BORDERLESS AMBITION, INSPIRATION AND IDEAS

SCM SUPPLY CHAIN MOVEMENT

▶ Roundtable about Forecasting ▶ Supply chain software on Subway map ▶ Mind the gap of S&OP ▶ Mindmap about next level S&OP ▶ Handling volatile demand

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Marnix Tax

European Director of Supply Chain Development Sara Lee

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COLOPHON

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SCM SUPPLY CHAIN MEDIA

Holy grail of ERP and S&OP

Both Enterprise Resource Planning (ERP) and Sales & Operations Planning (S&OP) have been around since the 1980s. ERP experienced its real breakthrough during the late nineties because companies became – or were made to be – afraid of the impending doom of 'Y2K', the new millennium that made the traditional way of using only two digits obsolete for a year. Meanwhile, S&OP has been skyrocketing as a management process for the past few years because of the volatility of demand brought about by the current economic crisis.

The analysts at Gartner invented the phrase ERP for software systems across an entire organisation. In reality, ERP systems were not integrated systems, but instead consisted of several different modules for each individual, functional business silo. By exchanging internal transactions, an ERP system was meant to provide an overview of entire companies, mainly large and complex ones and, initially, mostly in manufacturing. But ERP doesn't do any real planning – it can't even recognise the probability distribution of the demand for each individual product, which is essential for managing the supply chain. Some companies still try to roll out a single ERP system throughout the whole company across the globe, in spite of mergers and acquisitions and huge changes in the world.

Companies are now embracing S&OP on a broad level. The process of matching supply chain and demand in the short term is not new; companies have been doing that for decades. But S&OP makes it formal and tries to link the demand and supply plans to the company's budget in the long term, with a planning horizon of more than a year. In order to make this process successful, all the key departments need to contribute to it. Apart from the typical behaviour of each functional silo, another major problem is that it takes a lot of effort to obtain the necessary data and information in order to make the right decision. Large companies, or their divisions, do not yet have a truly integrated, single ERP system that provides all the right figures, on the spot.

Organisations should not regard ERP and S&OP as the holy grail to solve all their business problems; they are merely the hammer and nails. Use them with organisational common sense.

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Cebeo achieves better results with less working capital

Cebeo, part of Sonepar, is the market leader in Belgium for the distribution of electro technical material. What started as a small family business, Cebeo has now become one of the biggest distributors with an annual turnover over €330 million. Due to the continuous growth it became difficult to determine the optimum balance between working capital and service levels. Their current ERP system offered insufficient flexibility to calculate the purchase advice and optimal inventory on each article level. After an extended evaluation period, the decision to select Slimstock's Slim4 system was unanimous.

"Slim4 gave us a 15% inventory reduction inside 6 months"

Slim4 ensured that Cebeo's inventory reduction goal was realized. In addition to this, the availability of the product assortment increased simultaneously.
Patrick Verougstraete, Logistic Director explains: "From our central Warehouse, and our other 27 locations, we deliver 15,000 order lines each day in the area off lighting, electrical technical equipment, cables and consumer electrics. It's our aspiration to deliver as many product lines as possible directly from stock. Our promise is to deliver all our purchase orders the next day if we received the order before 19.00 pm. Slim4 assists us in doing so."

"Prior to Slim4 we were using functionality within our ERP system; we missed the flexibility to manage our growth in a correct way without increases inventory. It's very important for us to find a better balance between working capital and customer satisfaction. Our previous systems worked with a min-max system; that was not enough for us. It's our aspiration to look for new challenges each time and Slim4 lived up our expectations. We were looking for a system which automatically calculates trends, seasonality and order advice. Most preferable in a user friendly environment where forecast is integrated with Inventory Management."

Comparative research

Verougstraete: "Based on extended research we looked at several potential vendors and software. The result of this comparative research is that Slim4 is the best. Not only did software exceed all of our requirements they offered us the possibility to test the software extensively in practice. One of our major objectives during the 6 month test period off was reducing stock by 15% without further reducing our service level. In addition to this, it was important that Slim4 was accepted by our users. Without the commitment of our users such a project is not realizable. All our users were very happy after just a few weeks. The software was very user friendly and where necessary we could use the professional helpdesk of Slimstock. The questions were answered directly and adequately."
The result: the acceptation of Slim4 by our users, the quality of the helpdesk and trainers of Slimstock, were reasons enough for Verougstraete to implement Slim4 throughout the whole company and roll out to all shops.

slimstock

PERSONS

COMPANIES & OTHER ORGANIZATIONS

Frits Schaafsma (Danone):
"S&OP is different voor each organisation and even each region."

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supply chain

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SUPPLY CHAIN WORLD EUROPE CONFERENCE OCTOBER 2011

RECRUIT THE 'yes' gene

Details count so make yourself stand out was one of the tips made by Innocent Drinks founder, Richard Reed. Jokes on packaging, grass covered promotion vans and eccentric advertising all help to ensure that people remember you.

Speaking at the recent Supply Chain World European conference in Amsterdam in October 2011, Reed recalled some lessons learned over the last ten years as the company has grown from a idea by three 26-year-olds into a thriving business across 13 countries with a turnover of GBP 100 million (€115 million).

Vulnerability

From a supply chain perspective, a massive risk analysis of the company a couple of years ago highlighted the vulnerability of fruit supplies in view of climate change. As the company is dependent on fresh fruit for its smoothies and juices a continuous supply is critical. "Since then we have moved in some cases from single souring of fruit to always dual souring," he said. "For similar reasons we no longer have a single production sites or rely on one bottle manufacturer."

Promotional car of Innocent Drinks, covered with grass

PepsiCo's Frito Lay has implemented the management program Speed of Trust at shortly before the economic recession in 2008

Reed, who set up the company with Adam Balon, and Jon Wright in 1999 stressed the need to constantly remind yourself what the business is about and emphasised the importance of having good people.

"If you employ A-type people they in turn recruit A types. If you employ B types they tend to recruit C types and the business slides downwards," he said.

"We recruit people who show talent, people with the "yes" gene and who want to make it happen. If you find you take on people who are just there for the ride it's best to get rid of them." Many delegates will remember for a long time Reed citing Daniel Walker, former chief talent officer at Apple, "Better a hole [in the workforce] than an arsehole".

Trust on success

With the conference theme Building Supply Chain Capabilities for Future Success, Simon McGlone, of management training company FranklinCovey, described how important his company feels trust is to success. Although often seen as a soft, intangible virtue which is built on integrity he said it can be taught, restored and is quantifiable. Significantly, it speeds up business decisions so that companies can operate more effectively and efficiently. He let see how a Speed of Trust management process was implemented at PepsiCo's Frito Lay shortly before the economic recession in 2008. That year saw a significant rise in raw material costs as well as a potato harvest devastated by floods. With such big challenges to overcome trust is put to the test. By having a business framework within which to work Frito Lay was able to exceed all expectations.

"We had five sets of tough decision to make that year but because we could trust each other we could cut through layers of bureaucracy and make decisions faster," said Al Carey, Frito Lay president and CEO. For example market place pricing which normally took 16 weeks was completed in five weeks. Executive wrangling over cost cutting which as a rule took two months were reduced to ten days. As a result, Frito Lay recorded its best profit year for ten years.

Therefore, trust can be implemented, said McGlone, but is has to come from the top down.

For further Supply Chain Council events and the latest SCOR model visit www.supply-chain.org

LambWeston has been working with the standard Sales & Operations Planning (S&OP) method for the past year. However, the manufacturer of frozen potato products is still in the process of learning and perfecting the approach. As part of that process, the board of directors arranged for the entire European management team to spend an afternoon playing the business game known as The Fresh Connection.

LAMBWESTON BRINGS S&OP ALIVE

'EVERY SALESPERSON WANTS TO BE THE BEST AT SELLING'

Niels Meijer, International Sales Manager NW-Europe

The outcome after the first round of The Fresh Connection, held at LambWeston's headquarters in Kruiningen, The Netherlands, was surprising: those participants who had achieved the highest individual scores had performed below par as a team, and team performance is the name of the game – especially in practice. "Every salesperson wants to be the best at selling, but if he does so to the detriment of the rest of the company there's no long-term future," states Niels Meijer.

Bas van Damme was one of the LambWeston participants whose team ranked second after the first round. "In this game, it immediately becomes clear what the consequences of your actions are for others. Collaboration is the key to success," says Van Damme. His colleague Meijer expands on his point. "It's not only your own department that is important, but the whole company, and in fact much more beyond that. It is important to collaborate with suppliers and customers too."

In practice, the benefits of collaboration are not always directly apparent. "Different departments can have conflicting KPIs," explains Van Damme. As Manufacturing Manager, for example, his performance is measured in terms of the yield he achieves from the raw materials. Sometimes, however, he has to manufacture products using raw materials that have a negative impact on the yield. "By collaborating with colleagues from the potato planning department, we might be able to reach different decisions, such as to use those potatoes for products which will achieve the desired yield," continues Van Damme.

Working with a natural product like potatoes – only serves to increase the importance of collaboration. "You sometimes have to deal with unexpected circumstances in the course of the season," says Meijer. "Our customers don't like surprises, they just want consistent quality."

'DIFFERENT DEPARTMENTS CAN HAVE CONFLICTING KPIS'

Bas van Damme, Manufacturing Manager in Bergen op Zoom

OPTIMAL CHAIN-WIDE DECISIONS

Having started with one factory in Kruiningen in 1985, LambWeston now has six factories across Europe, which all introduced Sales & Operations Planning (S&OP) a year ago. "At first, consultation between sales and operations would take place by the coffee machine," recalls John Wiskerke, Director Raw & Supply Chain at LambWeston. "The company's rapid growth has made it increasingly difficult to maintain an overview of the entire chain, so we've had to formalise procedures."

LambWeston's senior management from across the whole of Europe spent an afternoon playing The Fresh Connection. "This game brings the S&OP process alive. Managers experience first-hand how to make optimal chain-wide decisions," summarises Wiskerke. It was a conscious decision to include several HR managers and even a legal expert among the 30 participants, explains Wiskerke. "In order to be effective sparring partners, they also need to have an understanding of these kinds of processes."

The objective – to improve awareness of the necessity to collaborate – was accomplished successfully, despite, or perhaps because of, the exercise lasting only half a day. The rapid feedback on the scores served to intensify participants' motivation levels, which were already high thanks to the game's competitive element. "People still talk about it," says Wiskerke, who is now considering setting up an internal competition for middle management. "If they too understand the wider picture, the implementation of the S&OP process will run even more smoothly."

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GARTNER PRESENTS ITS MATURITY MODEL

HUGE STEP TO ACHIEVE COLLABORATION **within**

The step required to transition from anticipating to collaborating within Sales & Operations Planning is a large one. That was the conclusion drawn from a local session organised by analysts Gartner in Amsterdam, The Netherlands, on 15th November 2011, where Tim Payne, Research Director at Gartner, presented the various stages of maturity of an S&OP process.

In what Gartner calls – to use the military term – a 'VUCA world' (volatility, uncertainty, complexity, ambiguity), there is no process more fundamental to drive predictable earnings than S&OP. "S&OP may not be new, but neither is it easy. Three decades later, process and cultural barriers still impede progress. A lack of transparency is still standing in the way of progress for many companies," says Payne. "Another issue is the use of technology in support of S&OP. No one tool is available today that supports the total needs of a mature S&OP process."

Huge step

To illustrate the different stages of maturity, Gartner developed a model comprising four stages, from tactical to strategic. Stage 1 is the development of an operational plan: drawing up a demand forecast and plan. In stage 2, companies try to anticipate as well as they can: how can they meet the expected level of demand? The third stage includes consideration of the financial impact of any decisions: the financial planning is integrated with the supply chain planning. In the final stage of maturity, a company works with various scenarios: what is likely to happen if...?

Using a list of questions on Gartner.com, companies can determine at which stage of the model they are. Payne: "It is a linear model. You have to pass through each stage in turn – no-one enters in stage 3. However, in practice, not all the steps up are of equal size. Most companies find moving from stage 2 to stage 3 to be a huge step."

