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Driving One Number Planning

November 6, 2008

Presented by: Mike Vincitorio

Introduction



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Mike Vincitorio – BearingPoint Technology and Management Consulting

Agenda

- Session Objectives
- About BearingPoint
- Business Issue
- A Sound Business Case
- Driving to One Number
- The Role of Demand Management and Forecasting
- The Platform: Sales and Operations Planning
- Discussion

Key Objectives of Today's Session

- Modest process improvements yield big returns
- Get to a ONE number organization
- Collaborate and build consensus across functions
- Energize your S&OP Process

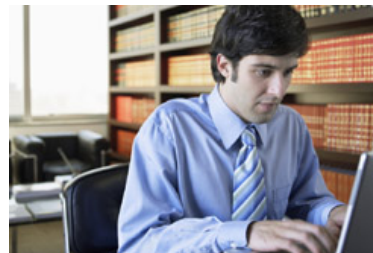
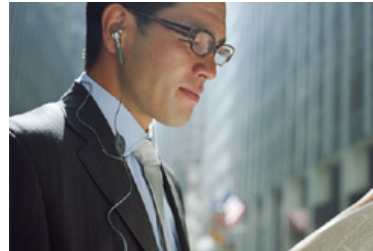
-- “To achieve ongoing operational improvements, deploy solid business practices supported by the right tools.”

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management and
technology consulting
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Forbes Global 2000

110-year heritage as a
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\$3.4 billion in revenues*



We are 17,000 management
and technology consultants
who get extraordinary
things done.

And our clients tell us
we do it differently.

*Based on 2006 financial results

Management's Issues

Issues	CIO	CFO	VP SCM	VP Sales	VP Marketing
1. Underperforming and obsolete inventory		X	X		
2. Missed or late shipments		x	X	X	x
3. Missed sales/opportunities due to stock-outs		x	x	x	x
4. Competing plans within organizations drive conflicting decisions/direction	X	x	x	x	
5. Lack of collaboration between functions	X		x		
6. Capacity constraints = lost opportunities and lack of flexibility		x	x		
7. Long production lead-times			X	X	x
8. Inaccurate and highly variable forecasts	x	x	X	x	
9. Uncertainty of which promotions are profitable & effective		x		x	X

Why Do Anything? The Business Case:



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Right Practices + The Right Tools = Solid Returns

Example

Company with \$3 billion in annual sales and Gross Margin of 35%: Improve forecast accuracy by just 5 percentage points and add about **\$6.1 million annual** return to the bottom line!^{1,2}

¹ The following is based only on that portion of sales impacted by the forecast in error, i.e. 5%. Considers 5% interest on held inventory, 2% lost sales, 10% transshipment at 2% transportation cost and 2% obsolescence write-off.

² Formulae from the Institute of Business Forecasting (IBF). Pages 425 – 430, **Practical Guide to Business Forecasting**, Second Edition, © 2005, Graceway Publishing Company, Inc., Flushing, NY, Edited by: Chaman L. Jain and Jack Malehorn. Article "How to Measure the Cost of a Forecast Error" by Chaman L. Jain of St. John's University.



A Clear Business Case

- **Stock-outs are minimized** and first-time order fulfillment increases
- **Overall inventory**, including excess and obsolete, **contracts**
- Number of intra-company transshipments reduce
- Production whipsaws shrink – Lead-times can be reduced
- **Promotions and their profit impact are quantified** and better understood
- Total costs are cut driving **margin improvements**

Getting to “One Number”



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It Starts with the Forecast

- Forecast the true, unconstrained, unbiased demand
- Leverage the best available data
- Provide a discrete view to event requirements
 - Forecast well beyond the planning cycle
 - Use the existing forecast as the basis for the budget
 - Only ONE forecast per organization
- Demand Planning reports forecast to S&OP

Leverage the best available Data to Drive Better Forecasts



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Demand Planner - Applica Pilot

