Executive breakfast "The Fresh Connection"
Thursday, October 27th, 2016
Familiar?

- Are workplace silos a drain on your company?
- Is your Sales department over promising to the marketplace?
- Is your Procurement manager pursuing low component cost but ignoring higher total cost?
- Do you lose service level as a result of aggressive inventory reductions by Supply Chain?
- Does your company lack flexibility as a result of record efficiencies by Operations?
Alignment

- In today’s world companies suffer a lot from disalignment
  - Corporate strategy and supply chain strategy
  - Strategy and execution
  - Functional departments
  - Partners in the supply chain
  - Long term and short term

- Today’s session is about creating alignment
Creating Alignment

<table>
<thead>
<tr>
<th>Purchasing</th>
<th>ROI (%)</th>
<th>Rejection components (%)</th>
<th>Raw material costs (%)</th>
<th>Delivery reliability suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>ROI (%)</td>
<td>The company is making a loss. Measures must quickly be taken.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>!</td>
<td>Rejection components (%)</td>
<td>The rejection percentage for components supplied by supplier Trio PET PLC is high. Read more</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Seitan Vitamins and Trio PET PLC are significantly

<table>
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The Fresh Connection
  - is a producer of fruit juices
  - In NW Europe
  - suffering severe losses in the last year
  - because of poor performance

A new management team has been appointed

The assignment is to make the company profitable again

By making strategic and tactical choices
The Management Team

VP Supply Chain
Components
Supply
Production
Finished product
Distribution
VP Purchasing
VP Operations
VP Sales
Supplier footprint

- **Miami Orange**: US
- **NO8DO Mango**: Spain
- **Mono Carton**: France
- **TFC**: Netherlands
- **Seitan Vitamins Vitamin C**: China
- **Trio PET**: Spain
Assortment

- Two packaging types
  - 1L carton
  - 0.3L PET bottle

- Three flavors
  - Orange
  - Orange C-Power
  - Orange/Mango

- Shelf life of finished products is 20 weeks
Shelf life

- If the shelf life agreement is 75%, the internal shelf life becomes 25%
- In other words, if the customer is promised a remainder of shelf life of 15 weeks at the moment of delivery, inventory of finished products may not rise higher than 5 weeks
- Finished products are NOT distributed to a customer if the shelf life agreement is violated

Shelf life is 20 weeks

Shelf life agreement = 75%

Internal shelf life
Market

- Three customers
  - Retailer Food & Groceries
    - 500 stores
    - Supply chain leader
  - Retailer Land Market
    - 300 stores
    - Discounter
  - Chain of gas stations Dominick’s
    - 50 stores
    - Only PET bottles
The Fresh Connection’s Supply Chain

- Three warehouses and overflow warehouses when needed
- Two stage production: mixing and bottling
- Bottling line(s) and mixer(s) for all products
- MtS, leadtime customers of 1 day (delivery next day)
Contract index

Price setting

- You cannot negotiate directly on sales/purchasing prices
- Negotiate on supply chain performance (SLA’s)
- This leads to a ‘contract index’
- Contract index determines the sales/purchasing price

- **Example** (sales)

<table>
<thead>
<tr>
<th>Promise</th>
<th>Contract index</th>
<th>Basic price</th>
<th>Sales price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Much</td>
<td>1.1</td>
<td>1.50</td>
<td>1.65</td>
</tr>
<tr>
<td>Little</td>
<td>0.9</td>
<td>1.50</td>
<td>1.35</td>
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Performance evaluation

Costs
- Operational costs
- Improvement projects

Investments
- Working capital
- Equipment
- Buildings

Revenue
- Price:
- Customer satisfaction
- Volume:
- Portfolio

highest ROI
The Challenge –
The Start

• Make this company profitable again
• You have one round (half a year) to prove you can do this job

• How?
  – A management team meeting
  – In the current setup we need ONE laptop per team
Getting started

• Connect to hotel wifi: Savoy_Guest
• Voucher login: SAS
• Go to http://game.thefreshconnection.eu/v6 and log in with your username/password
• During game save new settings (deal in Purchasing and Sales)
• Calculating results is done centrally
Management team meeting

Agenda

1. Service Level Agreements with Customers
2. Inventory Policy for Finished Products
3. Capacity Management
4. Inventory Policy for Raw Material
5. Supplier management
Service Level Agreements with Customers
Increase service level promise to 97.5%

Pro
Revenue Increase (plus 62 K)
Risk of Penalties

Con
Risk of Penalties
Revenue decrease (minus 110 K)

Feel free to choose other values and to differentiate service level per customer
Inventory Policy for Finished Products
Inventory Policy
Finished Products

Pro
- Longer production interval (15 days)
  - Change over ↓
- Shorter production interval (5 days)
  - Inventory finished products (obsolescence) ↓
  - Volatility in warehouse ↓
- Increase safety stock to 4 weeks
  - Reliability ↑
- Decrease safety stocks to 2 weeks
  - Inventory finished products (obsolescence) ↓
  - Reliability ↓

Con
- Inventory finished products (obsolescence) ↑
- Volatility in warehouse ↑
- Change over ↑
- Inventory finished products (obsolescence) ↑
- Reliability ↓

Feel free to choose other values and to differentiate per product.

