCo's will need to develop and recruit high performance staff to support the changing MSD role. X

Opportunities for sharing MSD resources across OpCo's should be sought, both to reduce overall regional costs and to provide development opportunities for high performance staff.

MSD's revised role requires commercially-focused individuals taking a critical cross-functional view of the business. Thus it is an ideal position to provide fast-track development to key staff. A formal review process should be initiated within each OpCo to transfer or second high performing staff into and out of MSD.

8. IT Security

The IT Security policy was distributed to all OpCo's in 1994. BATCo's detailed supporting security procedures will be circulated to all OpCo's by April 1995 for use as a blueprint to develop local procedures. It should be noted that the BATCo Board take IT security and protection against viruses and unauthorised access very seriously, and this should be reflected in the local procedures. X

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J. A. Bottome
15th March 1995

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APPENDIX 1

CONSUMER DEMAND AND SUPPLY CHAIN:
I.T. DEVELOPMENTS AND SUPPORT

| MAJOR BUSINESS PROCESS | DETAILED BUSINESS PROCESSES | BATCO DEVELOPMENTS | AREAS FOR OPCO DEVELOPMENT |
|------------------------------|--|---|---|
| Business Planning | Business Planning is integrated planning systems incorporating company and operational planning. Integrated plans should provide direct performance measurement of the operational plan versus the company plan. | Continue development and support for Company Planning/MOPE models (EPIC/FCS) Select replacement for FCS financial planning system for export markets Consider, in conjunction with RBUs and OpCo's, improvement in information exchange with reduced clerical effort. Improve reporting of financial and management information. | Develop local support models. Consider improved process to reduce effort and paperflows internally and externally to BATCo. |
| Promotion and Selling | Brand Management is proactively managing and investing in a portfolio of brands to build long term brand equity. | Continue development of in-market sales analysis and reporting. Information exchange with BSB Dorland and other agencies. (LOTUS NOTES) to support Brand priorities. Develop general "what if" models to evaluate options and changes to Brand Equity. | Local systems development aimed at an integrated marketing system. Systems for updating shared database for Regional/International brands. |
| | Consumer Marketing is identifying and meeting the needs of consumers in targeted segments through portfolio of brands in a profitable manner. | Review business needs. Seek group synergy for systems development. Develop framework for consumer database. | Review business needs. Develop local consumer database. |
| | Market Research (incl. competitor, product, consumer research) is measuring the requirements of the market, including competitive activity and providing the results to the owners of our brand propositions in a quantifiable way. | Support for PQRS, BATPROBE etc. Review need for integrated marketing database and ease of access to information. Ensure all internal and third party software is consistent and integrated. Prototype requirements of a Marketing Information solution for central and local needs. | Implement, support PQRS, BATPROBE etc. Ensure local developments conform to common standards to enable future information exchange if justified. |
| | Product Development is developing the physical properties of the product to appeal to a defined set of customer needs and within defined constraints and measures of commercial success. | Consider improvements in process and systems support to ensure innovations can be brought to market faster. Encourage innovation. | Develop local models and support Implement project management support systems |

| MAJOR BUSINESS PROCESS | DETAILED BUSINESS PROCESSES | BATCO DEVELOPMENTS | AREAS FOR OPCO DEVELOPMENT |
|---------------------------------|---|---|--|
| | <p><u>Trade Mark Mgmt</u> is the maximisation of trade related rights and the enforcement of those rights in order to protect our ability to manufacture, market and sell our brands in BATCo markets.</p> | <p>Develop and implement Phase II system for REMARK/MARKSMAN by May 1995. Identify further justified business changes and systems improvements for remainder of the year.</p> | <p>Work with Group Trademark Department (GTD) to establish effective ways of updating and accessing data held within Marketing and specifying future opportunities.</p> |
| | <p><u>Channel Mgmt</u> is the process to reach target consumers through the trade, to help the trade increase category and brand sales to consumers and to improve direct brand profitability by practising mutuality with trading partners.</p> | <p>Complete business analysis with BAT Benchis to deliver Quantum. Actively support each Region with the implementation of interim solution in agreement with TM & D.</p> | <p>Agree sales automation requirements with TM & D. Implement interim solutions as agreed with each RBU and TM & D.</p> |
| <p>Customer Services</p> | <p><u>Forecasting</u> should be made as close to the consumer as possible and modelled through the distribution network, incorporating lead times and minimum stock levels in order to predict demand on the factory. This process is known as <u>Distribution Resource Planning</u>.</p> | <p>Develop common methodology for effective Sales and Operational Planning processes to balance demand from a group of markets and supply from one or more production units by end 1995.</p> <p>Enhance in-market sales and inventory levels forecasting models for RBUs' export markets by end 1995 (FORESIGHT).</p> | <p>Develop decision support systems that generate forecasts. Use systems to understand where and how statistical forecasting techniques can be used. Use these techniques to set up and implement DRP.</p> <p>Implement FORESIGHT as appropriate. Implement Sales and Operations Planning.</p> |
| | <p><u>Order Processing</u> is collecting actual customer demand and recording. Customer orders should be netted off forecasts. Customer orders plus forecasts will be used to drive the Manufacture and materials plans.</p> | <p>Support single Sales & Marketing system to support several markets, initially Belgium and Holland.</p> <p>Review potential for EDI to improve dramatically inter-company trading.</p> <p>Implement process improvements identified by Booz-Allen study.</p> | <p>Reduce the amount of clerical effort by effective use of BPCS/CHAMELEON together with EDI with major customers.</p> |
| | <p><u>Billing</u> is the process of invoicing customers, collecting cash and managing credit.</p> | <p>Agree common standards/direction for achieving MRP/II Class 'A' and monitor roll-out programme for BPCS/CHAMELEON.</p> | <p>As above.</p> |

