Sales & Operations Planning (S&OP)

The critical success factors

November 12, 2009
Utrecht
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Agenda

• 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
What is S&OP
Definition

• **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*.
What is S&OP

Purpose

• 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

- Strategic Planning
- Business Planning
- Sales & Operations Planning
- Master Scheduling
What is S&OP
Activity steps - example

Sales Forecast Report
- Actual sales, backlog, inventory etc.

Demand Planning
- Translate demand in net requirements

Supply Planning
- Review production capacity and ability

Pre S&OP meeting
- Resolve issues, recommendations and alternative plans

Executive S&OP meeting
- Single companywide plan
What is S&OP
Organizational position

The facilitator of the S&OP processes

- High
  - Competitive position through logistics
    - Marketing
    - Management Level through S&OP representation
    - No preference
    - Production
  - Costs sensitivity production & logistics

- Low
  - High
Agenda

- What is Sales & Operations Planning (S&OP)
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- 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
Why S&OP Benchmark – reasons to apply S&OP processes

Why companies look into S&OP

- Volatile market / uncertainty in demand: 36%
- Meeting customer service expectations: 41%
- Rising Supply Chains costs: 44%

Source: Aberdeen Group, August 2008
Why S&OP
Benchmark – logistics costs as part of sales

Logistics costs as % of sales

Source: Aberdeen Group, June 2007
Why S&OP
Benchmark – customer order fill rate

Customer order fill rate

% of respondents

0% 5% 10% 15% 20% 25% 30% 35% 40% 45%

Below 50% 61-70% 71-80% 81-85% 86-90% 91-95% 96-100%

Source: Aberdeen Group, June 2007

Best in Class S&OP
Others

0% 2% 4% 13% 24% 41%

0% 9% 11% 15% 13% 14% 21%

0% 64% 15% 27% 24% 21%
<table>
<thead>
<tr>
<th>INDUSTRY CHARACTERISTICS</th>
<th>S&amp;OP BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Typically large, global supply chains</td>
<td>i. Gains supply chains / inventory visibility</td>
</tr>
<tr>
<td>ii. Product availability / customer service are mandatory</td>
<td>ii. Determines optimal inventory levels fulfilling demand forecast &amp; -variability</td>
</tr>
<tr>
<td>iii. Capacity constraints in production</td>
<td>iii. Determines optimal inventory levels given capacity constraints per period</td>
</tr>
<tr>
<td>iv. Inherent uncertainties in demand &amp; supply chains disruptions</td>
<td>iv. Fast, effective process to assess the operations &amp; financial impact and the best possible response</td>
</tr>
<tr>
<td>v. Disrupted S&amp;OP processes</td>
<td>v. Single, organization wide demand &amp; supply planning</td>
</tr>
<tr>
<td>vi. Cost pressures / protect margins</td>
<td>vi. High costs savings leveraging effect in e.g. working capital</td>
</tr>
</tbody>
</table>
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  • 4 implementation pillars
  • Examples

• Key success factors
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, Inform matrix
   • Business processes / flow schemes
   • Communication structures / meeting

iii. Embed S&OP processes
   • Functional descriptions
   • Key Performance Indicators (KPI’s) & bonus schemes

iv. Technical facilitation / Supply Chains transparency
   • 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 ± 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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    • IT systems
S&OP integrates Marketing/Sales and Operations

Operations

- Contract management with growers
- Operational management of production fields
- Production quality
- Production efficiency
- Production investments & technical capacity mgt.
- Manage cooling facilities and transportation
- Call off raw materials & seeds
- Setting up the yearly crop plan including updating it
- Setting up the “weekly” crop plan and keep it up to date
- Inventory management

Sales & Operations Planning

- Marketing activities
- Developments in product assortment
- Communication product information to customers
- Sales & demand forecasting Key account management (annual plans & promotions)
- Active (phone) selling on the spot market
- Sales order entry
- Pro-active customer communication (strat. & oper.) logistics (partnering with buyer)
- PO specific information exchange about product volumes, logistics costs, distribution, lead times, etc.

