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Sales & Operations Planning in the dairy industry: How well do you coordinate sales and operations in your company?

Ten practical tips to improve your S&OP process



The Sales and Operations Planning (S&OP) process has long been a significant factor in the success of companies in the dairy industry. It connects the sales department with other operations departments such as raw milk management, production and logistics. (photograph: RomeoLu [2])

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Background

The Sales and Operations Planning (S&OP) process has long been a significant factor in the success of companies in the dairy industry. It connects the sales department with other operations departments such as raw milk management, production and logistics, as sales planning makes up the foundation for joint capacity planning. This is compounded by the fact that in the dairy industry, the daily milk delivery must be in line with the market demand (“Push-Pull Supply Chain”). Nevertheless, this process is not always consistently implemented even in established companies, rather, it is being phased out. In medium-sized companies, due to increasing complexity, the importance of the implementation of this process is often only now being recognised for the first time.

Here are ten practical tips that help you to successfully set up the S&OP process:

1. Make sure that all departments have a consistent understanding of the S&OP process

Firstly, the definition of the S&OP process should be clearly understood by all parties and communicated in the company. The S&OP process is a process carried out

monthly across all departments of corporate management. Sales, procurement and capacity planning are implemented as part of this. A consistent definition of the S&OP process in the company is therefore important, as different departments often have differing ideas of what the S&OP process involves. The distributor could then define the process as merely ‘sales’. Sales is certainly a critical part of the process, but in this case, things would only be considered from a demand, rather than a supply perspective (for instance, production capacity and raw milk supply are not considered).

2. Communicate the goals of the S&OP process

Five goals should be regularly achieved through the implementation of a S&OP process:

1. Plan and control the flow of goods: The S&OP process aims to effectively control the flow of goods in the company while providing the customers with the best possible service with the least possible use of resources.
2. Improve communication between departments: A critical factor in successful planning in a company is the communication between departments. Colleagues rarely
3. Align the capacity provided with the capacity needed. The sales department is (or should be) primarily focused on sales. However, the company’s commitment to deliver while having limited production capacity may lead to certain problems. The coordination between departments is therefore essential to optimise the decision-making process in the company.
4. Draw up a feasible plan. At the end of the process, a feasible, operational action plan should be drawn up, considering the capacity and demand. For example, it is important to use a realistic capacity as a basis for decision-making, rather than calculating the theoretical maximum production capacity.
5. Act transparently: In addition to an operational plan, up-to-date data and key performance indicators should be communicated. For example, these may include inventory development, delivery capabilities or production performance indicators. This helps to improve the flow of information between departments and avoid spreading false or incomplete information within the company.

Figure 1

Step	Forecast calculation	Forecast revision	Capacity planning	Meeting preparation	Conducting a S&OP meeting	S&OP meeting follow-up
Action	<ul style="list-style-type: none"> - Sales figures check/adjustment - Sales data upload - Forecast calculation based on algorithms - Handover for adjustments 	<ul style="list-style-type: none"> - Adjustment - Forecast check - Data upload 	<ul style="list-style-type: none"> - Determination of stocks/capacity - Determination of production capacity 	<ul style="list-style-type: none"> - Tracking of the most recent to-do’s/agenda items - Collection of data - Preparation of document 	<ul style="list-style-type: none"> - Discussion of unresolved items/agenda - Approval of forecast/resulting measures - Allocation of to-dos/responsibilities 	<ul style="list-style-type: none"> - Preparing/sending of the meeting minutes - Coordinating of unresolved to-do’s
Time	1 st -4 th working day	5 th – 10 th working day	11 th – 14 th working day	15 th – 16 th working day	17 th – 18 th working day	19 th to 20 th working day

3. Strictly define the procedure of the S&OP process

The S&OP process is a monthly structured process which enables effective business management. Firstly, define the steps and respective activities. In addition to defining the responsibilities and the persons responsible for each activity, it is also important that the activity lifecycle, including the start and end time, is defined. To ensure that the process is independent of the month and the timing of working days, the start and end times should be based on working days. Clearly defined requirements incur a liability of the persons responsible. A dairy industry process example is given in figure 1.

