A Presentation
for
OMTEC 2011
by
Tom Wallace
Chicago– June 15, 2011
Outline

• Sales & Operations Planning – Overview
• Myths and Realities of S&OP
• Benefits: Hard and Soft
• Implementation
• Beyond The Basics
• Open Forum
The Four Fundamentals

Sales & Operations Planning

Demand

Mix

Volume

Supply

How Much?
- Rates
- The Big Picture
- Product Families
- Strategy/Policy/Risk
- Monthly/18 months+
- Top Management

Which Ones?
- Timing/Sequence
- The Details
- Products, SKUs, Orders
- Tactics/Execution
- Wkly/Daily, 2 days – 6 mos
- Middle Management
SIOP? = Executive S&OP

Demand Planning/Forecasting

Demand Supply

Volume

Mix

Master Scheduling
Supplier and Plant Scheduling
Distribution Scheduling

Operational S&OP

Supply (Capacity) Planning
I think the key thing to hit is “what is Executive S&OP”? Should we have some bullet points somewhere that give some basic description? And can we link this back to some key points:

1) This is about Executive” Decision Making”
2) This is about” Business Performance” (not just demand/supply balancing)
3) This is not “detailed execution review”

bodell, 8/16/2006
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• Sales & Operations Planning – Overview
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Myth #1: “S&OP’s a supply chain thing”

Reality: Executive S&OP is a supply chain thing and a marketing thing and a sales thing and a finance thing and a manufacturing thing and a new product development thing and a general management thing
Soft Benefits

- Enhanced Teamwork
- Improved Communications - Institutionalized
- Better Decisions with Less Effort and Time
- Better $$$ Plans with Less Effort and Time
- Tighter Linkage with Strategy
- Greater Accountability
- Greater Control
- Window into the Future
Myth #2: “S&OP’s all about balancing demand and supply”

Reality:

Executive S&OP does balance demand and supply and integrates financial and operational planning and links strategic planning to ongoing operations and can impact marketing strategy and streamlines annual planning and ...
Strategic or Tactical?

- Strategy
- Executive S&OP
- Tactics
Myth #3: “S&OP takes too much of Top Management’s time”

Reality: Monthly Time Requirement for the Leader of the Business = 1.5 hours*

* Executive staff time could be more than this.
The Executive S&OP Process

Step #1: Data Gathering
- End of Month
  - Sales Actuals, Statistical Forecasts & Supply Actuals

Step #2: Demand Planning

Step #3: Supply Planning
- Management Forecast 1st-pass spreadsheets
- Capacity constraints 2nd-pass spreadsheets

Step #4: Pre-Meeting
- Decisions, Recommendations & Agenda for Exec Meeting

Step #5: Executive Meeting
- Decisions & Game Plan

Heavy Lifting
Role of Finance and New Product Development

- Finance Department Involvement
- New Product Development Involvement

- Data Gathering
- Demand Planning
- Supply Planning
- Pre-Meeting
- Exec Meeting

- Finance Department involvement in New Product Development
**Myth #4: “We’ll Never Get S&OP to Work; We Don’t Have Enough Teamwork”**

Reality: Teamwork Is A Result, Not A Prerequisite

Q. What If You’ve Implemented S&OP and your teamwork hasn’t improved?

A. You Didn’t Do It Right

Reality: Executive S&OP is all about change
Myth # 7: “We Can’t Use S&OP
Because We’re Totally Outsourced”

Reality: Executive S&OP Doesn’t Care
Who Owns The Factory

Heavily Outsourced Companies May Need
Executive S&OP More Than Others
Myth #8: “Our Company Is Too Big for S&OP”

Reality: Executive S&OP operates independently of company size

Procter & Gamble ~ $80 Billion
Microsoft ~ $59
Dow Chemical ~ $57
Cast Fab Technologies ~ $40 Million
Myth #9: “Our Forecasts Are Not Accurate Enough For S&OP”

Reality: Executive S&OP Does Not Require “Accurate” Forecasts
Inputs → Process → Output

Current Customers
New Customers
Competition
Economic Outlook
New Products
Pricing Strategy
Promotions
Bid Activity
Management Directives
Intra-Company Demand
History (Data)
Other

THE FOUR R’s:
1. Reasoned
2. Reasonable
3. Reviewed Frequentely
4. Represent the Total Demand
Myth #10: “S&OP Is Simple; All You Need Is A Few Spreadsheets”

Reality: Implementing Executive S&OP Is All About Change Management
The Priorities

C: Software, Tools

B: Process & Data

A: People, Mindset
Myth #11: “We Can’t Afford To Buy More Software To Do S&OP”

Reality: You Do Not Need New Software to Make Executive S&OP Work

Most of the successful users of the process use Excel (or similar)
Myth #12: “We Can’t Do S&OP. THEY Will Never Participate”

Reality:

• Never Say Never
• It’s All About Change Management
• People Can and Do Change
Myth #12: “We Can’t Do S&OP. THEY Will Never Participate”

Who Are THEY?