Marketing & Sales

Business case
Design & implement S&OP processes
What is S&OP
The four pillars

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i. Establish the S&OP function in the *organizational* structure
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ii. **Design and implement** S&OP processes
    • **D**o, **A**ccountable, **C**onsult, **I**nform matrix
    • Business processes / flow schemes
    • Communication structures / meeting

iii. **Embed** S&OP processes
     • Functional descriptions
     • Key Performance Indicators (KPI's) & bonus schemes

iv. **Technical facilitation** / Supply Chains transparency
    • IT systems
Business case
Design & implement S&OP processes

General Management
- Business Plan
- Performance Review

Sales & Marketing
- Promotions Plan
- Customer Purchase Orders

S&OP Planner
- Yearly Crop Plan
- Weekly ATP Schedule
- Customer Reports (by phone)

Operations Controller
- Grower contracts

Operations
- Production Status reports
- Coolers Inventory (aging/quality)

- yearly
- monthly
- daily
- quarterly
- weekly
Business case
Design & implement S&OP processes

General Management
- Business Plan
- Performance Review

Sales & Marketing
- Promotions Plan
- Customer Purchase Orders

S&OP Planner
- Forecast adjustments & consolidation
- Demand forecast Creation
- Yearly Crop Plan
- Weekly ATP Schedule
- Customer Reports (by phone)

Operations Controller
- Grower contracts
- Production Status reports

Operations
- Customer Purchase Orders
- Coolers Inventory (aging/quality)
- Sales & Marketing
- Operations

Yearly/Quarterly
- Production Status reports
- Coolers Inventory (aging/quality)

Weekly/Daily
- Production Status reports
- Coolers Inventory (aging/quality)
Business case
Design & implement S&OP processes

Sales projections

∑ Sales projections

Company A Business Strategy

DEMAND VALIDATION

SALES MARKETING PLAN

Gross Sales Demand

Financial budgets
Average Selling Price

Sales & Marketing

Grower availability
Planting areas

ROUGH CUT CAPACITY PLAN

Master Crop Plan

PURCHASE REQUIREMENT <raw materials>

PURCHASE REQUIREMENT <seeds>

PRODUCTION LEAD TIME

GROSS ACRES

Sales & Operations Planning

Yields
Varaince to budget

SUPPLY PARAMETERS

Greenhouse Seed date
Transplant date
First harvest date
Harvest scheme
Interrow spacing
Bed width
Business case
Design & implement S&OP processes

General Management
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Operations Controller
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Operations
- Grower contracts
- Production Status reports
- Coolers Inventory (aging/quality)

Processes:
- Yearly
- Quarterly
- Monthly
- Weekly
- Daily
Business case
Design & implement S&OP processes

Performance Management

Yearly sales budget & forecast
(Sales & Marketing Plan)

Market demand & info

Yearly Production plan (Master Crop plan)

Grower capacity

Sales orders / add planning

Purchase orders acceptance

Purchase order (fax / I-trade)

Purchase order confirmation

Sales orders / Available-to-Promise

Seeding, transplant & harvest

Contract growers & Raw Mats. ordering

Quality control

Sales orders / Available-to-Promise

Sales order

Seeding, transplant & harvest

Performance Management

Yearly sales budget & forecast
(Sales & Marketing Plan)

Market demand & info

Yearly Production plan (Master Crop plan)