It is important to adapt the process to the company-specific conditions, rather than transferring the process 1:1 to a company. The length of the individual steps is, for example, dependent on how complex the company is (e. g., number of items or customers).

4. Have the forecast adjusted by the most competent department

After the forecast has been calculated using various mathematical models, it must be reviewed by the most competent staff and revised if necessary.

In doing so, it is important to select the right person (departments), namely the department that can best assess customer demand.

Figure 2

No.	Department/Function	Type
1	Sales Planning	Core department
2	Controlling	Ancillary department
3	Sales General	Ancillary department
4	Management/Board of Directors	Core department
5	Logistics	Ancillary department
6	Marketing	Ancillary department
7	Production	Ancillary department
8	Production Planning	Core department
9	Product Management	Ancillary department
10	Procurement of raw milk	Core department
11	Supply Chain Management	Core department
12	Sales Management	Core department
13	Sales Department	Ancillary department

Ultimately, it is up to the company to decide which departments are to be involved. In sales-oriented companies, it is often the Key Account Management department that should be involved. If there are frequent new product launches, have the Product Management adjust the forecast.

In marketing-oriented companies, which temporarily significantly raise the demand for individual and also complementary items through constant marketing campaigns, it would make sense to have the Marketing department do the forecast adjustment. The item and/or product group forecast prepared by different departments can also be adapted, depending on the competence area.

5. Conduct a monthly meeting

The S&OP meeting is a crucial part of the S&OP process. It normally occurs during the third or fourth calendar week of the month. In practical terms, all twelve due dates should ideally be set in advance for the coming year to ensure that each participant is well-prepared and commits to these deadlines. It is often the key operative meeting that brings all information flows together. Therefore, all departments which are important for the business process, such as Production or Sales, should also be involved.

There are two factors that determine which departments are necessary: Does the department capacity constitute a bottleneck,

and can information provided by the department lead to a better alignment between supply and demand?

6. Ensure that the S&OP meeting agenda is standardised

In order to make the S&OP meeting as efficient as possible, and not to waste time on administrative matters at the preparation stage, create a standardised presentation document which is identical in every meeting. A S&OP meeting is normally divided into three major topics:

1. Discussing of unfinished to-dos from the last meeting and key topics from the business operation (e.g., product launch).
2. Presentation of the key performance indicators by the specialist departments attending the meeting to communicate the performance level and to address any issues left from the past month.
3. Presentation and approval of the forecast, taking into account the existing capacities.

A standardised document not only reduces the time spent on preparing, but also increases the recognition value among those involved, thus encouraging acceptance. In addition to the presentation document, you may also choose to create a standardised document for minutes.

7. Define the required key figures clearly and consistently

In the S&OP meeting, some key figures should be presented to communicate the performance of all operating departments in the company. Ideally, all key figures provided in the presentation, including their graphics, are standardised.

These could include, for example, delivery quotas, product performance or inventory coverage. A list of potential dairy-specific key figures is provided in figure 3. The degree of detail (e. g., key figures per product group or location) or the time perspectives of the key figures (e. g., three or six months ago/ ahead) must be determined according to the company's requirements. For example, if there is a limited variety of products with a few top-sellers, there is a good reason to discuss the inventory coverage. For a similar distribution of sales and a very high number of items (>500), reporting at an item level is not suitable. What is important, though, is

No.	Area	Key figure (extract)
1	Inventory enhancement	Warehouse inventory value
		Storage utilisation
		Aging lists and disposals
2	Forecast	Planned sales volume
		Current inventory coverage
3	Deliverability	OTIF (On-Time-In-Full) quotas
		Penalty payments to customers
4	Production performance	Production utilisation
		Production efficiency
5	Forecast quality	MAPE (Mean Absolute Percentage Error)
		Tracking signal

Figure 3

that reporting in every meeting is identical, so that developments over time are visible.

