

Chapter 4

BENEFITS

S&OP is like any other business process or approach - if it doesn't produce real business benefits it's not worth doing! Let's review the benefits gained by our thirteen model companies. All of these are described in greater detail in the individual company chapters.

Hard Benefits

Here we were talking about benefits that are measurable and quantifiable. Typically they have a direct impact on a company's profit and loss or balance sheet.

An effective S&OP process, in every case, will produce hard benefits. In fact, it wouldn't be an effective S&OP process unless management focused the S&OP process on setting targets for improvements and monitoring selected KPI's to insure the improvements are achieved.

There are many other business processes and improvement initiatives that can achieve similar benefits. For example, a good lean manufacturing initiative will improve supply reliability and shorten lead times resulting in improved customer service. S&OP will inevitably improve customer service as well. And similar improvements could result from ERP, TQM or a formal new product development process.

So what?

Rarely does a company implement S&OP in an entirely static environment. Often they are concurrently pursuing improvements in other processes or launching other major initiatives such as those described in chapters 6 through 11. So how much of the hard benefits can be directly and solely attributed to S&OP, versus the other initiatives? That's a question that's almost impossible to answer exactly. However, managers from our model companies have estimated that without S&OP linked to, and guiding these other processes, improvements in any of the areas described below would've been reduced anywhere from 25 to 50%.

As Glen Melanson, **Unicorn Medical Company's** Vice President of Manufacturing said: *"Without such a good S&OP process, we would have still pursued the same business improvements. But I don't think we would've achieved the same level of results."*

The benefits fall into several categories:

The Customer

"Customer service never reached the level it has now with so little inventory." Guillermo Diaz Trillo, President, **Danfoss Commercial Compressors**

On-time delivery to customers improved between 10 and 40%:

- **Ancor** improved 10%, with a very high customer retention rate, a significant issue in their industry
- Both **Cast-Fab** and **Eclipse** held high customer service levels while sales increased about 40%
- **Coca-Cola Midi** reduced customer service defects by 41%
- **Danfoss** improved from 60% to 90% on one product line, while their market share grew 9%
- **Interbake** has improved from 90% to 98%, and held that level since 1993!
- **Pyosa** improved from 80% to 92%
- **Scotts** went from 91% to 97.8% on all products, with an order fill level to Lowe's at 99.4%, all this while reducing the number of finished goods warehouses by two thirds
- *"S&OP has been a cornerstone in our strategic plan. It has allowed us to provide world-class service on a global level."* Dom Archino, VP Business Development (until recently the VP of Sales and Marketing), one of the prime drivers of S&OP at **EMS**

Cash Flow - Inventory

Inventory levels were reduced by between 12% and 70%, most by 40% or greater over a two to three year time period. For some companies inventory turns increased as much as 300%:

- *The impact of S&OP in terms of balancing prudent cash flow management, cost, and Class A customer service levels has been enormous, as our metrics will attest."* Bob Pryor, President **AGFA Healthcare, Americas**

- At **AGFA** even while closing plants and transferring production:
 - customer service was continually improved
 - total inventory was reduced from one hundred twenty days to forty days over the last three years!
- **Amtcor** cut inventory by 40%, with reduced obsolescence
- **Coca-Cola Midi** reduced inventory by 56%
- **EMS** reduced inventory by 62%, allowing for a significant improvement in cash flow to meet the tighter targets set to support the LBO, while still meeting customer on-time delivery expectations.
- **Norse Dairy Systems** reduced equipment service parts inventory by \$600,000, improving turns by 22%
- **Pyosa** estimates that inventory is half of what it would have been without S&OP, ERP and TQM
- **Scotts** reduced total inventory by \$100 million or 33%
- **Unicorn Medical Company** reduced inventory by \$100 million over three years, which was key in supporting the cash flow requirements necessary to go public

Cost Reduction

- *"It is our belief that balancing supply with demand puts you at the point of least cost. This includes overtime, distribution, and factory efficiency. S&OP's main intention is to balance supply with demand and so is one very important variable in the total product cost."* Graeme Hazeldine, General Manager, **Amtcor Flexibles Division**
- **Amtcor** reduced total cost by 2%
- **Interbake Foods** achieved savings of \$41.3 million over the years in which S&OP, along with their 6 Sigma program called IPM, directed their continuous improvement efforts
- Multiple companies achieved distribution and transportation savings of between 5% and 30%
- Manufacturing savings in several companies:

- Downtime reduced by between 20% and 51%
 - Plant efficiency improved between 2% and 33%
 - **Ancor** experienced significant reductions in overtime
 - **Interbake Foods** reduced overfills from 7% to 1.5%, while improving output per man-hour by 33% since 1993
 - **Norse Dairy Systems** reduced scrap by 55%, and overfills of individual packages by 38%
- Purchase costs were reduced significantly at **Scotts**
- *"The value of S&OP at **Lilly** has been the ability to launch all of our products in a very complex environment without adding significant cost, resources or inventories. We have managed a strong customer service performance metric while controlling our growth in assets. The benefits are not cost reductions, but revenue generation at the most affordable and optimal cost!"* Ron Bohl, Global Supply Chain Advisor, **Eli Lilly**

Capacity Utilization

S&OP doesn't tell a company anything it wouldn't find out anyway! But with S&OP, the problems and opportunities will be identified much sooner, giving the company time to deal with them in a cost efficient and effective manner.

- **Cast-Fab** was able to bring back laid-off employees and add to the work force in a planned, orderly way because S&OP provided an "early warning" on the need to increase labor.
- **Eli Lilly** optimized the use of "network" capacity (their twenty-four plants plus multiple third-party manufacturers) while controlling risk, and avoiding costs, loss of sales, delays in new product launch and increases in inventory.

New Product Introduction

By linking the overall planning of S&OP to a formal, well managed new product development process, many of the benefits listed in this chapter are facilitated, while new products are launched more quickly, efficiently and in a timely fashion.

"In the past three years we have launched ten new products and met all demand despite two products that sold significantly above the high-side forecast. Without global sales and operations planning, we would have been driven to reaction mode, which could have resulted in an increase in investment in new assets, a slow down in our launch plans, and/or missed demand opportunities." Dan Gehring, Supply Chain Steward for the **Eli Lilly** "DPN" Network