Payne concluded by talking about sustaining maturity. He offered a number of tips, including creating the right kind of culture. However, the tips remained somewhat theoretical. Payne referred to a series of research that Gartner had produced. But the session unfortunately failed to conclusively answer the question regarding what companies can do in practice to take the step from stage 2 to stage 3, and to ensure that they don't fall back down to a previous stage.

http://www.gartnerinfo.com/SupplyChainSOP/index.html

S&OP, the single plan and surprises

By Ton de Kok

The first time I learned about S&OP was in 1991, while working as Logistics Innovation Manager at Philips Consumer Electronics. Gerald Davies of Oliver Wight Companies presented this as the missing link in MRP II – and consequently in the business processes that aim to align supply and demand. He emphasised business processes rather than ICT although, of course, ERP was still new at that time and the term APS had not yet been coined.

It was only 15 years later that S&OP popped up again during a discussion with the new Supply Chain Manager Europe of a multinational apparel and shoe manufacturer. He was about to implement an S&OP process to better align supply and demand. His key finding was that, in the three years after i2 and SAP R3 had gone live (at the simple push of a button), the days sales of inventory (DSI) had consistently increased without any increase in finished product diversity. I was not surprised.

Although I am known for being a nerd and include a lot of mathematics when teaching and supporting projects, I consider IT and mathematics as a means to an end. Every problem determines its solution. I consider the S&OP process as a solution to the problem that turnover-driven salespeople tend to sell what is not available, while efficiency-driven manufacturing people tend to produce what is not needed (I exaggerate slightly for the sake of clarity). Putting IT in the centre of the universe creates naïve solutions like 'the single plan', i.e. the sales plan drives all activities in the supply chain and preferably in detail: Advanced Planning & Scheduling systems produce the production schedules from there. This single plan created increases in stock numbers at a large food manufacturer within a year of implementation.

I love multiple plans, as long as they serve a purpose. People should be aligned, not plans. I have run several in-company S&OP workshops over the last five years. My advice: meetings, Excel and 'KISS'. So far, no complaints. Just a means to an end...

Ton de Kok, Professor of Operations Planning and Control at Eindhoven University of Technology, Department of Industrial Engineering and Innovation Sciences and Director of European Supply Chain Forum

escf European Supply Chain Forum

Marnix Tax (1960, Nijmegen) lives in Beuningen with – part-time – Jasper (18) and Floris (15)

Education: Biology, Wageningen; Logistics Management Nevem; Supply Chain Management Nijenrode Business University

Career: 1991 – Present Sara Lee:
1991 – 2000 Several positions within supply chain management, Veenendaal
2000 – 2005 Manufacturing Director Oral Care, Amersfoort
2005 – 2007 Supply Chain Director Netherlands, Utrecht
2007 – Present European Supply Chain Development Director & Value Stream, Utrecht

In the twenty years that Marnix Tax has worked at Sara Lee, he has been a part of intensive corporate integration as well as witness to the enterprise´s latest plans for Douwe Egberts. "We have made such widespread and significant improvements over the years that we have established firm foundations for the supply chain on which to build an autonomous coffee and tea division." There is no doubt in this European Director of Supply Chain Development & Value Stream's mind that the hard work has paid off.

By: Edith Kok | Photography: Ton Zonneveld

Marnix Tax, European Director of Supply Chain Development & Value Stream at Sara Lee:

"Our Lean Office approach makes us unique"

Foto's: Ton Zonneveld


1889
1937
1953
Douwe Egberts wordt 'Koninklijk'
1963
Douwe Egberts, één van de eerste adverteerders
COFFEE

Established in 1939, Consolidated Food Corporation from Chicago changed its name to that of its most popular brand in 1985: Sara Lee. The Sara Lee/DE brand had been around since the previous year, and in 1987 the multinational took over Akzo´s body care and household products, which Akzo itself had acquired from Kortman Intradal. In 2009, Sara Lee sold this division to Unilever. Sara Lee now employs some 20,000 people and has a turnover of nine billion dollars.

In The Netherlands, Sara Lee is best known for its Douwe Egberts, Senseo and Pickwick brands. At the beginning of 2011, the company announced that it hoped to give the coffee and tea division autonomy in 2012, led by former Numico top man Jan Bennink. The turnover from this division amounts to approximately 37% of the company´s total turnover.

Marnix Tax is based out of Sara Lee's head office for Europe and western Asia in Utrecht, The Netherlands. He is directly responsible for his own corporate team of 20.

When were you first faced with integration?

"In 1998. We were struggling to make the most of our size and scale. Douwe Egberts, Intradal...it was a mixed bag of businesses whilst what we needed were chain-wide, uniform work processes. From '98 onwards, my team developed the blueprints for these in terms of aligning the purchasing processes, and subsequently put in the groundwork for our decision to switch to SAP. It was a mammoth and constructive task yet strangely unsatisfying, since there was no sense of it having a direct impact on performance. That's why I was thrilled to be given the opportunity to become

PORTRET

Work and travel: "I am in the office in Utrecht, Mondays to Thursdays, from quarter to nine until six. On Fridays I work from home. On average, I spend one day a week on the road. That used to be two. Since 2008, we have been cutting back on unnecessary travel. If we need to schedule a two-hour meeting, we will try scheduling a conference call first, whereas previously I would have flown to Paris or Barcelona to meet in person. Sometimes I´ll have a conference call with twelve or fifteen other people, which is fine as long as you have a good rapport, everyone is well prepared and you let everyone finish their sentences. I don´t use the laptop much in the evenings, and at weekends work is banned."

Transport: "I´m not really interested in cars. I drive a Volvo V 70 station: lots of room for my sailing gear."

Hobbies: "Sailing! I used to take part in competitions when I was a student, mainly in a Vaurien, which is a two-man dinghy, but I haven't lost my passion for sailing since. I sign up for a week's sailing every year. Six of us go out on a boat and we realise again and again just how important it is for the members of the team to be able to anticipate each other's moves. I regularly rent a boat with the kids too. I prefer this to having my own boat and having to worry about maintenance and the obligation of using it all the time. Each of the boys has his own Splash, a small boat. I like to get

> "Studying Lean Manufacturing is one thing, but implementing it on the factory floor makes it much more tangible."

product director of the Oral Care toothpaste factory in Amersfoort soon afterwards. The contrast was vast. Up until that point I had been managing teams of about fifteen people, but this gave me the responsibility of leading a team of 120.
Downsizing had reduced staff numbers by half just before my arrival, and the employees who remained had been through a rough time. The cuts were part of a wider reorganisation process across our manufacturing plants. I was given enough money to invest and to realise volume growth. This was essential because we wanted to grow not only our A-brands, but also our private label products, and that only works in large volumes. This provided an incentive to work harder, which I am a fan of. We went from two to three shifts. Above all, the transition to Lean Manufacturing turned out to be an eye-opener – studying the theory of it is one thing, but implementing it on the factory floor makes it much more tangible. Especially considering all of the practical changes that we implemented, like the introduction of downtime tracking and more visible adjustments such as tool carts organised according to Lean principles. Employees gained a greater sense of responsibility, started adapting their own production lines and carrying out simple maintenance work themselves, etcetera..."

Then you became Supply Chain Director for The Netherlands...
"And I was given the opportunity to align the supply chain expertise within each of the various divisions by creating a supply chain shared service unit. During this reorganisation, we brought together 27 employees from Household & Bodycare, twenty from Coffee & Tea (Retail) and thirteen from Coffee & Tea (Out of Home). Prior to this, they had worked in sales, production and finance and their methodologies were distinctly different, especially when it came down to the details. The supply chain planning on the retail side of Coffee & Tea, for example, was completely different from that of Bodycare, particularly in terms of promotions. To make the most of our size, in other words to combine our functional expertise, we harmonised the methodologies into best practices and formed a process-oriented supply chain organisation. By formalising our services to marketing and sales in contracts, including prices per activity, our internal clients became more conscious of the costs associated with supply chain complexity. This led to a large-scale complexity reduction programme which enabled us to reduce our supply chain costs considerably. We were able to shrink our product range by 17% without our turnover suffering, and optimised it to such an extent that, in the end, we were making more profit per SKU. 37% of the savings came from logistics, 11% from personnel costs, 17% from cost prices and 35% from the cost of inventory."

To what extent is your work as European Director of Supply Chain Development & Value Stream a consequence of this?
"Very much so. We have eleven European countries with 360 supply chain professionals; The Netherlands being the largest with 60. Each country was already reporting on all of its supply-chain related activities to the European Supply Chain Vice President. We simply turned it into a matrix: staff report on the improvements in performance concerning internal and external clients up the hierarchical chain, whilst process performance indices such as

involved and give them sailing lessons and I used to be a hockey coach. I love to play the piano. I always wanted to play but put my career first, until one day, around my 35th birthday, I heard someone say: Never put off till tomorrow what you can do today. I called the music school from the car and have been playing classical music, pop and jazz – and loving it – ever since. I also like to play tennis occasionally and I go to the gym regularly. When it comes to holidays, we enjoy agritourism in Tuscany and camping in the French Alps."

Culture: "I have a soft spot for music. If we are organising workshops for the team in the middle of nowhere, I'll spend the evening before, picking music that best suits the atmosphere I want to create. Personally, I enjoy listening to Sting, Bløf, Mercedes Sosa and Anouk as well a lesser-known artists such as Ruben Hein and Marieke Jager. I hardly watch television, certainly not in long stints: afterwards, it always feels like you have eaten an entire jar of liquorice allsorts instead of dinner. I like to watch arthouse films at the Lux cinema in Nijmegen."

Reading: "I don´t read as much as I would like to. I was captivated by Child 44 by Tom Rob Smith because of the way it probes into the oppression caused by the Stalinist regime. My most recent discovery is Jonathan Franzen, a great American writer. I always enjoy reading Paolo Coelho, especially because of how his life experiences get you thinking about your own. And then there is Herman Koch, Nicci French…psychological thrillers that are great for taking on holiday."

Professional inspiration: "I'm not the kind of person who devours business books. I find trade meetings and industry events much more inspiring. Take GS1 for example. I've attended regularly since 2005 and am a member of the committee and co-chair for the Efficient Replenishment steering committee. We learn a lot from each other and there is always an opportunity to team up with others when you´ve been struggling on your own. That's why I am a great supporter of bundling resources.
When feasible, I like to visit the AIM´s European meetings, every other month in Brussels, and occasionally the ECR Europe Supply Chain steering committee meetings. I don´t tend to go to conferences very often, but the ECR ones are pretty good. I´d rather work towards results than listen to other people´s arguments. They never quite manage to encompass what really makes or breaks success. Similarly, I can´t think of any one person or company that I am inspired by, but I can think of an organisation: the Van Laarhoven Commission – coordination at a government level to bring parties together for the bundling of resources. Fantastic!"

Society at large: "I don't really do very much to help society outside of work but I am interested in the environment in general, which is almost second nature having studied in Wageningen. I do find an outlet for that at work, by promoting sustainable transport."

▶ "Planners have been asked to switch to standard schedules with weekly planning activities."

demand forecast accuracy, perfect order ratios, etc, are reported through the functional reporting line. Each process has an international business process owner who manages a network of country-specific business process owners who in turn, and collectively, report to me. More specifically, this relates to processes like supply chain planning, order to cash, purchase to pay, make to demand, and logistics. Whilst my colleague in the hierarchical reporting structure focusses on what the countries are doing, I focus on how they are doing it. We both report into the Senior Vice President of Operations."

What is currently your biggest challenge?

"Speeding up how quickly we can get goods through the chain. After the coffee has been picked, it takes 187 days to get it into the shops, and that's far too long. We have examined everything: transport times, inventory, the stages needed for processing. Right now, I'm not in a position to say how many days we can reduce it down to. We know that the major gains can be made in our inventory, we need to create more flow. We work to the Lean principle of 'EPEC': we make every product, every cycle. We have even transferred these principles to the office which is particularly interesting: Lean demand planning. In doing this, we have brought the sales and the production planning down from a one-month to a one-week cycle. Demand planning, in particular, was not in sync with production. If it is even one day too late, production will literally be sitting and waiting for it. All of these activities have now been synchronised."

How unique is it to adopt Lean principles in the office?

"Very. I was giving a presentation on the topic and the audience certainly seemed very interested. A factory is much more receptive to Lean principles because its working with standard procedure is accepted, but people working in office environments are generally highly educated and, on the whole, much less enthusiastic about the idea. Perhaps it's better suited to Japanese culture than the culture here in Europe. Each of our countries is actively implementing Lean principles and we have asked our people to let go of local methods. Planners have been asked to switch to standard schedules with weekly planning activities, for example. It has been hard work getting everyone used to the new routine. One essential element in doing so involved monitoring to spot any deviations from the activity schedule, then identifying the root causes and eliminating them. Ultimately, everyone is positive as long as things go smoothly, which means we can focus on delivering added value instead of focusing on the difficulties. Having said that, it is impossible to monitor everyone, all of the time. That involves too much bureaucracy and often creates resistance. However, I am planning on repeating the monitoring process now and again. Don´t worry though, I'll still allow staff enough time to take their tea and coffee breaks!"