File Worksheet Edit View Options Data Help

AP: Standard Worksheet w/ UFO - Monthly (4-4-5) *

Category - Item No

- HP - GARMENT CARE-Home Products
- HP - GARMENT CARE-NA
- KP - BEVERAGE-Kitchen Products
 - 3380
 - CBG100W
 - DCM2160BF
 - DCM2900B
 - DCM2900W
 - DCM3100B
 - DCM675BF
 - DDCM200
 - DE755B
 - DE755
 - DLX1050W
 - GC2000B
 - JKC650KT
 - ODC440B
 - ODC440
 - ODC460
 - TCM1000KT
 - TCM450B
 - KP - COOKING-Kitchen Products
 - KP - FOOD PREPARATION-Kitchen Products
 - NEW PRODUCT INITIATIVES - WATER-NA
 - NEW PRODUCT INITIATIVES - WATER-NP
 - PEST - PEST PRODUCTS-Pest Products
 - PET - PET PRODUCTS-Pet Products

KP - BEVERAGE-Kitchen Products - 3380

Time	Item Status	Shipment Qty	POS Qty	EOH Inv Qty	Current System FC	Override Factor	DOM Base FC	Event Type	DOM Event FC	Ma	DO
08/27/06	Active	9,852	8,413	67,950	7,146	0.00%	7,000	None	0		\$5
10/01/06	Active	8,360	7,869	59,459	7,640	0.00%	6,000	None	0		\$5
10/29/06	Active	9,010	7,707	65,029	7,912	0.00%	7,000	None	0		\$5
11/26/06	Active	9,602	10,239	80,190	9,900	0.00%	9,000	None	0		\$5
12/31/06	Active	6,470	7,254	69,394	6,872	0.00%	5,668	None	0		\$5
01/28/07	Active	10,726	8,147	57,462	6,872	0.00%	5,668	None	0		\$5
02/25/07	Active	9,758	9,000	86,087	8,590	0.00%	7,085	None	0		\$5
03/31/07	Active	7,196	7,254	67,977	6,180	0.00%	5,168	None	0		\$5
04/29/07	Active	892	6,570	78,197	5,943	0.00%	1,700	None	0		\$5
05/27/07	Active	10,098	7,761	78,347	7,834	0.00%	8,500	None	0		\$5
07/01/07	Active	5,058	5,416		5,708	0.00%	8,500	None	0		\$5
07/29/07	Active	7,454	6,143		4,538	0.00%	10,000	None	0		\$5
08/26/07	Active	2,746	6,073		7,143	0.00%	11,000	None	0		\$5
09/30/07	Active				6,837	0.00%	11,000	None	0		\$5
10/28/07	Active							None	0		\$5
11/25/07	Active							None	0		\$5
12/30/07	Active							None	0		\$5
01/27/08	Active							None	0		\$5
02/24/08	Active							None	0		\$5
03/29/08	Active				6,180	0.00%	6,180	None	0		\$5
04/27/08	Active				6,022	0.00%	6,022	None	0		\$5
05/25/08	Active				7,582	0.00%	6,500	None	0		\$5
06/29/08	Active				6,096	0.00%	7,800	None	0		\$5
07/27/08	Active				4,929	0.00%	8,100	None	0		\$5
08/24/08	Active				6,327	0.00%	8,000	None	0		\$5
09/28/08	Active				7,462	0.00%	7,462	None	0		\$5
10/26/08	Active				7,984	0.00%	7,984	None	0		\$5
11/23/08	Active				9,861	0.00%	9,861	None	0		\$5

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Integrate critical data such as POS or POC

Tools: Platform Enables Best Practices Approach to DM



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Demand Planner - Applica Pilot