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Sales order

Seeding, transplant & harvest

Contract growers & Raw Mats. ordering

Quality control
## Business Case
**Design & Implement S&OP Processes**

### Yearly Crop Plan

<table>
<thead>
<tr>
<th>Key Account Team</th>
<th>Inside Sales Team</th>
<th>S&amp;OP Planner</th>
<th>Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales History in Great Plains</td>
<td>Growers demand per month</td>
<td>Sales &amp; marketing plan</td>
<td>6-weeks distribution plan</td>
</tr>
<tr>
<td>Groceries price</td>
<td>Sales</td>
<td>S&amp;OP Planner</td>
<td>Operations</td>
</tr>
<tr>
<td>Sales &amp; marketing plan</td>
<td>Coordination with GM Key Account Team/Director of Operations</td>
<td>6-weeks distribution plan</td>
<td>6-weeks distribution plan</td>
</tr>
<tr>
<td>6-weeks distribution plan</td>
<td>Master crop plan yearly horizon</td>
<td>6-weeks distribution plan</td>
<td>6-weeks distribution plan</td>
</tr>
<tr>
<td>Gross production capacity per week</td>
<td>Purchase requirements monthly, raw materials &amp; packaging</td>
<td>Gross production capacity per week</td>
<td>Purchase requirements monthly, raw materials &amp; packaging</td>
</tr>
<tr>
<td>Harvest scheme (percentage plant date, transplant date, T-harvest date)</td>
<td>Grower contracts</td>
<td>Harvest scheme (percentage plant date, transplant date, T-harvest date)</td>
<td>Grower contracts</td>
</tr>
<tr>
<td>6-weeks distribution plan</td>
<td>Daily status update production</td>
<td>6-weeks distribution plan</td>
<td>Daily status update production</td>
</tr>
</tbody>
</table>

### 6-weeks Distribution Plan

<table>
<thead>
<tr>
<th>Key Account Team</th>
<th>Inside Sales Team</th>
<th>S&amp;OP Planner</th>
<th>Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales &amp; marketing plan</td>
<td>Sales programs</td>
<td>Master crop plan yearly horizon</td>
<td>6-weeks outlook on production status</td>
</tr>
<tr>
<td>Customer sales orders</td>
<td>Available to Promise check per cust. order</td>
<td>6-weeks outlook on production status</td>
<td>6-weeks outlook on production status</td>
</tr>
<tr>
<td>6-weeks distribution plan</td>
<td>Confirmation delivery date/volume to customer</td>
<td>Daily status update production</td>
<td>Daily status update production</td>
</tr>
<tr>
<td>Start-up surplus selling process</td>
<td>Product availability</td>
<td>Stock available at coolers</td>
<td>Stock available at coolers</td>
</tr>
<tr>
<td>“Simulation” of solutions in 6-weeks distribution plan</td>
<td>Shortage</td>
<td>“Simulation” of solutions in 6-weeks distribution plan</td>
<td>Shortage</td>
</tr>
<tr>
<td>Adjust customer orders in Great Plains</td>
<td>Contact key accounts to discuss action programs</td>
<td>Adjust customer orders in Great Plains</td>
<td>Contact key accounts to discuss action programs</td>
</tr>
</tbody>
</table>
Business case
Design & implement S&OP processes

(Marketing review) End of Previous Month

Pre – SOP (Regional Forecast review)

WD 1

• Crop Managers
• Sales Managers

• Regional Head
• Regional Head of Marketing
• Regional Head of Sales
• Sales managers
• Crop Managers
• Regional Head of Supply Chain
• Buyers / SLS

(Regional Demand review)

WD 2

Regional Head of Supply Chain
Global SC Managers

• Regional Head
• Regional Head of Marketing
• Regional Head of Sales
• Regional Fin.
• Regional Head of Supply Chain
• Global SC Managers
• Global SC Fin.

Regional SOP (Financial & SC KPIs)

WD 3

• Global Head
• Global Head of Finance
• Regional Heads
• Regional Head of Sales
• Global SC managers
• Global Head of Supply Chain

Global SOP

WD 8
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   - IT systems
### Department: Sales & Operations Planning

### Function: Sales & Operations Planner

<table>
<thead>
<tr>
<th>Reports to:</th>
<th>Date functional description:</th>
<th>Approval description:</th>
<th>Function no.:</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Manager</td>
<td>January 16, 2007</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Objective of the function:
- Match the demand and supply by executing the sales & operations planning process for the three product groups, through the yearly crop plan and the 6-weeks distribution plan
- Manage the transition process and implementation of supply chain excellence particularly in the S&OP process of balancing supply & demand

