Strategic Value Assessment (SVA)
Supply Chain Conference, Shanghai, May 2016

A Case Study
Charles.Novak@Jaguar-APS.com
Canadian based consulting company founded in 1998 with offices in Canada and Czech Republic.

Our Focus: Integrated Business Planning, Demand-Driven Forecasting and Supply Chain Optimization.

Our Reach: Canada, USA, APAC, China, Middle East, Central Europe.
Jaguar-APS Workshops in China and SE Asia

Workshops delivered:

PUBLIC & IN-HOUSE

• Sales and Operations Planning / Integrated Business Planning
• Statistical Forecasting and Demand Planning
• Data Mining and Advanced Statistical Forecasting
• Inventory Management and Optimization
• Cost Cutting for Supply Chain
• Supply Chain Risk Management

China: 22 workshops, 297 delegates
Vietnam: 3 workshops, 56 delegates
HK, SG, KL, Th, Ind, Philippines: 41 workshops, 546 delegates

...and several consulting projects in the region
Strategic Value Assessment (SVA)

A case study of Food Supplements Inc.
Based on Our Recent Project.
Background of the Food Supplements Inc. (FSI)

• European company, founded in 1990 with business units in eight markets directly serving eleven countries with exports world-wide.

• 90% of product ships to large distributors who ship to retail.

• Retail managed by own field sales, distributors by own KAMs.

• First ten years were ‘supplier’ market and the company experienced continuous double digit growth.

• Over past decade, there have been multiple international entries in the market, retailers became more sophisticated and consumers have many more choices.

• 5 years ago, FSI implemented SAP APO DP & BW.
Why did FSI management decide there was a need for a detailed process analysis?
Theme behind the SVA

“If you can’t describe what you are doing as a process, you don’t know what you’re doing.”

W. Edwards Deming
Primary Elements of S&OP / IBP and Demand Planning

SVA covers all of these critical elements.
Why So Much Focus on Strategy?

S&OP/IBP process linked to Strategy is the GPS for the Business:
PLAN AND REPLAN
Strategic Value Assessment (SVA) Framework

• Purpose of SVA
  • To review a company’s current demand planning and forecasting process and integration with existing business strategy and enabling systems to recommend process improvement opportunities.

• Deliverables
  • List of preliminary recommendations and technology proposal outlining recommended improvements and opportunities.

• Final result
  • Detailed business case and recommended road map that will lead to improved demand planning and forecasting process design supported by existing (or minimally increased) resources and enabling demand planning and forecasting technology.

Source: Jaguar-APS.com
Strategic Value Assessment Process

**Step 1**
Detailed interviews.
Individual objectives, departmental and team goals and links to business strategy.

**Step 2**
Follow-up discussions with teams and managers.
Alignment of expectations.
Exploration of solution paths.

**Step 3**
Development of 4 stage readiness assessment with focus on improvement of demand planning processes.

**Step 4**
Revisit of high-level company objectives – strategy, mid- to long-term plans.
Ability to meet objectives.

**Step 5**
Identification of major challenges toward achieving objectives in current organizational structure.

**Step 6**
Development of a plan for short- and long-term process and supporting systems.

**Step 7**
Definition of the ROI model and a business case.
Strategic Value Assessment Framework

Focus on four **KEY CRITICAL INTEGRATION AREAS** and their links to **BUSINESS STRATEGY**:

<table>
<thead>
<tr>
<th>Strategy Integration</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Methods Integration</td>
<td>4 Performance Integration</td>
<td></td>
</tr>
</tbody>
</table>

A company can be in one stage of development in a certain integration area, but it can be in a completely different stage in another integration area.

Each area rates development stage between 1 and 4

Stage 1 = Beginning  Stage 2 = Evolving  Stage 3 = Improving  Stage 4 = Best Practice

The ratings are based on a set of predetermined conditions.

Source: SAS

Copyright: Jaguar-APS.com
Each Key Critical Integration Area (KCIA) has a number of tasks directly supporting it.

**STRATEGY**

- **Process**
  - Integration of Functional Departments
    - Common set of goals
  - Statistical Forecasting and Electronic Communication Software
  - Integration with Other Systems in Corp. Enterprise
  - Performance and Reliability of Systems
  - Data Integrity and Clear Definitions

- **Methods**
  - Multiple Functional Areas Interrelated with Statistical methods
  - Data Segmentation for Forecastability, MPS, P/L, Trade Spend, RCCP
  - Ability to Capture and Visualise Demand (POS, IMS, Shipments, Orders)
  - Formal Statistical Forecasting Training and Analytics
  - Performance Metrics (MAPE, MAD, MEAN/MAD, ...)
  - Linking Forecast Metrics to KPIs of Business

- **Systems**
  - Performance and Reliability of Systems
  - Data Integrity and Clear Definitions

- **Performance**
  - Integration of Functional Departments
  - Data Segmentation for Forecastability, MPS, P/L, Trade Spend, RCCP
  - Ability to Capture and Visualise Demand (POS, IMS, Shipments, Orders)
  - Formal Statistical Forecasting Training and Analytics
  - Performance Metrics (MAPE, MAD, MEAN/MAD, ...)
  - Linking Forecast Metrics to KPIs of Business

Utilizing Activity Systems methodology, SVA process can be displayed with all interdependencies. Strategy drives the overall process.