Have you booked demonstrable results?

"We've been working to Lean Office principles for two years now. Between 2008 and 2010, our inventory level went from 34 to 40 to 32 days; the 40 day mark was when we were working to the 'every product, every cycle' principles, and it is normal in such cases for the length of time to rise temporarily. During the same period, the service level also improved, going up from 97.4 to 98.6 and then up to 98.9 per cent. In our sector, 97.4 is dreadful. Customers notice it because items are out of stock, which is not the case at 98.9%."

Now the company's working on making Douwe Egberts autonomous again...

"We haven´t been able to leverage as much scale for the business as we had hoped, which means we are going to have to manage Douwe Egberts differently from now on: quicker responses, greater focus on fewer things, a simpler structure, etc. This is also why I'm going to be spending the next two years leading a project team for the reorganisation of the processes, structure and systems in the areas of production, supply chain and purchasing. In other words, we are going to be redesigning, again, but we will not be throwing away everything we've achieved so far. More importantly, we have made so many changes over the past few years, and created such firm foundations for our supply chain, that we can be confident in our success."

It still feels like back to square one.

"Buying and selling parts of a business does indeed seem like a waste of resources. Moreover, people tend to become emotionally attached to a business and its way of doing things, which is something we don't always appreciate sufficiently. However, it does come with a number of advantages. Every integration leaves a footprint behind, including a lot of good things which allow the business that remains, or becomes autonomous, to grow a bit more. Someone recently pointed out to me how many different companies have owned the Zendium brand, which is very close to my heart because of the time I spent at the production facility in Amersfoort: first Akzo Consumer Products, then Kortman Intradal, Sara Lee and now Unilever. And at that moment, I realised that it's not so different from life: you move house, you get a new job...it's a lot like the circle of life!"


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Beyond the match in supply chain

Sales & Operations Planning (S&OP) is a multi-disciplinary process in which the various business disciplines work together in attempting to balance forecast demand levels and manufacturing volumes. In view of a shift in focus from unequivocal operational excellence to integral business optimisation, it is becoming increasingly difficult for the supply chain manager – who is traditionally responsible for S&OP – to align these two aspects. How are various companies approaching this in the Netherlands? And which factors are holding them back in the growth process?

By Caroline Jooren

A discussion of the maturity of S&OP and forecasting

Managing supply and demand volatili ty

In the 2011 *Supply Chain Officer Report,* 80 percent of the respondents rated 'Demand Management' as being very important in maintaining customer satisfaction. An effective S&OP process is crucial to companies being able to optimally forecast, and even regulate, product sales levels. But during our round table discussion of S&OP and forecasting, held on 5th October 2011 in Bussum, The Netherlands, it emerged that the way in which S&OP is implemented, and its stage of maturity, varies from one company – and even from one division – to another. This session, jointly organised by *Supply Chain Magazine* and SAS, brought together 12 supply chain professionals to discuss the current status of S&OP and forecasting, and the key challenges they face.

Shift from supply-to demand-driven

Charlie Chase, the chair of the session and author of the book *Demand-Driven Forecasting*, reflects on the rise of S&OP. "The supply chain has changed radically in the past 25 years. Back when demand was relatively stable, it made sense to focus on operational excellence. As a result, companies came to associate the term 'lean' with supply chain management. However, the economic crisis and events such as the Icelandic ash cloud and the tsunami in Japan have demonstrated that operational excellence can quickly turn into inflexibility – with all the associated costs. Companies should instead be focusing on customer excellence, and designing and developing a demand-driven supply chain. Since it usually costs more to underutilise manufacturing capacity than it does to hold surplus stock, it is necessary to collaborate internally on proactive S&OP and 'demand shaping'. It definitely pays off to work on a demand-driven approach, especially since past trends provide an insufficient basis on which we can predict the future."

S&OP is the process in which the critical business disciplines make the key tactical decisions jointly so that these remain in line with the strategic plan – based on as accurate a forecast of the demand as possible. According to Chase, this addresses three objectives: "Picking up demand signals more quickly, adapting the supply chain to fluctuations in demand more rapidly, and synchronising demand and supply by using levers such as pricing and promotion or by bundling products and services – the latter with less stock, waste and working capital and higher customer service levels." He states that the optimal S&OP equation contains the following components: sales, marketing and operations/finance. If all three components are in balance, the company has achieved market-driven status, and demand and supply are optimally aligned to achieve the company's strategic objectives. All the

participants in the round table discussion agree with this, but the burning question is how to achieve that balance?

Diversity

One useful tool in assessing the maturity of a company's approach to S&OP is the Gartner S&OP Maturity Grid. According to Martijn Lofvers, Chief Editor of *Supply Chain Magazine*, conversations with Dutch companies suggest that many of them are still at stage 1 ('reacting') or stage 2 ('anticipating') or somewhere between the two. Many participants around the table affirm that they are still struggling with balancing demand and supply tactically. Only a handful of those present say that their companies, or one or more divisions, are at stage 3 ('collaborating') or stage 4 ('orchestrating'). "At Medtronic, the stage of S&OP maturity varies per division," says Director of Supply Chain, Frank Schaapveld. "This can be apportioned to the diversity between the business models, to supply and demand volatility, and to the organisational structure of the different divisions."

The S&OP process is often separate from the annual budget cycle, and there can be confusion about the Key Performance Indicators linked to the process. Another challenge is that the various colleagues involved want to discuss matters at different levels of detail and work with different planning horizons. "How can companies move from a volume-driven supply and demand alignment to a profit-driven S&OP process in that kind of situation?" wonders Maarten Bánki, Design and Implementation of Global Sales & Operations Planning at FrieslandCampina. According to Chase, it is necessary to have a planning hierarchy in place in order to arrive at just one plan and one version of the truth. "Other prerequisites are an effective governance structure with clear roles, an understanding of responsibilities and mutual agreements."

FRITS SCHAAFSMA (DANONE):
"S&OP is different voor each organisation and even each region."

Breaking the habit

Frits Schaafsma, Supply Chain Director at Danone/Numico, comments that it is important for the supply chain department to speak the company's language: finance. "Talk in terms of turnover, costs, profit and loss," he says. Several participants are experiencing communication gaps within the S&OP process due to their various internal departments speaking different 'languages'. It is also proving difficult to break the habit of functional thinking. Furthermore, the characteristics and priorities vary per department, as do the dynamics and scope of the planning process; the sales department talks in terms of turnover per product group or customer group, production in terms of capacity planning, supply chain in terms

of the desired stock levels and the finance department in terms of budgets and profitability. Sales wants flexibility, marketing wants the rapid launch of new products, production strives for efficiency, finance wants cost reductions and supply chain wants to receive more accurate forecasts...

Time to get analytical!

In order to align the levels of available stock and the production planning with demand, it is necessary to have accurate product-level demand forecasts that are based on reliable data. Jorg van Geest, Center of Excellence Demand & Inventory Management Europe at Nike, explains that his company introduces four collections every year, each containing lots of new products. "This necessitates a creative approach to forecasting. Historical data is not always relevant. We're currently in the midst of a pilot project around the issue of ranking, for which we've enlisted the help of merchandisers."
Patrick van Loon, Business Solutions Manager Supply Chain Intelligence at SAS Nederland, suggests that analytical tools play a key role, not only by improving the forecast itself, but more particularly by providing insights into the impact any instinctive adjustments would have on the forecast. This results in decisions that are well-founded and, perhaps even more importantly, consistent over time.
Several participants are trying to find ways of heightening the involvement of their sales and marketing departments in forecasting demand. Would a bonus system help to improve the reliability of a forecast, perhaps? According to Chase, it is particularly important to gain insights into the impact of demand forecasting on customer service levels, inventory costs, turnover and profitability. "You can include 'Improving forecast accuracy' as an objective in the bonus system, but don't attach any measurable goals to it! Instead, it's better to shift into 'analytical mode' by using statistical data, advanced models and scenarios – introduce more intelligence into the forecast and strive for optimal user-friendliness. This means you'll be generating and supplying precise forecasts which people will only be allowed to adjust if they can influence the sales volume by demand shaping." This will ultimately result in improvements when it comes to setting strategic objectives such as market growth and profitability.
Aad Ramondt, European Planning & Distribution Director at InterfaceFLOR, sees an important role reserved for scenarios. "Scenario planning is a powerful tool for achieving flexible planning in the multi-disciplinary S&OP process and for ensuring that decisions are considered from all angles. It is a way of examining 'what if' situations quickly and accurately. You might also have to be able to explain how quickly you can increase capacity, for instance." Thanks to powerful tools

ANTOINE LECLERCQ (NXP SEMICONDUCTORS):

"S&OP forces you to work as a team."

FRANK SCHAAPVELD (MEDTRONIC):

"The stage of S&OP maturity varies per division."

"Illustrating the impact of the supply and demand side on the financial objectives is crucial for sound decision-making."

SALES & OPERATIONS PLANNING MATURITY

Strategy	Stage 1: Reacting	Stage 2: Anticipating	Stage 3: Collaborating	Stage 4: Orchestrating
Balance: S&OP				
Goals	Development of an operational plan	Demand and supply matching	Profitability	Demand sensing & shaping

TACTICAL → STRATEGIC

Source: Gartner

such as SAS Demand Driven Forecasting, advanced data analyses can be integrated into the S&OP process, and it's easy to run through and compare several different scenarios, says Patrick van Loon. This enables the supply chain manager to react quickly and effectively to the increasing level of demand from other disciplines, and allows senior management to offer insights into the impact of the various alternatives on the company's supply chain performance within no time. This is the only way to achieve total, integral, business optimisation.

Integrated Business Planning

"Successful S&OP evolution is made up of 60 percent change management, 30 percent process change and is 10 percent technology driven," says Chase. "The more volatile the demand, the more advantages a well-designed S&OP process offers. Broader participation in forecasting demand and structural meetings about managing demand lead to better decision-making. It can be compared to flying a plane: the closer you get to your destination, the more focused you are. Only around ten percent of all companies have a system in place for demand shaping and scenario planning. And it is of the utmost importance to combine it with product and market knowledge."

Ultimately, it's about Integrated Business Planning: connecting the company's key planning processes – perhaps even under the auspices of a neutral coordinator, such as the supply chain controller? Structured and multidisciplinary collaboration pays off, according to the experiences of Antoine Leclercq, Logistics Director at NXP Semiconductors: "We used to have four plans: operations, finance, marketing and sales. Now, the individual objectives have been aligned, which makes it much easier to discuss and manage them. S&OP forces you to work as a team, both in terms of fine-tuning the plans and adjusting the expectations."

Senior management involvement

Many companies that are still struggling to balance supply and demand are not sure how to integrate S&OP with the company's strategy and objectives. According to Hylke de Cock, VP Supply Chain at Philips Lighting, S&OP is at the very heart of his company's planning processes and everything is well organised. "As a result, it's a process that reacts increasingly quickly. Our challenge now is to ensure that S&OP achieves a real top-of-mind position at senior management level." Full involvement of senior management is crucial to complete the circle from strategy to operations.

Maarten Bánki underlines the importance of rolling financial forecasts based on a balanced Sales & Operations plan and Financial Gap Analysis: "Illustrating the impact of the supply and demand side on the financial objectives is crucial for sound decision-making."

"Validating forecasts is very complex," cautions John Sookias, Managing Director Europe at Steelwedge. "The question of how to translate decisions on the supply and demand sides into financial implications is the most important point for discussion within S&OP."

One size doesn't fit all

"There are hundreds of reasons why the levels of maturity vary between companies and divisions," concludes Frits Schaafsma. "S&OP is different for every company, and even for every region. Influencing factors include the business model, the company's complexity, the number of different products, the sales pattern, the inventory costs and the risk of stock becoming obsolete. Does production follow a 'make to stock' or 'make to order' principle?"

The common denominator is that S&OP is an ongoing process of improvement that is not the responsibility of the supply chain department alone – which is why all the participants appreciated this opportunity to share their experiences. "Definitely to be continued," predicts Martijn Lofvers.