### Supervises:

### Responsibilities | Activities | Evaluation criteria
---|---|---
Yearly Crop Planning | - 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  
- Provide management with "what if" scenario's to the proposed crop plan and simulate the effect of various alternatives.  
- Ensure an accurate supply planning process and finalize the yearly crop plan.  
- 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 | Timely, up-to-date and quality of the yearly crop plan

6-weeks distribution plan | - 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)  
- Continuous update of the 6 weeks distribution plan. All input (both sales as operations aspects) is done by SOP planner  
- Provide transparency and manage the expectations on the shortages/surplus in the coming 6 weeks with sales and operations | Timely, up-to-date and quality of the 6-weeks distribution plan
## Business Case

### Embed S&OP Processes

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Activities</th>
<th>Evaluation criteria</th>
</tr>
</thead>
</table>
| - Introduce and improve the supply chain effectiveness | - Optimize the demand and supply chain process by analyzing existing processes, proposing improvements including process redesign, and implement these improvements.  
- 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”)  
- Identify and agree supply chain improvement projects with sales, operations and general management.  
- Coach and educates employees on new demand and supply chain processes. | - The embedding of the S&OP processes in the Company A organization  
- Improved supply chain performance to key accounts (3- & 6-weeks delivery reliability) |

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Activities</th>
<th>Evaluation criteria</th>
</tr>
</thead>
</table>
| - Management information | - Monthly/weekly reports on forecast (both sales and harvest) versus actuals:  
  - Actuals versus forecast director of sales  
  - Actuals versus committed orders of (key) accounts  
  - Generate, analyse and provide management information on all planning and logistics issues | - Quality and timely management information |

### Critical Success Factors

- Obtains and maintains a respected and neutral position between operations department and sales department  
- Active chasing of the required information with sales and operations to ensure an up-to-date 6-weeks distribution plan and yearly crop plan  
- Initiates and challenges the provided information from sales department and operations department in the Sales & Operations Planning (S&OP) process  
- Pro-active attitude to manage the Company A organization in case of expected shortages / surplus  
- Analytical skills, combined with accuracy to keep the yearly crop plan and the 6-weeks distribution plan continuously up-to-date  
- Is full-time present at the Company A offices XXXXX
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

<table>
<thead>
<tr>
<th>Performance Attribute</th>
<th>Performance Attribute Definition</th>
<th>Key Performance Indicator Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply Chain Delivery Reliability</strong></td>
<td>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.</td>
<td>Delivery Performance</td>
</tr>
<tr>
<td><strong>Supply Chain Flexibility</strong></td>
<td>The agility of a supply chain in responding to marketplace changes to gain or maintain competitive advantage.</td>
<td>Supply Chain Response Time</td>
</tr>
<tr>
<td><strong>Supply Chain Planning Accuracy</strong></td>
<td>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 &amp; marketing</td>
<td>PRODUCTION</td>
</tr>
<tr>
<td></td>
<td>1-week forecast accuracy</td>
<td>1-week forecast accuracy</td>
</tr>
<tr>
<td></td>
<td>3-week forecast accuracy</td>
<td>3-week forecast accuracy</td>
</tr>
<tr>
<td></td>
<td>6-week forecast accuracy</td>
<td>6-week forecast accuracy</td>
</tr>
<tr>
<td></td>
<td>1-year forecast accuracy</td>
<td>1-year forecast accuracy</td>
</tr>
</tbody>
</table>
What is S&OP
The four pillars

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    • IT systems
### Business case
Design & implement S&OP processes

