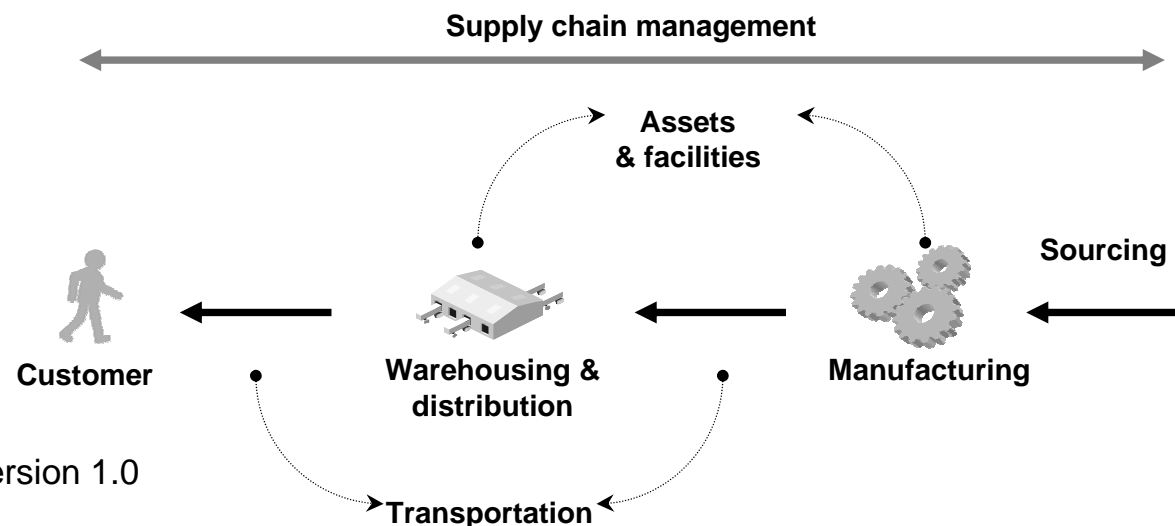


# Sales & Operations Planning (S&OP)

The critical success factors

November 12, 2009  
Utrecht  
version 1.0

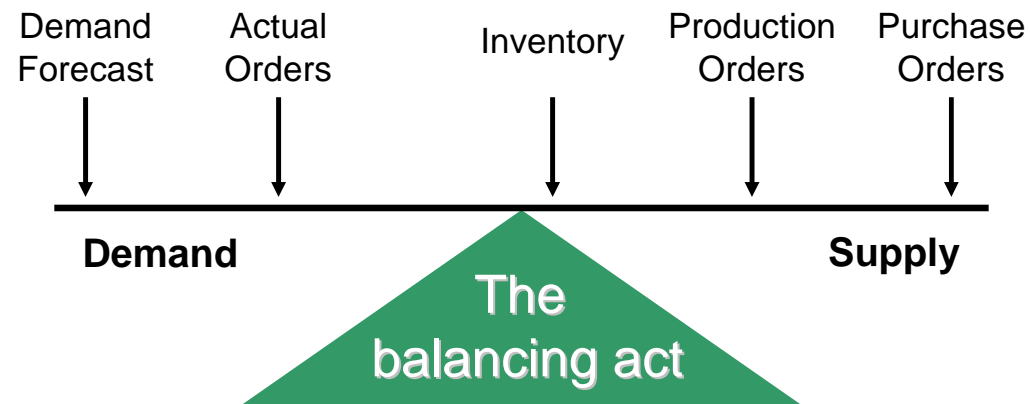




- What is Sales & Operations Planning (S&OP)
  - Definition, purpose & planning hierarchy
  - Organizational position
  
- Why Sales & Operations Planning (S&OP)
  - Best in class industry benchmarks
  - Added value to the industry
  
- Business case in fresh produce
  - 4 implementation pillars
  - Examples
  
- Key success factors

- **Definition of S&OP**

- A sales and operations platform that uses sales prognoses, where the sales volumes are grouped and reviewed per product line per division.
- S&OP takes the sales prognoses and aligns it with production capabilities and financial goals to create a single achievable master plan as to steer optimal performance.



- **Purpose of S&OP:**
  - On a monthly basis align relevant Sales & Marketing and SC developments (forecast, assortment, market actions) with key decision moments ( cost, pricing, introductions, capacity..), to respond to demand and supply variations and risks.
  - The level of subject review is covering relevant deviations and developments in the business, short term as well as long term, resulting in financial or operational adaptations to the plan.
  - The work is prepared and/or executed outside the S&OP platform to provide the right information for appropriate decision making.

# What is S&OP

## Planning hierarchy



# What is S&OP

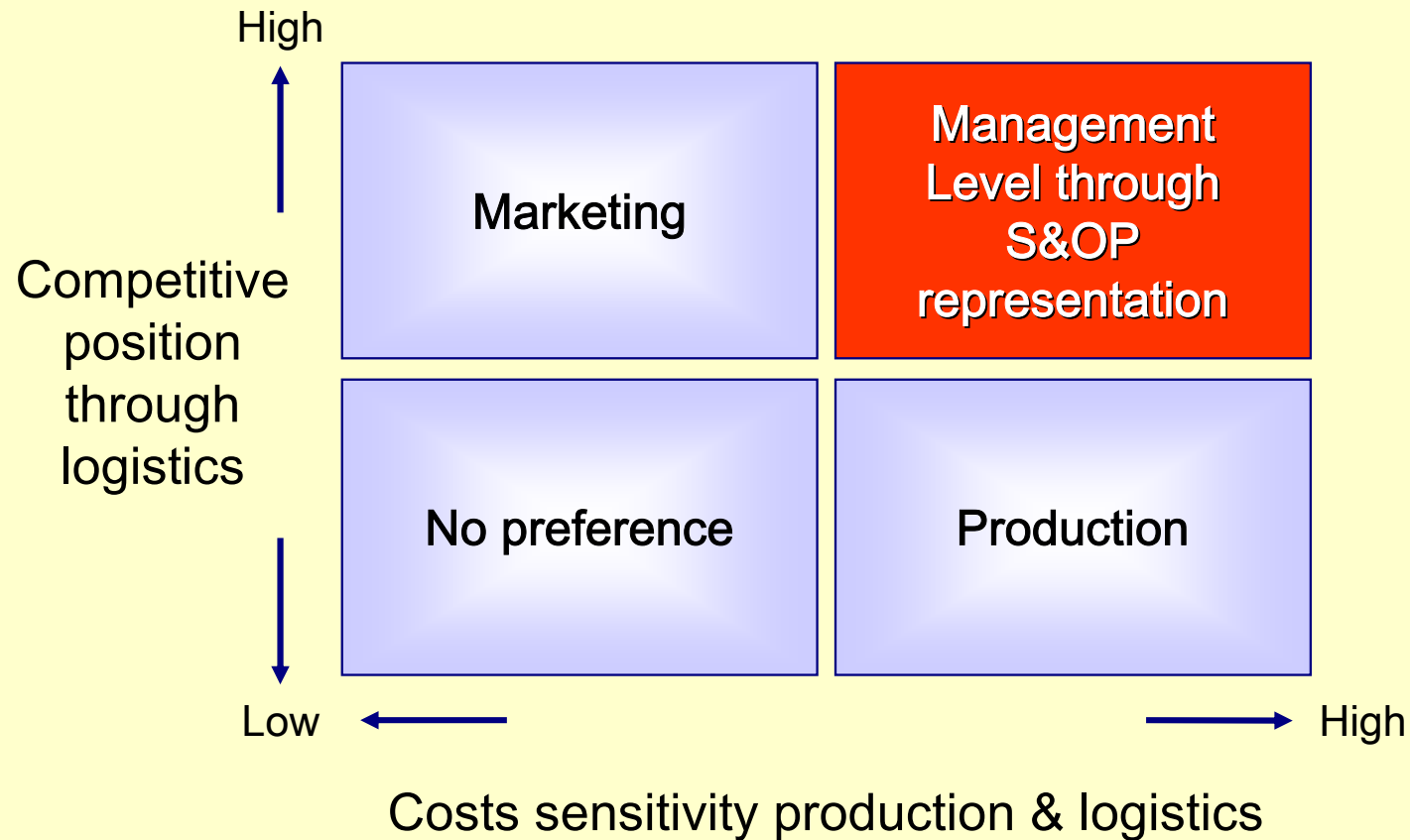
## Activity steps - example



# What is S&OP

Organizational position

## The facilitator of the S&OP processes



- What is Sales & Operations Planning (S&OP)
  - Definition, purpose & planning hierarchy
  - Organizational position



- Why Sales & Operations Planning (S&OP)
  - Best in class industry benchmarks
  - Added value to the industry