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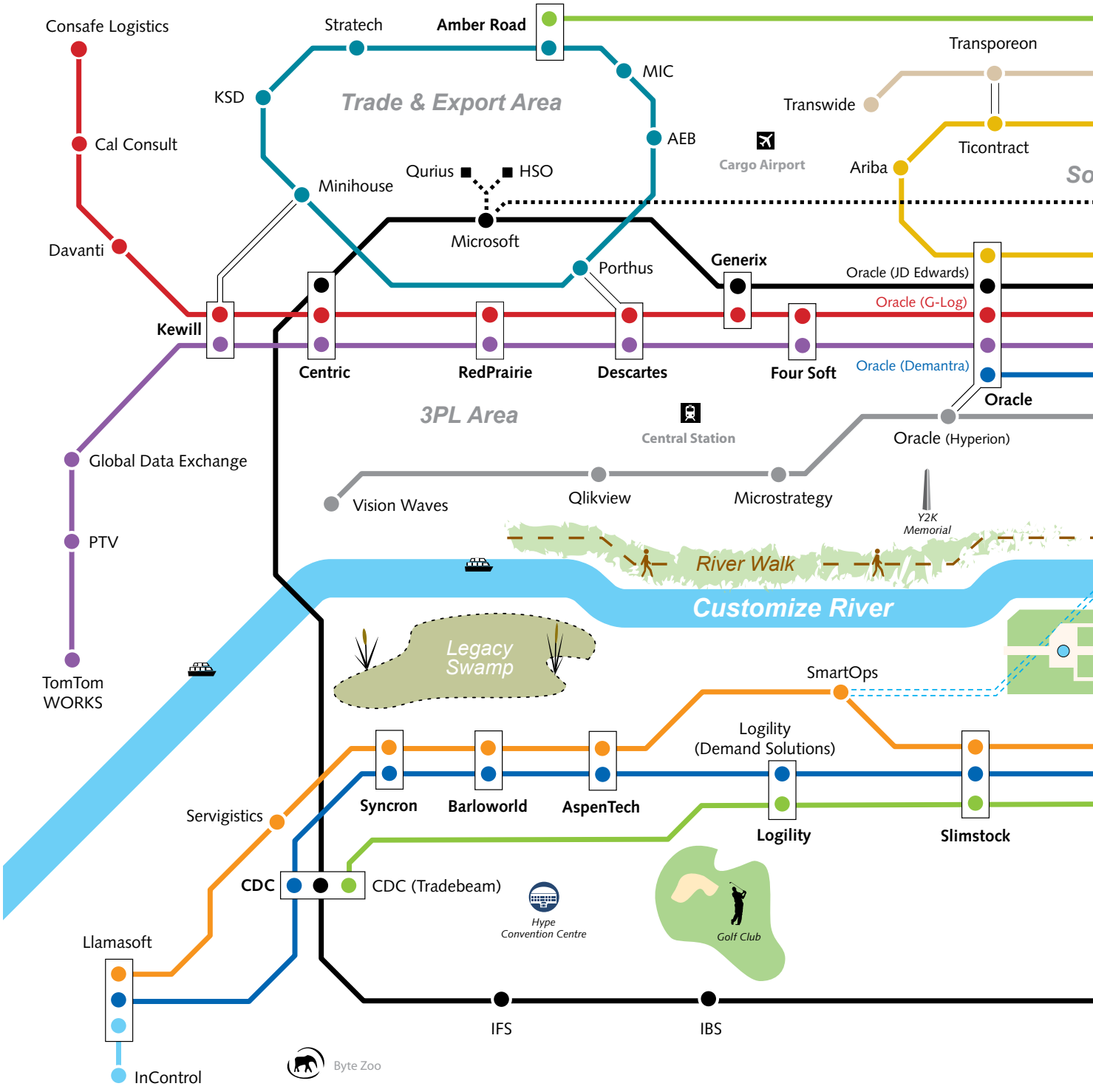

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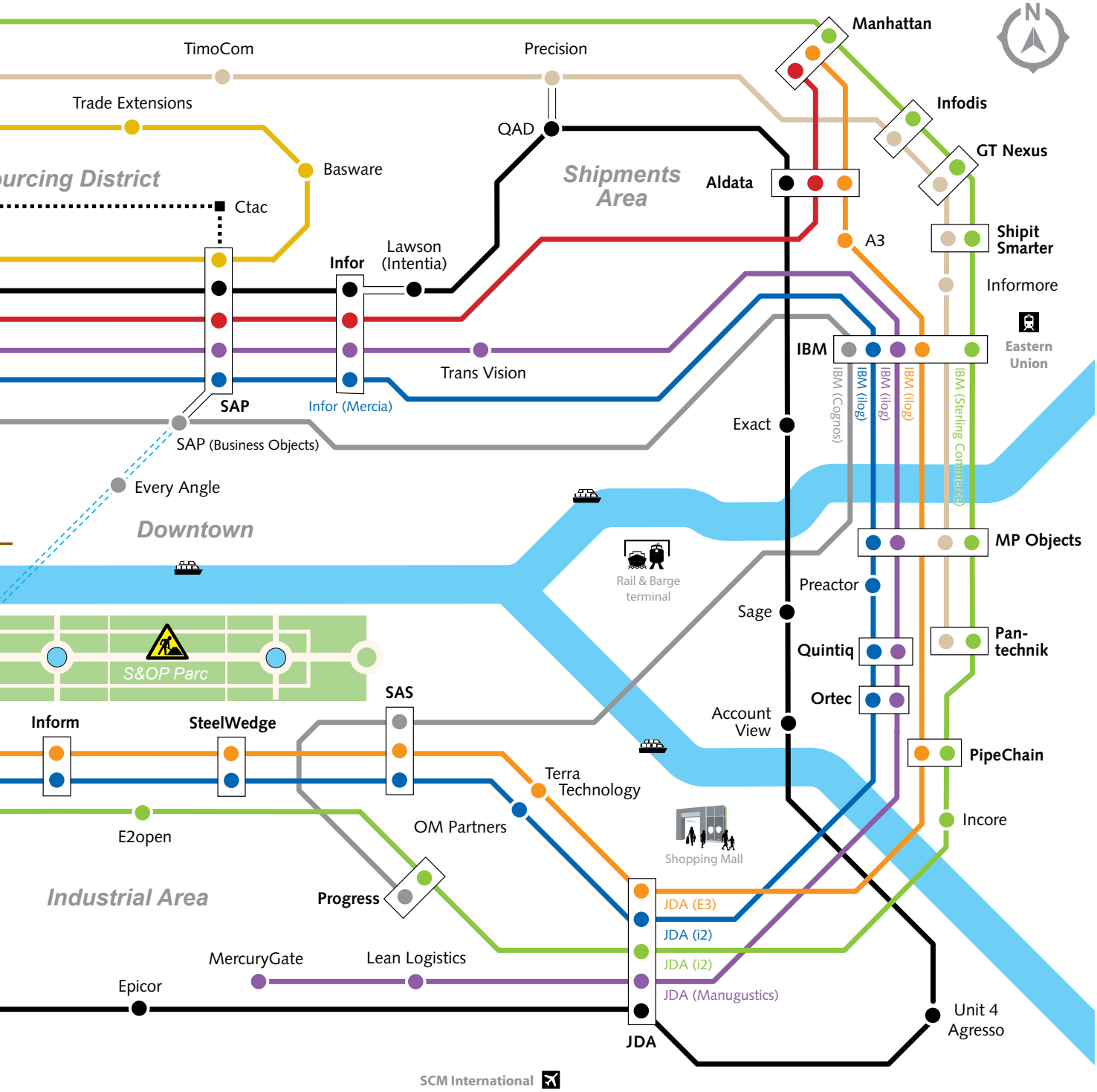

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It seems like almost everybody's doing it: Sales & Operations Planning

Beware that gaps don't become pitfalls

One-way transmission has the upper hand in many companies. The sales department fulfils its duty by issuing a forecast every month, and then it's up to supply chain colleagues to see how they go about meeting the demand. There's no sign of interaction, let alone integrated decision-making. Sales & Operations Planning (S&OP) is intended to change all that. The art is to identify – and close – the gaps between demand, supply and financial planning. Many companies claim they are working on S&OP, but to what extent?

By Marcel te Lindert

The first people to mention sales, operations and planning in one breath were consultants from Oliver Wight. That was back in 1981. Now, some thirty years later, Sales & Operations Planning (S&OP) appears more popular than ever. "The idea fell out of favour in the nineties, but is enjoying a renaissance now," explains Dave Manning, a consultant from Oliver Wight. Manning can only speculate as to the reason behind this new-found interest. "I guess, in challenging economic times, companies look for ways to gain more value from their activities. A recession forces companies to re-examine themselves."

In The Netherlands, the consultancy Involvation has emerged as one of the advocates of S&OP, not least thanks to its popular online business game, The Fresh Connection. When asked about the cause of S&OP's current popularity, Alfons Willemsen from Involvation likewise cites the economic crisis and, perhaps more importantly, the subsequent recovery. "When the crisis hit, most companies' first reaction was to reduce stock levels in order to free up working capital. As the state of the economy began to improve, it became apparent that many companies had reduced stocks too rigorously and they then had problems supplying. It's obviously not as easy as it would seem."

Next generation

Nowadays, instead of S&OP, Oliver Wight prefers to use the term 'Integrated Business Planning' (IBP). "The cynics among us might call IBP just a new way of selling S&OP," said Manning during a congress in Prague in June 2010. "And in a way they'd be right. But we've rebranded it to make sure that the idea has really evolved, which it has. IBP is the next generation."

It is evolutionary insofar as it completes the circle in a cyclical process. As the term suggests, S&OP is primarily about aligning the sales planning and operations planning, whereas IBP is broader. "It is a management process carried out on a monthly basis which sees the integration of product management, demand management, supply management, financial management and business strategy. It may not be the only management process within a company, but it is certainly the most important one," Manning explains now.

Both terms are often used interchangeably, but whether you call it S&OP or IBP, two elements are essential. The first is the focus on the medium to long term, with the ideal planning horizon being 24 months. "We need to be able to foresee the consequences for the next financial year at any point within the current financial year. We're not interested in the problems for the next three months – there are other business processes that do that," claims Manning.

The second element is what Manning calls 'gap closure'. It is about signalling any gaps between the various disciplines' expectations, and then closing them. And it's that last step in particular that companies can forget. "They're happy if they can get everyone to agree on the fact that there is a gap. But it's all about actually making decisions."

Why does he think S&OP is necessary? "Because without S&OP, there's no integration between the different disciplines – everyone is focused on doing their best for their own department, but that isn't automatically the best for the company as a whole," replies Manning.

Continual process

Echoing Oliver Wight, Involvation also regards S&OP first and foremost as a deci-

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> "You don't want to have to wait until the monthly S&OP meeting."

sion-making process. "It's about ensuring that the various disciplines take a joint approach to making the best decisions for the company," explains Willemsen. "The whole supply chain is teeming with trade-offs, and there's often more than one right answer. That's why it's so important to make the right choices together." Asked to give an example of a trade-off, Willemsen names having to choose between optimising profit and reducing stocks: "If you choose to optimise profit, you can run your manufacturing operations at full capacity but with the consequence that stock levels will rise along with profit. If you choose to reduce stocks, on the other hand, you can restrict production levels, but that will also generate lower profits. These are fundamental decisions which can only be made by senior management."

According to the Oliver Wight integrated business model, S&OP is a monthly process consisting of a total of five sessions in which several disciplines come together to make decisions (see box). However, one of the most common mistakes is to regard S&OP merely as a monthly cycle of meetings. In reality, it is a continual process that runs 24 hours a day, 7 days a week. The meeting sessions should merely function as a framework within which to make the decisions that employees have been preparing the groundwork for in the days in between – by generating and consolidating forecasts, determining stock levels and such like. "Another pitfall is to delegate attendance of the meeting to members of lower management who do not have decision-making authority. Rather than being about sharing information, such sessions are about actually making decisions," says Manning.

Commitment

Thorough preparation between review sessions should also succeed in preventing the meetings descending into endless discussions about the validity and reliability of the figures. If participants do find themselves caught up in such discussions during an S&OP session, that is often the sign of a different problem altogether: lack of mutual trust and lack of commitment from the disciplines in question. "Any time and energy spent discussing figures is counter-productive. You need to put a stop to it as quickly as possible," states Willemsen.

This highlights the importance of commitment from all the disciplines involved. S&OP must not come to be regarded as a project of the supply chain department, that simply wants to know what order level it will have to deal with. "After all, it's a management process, not a supply chain process," says Manning.