Each supporting task has a number of additional tasks supporting one or more tasks and KCIA(s). These supporting tasks can tie in more than one KCIA.
What did we do...

- .... we interviewed 50 business professionals (some several times) in HQ, all existing markets, production planning and purchasing, using the SVA matrix as a common baseline to ensure integrity.
- .... we collected various data sets from all markets.
- .... we analyzed the data to understand their overall quality, segmentation, forecastability, dynamics, trends, etc.
- .... we analyzed tools and spreadsheets deployed in the demand planning and forecasting meetings in individual markets.
- ... we analyzed distribution channels and retail data.
What did we do...

• ... we analyzed the configuration of SAP APO Demand Planning and BW.
• .... we calculated forecast error for three largest markets and compared it with the benchmark data.
• ... we analyzed the MPS and MRP planning process, systems and parameters.
• .... we looked at links between markets and international marketing (NPD), production planning and purchasing (both Finished Goods and Materials).
• ... we looked at the current business strategy and its understanding and linkages to day-to-day decision making processes.
• ... and other as required
Our Findings

By individual SVA integration areas
<table>
<thead>
<tr>
<th>Count of Supporting activities</th>
<th>Integration type</th>
<th>Critical activity</th>
<th>Total</th>
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<tbody>
<tr>
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<td>1 Process</td>
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<td>1.2 Common set of goals</td>
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<td></td>
<td></td>
<td>4.2 Integration with Other Systems in Corp. Enterprise</td>
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<td>1 Process Total</td>
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<td>3.2 Linking Forecast Metrics to KPIs of Business</td>
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<td>4.3 Performance and Reliability of Systems</td>
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<td>5 Strategy</td>
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<td>1.2 Common set of goals</td>
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<td>4.2 Integration with Other Systems in Corp. Enterprise</td>
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<td>5 Strategy Total</td>
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<td>Grand Total</td>
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Number of times we had input into individual KCIA.

Food Supplements Inc.
<table>
<thead>
<tr>
<th>Row Labels</th>
<th>Average of SVA Rating</th>
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<td>HQ</td>
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<td>4 Systems</td>
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<tr>
<td>Grand Total</td>
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</table>

FSI Scoring

Best-in-Class

Minimum Required

Total Food Supplements Inc.
Current HQ & Market Demand Planning Process

HQ Independent Financial Planning – Focus: Last Month, Quarter, YTD, Fiscal Year @ Global Level.


Data Gathering
- Field sales activities
- KAMs input re Distributor inventories and opps.
- Financial performance YTD
- Marketing activities incl. NPD
- IMS data

Forecast error measured in two markets only, different methods, none correct. SAP BW not connected to markets.

NPD developed centrally with no consideration of individual markets. Item Master not managed.

Excel spreadsheet reports

Only Financial KPIs

Monthly Meeting(s)
- Monthly meeting(s)
- GM led Business Planning Meeting
- Forecasting meeting following Business Planning Meeting
- GM approving final forecast
- Constraining forecast by inventory available and frozen planning zone

Final submission of shipment forecast and ‘production plan’ to supply planning

Market data available, used in naïve forecasting, then forecast changed to meet the plan ‘at any cost’.

Not all markets same. Some GMs required to sit in 2-3 full day meetings. Demand planners not trained. SAP APO DP locked. Excel the only tool used.
The S&OP does not run on regional level only. It needs global Supply Review validation and Global MBR as well.
Roadmap...

Year 1
- Change management; LEAD BY EXAMPLE!
- Create a role of S&OP and Global DP Champion.
- Revisit Bus. Strategy and ensure clear communication and ties in the market & team activities.
- Design and implement structured consensus forecasting process (HQ, Markets, Supply Chain).
- Improve forecasting sophistication.
- Establish data integration and reporting utilizing SAP BW.
- Update Item Master Process and Synch it with Markets.
- Deploy balanced scorecard.

Year 2
- Create the role of HQ based Master Scheduler.
- Enable global logistics group to take control of European warehouses.
- Implement forward looking safety stock policy.

Year 3
- Reconfigure SAP APO as enabling statistical forecast baseline solution.
- Activate SAP APO SNP module and retire legacy MPS.
- Streamline number of market specific planning and reporting systems.

Year 4
- Develop Supplier / Customer relationships and implement VMI / CPFR with the key partners.
• End of Year 1:
  • Improved moral, employee satisfaction and cross-functional teamwork.
  • Cost of project and additional staff (minimum expected).

• End of Year 2:
  • Revenue and profit growth.
  • Regained credibility with top distributors and customers.
  • NPD taking advantage of market knowledge.

Projected Return on Investment (ROI)

• End of Year 3:
  • Revenue and profit continues to grow. CAGR in positive territory.
  • Cost of reconfiguring SAP APO DP fully covered.
  • FSI ready to deploy VMI and CPFR programs with Key Distributors and Customers.
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AN ELUSIVE ATTRIBUTE
CRITICAL TO BUSINESS SUCCESS
Thank you.
Charles.Novak@Jaguar-APS.com