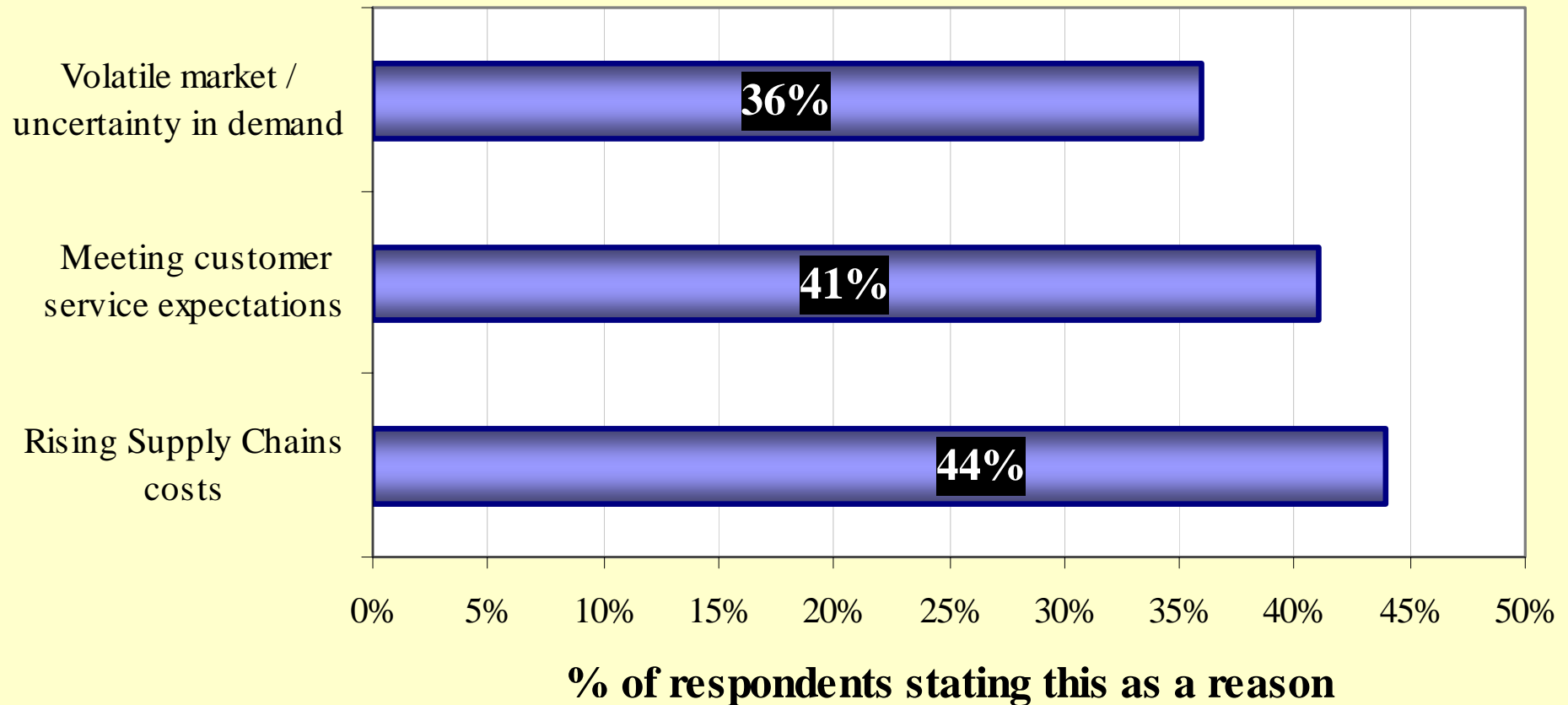
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# Why S&OP