Commitment also means that those involved not only need to agree to a plan, but also need to execute it. Following a session, it has been known for something unexpected to happen in the market or in the chain, and for the various disciplines to respond differently than agreed. Any mutual alignment has then gone out of the window. "Commitment is all

FIVE STAGES OF IBP

As Oliver Wight envisions it, Integrated Business Planning (IBP) can be divided into five stages or 'reviews'. The purpose of each review is to identify and evaluate any changes that have occurred in the past month. The purpose of each related session is to make decisions.

1 Product management review

The product management review is all about the product portfolio. Are new products in development? Are there any products we can say goodbye to? What marketing campaigns are lined up? Typically, a product management review session will be chaired by the head of the product management department, with R&D and marketing managers in attendance. Examples of gaps could be that the new product development pipeline is insufficiently filled with innovations to meet the strategic objectives, or that new product launches are facing delays.

2 Demand review

In the demand review, the focus is on the expected level of demand. Which regions are lagging behind? Which customers are likely to order more? What impact are economic developments having? Chaired by the head of sales, people from product management should be among the attendees – if the expected level of demand falls short of the objectives, it could make sense to bring certain product launches forward, for example.

3 Supply review

What is the status of capacity at the manufacturing and distribution facilities? That's the key question in the supply review. The purpose of this review is to align manufacturing and distribution capacity with the expected level of demand (demand review). The question is, what can the supply chain department do to close any gaps? Which product groups do we need to manufacture more, or less, of? Should we switch from three to five shifts? Do we need to hire extra storage capacity? This session is chaired by the head of operations or supply chain management.

4 Financial review

This review produces the overall picture: the volumes discussed in the demand and supply reviews are translated into financial terms. Are we still on track to meet the sales and profit targets? And if not, what can we do about it? Can we stimulate demand? Can we reduce costs in the supply chain? This process could be chaired by the financial controller.

5 Strategic review

This final session is joined by the entire senior management team. Their role is to check that things are moving in line with the corporate strategy. This is also the time and the place for decisions to be made on matters which fall beyond the remit of the managers who have been involved in the review process so far – decisions about entering new markets, closing manufacturing plants, etc. Needless to say, this session is chaired by the CEO.

about trust. If the mindset is good, it creates an atmosphere in which people have the courage to challenge one another and actually want to work together," explains Willemsen.

Another danger is that, despite the long-term planning horizon, companies give in to the temptation to discuss the short-term perspective. "Once seated around the table, it can be very tempting to first quickly cover a pressing issue, such as next week's rush delivery," continues Willemsen. "In that case, senior management will soon lose interest. It's a question of ignoring the side issues to focus on the key issues."

Automatic behavioural reactions

Many pitfalls are the result of biases, a term from behavioural science that is used to describe tendencies, deviations or dispositions. Biases are in fact automatic behavioural reactions to certain occurrences. Since the person in question is not consciously aware of how they react, their behaviour risks being unfavourable or even counter-productive.

Prof. Steef van de Velde from the Rotterdam School of Management at Erasmus University has conducted research into biases in relation to S&OP. He makes the distinction between two kinds of biases: functional biases and unconscious biases. "For an example of functional biases, one can think of operations managers who want to have manufacturing equipment up and running as long as possible, or of financial managers who constantly bang on about lowering the working capital. In the case of unconscious biases, we usually see people who subconsciously interpret, collate or process data incorrectly or who unintentionally react inappropriately to feedback on developments."

Van de Velde has plenty of examples of unconscious biases. Being optimistic by nature, for instance, people always have the tendency to overestimate new products' sales levels. The amount of time needed to reach such levels, on the other hand, is usually underestimated. And people tend to place a greater or lesser focus on stock levels, depending on the circumstances.

Biases can be very strong, as Van de Velde knows from experience. "Many software systems provide suggestions for stock levels, often based on a forecast which is in itself an assumption. Nevertheless, the suggestions are often overruled, no matter how good they are."

An important key to solving this is to make people aware of their biases. "If people can learn to recognise situations in which biases occur, that provides them with a very powerful line of defence," claims Van de Velde. If that does not go far enough, it may be necessary for managers to intervene – by introducing a checklist or a model, for example. Ask which assumptions they have made, for instance, or which arguments they have used. "People often don't spend enough time on these aspects, or they don't dare to challenge the opinion of someone with more authority than themselves. That's why it's always advisable to ask someone neutral to chair the sessions, who will allow everyone to have their say."

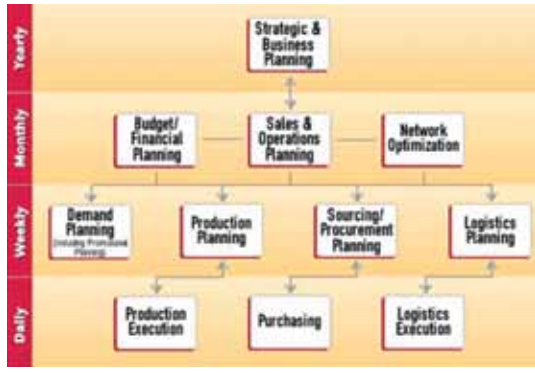
One possible intervention is to assess the personal traits of the people involved, in order to determine their biases. That might lead to some people not being allowed to become involved in certain decisions because of their biases. "But those are extreme measures," says Van de Velde.

Another aspect that contributes to the smooth-running of the S&OP process is creating the right teams. "But beware of 'group thinking', the tendency of teams to adopt extreme standpoints. People think that a team evens out extreme standpoints, but that is often not the case."

Budgeting

When it comes to implementing S&OP, Oliver Wight makes the distinction between three categories. Some companies do not use S&OP at all, while others use an outdated and inefficient form of it. "Those are the companies that are at risk of succumbing to the pitfalls. Thankfully, increasing numbers of companies are taking the right approach," says Manning.

In 2010, Involvation conducted an S&OP maturity scan among 20 companies. It



Supply Chain Processes of Hitachi.

revealed that companies overrate themselves when it comes to S&OP: on a scale of 1 to 4, companies award themselves an average of 3. "In practice, it would appear that many companies are nowhere near as far as they think," suggests Willemsen.

But it should come as no surprise that not all companies have reached the same level of S&OP implementation, according to Willemsen, since its relevance differs from one company to another. "For companies where production is generally running at only 20 to 30 percent of capacity, the issue of S&OP is less pressing than for companies that are at nearly full capacity. And for companies who source everything externally rather than manufacturing their own goods, there is perhaps also less pressure to use S&OP to align supply and demand."

S&OP offers one extra advantage, at the end of the day. Those companies that have got the process up and running will find that they need to spend less time on budgeting for the financial year ahead. Instead of financial planning being a one-off period of time-consuming budget discussions each year, it is simply the result of the S&OP sessions from the previous ten months. "The disadvantage of rounds of budgets is that the outcomes have no sooner been finalised than they are no longer correct," says Manning. "Things are constantly changing, which is why it's better to look ahead all year round."

Excel and ERP

IT tools can help in the S&OP process, especially tools that are good at presenting information and supporting decision-

> "Another danger is that, despite the long-term planning horizon, companies give in to the temptation to discuss the short-term perspective."

Dave Manning (Oliver Wight): "A recession forces companies to reexamine themselves"

Richard van Delden (Wavin): "The product managers' knowledge and experience is just as important."

Erik Brouwer (Perfetti Van Melle): "We try to approach the process from the bottom up as much as possible."

Alfons Willemsen (Involvation): "As the state of the economy began to improve, many companies had reduced stocks too rigorously."

Steef van de Velde (Erasmus University): "Beware of 'group thinking', the tendency of teams toadopt extreme standpoints."

Derrien Jansen (FrieslandCampina): "The major benefit is that there are no nasty surprises."

making processes, just as workflow-based tools can help manage the process. In recent years, large software suppliers such as JDA and Oracle have made considerable progress in the field of S&OP, says Manning. The traditional tools for Advanced Planning & Scheduling (APS) are less suitable. "They're perfectly good at doing what they're meant for, but they go into too much detail for S&OP purposes. APS goes down to individual item level, whereas in S&OP decisions are made at product-group level."

According to Willemsen, a scenario tool can be useful too, especially in the final S&OP session. "A tool which enables you to run through various scenarios during the session itself and to assess the outcomes in relation to the company's objectives can help in making the right decisions."

He has no problem with the fact that some companies are still using Excel. "If that works for them, then that's fine. The risk with advanced tools is that companies come to regard S&OP as a technological solution to their problems, which it's not – it's a process," says Manning, and Willemsen agrees. "Technology is of course important. It's important to work with one set of data, for example. But the role of tools is often overrated. It's much more important to work with the right data and the right people."

Product management

At Wavin, European supplier of plastic piping systems, S&OP is closely linked with the use of SAP APO, SAP's advanced planning and scheduling system. This system generates and consolidates statistical forecasts, and the Distribution Requirements Planning (DRP) module then uses details of the available stock to generate the sales wish list. For the purposes of rough cut capacity planning (RCCP), the module then translates the wish list into a concrete capacity planning for the manufacturing plants and warehouses. "We've been working with APO for the past two and a half years, although not yet in all four of our regions. That is our intention, however, and it's currently being implemented in the UK," says Van Delden, Executive Director Supply Chain & Operations at Wavin Group.

Phase in new products

The central S&OP meeting, where Wavin discusses the gaps between the DRP and the RCCP, takes place in the third week of the monthly cycle. "If we're lacking capacity in the supply chain, for instance, we use this meeting to decide whether we should run an extra shift, hold discussions with our customers or maybe even source products from our sister companies."

When drawing up the sales wish list, product management colleagues get involved too. They know when new products are being phased in, and which customers they will or won't be relevant for. "When making forecasts, we often base the profile of a new product on that of an older product, but that always entails risks. The product managers' knowledge and experience is just as important, if not more so," stresses Van Delden.

But while product management exerts influence on the DRP, the same does not hold true in reverse; it is not the case that product development is speeded up or product launches are brought forward if sales levels are lagging behind the targets. "We have an innovation rate that determines that so much percent of turnover must come from new products each year. That is the KPI that product management is measured against, but it's far removed from S&OP," says Van Delden, also alluding to the long lifecycle of Wavin's products. "Plumbers and installation companies form a fairly traditional sector. Pipe systems in which pipes are melted or glued together are only gradually starting to be replaced by systems with push fittings or rubber seals. Things probably change more quickly in other sectors."

Demand planning

FrieslandCampina started with S&OP some two years ago in its Cheese division, after the merger of the two dairy giants, Friesland Foods and Campina. "We each had our own meeting procedures, of course, which needed to be aligned. So we decided to do it right first time, and within six months we had implemented the S&OP process," explains Derrien Jansen, Manager of Planning & Master Data at FrieslandCampina. "The major benefit of S&OP is that there are no nasty surprises – we don't suddenly face stock shortages or surpluses."

Within FrieslandCampina, the two central sales planners, who are based in the supply chain department, take the lead when it comes to demand planning. They have six meetings in the first week of the S&OP cycle, with the local representatives from sales and finance, the local sales planners and marketing managers, sometimes as conference calls. The meetings are used to discuss the weekly forecasts entered into SAP APO by the local sales planners – who, in contrast to the central sales planners, are part of the sales department. How are the forecasts developing? What are the deviations from last month? What impact have new products or customers had? "We use this moment to examine how we can improve the accuracy of the forecasts by using statistical forecasting methods," explains Jansen.

Accuracy of data

The central sales planners must have completed their demand planning by the Friday of the first week so that their colleagues can make a start on the supply planning on the following Monday. That week also sees a pre-S&OP meeting for middle management, which is used to determine where the current gaps are between supply and demand, and which of them can already be closed by the sales, supply chain and finance colleagues in attendance. In the subsequent S&OP meeting, they are joined by senior management who make decisions on the bigger issues.

SOFTWARE FOR S&OP

The last few years several vendors have introduced software for Sales & Operations Planning. These vendors have mostly further developed existing software for supply chain planning. Only few companies have implemented specific software for S&OP.