#### Name:
Watermelon

#### Size:
6 - count

#### Cooler:
All

#### Customer:
All

<table>
<thead>
<tr>
<th></th>
<th>week 1</th>
<th>week 2</th>
<th>week 3</th>
<th>week 4</th>
<th>week 5</th>
<th>week 6</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Starting Inventory</strong></td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Harvest receipts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed</td>
<td>70</td>
<td>30</td>
<td>20</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complementary</td>
<td>30</td>
<td>10</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>40</td>
<td>25</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Customer orders</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed</td>
<td>100</td>
<td>15</td>
<td>10</td>
<td>5</td>
<td>15</td>
<td>50</td>
</tr>
<tr>
<td>Reserved</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Forecast</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total orders</strong></td>
<td>120</td>
<td>25</td>
<td>10</td>
<td>20</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td><strong>Available-to-Promise</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open to sell committed</td>
<td>70</td>
<td>55</td>
<td>55</td>
<td>75</td>
<td>70</td>
<td>65</td>
</tr>
<tr>
<td>ATP committed + reserved</td>
<td>80</td>
<td>55</td>
<td>45</td>
<td>65</td>
<td>50</td>
<td>45</td>
</tr>
<tr>
<td>ATP committed + reserved + forecast</td>
<td>80</td>
<td>55</td>
<td>45</td>
<td>65</td>
<td>50</td>
<td>45</td>
</tr>
<tr>
<td><strong>Inventory days coverage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Days committed</td>
<td>2.7</td>
<td>7.9</td>
<td>7.0</td>
<td>5.8</td>
<td>4.7</td>
<td>4.1</td>
</tr>
<tr>
<td>Days committed + reserved + forecast</td>
<td>2.1</td>
<td>3.7</td>
<td>3.5</td>
<td>3.8</td>
<td>2.9</td>
<td>2.8</td>
</tr>
</tbody>
</table>

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**ICT & Logistiek**
10 -13 November 2009 Jaarbeurs Utrecht
Agenda

- 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
**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.
GROENEWOUT
CONSULTANTS & ENGINEERS

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MAKING SUPPLY CHAINS YOUR
COMPETITIVE ADVANTAGE!
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

<table>
<thead>
<tr>
<th>Materials Mgt.</th>
<th>Physical Distribution</th>
<th>Supply Chain Mgt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Feasibility studies</td>
<td>• Distribution Network Studies</td>
<td>• Organizational - &amp; functional design</td>
</tr>
<tr>
<td>• Warehouse tendering for building, logistics equipment &amp; IT</td>
<td>• Global sourcing</td>
<td>• Business process (re-)design</td>
</tr>
<tr>
<td>• Service Level Agreements (SLA)</td>
<td>• Non Product Related Purchasing (NPR)</td>
<td>• Key Performance Indicators (KPI’s)</td>
</tr>
<tr>
<td>• Insourcing / outsourcing transport</td>
<td>• Benchmarks</td>
<td>• Sales &amp; Operations Planning (S&amp;OP)</td>
</tr>
<tr>
<td>• Warehouse (lay-out) design</td>
<td>• Transport tendering</td>
<td>• Production planning</td>
</tr>
<tr>
<td>• Plant (lay-out) design</td>
<td>• Service Level Agreements (SLA)</td>
<td>• Collaborative Planning, Forecasting &amp; Replenishment</td>
</tr>
<tr>
<td>• Lean warehousing</td>
<td>• Insourcing / outsourcing transport</td>
<td>• Location studies &amp; site selections</td>
</tr>
<tr>
<td>• Insourcing / outsourcing warehousing</td>
<td>• Benches</td>
<td>• IS selection &amp; implementation (WMS/TMS/APS)</td>
</tr>
<tr>
<td>• Loss Prevention &amp; Security (LP&amp;S)</td>
<td>• Location studies &amp; site selections</td>
<td>• Inventory Mgt.</td>
</tr>
<tr>
<td>• Facilities electrical, HVAC &amp; temperature engineering</td>
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<td></td>
</tr>
</tbody>
</table>
Groenewout
Our methodology in logistics - & supply chains management

- Data gathering
- Supply Chains Transparency
- Business Requirements
- Benchmark
- 2nd-opinion
- Audit
- Arbitrage
- Training
- Project mgt.
- Tender- & contract mgt.
- Construction (site) mgt.
- Process improvement mgt.
- Transition mgt.
- Change mgt.
- Interim mgt.

- Modeling & Simulation
  - CAST-dpm
  - WHAT-2-STORE©
  - WARE-2-STORE©
  - BUILD-2-STORE©
  - ABC-2-STORE©
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