Benchmark – reasons to apply S&OP processes

## Why companies look into S&OP

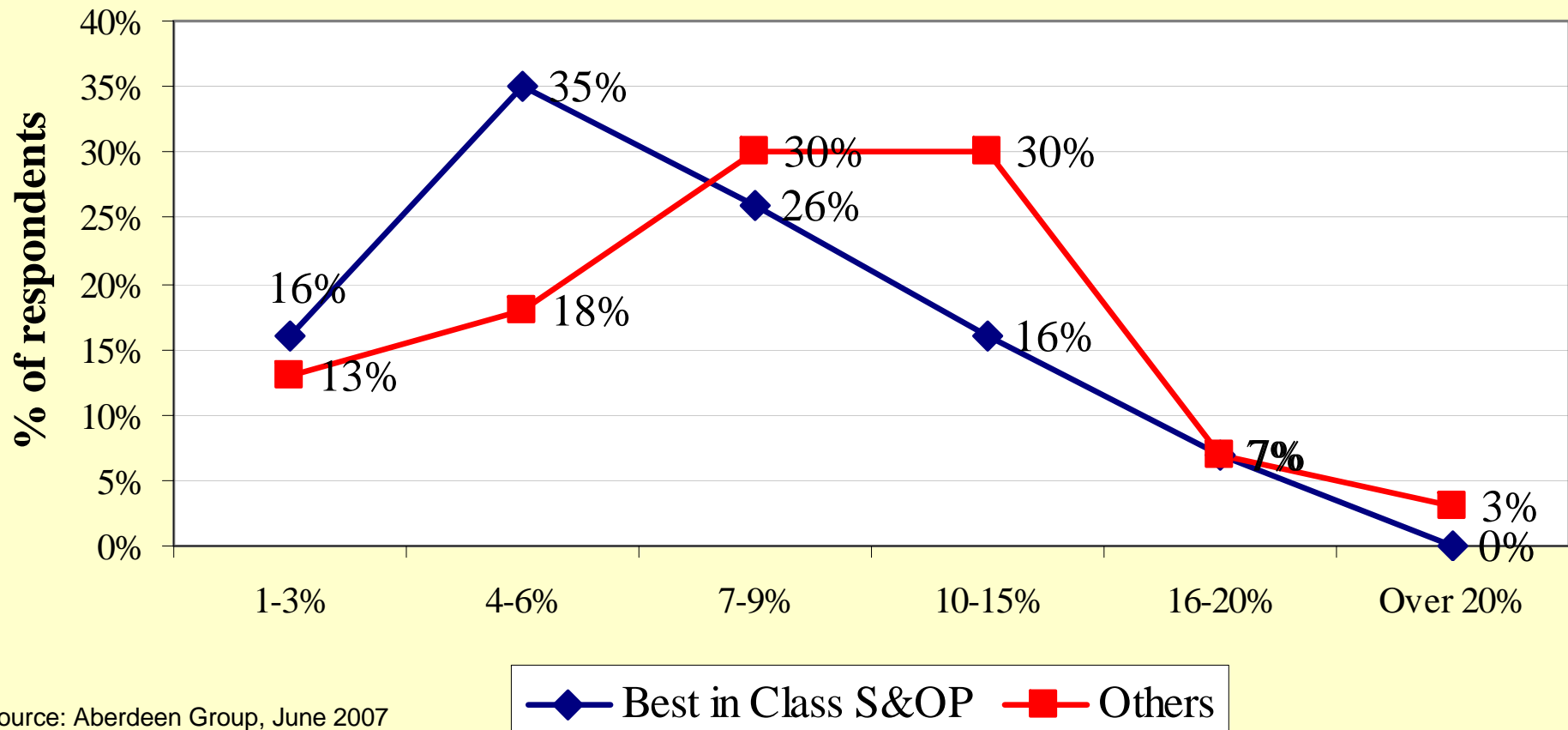


Source: Aberdeen Group, August 2008

# Why S&OP

Benchmark – logistics costs as part of sales

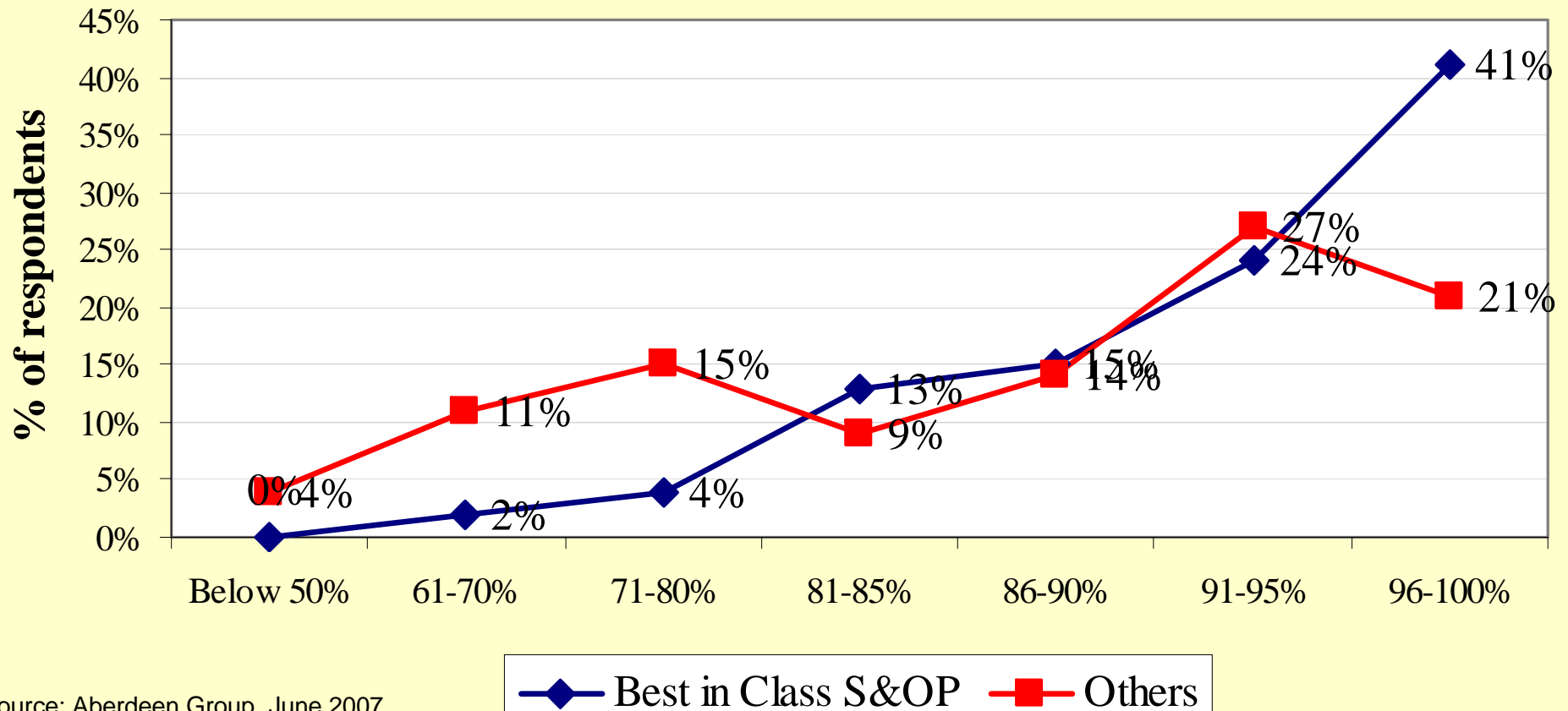
## Logistics costs as % of sales



# Why S&OP

## Benchmark – customer order fill rate

### Customer order fill rate



# Why S&OP

## Added value in the industry

INDUSTRY CHARACTERISTICS	S&OP BENEFITS
i. Typically large, global supply chains	i. Gains supply chains / inventory visibility
ii. Product availability / customer service are mandatory	ii. Determines optimal inventory levels fulfilling demand forecast & -variability
iii. Capacity constraints in production	iii. Determines optimal inventory levels given capacity constraints per period
iv. Inherent uncertainties in demand & supply chains disruptions	iv. Fast, effective process to assess the operations & financial impact and the best possible response
v. Disrupted S&OP processes	v. Single, organization wide demand & supply planning
vi. Cost pressures / protect margins	vi. High costs savings leveraging effect in e.g. working capital

# Agenda

- What is Sales & Operations Planning (S&OP)
  - Definition, purpose & planning hierarchy
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- Business case in fresh produce
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### S&OP is based on four pillars:

- i. Establish the S&OP function in the organizational structure
  - Neutral position between sales and production
  - Sponsorship / representation on a senior management level
- ii. Design and implement S&OP processes
  - Do, Accountable, Consult, Incorp. matrix
  - Business processes / flow schemes
  - Communication structures / meeting
- iii. Embed S&OP processes
  - Functional descriptions
  - Key Performance Indicators (KPI's) & bonus schemes
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  - IT systems

# Business case

## Company description

- Fresh produce business (fruits and vegetables)
- Its position in the supply – demand network
  - Production with external growers (2 – 3 months)
  - Storage at external coolers (shelf-life of  $\pm$  10 days maximum)
  - Customers are FMCG retailers (planning a maximum of 6 weeks out in programs) and wholesalers
- Supply chain dilemma
  - traditional, “non-predictable” environment of fresh produce on supply side
  - JIT, Supply Chain driven environment on demand side
- Other factors
  - Variable Average Selling Price depending on market availability
  - No alternative products available, where competitors have this contingency option



# What is S&OP

## The four pillars

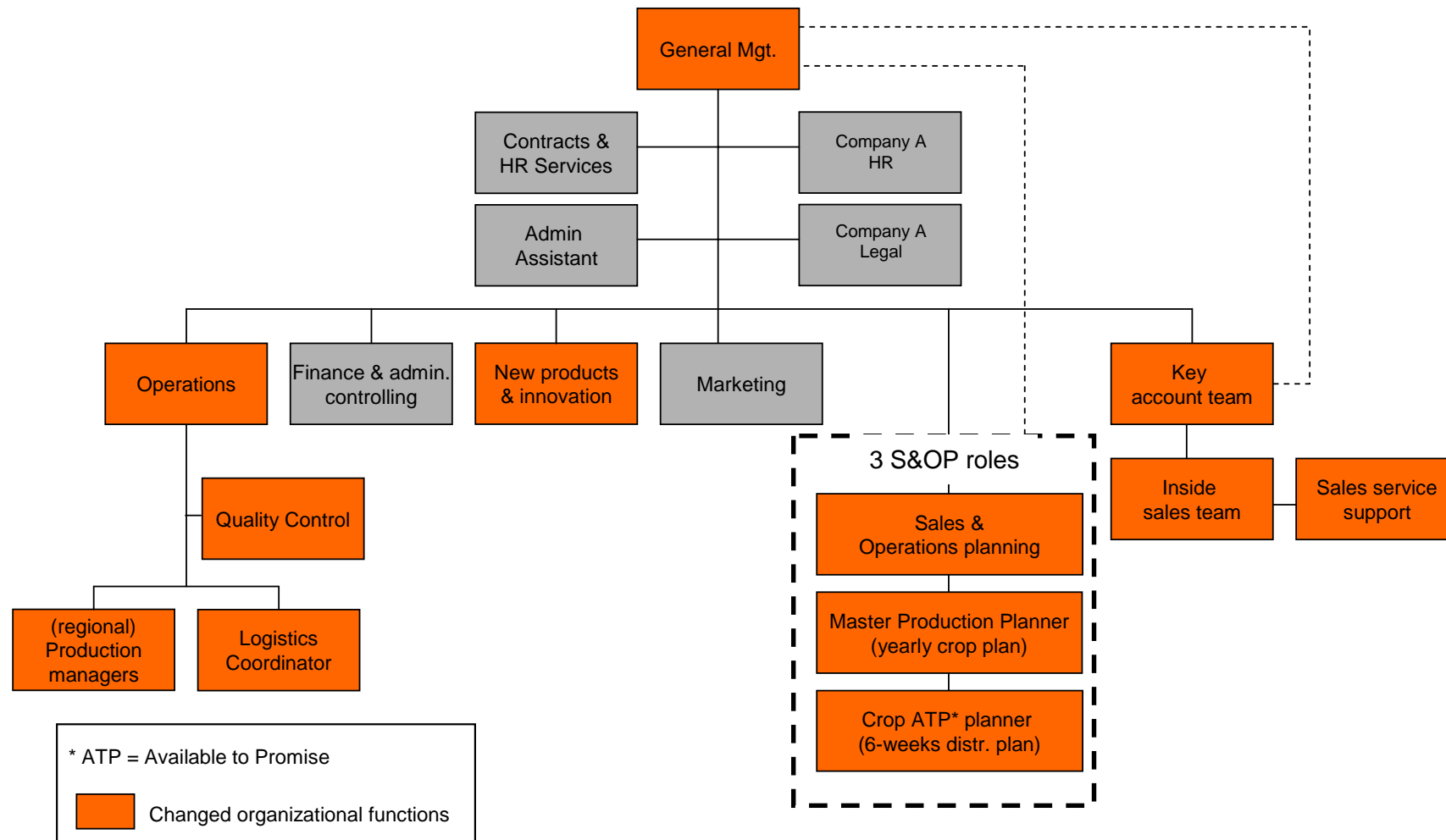
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# Business case