Reviews in S&OP-process		1.Product	2.Demand		3.Supply		4.Finance	
		1a. Portfolio analysis	2a. Demand planning	2b. Forecasting	3a. Inventory Optimization	3b. Fintite capacity planning	4a. Gap analysis	4b. Financial what-if
Vendor	**Software**							
Equazion (NL)	Equazion	x						
IBM (USA)	Cognos BI & FM	x					x	x
Infor (USA)	Infor10 S&OP		x	x		x	x	
JDA (USA)	JDA S&OP	x	x	x	x	x	x	x
OM Partners (B)	OM Plus	x	x	x		x		
Oracle (USA)	Demantra	x	x	x		x		
Quintiq (NL)	Quint S&OP		x	x		x		
SAP (D)	SAP APO		x	x		x		
Slimstock (NL)	Slim4	x	x	x	x	x	x	x
Solventure (B)	Zemeter S&OP		x	x		x	x	x

Many companies tend to get involved in discussions about the accuracy of data, in particular around the demand planning. "We've had those kind of discussions too," admits Jansen. "Which is why we developed a standard format for forecasts. Everyone knows exactly what data they need to submit for a forecast and how it should be interpreted."

FrieslandCampina is currently working towards being able to run through and financially assess several different scenarios in 2012. This will enable the company to make better informed decisions. "Within Friesland Campina, we call it the 'Integral Business Management Process' (IBMP). Right now, we're still making decisions that will have an impact on the entire business based on calculations within the individual disciplines, rather than looking at the whole chain."

Pragmatic approach

At Perfetti van Melle, all the elements of S&OP are present. However, this confectionery manufacturer takes a somewhat more pragmatic approach than recommended by Oliver Wight, says Erik Brouwer, Supply Chain Director North-West Europe at Perfetti van Melle. "I get the feeling that S&OP is managed top-down in many companies. We, on the other hand, try to approach the process from the bottom up as much as possible. The only things dictated by senior management are the KPIs and the reporting formats. Wherever we can, we let the actual alignment between the disciplines be driven by the operational situation."

In spite of this, Perfetti van Melle still holds a monthly S&OP meeting which is attended by senior management. "The meeting serves partly to provide reassurance that we are on the right track and partly to help us set priorities when it comes to investments. Switching from two shifts to three is a decision that can only be made at senior level, for instance. In the meantime, we try to let responsibilities be held at as low a level as possible within the organisation, and we give our planners scope to make their own decisions within a certain framework."

This approach makes good tools invaluable. Perfetti van Melle uses an add-on to SAP which enables forecasts to be prepared clearly and simply. The supply planners use a different add-on called 'Every

▶ "The biggest change is that we now think in terms of demand."

BIASES IN S&OP

A bias is a tendency or a disposition. In fact, they are automatic behavioural reactions to certain occurrences. But because these behavioural reactions are automatic, they generally lead to irrational decision-making.
Research conducted by the Rotterdam School of Management at Erasmus University identified scores of biases in S&OP processes. Just some examples include:

Functional biases

- Operations: striving to run machinery and trucks at maximum capacity
- Sales: selling as much as possible
- Product management: launching as many new products as possible
- Finance: reducing working capital

Unconscious biases

- Thinking that you are better or smarter than average
- Underestimating the time required to get something done
- Generally: overestimating turnover from new products
- Underestimating turnover from new products if the previous product was a success
- Overestimating turnover from new products if the previous product was a failure
- Overestimating results at times when business is going well
- Underestimating results at times when business is not going well
- Avoiding risk in the face of opportunities
- Taking risk in the face of losses

Angle'. This gives the planners insights into the company's performance on a day-by-day basis: what are the current stock levels? Are there any factories with a backlog? "The availability of this kind of information is crucial to being able to react quickly to any changes. You don't want to have to wait until the monthly S&OP meeting."
In order to create the right mindset, Perfetti van Melle has given its sales department and its supply chain department shared responsibility for aligning demand and supply. This means that both departments are directly responsible for good customer service and hence both are responsible for sales forecasts and delivery reliability. "They both have a common interest and they arrange to visit clients together, for instance," explains Brouwer. It's no coincidence that the demand planning and supply planning departments are situated next to each other, either. "It may appear to be a minor factor, but it is very important for the contact between the two departments."

Foundations in place

AkzoNobel Decorative Paints is currently involved in implementing S&OP in line with Integrated Business Planning principles. This paint manufacturer has brought in consultants from Oliver Wight to help. "We've been working in this way in the UK for the past three or four years, and our management has now decided to roll out the concept right across Europe," explains Fred Groenen, Manager of Financial Planning & Analysis at AkzoNobel Decorative Paints EMEA.
The product management review and demand review aspects are already operational virtually everywhere, and supply review is also up and running in the relevant countries. "The foundations are in place and the walls are up. Now it's time to put the roof on. The circle is not complete until integrated reconciliation and the management business review have been added to the process," continues Groenen.
The first integrated reconciliation meetings took place in the local countries in October 2011, bringing together the issues from all the reviews with the associated financial projections. These sessions served to lay the groundwork for the management business reviews which – at least in the early stages – were attended by senior management from the country concerned. "The biggest change is that we now think in terms of demand. While that tended to happen before too, we didn't take such a structured approach as we do now," summarises Groenen.

Monthly forecast

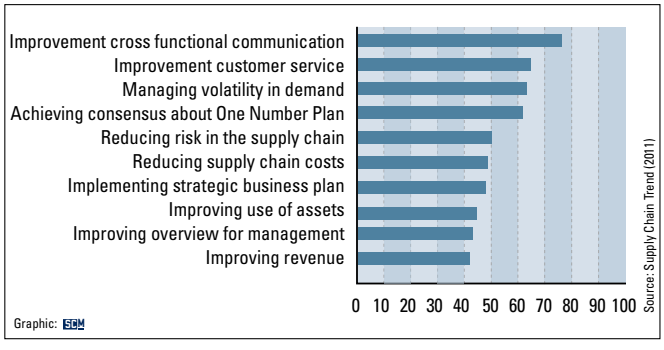
Now, each country submits a forecast each month, and these are consolidated into a demand plan. "And more importantly, we are continually monitoring our opportunities and vulnerabilities. Can we bring a product launch forward if demand is lagging behind? What cost savings can we achieve, if necessary? An example of a vulnerability could be a customer who gets into payment difficulties."
According to Groenen, financial projections are essential. "If you only focus on volumes, you don't consider the impact of those volumes on company turnover, margin and profitability. The financial projection indicates which customer, product group, innovation or opportunity you should prioritise. Naturally, as a company listed on the stock exchange, we're judged on our financial performance."

Financial projections

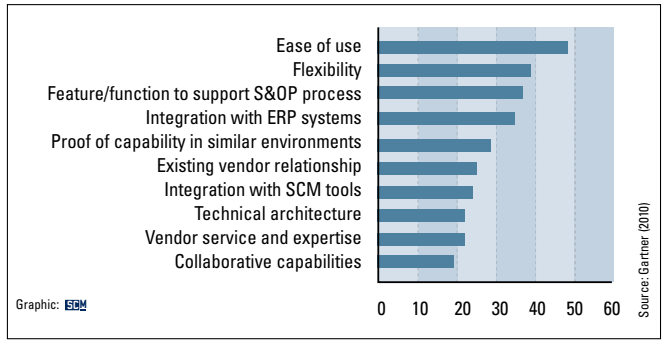
But making a financial projection is no easy task. Sales has to submit details of a product's average sale price and estimate the annual level of discounts, while the supply chain department has to provide input on the average cost price including manufacturing costs, distribution costs, freight costs and stock levels. Combining this with input from finance about sales and marketing costs and overheads enables the preparation of a profit & loss and a working capital forecast. Groenen recommends the use of a good tool. "We currently use Cognos Planning in the UK, but we're also investigating whether we could use SAP BPC. That would be the best solution from an integration viewpoint, seeing as we're also currently rolling out the SAP ERP system company-wide."
AkzoNobel is working with a planning horizon of 24 months for product, demand and supply. "For the financial projections, we take the current and next financial year. And if we've already set budgets for the next financial year, we consider the year after that too," says Groenen, referring to the fact that S&OP also provides insights into the budgetary status. "By comparing the latest financial projection with the one from the previous month during the strategic review, we immediately know how things stand. Plus, this process helps to spread the workload that normally peaks during budgeting and forecasting periods."