File Worksheet Edit View Options Data Help

AP: Standard Worksheet w/UFO - Monthly (4-4-5) *

Category - Item No KP - BEVERAGE-Kitchen Products - DCM2900W

Time	turn	DOM Base FC	Event Type	DOM Event FC	Total DOM FC	DRCT FC Type	DRCT Base FC	DRCT Event FC	Total DRCT FC	Final DRCT Price	Final Total FC
12/31/06	0	0	None	0	0	None	0	0	0	0	0
01/28/07	0	0	None	0	0	None	0	0	0	0	0
02/25/07	0	0	None	0	0	None	0	0	0	0	0
03/31/07	0	0	None	0	0	None	0	0	0	0	0
04/29/07	0	0	None	0	0	None	0	0	0	0	0
05/27/07	4,698	4,698	None	0	4,698	None	0	0	4,698	4,698	4,698
07/01/07	58,000	58,000	None	0	58,000	None	0	0	58,000	58,000	58,000
07/29/07	54,001	54,001	None	0	54,001	None	0	0	54,001	54,001	54,001
08/26/07	96,740	96,740	None	0	96,740	None	0	0	96,740	96,740	96,740
09/30/07	55,000	55,000	End Cap	50,000	115,000	None	0	0	115,000	115,000	115,000
10/28/07	140,000	140,000	None	0	140,000	None	0	0	140,000	140,000	140,000
11/25/07	90,000	90,000	None	0	90,000	None	0	0	90,000	90,000	90,000
12/30/07	65,000	65,000	None	0	65,000	None	0	0	65,000	65,000	65,000
01/27/08	60,000	60,000	None	0	60,000	None	0	0	60,000	60,000	60,000
02/24/08	89,000	89,000	None	0	89,000	None	0	0	89,000	89,000	89,000
03/29/08	40,000	40,000	None	0	40,000	None	0	0	40,000	40,000	40,000
04/27/08	0	0	None	0	0	None	0	0	0	0	0
05/25/08	0	0	None	0	0	None	0	0	0	0	0
06/29/08	0	0	None	0	0	None	0	0	0	0	0
07/27/08	0	0	None	0	0	None	0	0	0	0	0
08/24/08	0	0	None	0	0	None	0	0	0	0	0
09/28/08	0	0	None	0	0	None	0	0	0	0	0
10/26/08	0	0	None	0	0	None	0	0	0	0	0
11/23/08	0	0	None	0	0	None	0	0	0	0	0
12/28/08	0	0	None	0	0	None	0	0	0	0	0
01/25/09	0	0	None	0	0	None	0	0	0	0	0
02/22/09	0	0	None	0	0	None	0	0	0	0	0

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Manage Event Forecasts Uniquely

Demand Management

Event forecasts can include:

- Various sales promotions
- Promotions or ads by your customers
- New product launches
- Inventory Build-ups, pipe-line fills (for your customer)

S&OP: Disconnected?



- ### Undesirable Outcomes
- Different set of numbers driving business decisions
 - Finger pointing and "us versus them" mentality
 - Excess or constrained capacity
 - Sub-optimized service levels
 - Negative GM impact
 - Consistently biased forecast
 - Excess inventory/ Stock outs
 - Poor order fill rates to priority customers
 - Mismatch between financial and volume numbers

Group Participation

- How many have a regular S&OP?
- How often?
- True One-Number Plan?



Bring it to the S&OP



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Sales and Operations Planning (S&OP) is:

The single business mechanism to connect all sales & operations functions, key customers, and key suppliers to create one global plan designed to meet *true demand*, profitably.