## Organizational



# Business case

Design & implement S&OP processes



# What is S&OP

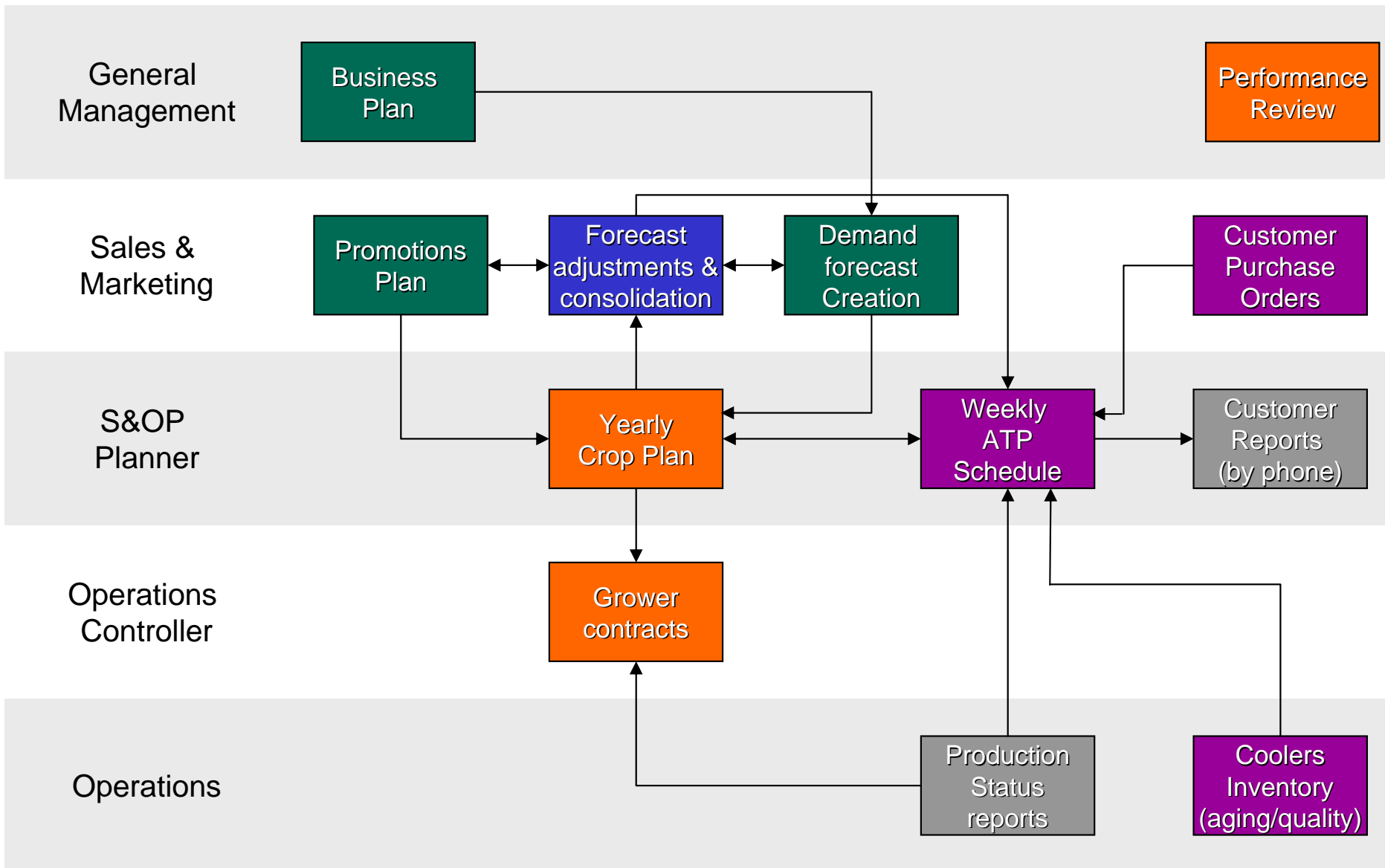
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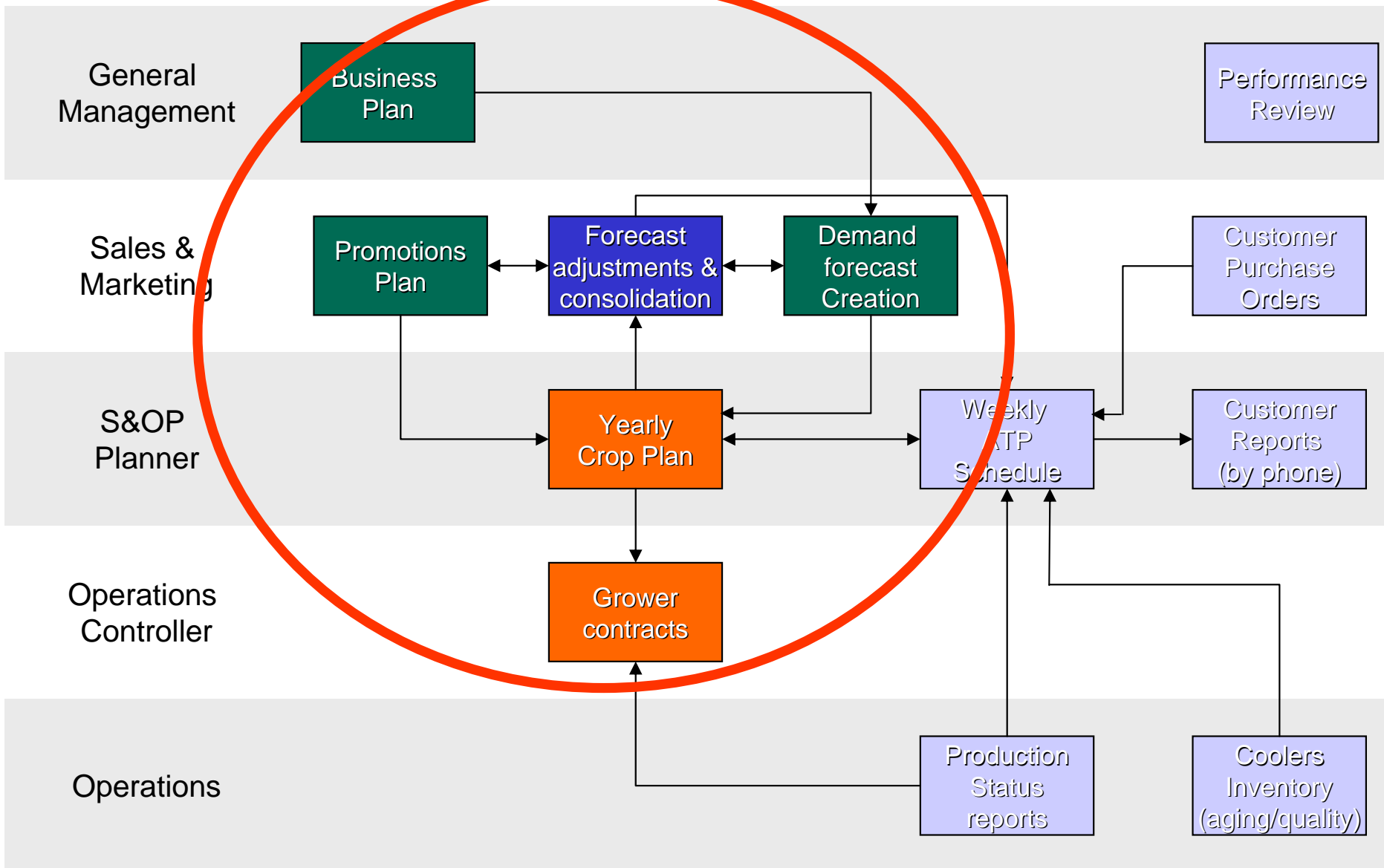
# Business case