Sales & Operations Planning and IT

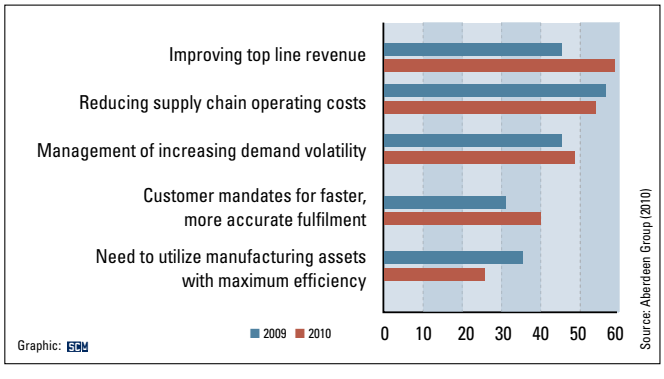
REASONS FOR IMPLEMENTING S&OP



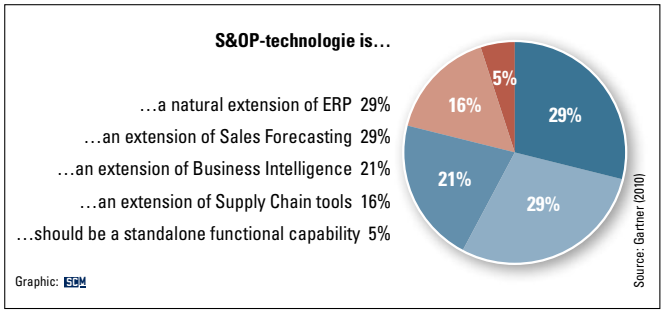
CRITERIA FOR PURCHASING S&OP



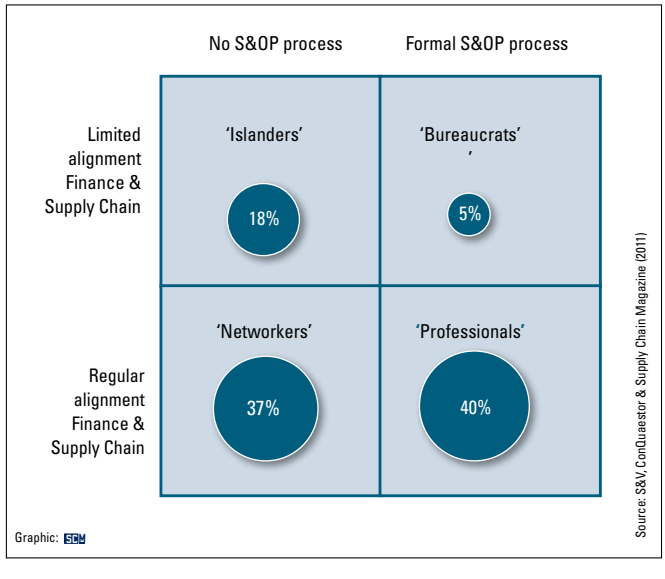
REASONS FOR IMPLEMENTING S&OP



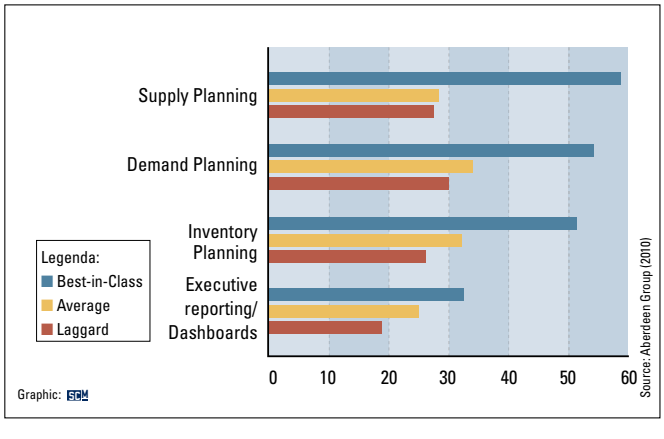
VIEWS ON S&OP TECHNOLOGY



SEGMENTATION IN IMPLEMENTING S&OP



TECHNOLOGY ADOPTION FOR S&OP



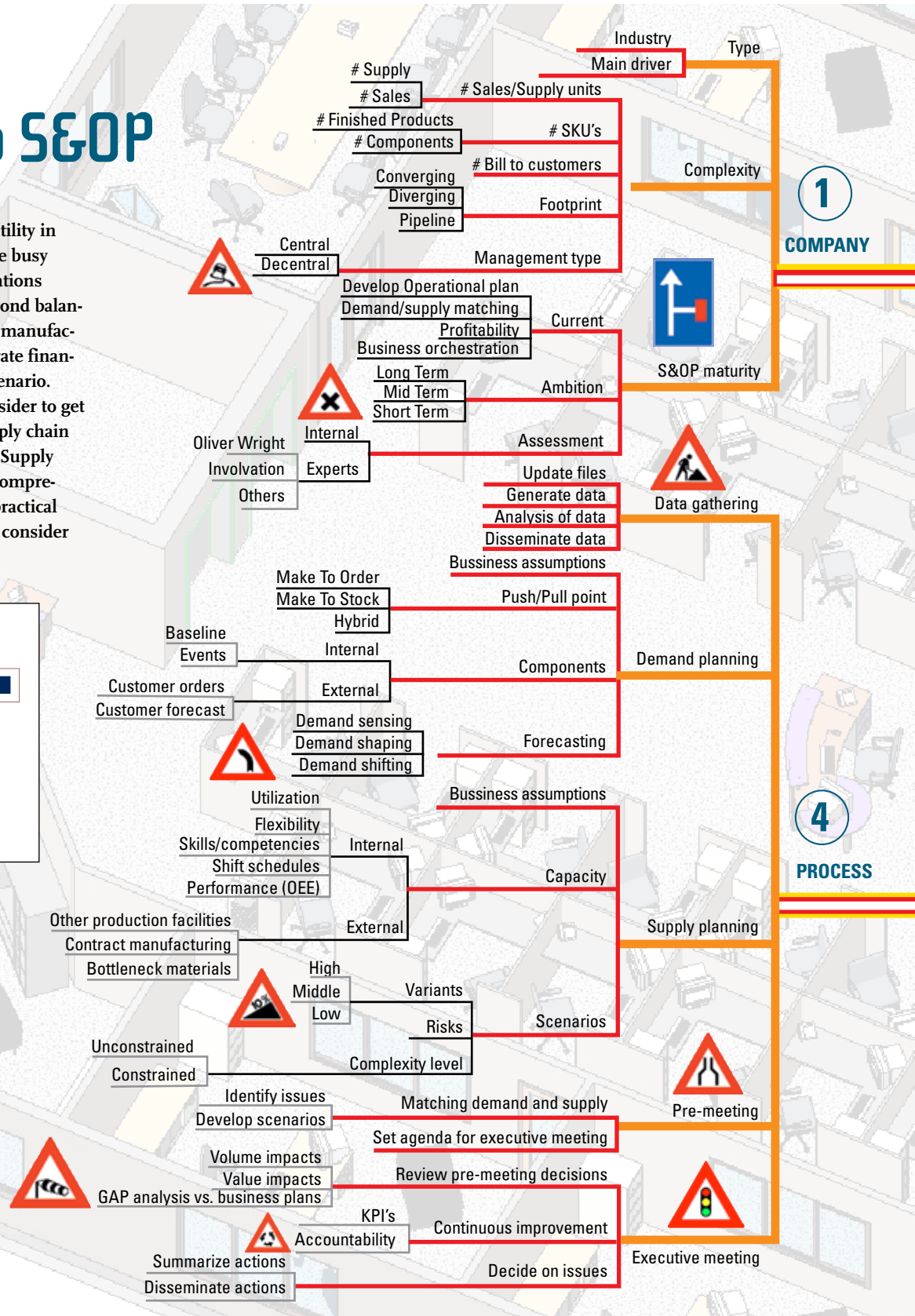
Mindmap S&OP

As a result of increasing volatility in demand many companies are busy implementing Sales & Operations Planning. They try to get beyond balancing forecasted demand and manufacturing volumes and incorporate financial budgets and business scenario. What should companies consider to get to a next level in S&OP? Supply chain consultancy Involvation and Supply Chain Movement created a comprehensive mindmap to give a practical overview of all the aspects to consider for improving S&OP.

Mindmap creators:

INVOLVATION

SCM SUPPLY CHAIN MOVEMENT



MINDMAP MANUAL

S&OP to the next level

The central questions are whether and how to bring S&OP within your organisation to the next level. An S&OP journey can be triggered by significant internal or external changes or by increased pressure and performance requirements. We believe in a growth model where the necessity of the next step is always driven by the added value of the next maturity level.

S&OP as a mindset

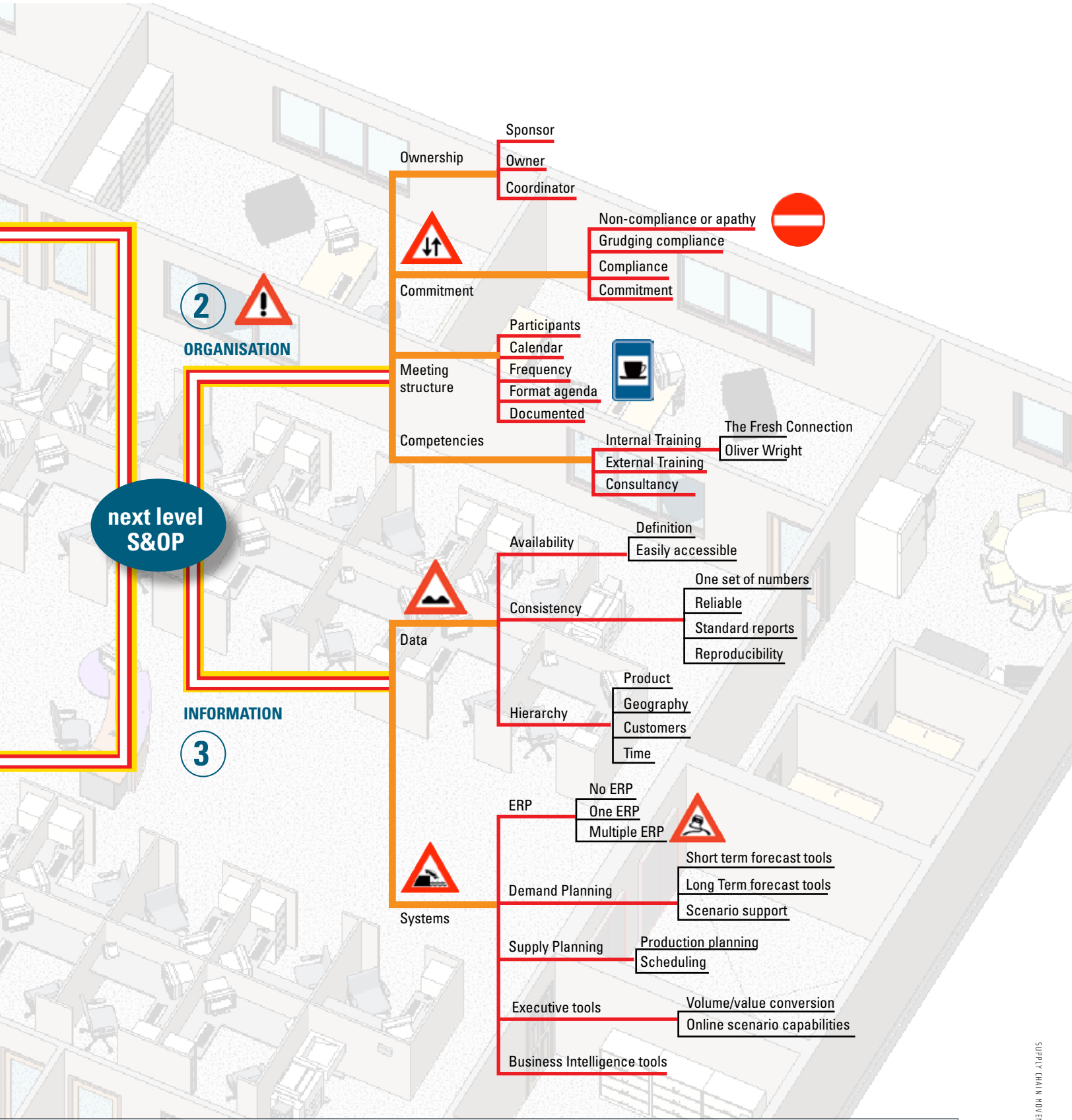
Why is S&OP so popular at the moment? Is it a hype?

S&OP is not new, but there are valid reasons for the increased interest for it. E.g., the financial crisis put more pressure on working capital. Many companies found out though, that aligning activities for structurally freeing up capital proved much more difficult than expected. Is S&OP the solution? Partly, because it drives the required alignment within your company. A solid S&OP process is therefore an ongoing requirement. The right process, data and tools therefore are important, but the overriding prerequisite is an S&OP mindset. Once S&OP is a common and shared mindset, you will have created fertile ground for sustainable and cross-functional alignment.

Biggest challenge in S&OP maturity

Why are so many companies struggling with S&OP?

Looking at the different maturity pha-



ses, we observe that the step from level 2 (demand-supply matching) to level 3 (profitability) is the most difficult one. Many companies stumble and S&OP remains a supply chain driven process with non-committed stakeholders and non-binding agreements. Valuable but not optimal. Why is getting to level 3 so difficult? Firstly, the owner needs to change from supply chain to the P&L owner. Supply chain has to "let go" and the P&L owner must take accountability. Secondly, the focus has to shift from volume to value and to financial business drivers. Finance must be involved and should claim a key role. Good preparations and finding the right allies can reduce the jump from 2 to 3 to a feasible step…

The critical resource: people…

Do we need new tools?

Maybe. Very often however, there is already a gap between the systems in place and the people using them. Advanced tools can create extra problems instead of solving them, unless people are brought up to the challenge. Only the right balance between implementing advanced tools and developing professional people will give real added value by reaching the next S&OP maturity level.

BUSINESS SOFTWARE

Coping with unpredictability

The number of 'impossible to predict' supply chain scenarios ranges from 'anticipating consumer behaviour in an online economy' and 'understanding the impact of social media on trade' to 'reacting to natural disasters that influence the availability and transportation of goods'. So far, most supply chains have not been designed to cope with that kind of unpredictability – which is why Manhattan Associates, supply-chain software provider, is introducing its so-called 'Platform Thinking' approach.

At the heart of this new approach is Manhattan's Supply Chain Process Platform, which makes use of information from the entire range of supply chain solutions within the Manhattan Scope portfolio. It is intended to encourage companies to think about the supply chain as a cohesive whole rather than as separate solutions each designed for a specific purpose within the business processes.

In a press release, Pieter Van den Broecke, Managing Director of Central Europe at Manhattan Associates, says: "Every single action, from order management and distribution right up to returns management, influences the performance of the supply chain as a whole. Our platform has been designed to extract information from all of the integrated solutions, to apply these to the network and hence to improve a company's flexibility and its ability to react."

www.manh.com

TRAINING

In-house game for supply chain management

Perhaps there is a lack of internal collaboration, or the Key Performance Indicators (KPIs) are not aligned with the corporate strategy. Maybe everyone is focused solely on their own targets, the strategy is not being translated into effective actions, or trade-offs are not being properly thought through. If one or more of these scenarios sound familiar, help is now at hand thanks to Involvation in the form of its in-house training course or 'serious game': The Fresh Connection.

The Fresh Connection programme, in which participants are tasked with managing a fictitious juice-manufacturer's supply chain, is designed for any general or functional managers who are involved in supply chain management, either directly or indirectly. The game presents the participants with a number of tasks, allows them to make decisions, follow the developments in the supply chain and create their own KPI dashboard. They gain tremendously rapid insights into the consequences of all their decisions.

The Fresh Connection highlights many important lessons, such as that collaboration, both internally and throughout the chain, is the key to success, and that it is essential to remain constantly alert to any changes in the environment. "The Fresh Connection offers a wealth of valuable experiences to companies who take part as a team," says Alfons Willemsen from Involvation. "It enables participants to experiment in a safe environment, for example, and gain a deeper knowledge and understanding. Not only that, but the overall learning effect is much greater since the effects of participants' decisions become apparent much sooner than in reality."

The Fresh Connection has already been used for supply chain management, Sales & Operations Planning and leadership development courses within several companies, including Canon, DuPont, LambWeston, Mars, McDonalds, Philips, Philip Morris and L'Oreal. "Involvation is receiving a growing number of requests to provide some form of in-company training," says Willemsen. "Formats can vary from half-day sessions to complete, global supply chain academies which encompass the entire range of Involvation supply chain training opportunities."

www.involvation.nl

Chaos forces Electrocomponents to exceptional planning

Handling volatile demand

The recent global economic crisis was the impetus for Electrocomponents, one of the world's leading high service distributors of electronics and maintenance products, to transform its supply chain planning and honour its remarkable service promise.