Value Chain Optimization

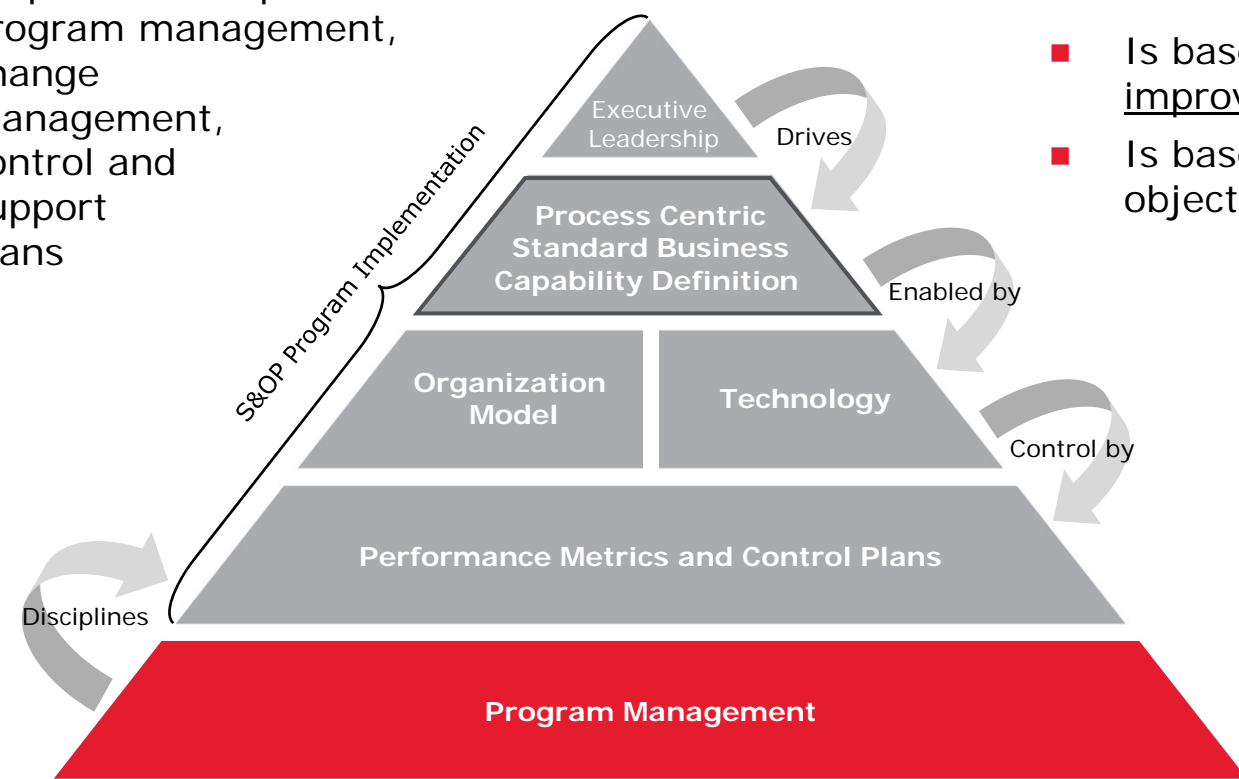
S&OP is a real culture change

- Needs to be driven by leadership
- Requires right mix of S&OP development and implementation teams
- Requires a disciplined program management, change management, control and support plans

For leading companies, Sales & Operations Planning:

- **Is a business essential, not a supply chain task**
- Is a multi-year change management effort, not a project

- Is based upon a continuous improvement framework
- Is based upon shared objectives and metrics



Rate Your S&OP Process. On a scale of 1 to 10:

Operations Focus (Class C)

- Mid Management Process
- Backward Looking - Results
- Short Term (0-90 days)
- Problem Solving
- Specific Customers / SKU
- Supply / Demand / Inventory
- Supply Chain Process

Finance Focus (Class A)

- Top Management Ownership
- Forward Looking - Planning
- Medium Term Focus (3-9 months)
- Strategic Deployment
- Volume / Family Level
- New Products / Finance
- Executive Management Process

Kick your S&OP up a notch or two and Create a Truly Robust Process:

- Requires **Full Organizational Participation**, horizontally and vertically
Process needs a key executive sponsor
- Forward Looking

Typical Agenda includes:

- Review and approve total company forecast, including profitability
 - Address major supply shortfalls or overstocks
 - Understand financials
 - High level Marketing initiatives and market trends
 - Engineering and Quality discussions
 - Address long range capacity, line-staffing and capital requirements
-
- Frequency:
Often (weekly?)