Design & implement S&OP processes



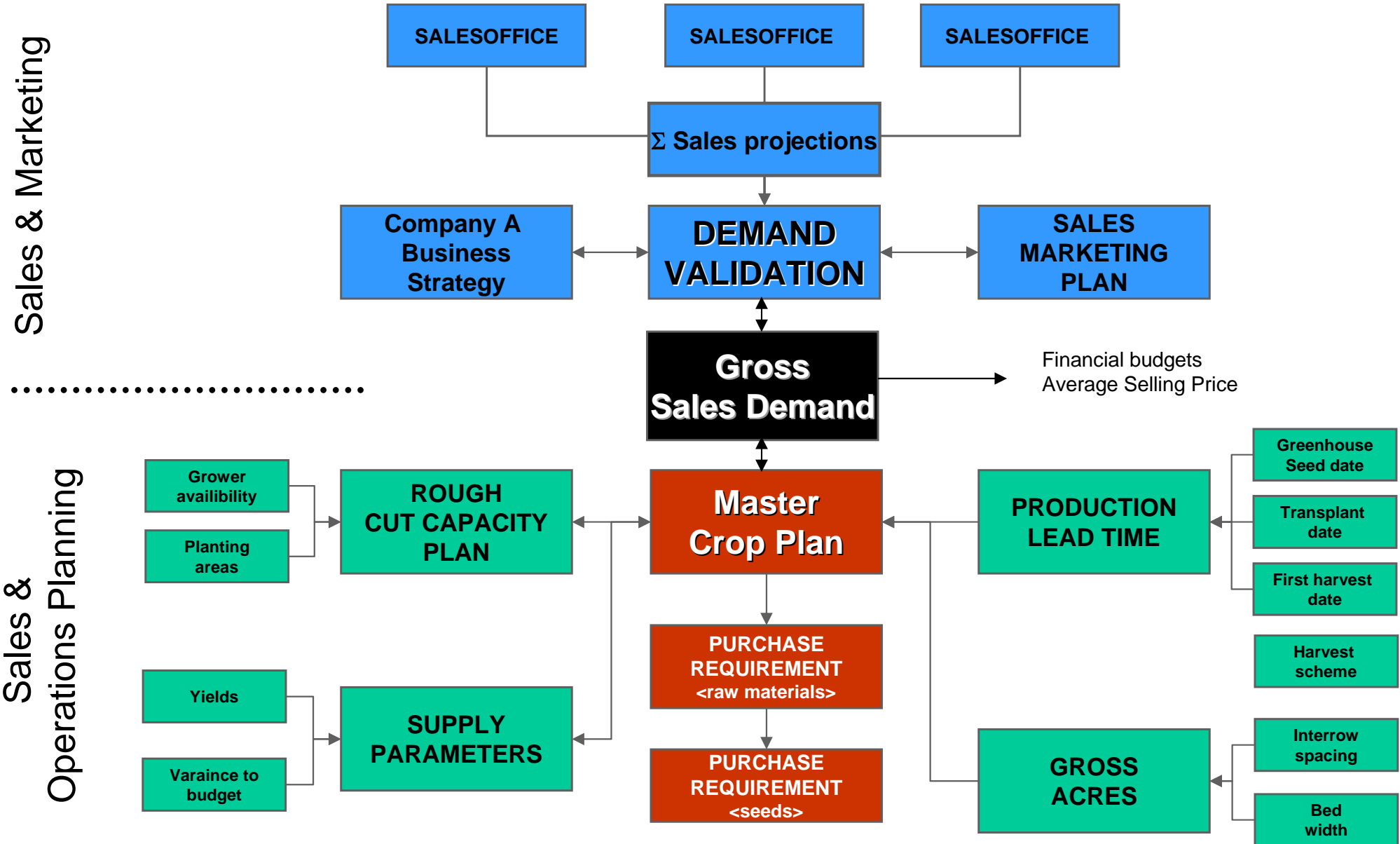
# Business case

Design & implement S&OP processes



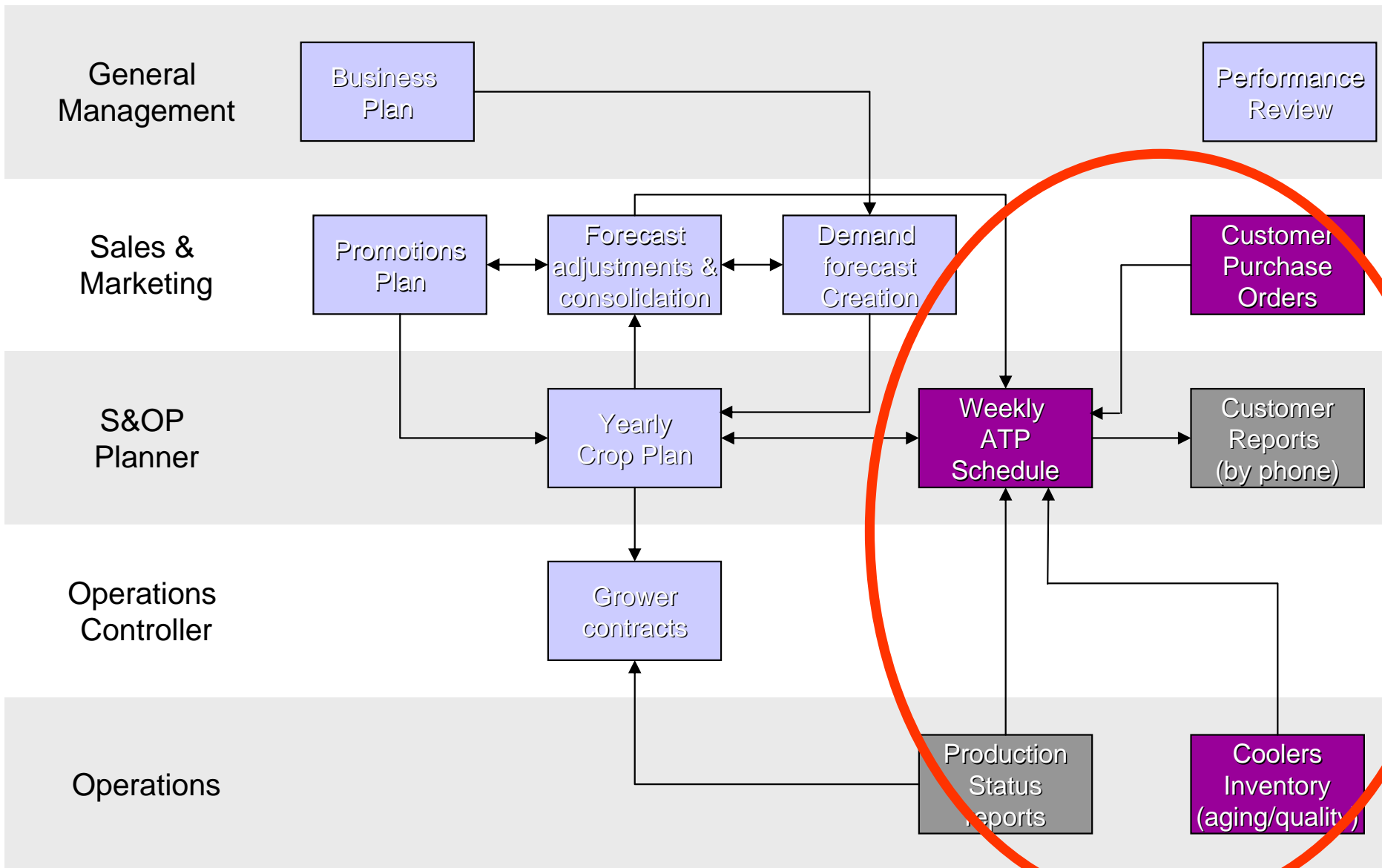
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Design & implement S&OP processes