By Sarah Lafferty

UK-based Electrocomponents plc is no stranger to coping with and even reinventing itself during times of adversity and change. As one of the world's leading high service distributors of electronics and maintenance products, the company has grown and evolved through a myriad of threats and setbacks since its humble beginnings in 1937. The recent global economic crisis dealt the industry a huge body blow and forced many players into crisis mode. Electrocomponents did not escape unscathed. In Europe alone, its component sales fell a staggering 29.2 per cent in the first half of 2009 compared to the first half of 2008. In the second quarter, sales plummeted even further by 32.6 per cent compared to H208.

From its early days, Electrocomponents (which trades under the brands RS Components and Allied Electronics) swiftly built a reputation for its novel high level of service; providing spare radio parts to customers within 24 hours, much faster than they could buy direct from manufacturers. Today the company still promises to deliver components within 24 hours but now distributes 550,000 products through operations in 32 countries. More than 46,000 parcels are shipped on the same day that the order is received.

According to Anne Bruggink, General Manager Supply Chain at Electrocomponents, "Our massive, diverse product range makes for a very complicated supply chain, but we're actually a service business. We've established our reputation and leadership position over nearly 75 years by being the industry's most reliable 24-hour, or in some cases, same-day delivery service."

Globally active

Although Electrocomponents is a distributor, not a manufacturer, its supply chain is very complex because it has to coordinate large volumes of supply and demand simultaneously. Its 2500 suppliers and 1.6 million customers are located throughout 80 countries in the Americas, Europe, Australasia and Africa. It has 17 distribution centres around the world, with the largest ones being in the US, France, Germany, China and two in the UK. According to its 2011 Annual Report, the company operates in those countries which represent around 90 per cent of the world's GDP.

With such massive global penetration, Electrocomponents formally reviews its supply chain at least once a year. However, the scope of these reviews depends on the extent to which the business metrics have changed. Bruggink explains, "If the metrics haven't changed significantly since last year then the review is more of a sense check. If economic factors or the executive team have driven big change then we undertake a more comprehensive review involving 'what-if' scenario modelling and engaging our strategy team. Before I joined in 2007, these reviews took place about every three years."

When you layer the company's availability and delivery promise on top of the general challenges faced during a global economic crisis, demand planning becomes truly mind-boggling. "During the economic crisis we were in the process of introducing 50,000 new products. However, our orders declined by an average of 17 per cent across the board. Also the demand was very uneven with some product lines plummeting by up to 75 per cent while others grew by 25 per cent. This threatened to throw our entire global business into chaos. We needed to abandon conventional, safe thinking in order to find a way through," says Bruggink.

Compensating for order decline by slashing inventory to free up cash, tempting as that may be, was not the right strategy for a service business like Electrocomponents. The company needed to be fully stocked and ready to meet customer demand when the economy inevitably rebounded. Therefore, while most other companies were doing everything possible to free up cash, Electrocomponents was planning weeks and months in advance, in anticipation of a recovery. An intelligent approach to demand planning that took into account variability and human knowledge was vital.

Site Specialisation

The recession, combined with the need to introduce 50,000 new products, gave Electrocomponents licence to move ahead with some cutting-edge projects in logistics and forecasting that might have been killed by 'analysis paralysis' in safer times.

One such project called 'Site Specialisation' involved transforming two large general-purpose UK warehouses. The aim was to

serve the needs of specific customers and markets to achieve better economies of scale. One warehouse is now specifically geared towards global electronics while the other is tailored to cater for European customers.

Anne Bruggink explains, "The Site Specialisation project is an example of a project that moved ahead as a direct consequence of necessity and it forced us to abandon old-fashioned thinking. This one really delivered. In our plans we calculated a payback time of 15 months but it took only eight months so we completed it nearly 50 per cent faster; it's saving us millions of pounds a year and crucially, it's improving our customer service. "

Planning chaos during the rebound

When the sales orders bounced back from a 17 per cent decline to 25 per cent growth, the company's supply chain really came under pressure. During this phase, demand for some products increased by as much as 75 per cent, while others were down by 25 per cent. Therefore looking in the rear view mirror for planning insight was not only pointless, but counterproductive. The supplier flexibility gained during the downturn hardened and lead times grew from two to 52 weeks in some cases. The continuing uncertainty made the sales staff even more nervous and other staff had to put in many hours of overtime to cope with unforecasted inbound deliveries and outbound picking, packing and shipping.

As Bruggink explains, managing through the rebound was much more difficult than the downturn itself: "During the downturn, despite low morale, cash flow concerns and plummeting demand, there were actually some things working in our favour. In normal circumstances, for example, it's very difficult to expedite products, but in the downturn everyone wants to sell so we were able to negotiate very short lead times. This helped keep our service levels very high.

Believing in forecasting

All the uncertainty during the recovery sent costs and stress levels skywards, but it also provided the impetus for changing the companies forecasting processes and tools.

Before the recession, Electrocomponents' planners, like most in the industry, had reached the conclusion that forecasting was so unreliable that it was pointless. It took a recession combined with a strategic push on new product introduction to make Electrocomponents realise that not bothering to forecast was hurting the company. "The whole world was saying that we can't forecast this business. We turned around and said, 'ok, but let's try!'" says Bruggink.

Drawing on many years of supply chain experience and research his approach was to use a software tool to generate the best possible draft forecast and then ask sales, product marketing and finance people to improve upon it. "In my experience sales people are naturally too optimistic when it comes to developing forecasts and finance people too pessimistic – but they are both very good at adjusting existing forecasts to make them more accurate. Tools and people need to work together," he says.

Before the company started to evaluate new software tools, Electrocomponents also reviewed the processes related to optimising service delivery and costs. The conventional approach is to implement a Sales and Operations Planning (S&OP) process but that omits inventory management which is so critical to the business. Bruggink explains, "Inventory is not waste, unwanted or an accident in our business – it is fundamental to our business model as a distributor."

To address the need to manage inventory in the planning process, Electrocomponents opted to implement Sales, Inventory and Operations Planning (SIOP) software. This was conceived to improve agility and performance for supply chain businesses subject to high volatility. Electrocomponents also introduced a concept established by supply chain academics in 2005 called 'value density' which involves segmenting inventory and determining how it is treated based on its properties, such as value, weight, order frequency and how quickly it needs to arrive with the customer. Utilising its local warehousing infrastructure, Electrocomponents stores products of low value density, such as waste bins, locally to the customer and transports them by road or sea. Products of high value density, such as electronics, are stored either centrally in the UK or locally and transported quickly, by air if necessary, to maintain the company's high service levels.

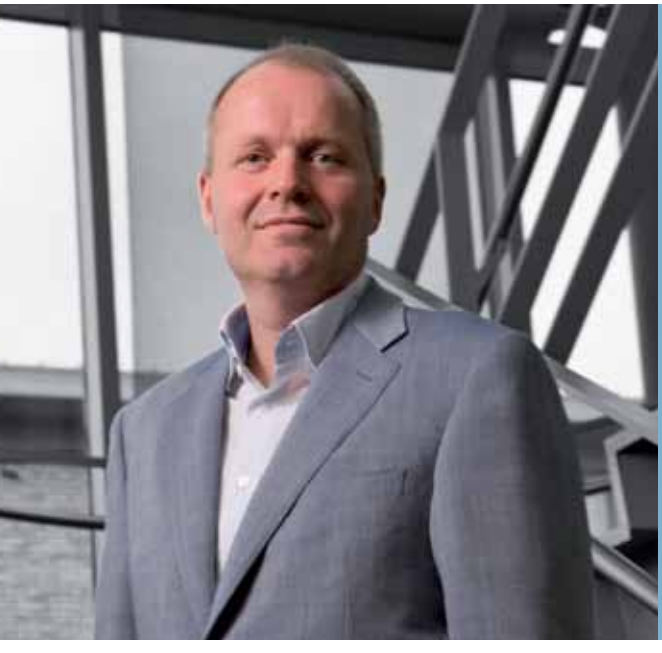
Selecting a reliable forecasting tool

These new processes and the scale and complexity of the company's product range called for highly specialised demand planning software to support forecasting. Its incumbent software Manugistics, though suitable for order management, was not designed to forecast its high percentage of 'long tail, slow-moving' cus-

ELECTROCOMPONENTS BY NUMBERS

1.6 million customers worldwide;
£1.18 billion in revenue;
Operations in **32 countries and 17 warehouses;**
2500 suppliers, 5800 employees, 2400 people in the supply chain;
Distributes **550,000 products** ranging from semiconductors and optoelectronics to power tools and protective clothing;
Availability greater than **96.3%;**
Average order value (AOV) is around £140;
More than **46,000 parcels shipped on the same day** the orders are received.

"Our very first forecast told us that we could hold £2 million less in safety stocks of fast-moving products."



"The whole world was saying that we can't forecast this business," says Anne Bruggink, General Manager Supply Chain at Electrocomponents.

tomer demand, which is characterised by geographical diversity, small order quantities and specialised products. Because the system couldn't detect this type of demand, it reported zero demand for 30 per cent of its inventory which people knew was not the case.

In 2009, Electrocomponents embarked on a comprehensive search for SIOP-compatible software to manage the forecast and safety stocks. It needed to be powerful, highly scalable to cope with millions of demand forecasting units (DFU's), and highly reliable. The company opted to enlist a third party consultant to manage the vendor selection process to ensure the decision would be completely objective and fact-based.

Bruggink elaborates: "We decided to conduct our evaluation through a third party to avoid being influenced by personal biases, large or incumbent vendors and winding up with a 'me too' solution. Given all our challenges and business goals, we were looking for a very specialised, very sophisticated 'Formula 1' forecasting tool, ideally from a company whose main development and support resources were dedicated to solving this specific problem."

Planning tournament

The exhaustive 14-month selection process short-listed seven vendors who were invited to take part in a planning tournament. They were asked to forecast demand and propose safety stocks from historical data. The results were compared to actual demand in order to evaluate the forecast accuracy and service level which would have been achieved. The software SO99+ from ToolsGroup provided the most accurate forecast (beating even the company's own heavily modified forecast) and achieved service levels which were not possible with the current system.

Most statistical forecasting systems require expert forecast planners to constantly tune the best fit algorithms to produce a reasonable statistical forecast and wind up either being 'dumbed down' to the point that they are ineffective or even shelved because they are too difficult to use. SO99+ uses a unique demand sensing approach to continuously and automatically tune the forecasting method for each item. The result is an extremely reliable statistical forecast before any user intervention – essential to Electrocomponents for forecasting so many dfus and their long tail of slow moving items.

After SO99+ produced the most accurate forecast in the planning tournament, Electrocomponents knew it could trust and work with the system. According to Bruggink, "A crucial factor for us was the way in which SO99+ handled order-line data. It differentiates between 10 orders for one product and one order for ten products and this has a major impact on the forecasting accuracy."

Electrocomponents has now rolled out the SO99+ software in Europe, where it is integrated with Manugistics, and it is implementing it in the US, where it will be integrated with SAP. Electrocomponents has further plans to implement SO99+ in Asia.

Exceptional outcomes

By taking advantage of the burning need for change during the global economic downturn, completing the Site Specialisation in the UK, transforming forecasting and initiating other projects, Anne Bruggink's supply chain operation delivered a whopping £36 million to the Electrocomponents bottom line, in terms of lower stock levels, over 2009 and 2010.

The most important long-term outcome of the new forecasting system is simply that it works. Its consistent forecasting reliability has overcome people's initial scepticism and it effectively supports the new input from exceptional planning processes. The system frees up forecast planners to concentrate on what they do best; contributing market and business intelligence from the field to make the system even smarter.

In terms of savings, Electrocomponents has identified £9 million of savings by deferring or cancelling outstanding purchase orders and by reinvesting additional inventory into the business. Crucially, the SO99+ tool paid for itself very quickly. As Bruggink explains, "Our very first forecast told us that we could hold £2 million less in safety stocks of fast-moving products. By simply reducing those safety stocks, SO99+ paid for itself in only two months. We had promised the business that the tool would pay for itself in the same financial year, but we were thrilled to have been able to return the money to the business so quickly."

Probably the most important outcome, however, is that a customer survey held in November 2010 reported the highest ever satisfaction rates. This meant that despite the fact that the company was coming out of the worst recession since the 1980s, had had to navigate ash clouds and earthquakes, and was holding considerably less inventory, it was still able to meet its high level service delivery commitments.

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