• Top Management?
• Sales?
• Marketing?
• Finance?
• All of the above?
Myth #12: “We Can’t Do S&OP. THEY Will Never Participate”

Why not? Are they bad people?

They don’t understand it.

They don’t understand it, because they haven’t been taught.

“It’s all about change management”
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<table>
<thead>
<tr>
<th>Benefit</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Service</td>
<td>UP</td>
</tr>
<tr>
<td>Inventory</td>
<td>DOWN</td>
</tr>
<tr>
<td>Obsolescence</td>
<td>DOWN</td>
</tr>
<tr>
<td>Freight Costs</td>
<td>DOWN</td>
</tr>
<tr>
<td>Order Lead Times</td>
<td>DOWN</td>
</tr>
<tr>
<td>Time to Launch New Products</td>
<td>DOWN</td>
</tr>
<tr>
<td>Plant Productivity</td>
<td>UP</td>
</tr>
</tbody>
</table>
Soft Benefits

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- Greater Accountability
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- Window into the Future
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Implementing Executive S&OP

Bad News
• Change
• 8-12 Months

Good News
• Few People (several dozen)
• Early Results (2-3 Months)
• Low Cost (< $100K)
The Priorities

C: Software, Tools

B: Process & Data

A: People, Mindset
C Item - Software for S&OP

Traditional: Spreadsheet Software

- Advantages:
  - Ultra low cost
  - Quick to come up
  - No learning curve

- Disadvantages:
  - Simulation > Slow
  - Unit and Dollar Alignment > Weak
  - Volume and Mix Alignment > Weak
  - “Blood, Sweat, and Excel”
  - Dead End
New: S&OP Specific Software

- Disadvantages:
  - Can Slow Down the Implementation
  - Cost
  - Learning Curve

- Advantages:
  - Simulation > Rapid, Real Time
  - Unit and Dollar Alignment > Strong, Constant
  - Volume and Mix Alignment > Strong, Constant
  - Fast Preparation
  - Supports Growth and Greater Complexity
So, What To Do About Software?

Options:

1. Use spreadsheet software
2. Use S&OP specific software
3. Hybrid: start with spreadsheet switch to specific later

When in doubt, pick 3.
B Item: DATA ISSUES

- Families and Sub-families
- Resources
<table>
<thead>
<tr>
<th>Product Families</th>
<th>Supply Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Plants</td>
</tr>
<tr>
<td>Markets</td>
<td>Departments</td>
</tr>
<tr>
<td>Application</td>
<td>Suppliers</td>
</tr>
<tr>
<td>How the Product</td>
<td>How the Product</td>
</tr>
<tr>
<td>is Used</td>
<td>is Made</td>
</tr>
</tbody>
</table>

What works best for Marketing and Sales

What works best for Operations, Supply Chain, Logistics, etc.
B Item: DATA ISSUES

- Families and Sub-families
- Resources
- Units of Measure
- Load Profiles/Bills of Resources
- Average Selling Prices and Gross Margins
- Actuals: Sales, Bookings, Production, Inventories, Backlog
- Demand/Supply Strategies:
  - Where “Meet the Customer” – (MTS, MTO, FTO)
  - Target Fill Rates
  - Target Finished Goods Inv: Days On Hand
  - Target Customer Order Backlog: Days On Hand
  - Target Module Inv: Days On Hand
The problem is not understanding S&OP. It’s simple.

The hard part is Organizational Behavior Change
... changing how we collectively manage the business.