A Truly Robust S&OP Program:

Tactical S&OP:

- Details of major stock-outs
- Reconcile major disconnects in forecast
- Identify Capacity constraints
- Address Underperforming inventory
- Use “Top 10” Approach: Top 10 E&O, Stock-outs, FC Issues...

Executive S&OP:

- High-level, forward oriented, exception-based focus
- Quick financial review including tracking of Gross Margin Forecast
- Approval of Forecast and Supply / Demand Plan
- Address major issues such as significant Quality holds, capacity, shifts in GM
- Review outcomes from Tactical S&OP

“S&OP is not an extra task added to your job, it *is* your job.”

Organizational S&OP



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Tactical S&OP

Executive S&OP



Organizational S&OP: Monthly Calendar



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Week	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
1		FC system updated with Actuals	Executive S&OP		Sales Finalizes FC updates		
2			Tactical S&OP		Forecast Review		
3			Executive S&OP		Forecast Consensus		
4			Tactical S&OP		Supply Plan Finalized		
5			Executive S&OP		Demand / Supply Consensus		

Data Management: One Source for Master Data



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The screenshot shows the SAP 'Create Material' transaction (MM01) for material 4459-9251. The material name is 'TAXUS Express 2 16 X 3.00'. The sales organization is 0001 and the distribution channel is 01. The callout box highlights the material name field, stating: 'Enterprise System is one system of record for all master and financial data'.

Material: 4459-9251 | **Description:** TAXUS Express 2 16 X 3.00

Sales Org.: 0001 | **Sales Org. 001**

Distr. Chl: 01 | **Distribtn Channel 01**

Grouping terms:

- Matl statistics grp:
- Volume rebate group:
- Gen. item cat. grp: NORM | Standard item
- Pricing Ref. Matl:
- Product hierarchy:
- Commission group:
- Material pricing grp:
- Acct assignment grp:
- Item category group: NORM | Standard item

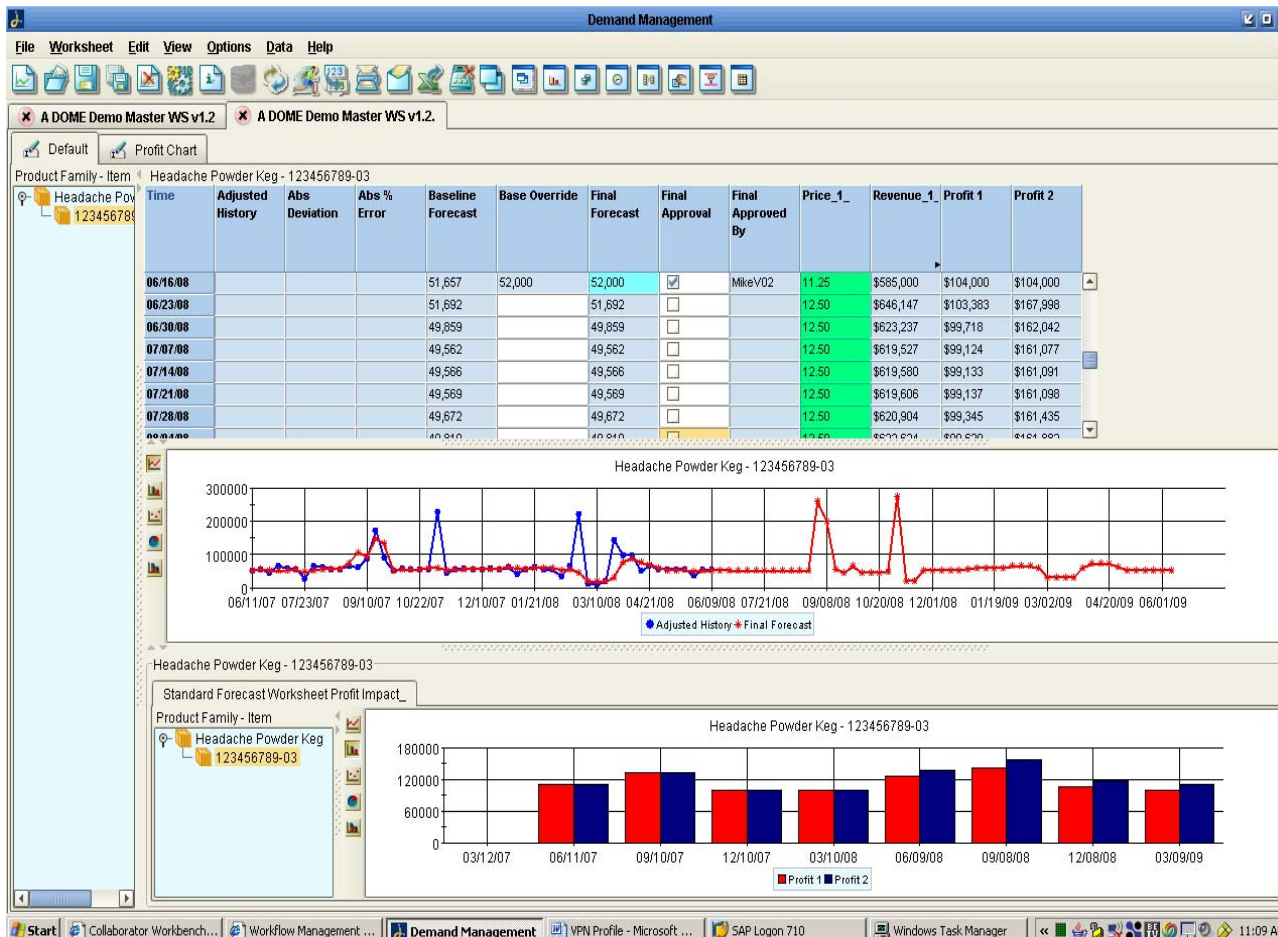
Product attributes:

- Product attribute 1
- Product attribute 2
- Product attribute 3
- Product attribute 4
- Product attribute 5
- Product attribute 6
- Product attribute 7
- Product attribute 8
- Product attribute 9
- Product attribute 10

Data Management: Integrate to S&OP



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Automating the Consensus Process

- Leverage multiple data streams such as Orders and POS
- View Exceptions (such as forecast error) in real-time and on-line
- Immediately See impact to revenue and profit from changes to forecast
- View data at any level: Account, Product Line, Category, Division
- Measure Revenue projections against Budget

Technology enables the processes.

World class planners should benefit from the use of world class tools

Case Study: Real Results



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- Major NA CPG Company in Household Appliances
 - About \$600 million annual sales
 - Weekly S&OP
- Organization-wide commitment to ONE Plan
 - One source for Demand Plan data
 - Demand Plan drives Financial roll-ups and Planning actions
 - Same Demand, Supply and Financial data is integrated into weekly S&OP

The Results:

- Improved inventory turns by more than 120%
- Total inventory reduction of ~ 33% / E&O reduction of 80%
- Fill Rate change from 80% to 93%
 - Includes virtually all 2nd tier accounts with Fill Rate > 88%
- Forecast Accuracy Improvement of 34%

Let's Review



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- One organization has one and only one set of numbers
- One Number Planning Drives Operational Improvement
- Demand Plan (Forecast) Leads the Process
- Small Improvements in Process yield high ROIs
- Follow Forecasting Leading Practices
- Re-deploy, re-invigorate your S&OP to create dynamic and significant results
- Technology is not the answer, but it is a powerful enabler

What's Next?



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- Find an Executive Sponsor
- Prepare your business case
- Create a 90 day crunch-time plan
- Execute / First Pilot of New Processes within 60 Days
- Launch your re-invigorated S&OP
- Consensus One-number driven business in 120 – 180 days.
- 2009: Get BIG Bonus



Discussion

One of the largest management and technology consulting companies in the world

\$3.4 billion
in revenues
FY 2006

NYSE: BE

110-year
heritage as
a trusted
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Serve more than 2,100
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