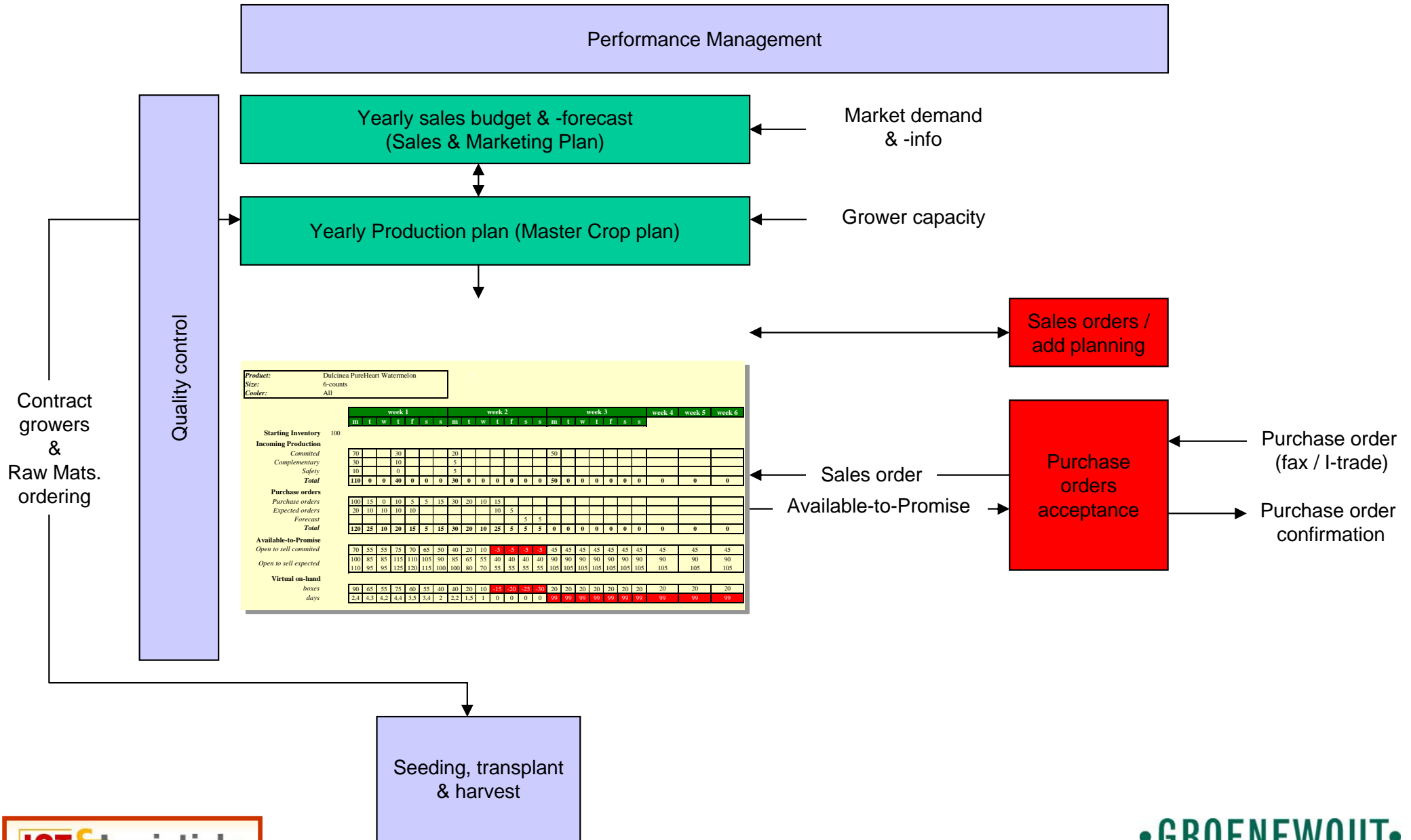
# Business case

Design & implement S&OP processes



# Business case

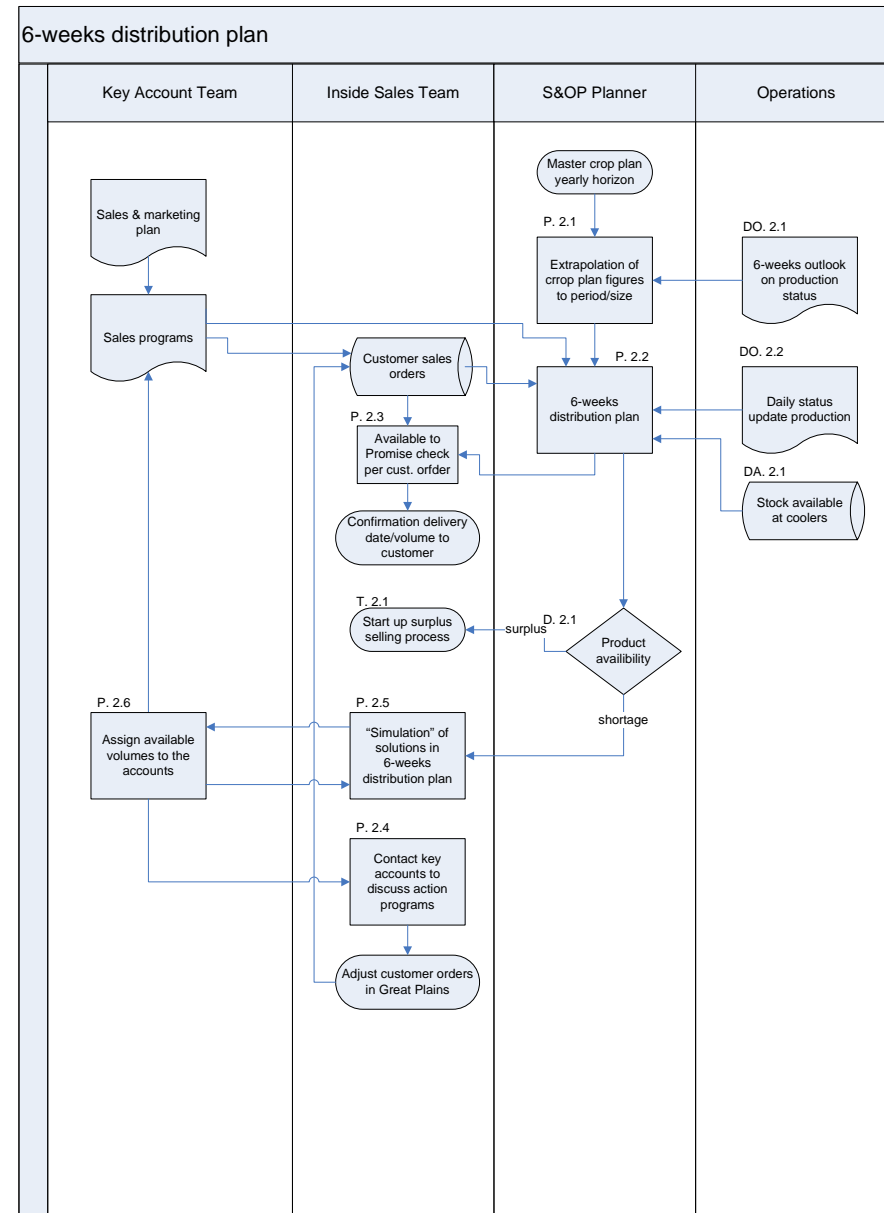
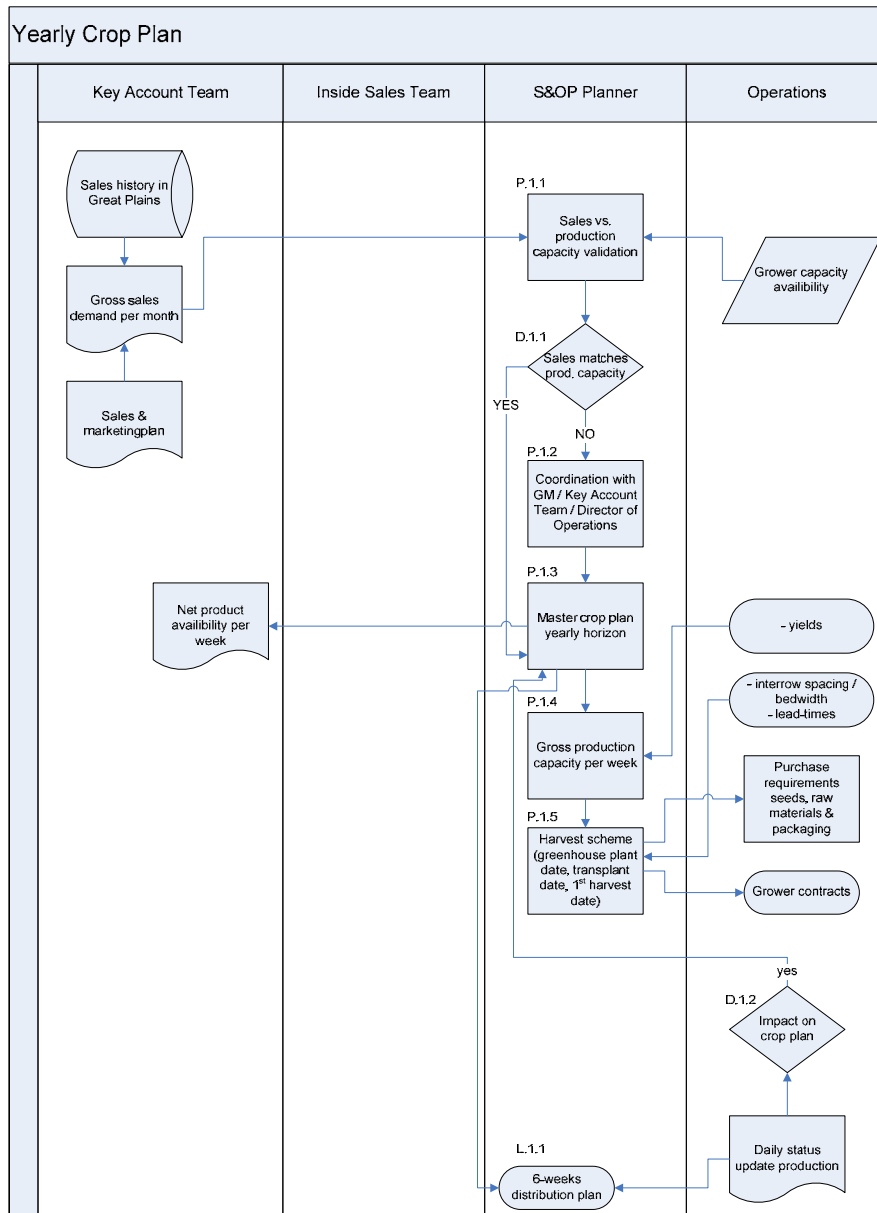
## Design & implement S&OP processes