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| Sourcing and Distribution | Sourcing is deciding the most economic and efficient source for manufactured product when multiple suppliers or factories exist. | Review business needs, issues and constraints (if any) for regional and global sourcing strategies and operational planning Develop regional Sales and Operations Planning procedures | Review possibility of local database relating to all local sourcing arrangements. |
| | Distribution is all of the logistical elements associated with delivering finished product to customers. This includes Warehouse Capacity planning, Freight analysis and route planning | Implement common manufacturing and distribution system for more than one production facility, initially Belgium and the UK. Further development of DRP functions within the export business. | Review performance measures and systems to support Class 'A' distribution. |
| Manufacturing | Manufacturing is the conversion of raw materials into finished product or sub-assemblies. Cut rag tobacco, filter rods, and GLT processed leaf may be considered as sub-assemblies. | Implement roll-out for BPCS/CHAMELEON and monitor progress to MRP II Class 'A' Support regional systems strategy for Central America. Develop regional strategy for Europe. Develop and report MRP II Class 'A' performance measures, throughout 1995 as agreed by each OpCo and RBU. Implement integrated manufacturing systems in accordance with overall Project TEST deadlines. Review Southampton activities to simplify processes and automate, where justified, to achieve MRP II Class A and reduce costs, and incorporate agreed actions arising from the Booz-Allen study. Establish "best of breed" GLT system recommendations Implement in-market sales and inventory levels forecasting models for RBUs' export markets through 1995. | Complete implementation of BPCS and CHAMELEON, implementing common processes and support continuous business improvement towards MRP II Class 'A' status. Complete implementation of Regional planning system in Central America. Implement reporting systems for new agreed performance measures, together with locally defined performance measures. Implement forecasting models for export and domestic markets. |

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| MAJOR BUSINESS PROCESS | DETAILED BUSINESS PROCESSES | BATCO DEVELOPMENTS | AREAS FOR OPCO DEVELOPMENT |
|--|--|---|--|
| Procurement/Supply | <u>Purchasing</u> is the negotiation of prices and establishment of contracts with suppliers. The selection and development of high-quality and low cost suppliers. Building suppliers as business partners. | Review purchasing, paying and supplying of materials to cut activity and costs through application of EDI, contractual agreements and information exchange with key suppliers to Southampton. Initiate common coding and definition to support global procurement. | Agree and implement common coding systems across the Group. Investigate feasibility of reducing clerical activity and costs through EDI with local suppliers. |
| | <u>Buying</u> is the provision of schedules to suppliers dictating the quantities and dates of material requirements. Materials Requirements Planning will provide this information based on the manufacture plan. | Review potential for using EDI to re-engineer the procurement process. Consider information exchange with key suppliers and building business partnerships. Develop common coding for BATCO. | Implement MRP as part of BPCS/ CHAMELEON. Investigate EDI benefits. |
| | <u>Stocking</u> (WMS, R&RS, Leaf) is inventory control and planning. The management of stock levels across the company. | Review possible changes in supply process, including suppliers owning all stocks and delivering materials to machines as requested. Develop common database for leaf inventories around the World. | Implement common codes and systems as agreed by RBU's. |
| | <u>Invoice payment</u> is the transmission of funds to suppliers and debt management. | Review areas for radical reductions in clerical effort, such as self-billing, through EDI | Consider use of EDI and automatic payments. |
| Internal Support Function Infrastructure | <u>Treasury</u> is the process of monitoring and reducing the company's exposure to foreign exchange, interest rates, customers and banks. | Support new treasury system. | Implement BATCO approved product, if required. |
| | <u>Cash management</u> is the process of predicting cash flows, both forecasted and actual, monitored against the operating plan. | Development of cash flow forecasting models. Exploit existing models throughout the Group. Investigate areas for group synergy in systems development. | Develop local cash flow forecasting models. |

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|------------------------|--|---|--|
| | <p><u>Support Systems</u> include all activities that are needed to support the business processes identified and to fulfil the statutory obligations of the firm. Examples include Payroll, Personnel, MSD, finance, accounting, office and other administrative support.</p> <p>Other centrally co-ordinated or directed activity.</p> | <p>Develop and implement flexible, scalable, cost effective global network providing standard communications facilities such as Lotus Notes, throughout 1995, via SCITOR.</p> <p>Agree common data definitions throughout BATCo to enable quick, simple and secure information exchange from and to anywhere in the world and reduce unnecessary paper flows. Agree key data items and definitions by end 1995.</p> <p>Identify and implement standard set of tools for managers to access operational information and produce their own performance reports.</p> <p>Recommend standard office products, after consultation with OpCo MSD's.</p> <p>Develop procedures for supporting centrally developed systems around the World.</p> | <p>Adoption of NOTES Guidebook and Local Area Network implementation standards.</p> <p>Preparation activities for integration with world-wide network.</p> <p>Implement common codes.</p> <p>Develop local systems in line with BATCo approved end user product.</p> <p>Migration to BATCo standards through mandated adoption of IT Best Practices.</p> |

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