8. Focus on bottlenecks

Typically, a company's operative workflow is extremely extensive and complex. Efficient planning and management in the S&OP process for all processes is therefore almost impossible. Thus, only the non-standard or challenging issues should be discussed. The so-called 'management by exceptions' has proven effective in practice. This guideline cannot only be observed when choosing topics to discuss in the S&OP meeting, but also in selecting meeting participants and defining a key figure. Typical bottlenecks in the dairy industry may include, for example, the delivery of raw milk, the production, bottling, or storage capacity or limited capacity in terms of cold chain logistics.

9. S&OP meeting is all about making decisions

A good forecast and structured process form the basis for efficient management. As all relevant departments will be sitting around one table in the S&OP meeting, decisions should be made straight away without any delays. To make this work, it is important that people with the adequate decision-making authority, such as heads of departments or directors, attend the S&OP meeting.

In medium-sized companies, top management (presented by the Managing Director or Board of Directors) should be present. Here, the principle of "one number, one truth" applies. That means that the decisions and figures agreed in the meeting are binding on all departments. On that basis, the department managers can make further decisions.

Should it be necessary to increase production capacity due to increased demand, production management may organise an increase in production shifts based on coordinated figures. Similarly, decisions regarding the milk purchases or sales on the spot market can be made in the S&OP meeting.

10. Support the S&OP process through powerful IT

A significant factor in the success of implementing the S&OP process is the process commitment. The process can only be sustainably established in the company if those involved adhere to both the schedule and the workflow. To ensure the process commitment, this should be supported by the IT department. Specifically, this means that the process is mapped out in the IT system and the staff involved can monitor the process accordingly. When choosing an appropriate solution, it is important to ensure that the specific requirements of the dairy industry, such as the mapping of the push-pull supply chain or the management of shelf life and residual terms, are well mapped. ▲

NEWS

WorldStar Awards 2021 - three Spanish packages awarded among the best in the world

Three Spanish companies have won an award at the WorldStar Awards 2021, the most important packaging competition in the world. These innovative projects focused on sustainability have represented Spain in the international contest after winning the Liderpack awards, organized annually by the Graphispack Association and the Hispack show organized by Fira de Barcelona.

The awarded Spanish products are: the FLOPP BAC and FLOPP Multiusos system of reusable bottles and refills by CARELI 2007, S.L.U, which aim to eliminate single-use plastic bottles within the cleaning products segment; the BARKET container from HINOJOSA PACKAGING XÀTIVA, which proposes a new heat-sealable octagonal corrugated cardboard tray as an alternative to the usual plastic ones; and FLEXOMED S.L.'s "Desalinate without disorder", which devises a new way of consuming cod and makes it easier to desalinate it in the same container just by adding water, avoiding odors, and in a cleaner and more comfortable process.

Only products that have been previously awarded at national level contests that are recognized by the World Packaging Organization (WPO) can take part in this global competition. In Spain's case these are the Liderpack Awards organized by the Graphispack Association and the Hispack show at Fira de Barcelona.

The international jury of the 53rd edition of the WorldStar Awards, comprised of 33 judges from 33 packaging associations, members of the WPO (World Packaging Organization), met virtually in the month of November due to the pandemic, with two rounds of evaluation in which 345 packaging projects from 35 countries around the world were examined.

The general secretary of the Graphispack Association, Ignasi Cusí - who was a member of the virtual jury -, stressed that "despite the current circumstances, it is important to highlight the fantastic participation, quality and originality of the entries, which demonstrate that an active sector and in constant search of innovation." The winners of the Sustainability Award and Save Food Award will be announced during a ceremony that due to COVID-19 and travel restrictions, will be held virtually during the month of May 2021. ▲