Issues: Discipline/Self-discipline
Accountability
Conflict Management
Implementing Executive S&OP Is Different

The president must provide:
• Support
• Funding
• Commitment
• Leadership

So what’s new?
Active, Hands-on Participation by the President and Staff Each and Every Month
<table>
<thead>
<tr>
<th>Implementation Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>• People are the A item</td>
</tr>
<tr>
<td>• Implementation begins and ends with the Leader of the business</td>
</tr>
<tr>
<td>• “Hold the high ground” – <em>involve top management at the very outset of the implementation, and throughout</em> – and you will probably succeed</td>
</tr>
<tr>
<td>• “Build it and they will come” – <em>design it first, get the mechanics working, and then try to sell it to top management</em> – carries a lower probability for success</td>
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Sales & Operations Planning
Beyond the Basics
How Procter & Gamble, Cisco Systems, Dow Chemical, Whirlpool, Motorola, Pfizer, BASF, Microsoft and other leading companies enhance and extend the power of S&OP.
Thomas F. Wallace
Beyond The Basics

The Basics =

☑ Balancing Demand and Supply
☑ Integrating Financial and Operational Planning → One Set of Numbers
Beyond The Basics

Examples of Beyond The Basics:

✓ Strategy Enhancement
✓ Advanced Financial Planning
✓ Risk Management
✓ Advanced Demand and Supply Planning
Case 1: BASF

Ludwigshafen am Rhein, Germany
Chemicals
Annual Sales: €72 billion
1. Executive S&OP Enhancing Business Strategy
2. Global S&OP
3. Advanced Supply Planning
Global S&OP – “Standard”

Step #1: Data Gathering
Step #2: Demand Planning
Step #3: Supply Planning
Step #4: Pre-S&OP Meeting
Step #5: Executive Meeting
Step #6: Global Consolidation
Step #7: Global Exec Meeting

Entity A
Entity B
Entity C

Global S&OP – “Standard”
Global S&OP – BASF

- Global S&OP Meeting
- Global Supply Plan
- Global Consolidation
- Regional Supply Plan
- Regional S&OP Plan
- Demand Plan (Regions)
- Gather Data
Case 1: BASF

1. Executive S&OP Enhancing Business Strategy: “Be Number One”

2. Global S&OP: Integrating Demand and Supply from Around the World

3. Advanced Supply Planning: Optimizing Production, Minimizing Costs, Maximizing Profits
Ludwigshafen am Rhein, Germany
Chemicals
Annual Sales: € 72 billion

“While BASF does many things well, S&OP has contributed significantly to helping us achieve our present (#1) position in the chemical industry.”

Alan Milliken
Business Process Education Manager
Case 2: Cisco Systems

1. Executive S&OP Enhancing Business Strategy

2. New Product Launch
Case 2: Cisco Systems

San Jose, California
Commercial and Consumer Electronics
Annual Sales: $40 billion
TelePresence: Video Conferencing on Steroids
Case 2: Cisco Systems

For Cisco, this initiative meant:

• New Suppliers
• New Contract Manufacturer
• New Product/New Technology
• New Business
• New Business Unit
Case 2: Cisco Systems

Results:
• Product launched on time and on budget
• No major lead time increases during launch
• Order fulfillment lead time: < 5 days
• On-time shipments >98%
• Cisco now No. 1 in this multi-billion $ market

“...there’s no way we could have generated the 98%+ on-time shipping performance and the rapid response between order and shipment without S&OP.”

Brad Tallman
Sr. Director, S&OP
Case 2: Cisco Systems

1. Executive S&OP Enhancing Business Strategy: Entering a new field and creating a new business

2. New Product Launch: Hitting all the numbers, becoming Number One
Case 2: Cisco Systems

San Jose, California
Commercial and Consumer Electronics
Annual Sales: $40 billion

“We at Cisco consider the TelePresence story a great example of how S&OP can make major contributions to executing the company’s strategy.”

Brad Tallman
Senior Director, S&OP
A Tale of Two Companies

BASF: 140+ years old
BASF has a mature product line
BASF sells into a mature market
BASF HQ are in a mature part of the world

Cisco founded in the 1980s
Cisco in high tech
Cisco sells to many new customers
Cisco is in a parallel universe called Silicon Valley

Executive S&OP Supports Both Equally Well
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QUESTIONS
COMMENTS
COMPLAINTS
ANYTHING AT ALL ABOUT S&OP
Thanks for Being Here!

Go to www.tfwallace.com for:

- S&OP 101 (free)
- Implementation Information (free)
- The S&OP Forum (free)
  - Periodic newsletters (automatic)
  - White papers (on request)
  - S&OP Effectiveness Checklist (on request)
  - Blog (this fall- on request)
  - Q&A (this fall- on request)
- Books and videos ($$$)

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