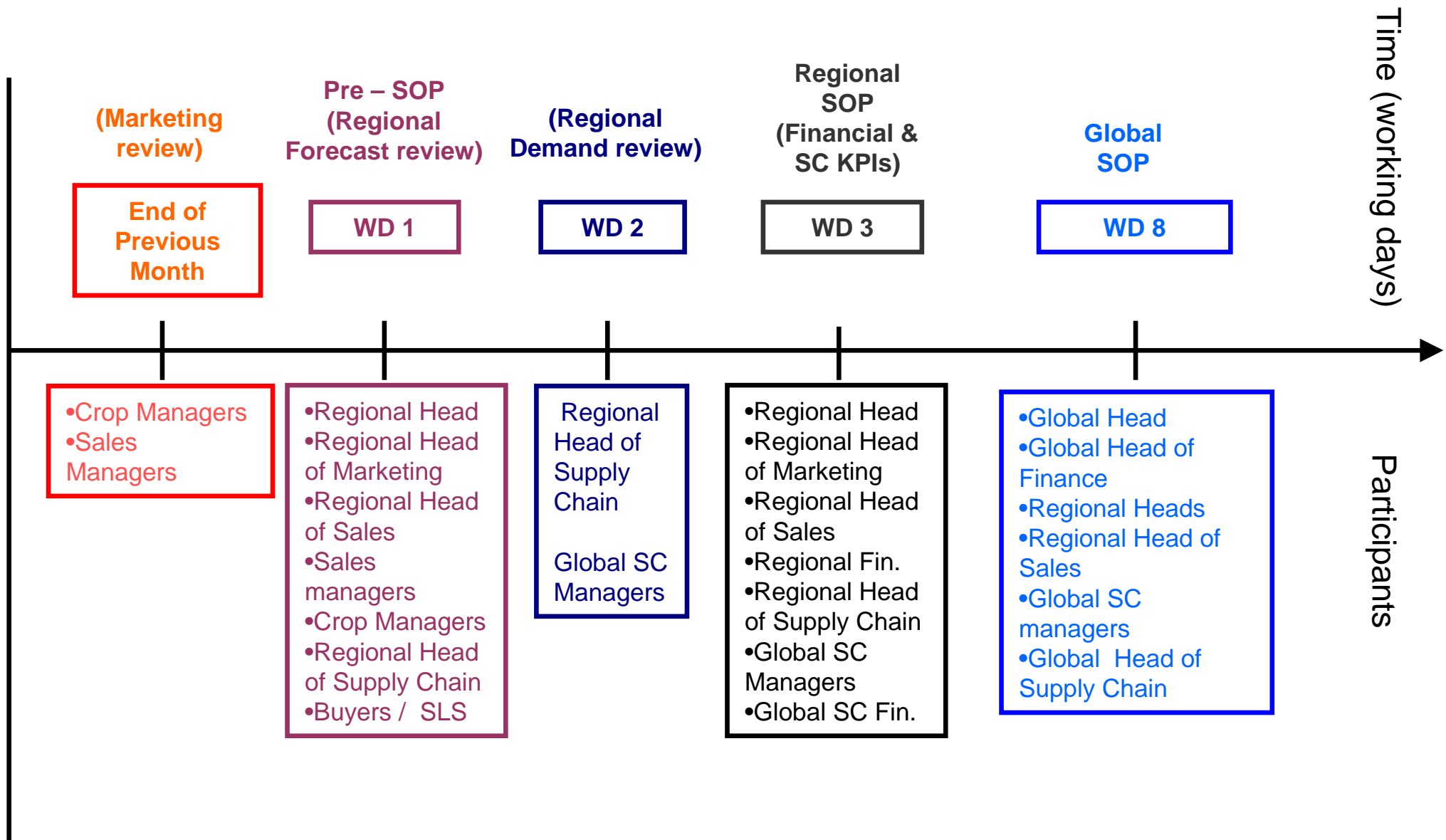
# Business case

## Design & implement S&OP processes



# Business case

Design & implement S&OP processes



# What is S&OP

## The four pillars

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# Business case

## Embed S&OP processes

	<b>Department:</b> Sales & Operations Planning	<b>Function:</b> Sales & Operations Planner	<b>Function no.:</b>
<b>Reports to:</b> General Manager	<b>Date functional description:</b> January 16, 2007	<b>Approval description:</b>	<b>Seen by employee:</b>
<b>Supervises:</b>	<b>Objective of the function:</b> <ul style="list-style-type: none"> <li>- Match the demand and supply by executing the sales &amp; operations planning process for the three product groups, through the yearly crop plan and the 6-weeks distribution plan</li> <li>- Manage the transition process and implementation of supply chain excellence particularly in the S&amp;OP process of balancing supply &amp; demand</li> </ul>		<b>Authorities:</b> <ul style="list-style-type: none"> <li>- Chair the monthly/quarterly/weekly S&amp;OP meetings between operations &amp; sales</li> <li>- Yearly crop plan is leading for grower contracts (responsibility of director of operations)</li> <li>- Facilitate directors of sales in assigning surplus/shortages (within 6 weeks horizon) to key accounts</li> </ul>
<b>Responsibilities</b>	<b>Activities</b>	<b>Evaluation criteria</b>	
<ul style="list-style-type: none"> <li>- Yearly Crop Planning</li> </ul>	<ul style="list-style-type: none"> <li>- Lead the crop planning process and develop a yearly crop plan representing the agreed sales, supply and production plans, which meet the short- and medium term policies of the business</li> <li>- Provide management with "what if" scenario's to the proposed crop plan and simulate the effect of various alternatives..</li> <li>- Ensure an accurate supply planning process and finalize the yearly crop plan.</li> <li>- Monthly update of the yearly crop plan, with a minimum rolling planning horizon of 1 year. Update for the article planning process on production aspects will be done by operations, SOP planner will evaluate and escalate to director of operations if necessary</li> </ul>	<ul style="list-style-type: none"> <li>- Timely, up-to-date and quality of the yearly crop plan</li> </ul>	
<ul style="list-style-type: none"> <li>- 6-weeks distribution plan</li> </ul>	<ul style="list-style-type: none"> <li>- Ensure the effective execution of the yearly crop plan through a six weeks distribution plan (3 weeks in daily buckets, 3 weeks in weekly buckets)</li> <li>- Continuous update of the 6 weeks distribution plan. All input (both sales as operations aspects) is done by SOP planner</li> <li>- Provide transparency and manage the expectations on the shortages/surplus in the coming 6 weeks with sales and operations</li> </ul>	<ul style="list-style-type: none"> <li>- Timely, up-to-date and quality of the 6-weeks distribution plan</li> </ul>	

# Business case

## Embed S&OP processes

Responsibilities	Activities	Evaluation criteria
<ul style="list-style-type: none"> <li>– Introduce and improve the supply chain effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>– Optimize the demand and supply chain process by analyzing existing processes, proposing improvements including process redesign, and implement these improvements.</li> <li>– Translate the demand and supply chain processes in functional requirements for the IT-system (Great Plains) and a new to be developed planning tool (“6-weeks distribution plan”)</li> <li>– Identify and agree supply chain improvement projects with sales, operations and general management.</li> <li>– Coach and educates employees on new demand and supply chain processes.</li> </ul>	<ul style="list-style-type: none"> <li>– The embedding of the S&amp;OP processes in the Company A organization</li> <li>– Improved supply chain performance to key accounts (3- &amp; 6-weeks delivery reliability)</li> </ul>
<ul style="list-style-type: none"> <li>– Management information</li> </ul>	<ul style="list-style-type: none"> <li>– Monthly/weekly reports on forecast (both sales and harvest) versus actuals:                             <ul style="list-style-type: none"> <li>▪ Actuals versus forecast director of sales</li> <li>▪ Actuals versus committed orders of (key) accounts</li> </ul> </li> <li>– Generate, analyse and provide management information on all planning and logistics issues</li> </ul>	<ul style="list-style-type: none"> <li>– Quality and timely management information</li> </ul>
<h3>Critical Success Factors</h3>		
<ul style="list-style-type: none"> <li>– Obtains and maintains a respected and neutral position between operations department and sales department</li> <li>– Active chasing of the required information with sales and operations to ensure an up-to-date 6-weeks distribution plan and yearly crop plan</li> <li>– Initiates and challenges the provided information from sales department and operations department in the Sales &amp; Operations Planning (S&amp;OP) process</li> <li>– Pro-active attitude to manage the Company A organization in case of expected shortages / surplus</li> <li>– Analytical skills, combined with accuracy to keep the yearly crop plan and the 6-weeks distribution plan continuously up-to-date</li> <li>– Is full-time present at the Company A offices XXXXX</li> </ul>		

# Business case

## Embed S&OP processes

1. Implement imperative Supply Chain Key Performance Indicators (KPI's) in place. Measuring how well the supply chain performs is as essential as understanding how it operates:
  - Measurements must link to business objectives
  - Measurements must be repeatable
  - Measurements must provide insights into how to manage the supply chain more effectively
  - Measurements must be appropriate (on the same level) for the process activity they are measuring
2. Implement imperative improvement cycles in place regarding the forecasting accuracy on both production forecasting as sales forecasting.
3. Planning accuracy is put into effect through specific bonus schemes in both production planning as sales forecasting.

# Business case

Embed S&OP processes

Performance Attribute	Performance Attribute Definition	Key Performance Indicator Metric	
Supply Chain Delivery <b>Reliability</b>	The performance of the supply chain in delivering: the correct product, to the correct place, at the correct time, in the correct condition and packaging, in the correct quantity, with the correct documentation, to the correct customer.	Delivery Performance	
		Perfect Order Fulfillment	
Supply Chain <b>Flexibility</b>	The agility of a supply chain in responding to marketplace changes to gain or maintain competitive advantage.	Supply Chain Response Time	
		Production Flexibility	
Supply Chain <b>Planning Accuracy</b>	The precision with which the production volumes can be estimated within a 1-week, 3-weeks, 6-weeks and 1-years timeframe.  This does not only apply to production estimations, but also to demand estimations by sales & marketing	PRODUCTION	DEMAND / SALES
		1-week forecast accuracy	1-week forecast accuracy
		3-week forecast accuracy	3-week forecast accuracy
		6-week forecast accuracy	6-week forecast accuracy
		1-year forecast accuracy	1-year forecast accuracy

# What is S&OP

## The four pillars

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# Business case

## Design & implement S&OP processes

Name:

Size:

Cooler:

Customer:

Starting Inventory

### Harvest receipts

*Committed*

*Complementary*

**Total**

### Customer orders

*Committed*

*Reserved*

*Forecast*

**Total orders**

*(forecast consumption rule)*

### Available-to-Promise

*Open to sell committed*

*ATP committed + reserved*

*ATP committed + reserved+forecast*

### Inventory days coverage

*Days committed*

*Days committed + reserved+forecast*

week 1							week 2							week 3							week 4	week 5	week 6	
m	t	w	t	f	s	s	m	t	w	t	f	s	s	m	t	w	t	f	s	s				
70			30				20						50											
30			10				5																	
<b>100</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>50</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
100	15	0	10	5	5	15	30	20	10	15														
20	10	10	10	10					10	5														
											5	5												
<b>120</b>	<b>25</b>	<b>10</b>	<b>20</b>	<b>15</b>	<b>5</b>	<b>15</b>	<b>30</b>	<b>20</b>	<b>10</b>	<b>25</b>	<b>5</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
70	55	55	75	70	65	50	40	20	10	-5	-5	-5	45	45	45	45	45	45	45	45	45	45	45	
80	55	45	65	50	45	30	25	5	-5	-30	-35	-35	15	15	15	15	15	15	15	15	15	15	15	
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2,1	3,7	3,5	3,8	2,9	2,8	1,5	1,4	0,4	0	0	0	0	99	99	99	99	99	99	99	99	99	99	99	

# Agenda

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  - Definition, purpose & planning hierarchy
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  - Examples



- Key success factors

# What is S&OP

## Key learnings

- S&OP is a cross business responsibility, supply chains is just the process facilitator. So make sure to assign clear ownership.
- S&OP is about timely alignment of supply/demand deviations and not about forecast accuracy
- An effective S&OP provides full, time fenced supply/demand transparency and communicates this pro-actively both internal and external
- Through S&OP the senior management defines the operational blueprint, by setting overall business rules thus ..
  - .. removing operational constraints,
  - .. preventing sub-optimization by being fact-based and objective,
  - .. demonstrating leadership by taking balanced, impartial decisions



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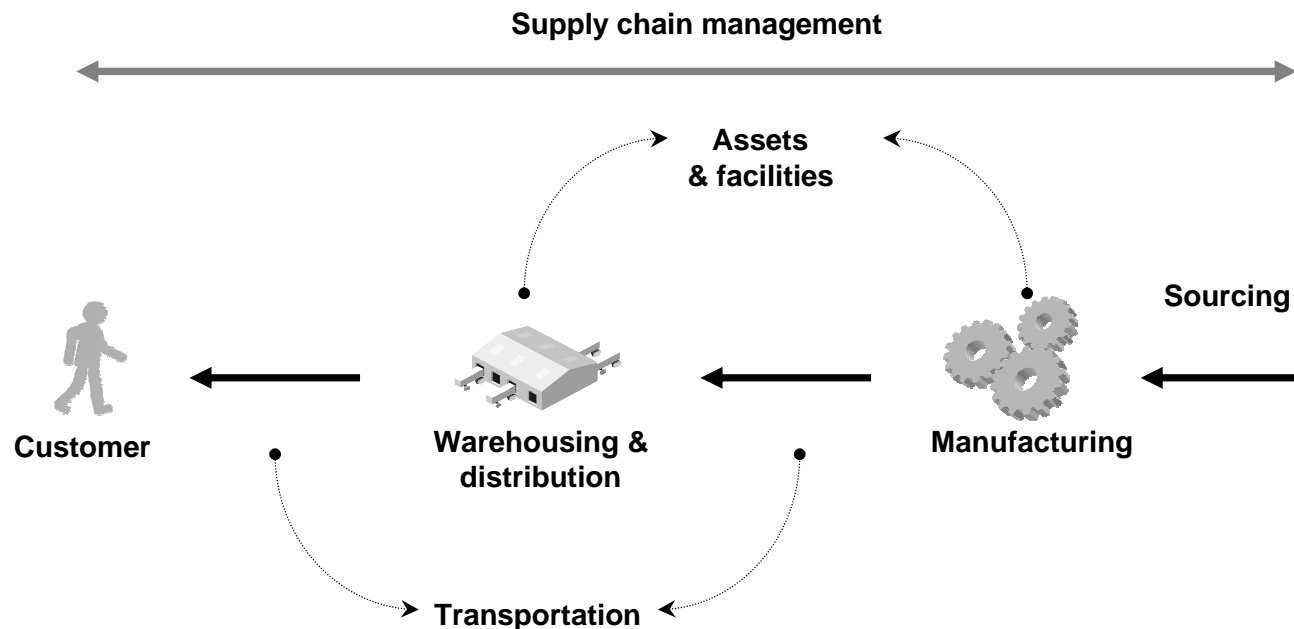
MAKING SUPPLY CHAINS YOUR

COMPETITIVE ADVANTAGE!

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# Profile

*Groenewout is an international, independent consulting company providing integrated value-added advisory and support services across all industry sectors to support our clients in achieving business process and operational improvements within supply chains and logistics.*



# Groenewout

Our consulting portfolio in logistics - & supply chains management

Supply Chains & Logistics Consulting	Stratigical	<ul style="list-style-type: none"> <li>• Feasibility studies</li> <li>• Warehouse tendering for building, logistics equipment &amp; IT</li> </ul>	<ul style="list-style-type: none"> <li>• Distribution Network Studies</li> <li>• Global sourcing</li> <li>• Non Product Related Purchasing (NPR)</li> </ul>	<ul style="list-style-type: none"> <li>• Organizational - &amp; functional design</li> <li>• Business process (re-)design</li> <li>• Key Performance Indicators (KPI's)</li> </ul>
	Tactical	<ul style="list-style-type: none"> <li>• Warehouse (lay-out) design</li> <li>• Plant (lay-out) design</li> <li>• Lean warehousing</li> <li>• Insourcing / out-sourcing warehousing</li> </ul>	<ul style="list-style-type: none"> <li>• Transport tendering</li> <li>• Service Level Agreements (SLA)</li> <li>• Insourcing / out-sourcing transport</li> <li>• Benchmarks</li> </ul>	<ul style="list-style-type: none"> <li>• Sales &amp; Operations Planning (S&amp;OP)</li> <li>• Production planning</li> <li>• Collaborative Planning, Forecasting &amp; Replenishment</li> </ul>
	Operational	<ul style="list-style-type: none"> <li>• Loss Prevention &amp; Security (LP&amp;S)</li> <li>• Facilities electrical, HVAC &amp; temperature engineering</li> </ul>	<ul style="list-style-type: none"> <li>• Location studies &amp; site selections</li> </ul>	<ul style="list-style-type: none"> <li>• IS selection &amp; implementation (WMS/TMS/APS)</li> <li>• Inventory Mgt.</li> </ul>
		<i>Materials Mgt.</i>	<i>Physical Distribution</i>	<i>Supply Chain Mgt.</i>