### Capacity Management

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<tr>
<th>Key</th>
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Bottling Line Capacity

**Pro**

- **Ops:** From 2 to 3 shifts (40 extra hours)
- **Ops:** 10% extra capacity
- **Ops:** Introduce SMED
- **Ops:** Preventive maintenance

**Con**

- **Pro/Con:** Overtime Prod plan adherence
- **Pro/Con:** Project costs (100 K)
- **Pro/Con:** Project costs (15 K)
- **Pro/Con:** Project costs (10 K)
- **Pro/Con:** Capacity needed for maintenance (3hrs/wk)
Inventory Policy for Raw Materials
# Inventory policy raw materials

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<th>Con</th>
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<tr>
<td>- <strong>Increase safety stock to 3 weeks</strong></td>
<td>- <strong>Inventory Overflow</strong>&lt;br&gt;↑</td>
</tr>
<tr>
<td>- <strong>Decrease safety stocks to 1 week</strong></td>
<td>- <strong>Component availability</strong>&lt;br&gt;↓</td>
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<td>- <strong>Shipments</strong>&lt;br&gt;↑</td>
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<td>- <strong>Inventory Overflow</strong>&lt;br&gt;↓</td>
<td>- <strong>Orders</strong>&lt;br&gt;↑</td>
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<td>- <strong>Volatility warehouse</strong>&lt;br&gt;↓</td>
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Feel free to choose other values and to differentiate per component

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SCM Report: Component | OPS Report: Warehousing | FINANCE statement
Supplier Management

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PET bottle supplier

Pro

Current supplier
High quality

Rejection rate
Break downs

Change to
(nearby) certified supplier, FTL
High quality

Rejection rate
Break down
Transportation costs

Con

Contractindex

Contractindex

OPS Report : Mixing and Bottling | PUR Report : Supplier
Predictable financial results are important. What do you expect for the next half year?

A. Increase of the ROI
B. Decrease of the ROI
Creating Alignment
The best companies are the best aligned

- **Aligned**
  - Best of intentions, but incapable
  - Very best chance of winning

- **Not aligned**
  - Not long for this world
  - Boldly going nowhere

How well aligned is your **strategy** with your **longterm purpose**?

How well aligned is your **strategy** with your **organizational capabilities**?

Source: Trevor and Varcoe, A Simple Way to Test Your Company’s Strategic Alignment, HBR, May 16, 2016
A challenge for corporate leaders is how to make sense of strategic alignment at both the team / business unit level (or division or department, however it is classified) and at the enterprise level.
We need to be educated and trained about alignment

Only 10% of what we know, we’ve learned in class room setting

About 20% we’ve learned from colleagues

A mere 70% we’ve learned just by doing our job, ...
just by trial and error!!!
But learning by doing has some weak points

- Although powerful in childhood, trial and error can be expensive in business setting.
- The gap between action and consequence, both in time and place, is simply too wide.
No wonder that our organizations suffer from disalignment
There are other ways to educate and create alignment

Cross functional learning experiences
Around managing value chains
To create a lasting learning effect
Participation in teams
Bridging the gap from strategy to execution
Creating alignment

To create alignment by tapping into the full learning & development potential of your people:

- Class room learning (10%)
- Learning from colleagues (20%)
- Learning by doing (70%)

A learning experience up to 10 times as effective as traditional programmes
Last but not least: the forgetting curve

We forget 50% of what we learn within one hour of learning it unless we put it into practice or are continuously supported and provided with access to “knowledge.”
Learning experience needs to be configured

• The Fresh Connection is a learning environment which can be configured to specific needs, based on
  – Learning objectives
  – Level and mix of the audience
  – Available time
• Configuration possibilities
  – Available decisions per round, no. of rounds etc.
  – Gameplay
    • Team dynamics
    • Complexity build up (level structure)
  – Training material / exercises in between the rounds
  – 15 languages
  – Scripting
Variants of the training

Training intensity
(# rounds, training between rounds)

Complexity of the experience
(Static vs Dynamic environment, decisions)

- Teambuilding event (0.5 day)
- Workshop (1 day)
- Training (2-3 days)
- Global Challenges (n weeks)
- Academy (spread out in time)
Training modules around TFC

**Creating alignment**

- SC Risk Mgt
- S&OP
  - Basic
  - Advanced
  - Applied
- Logistics Footprint
- CO2 Footprint
- Strategy into Action (level 1, 2, 3)
- External Collaboration
- Strategy Segmentation
- KPIs
  - Selection
  - Targets
  - Planning

**Team / leadership challenges**

- Communication & decision making
- Alignment / consistency
- In- and external collaboration
- Get out of the box, experiment & learn

**SC Fundamentals (e-learning/class room)**

- Inventory management
- Capacity management
- Demand management
- Supplier relationship management

**Logistics Footprint**

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Track Record
History

- Since 2008 we have grown to
  - 7,000+ professionals annually
  - from 600+ companies
  - 15,000+ students annually
  - from 200+ universities
  - in 30+ countries

who train with The Fresh Connection

- In 2016 sixth Global Pro Challenge: 300 teams
- In 2016 fifth Global Student Challenge: 500 teams, in collaboration with APICS
- Incorporated in numerous incompany training programs and in university learning programs (MIT, GeorgiaTech, Michigan State and Penn State)
- Bonus: APICS certified professionals get Certification Maintenance points
The Fresh Connection
a global experience
# Name-dropping

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<thead>
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<tr>
<td>Abbott Logistics</td>
<td>DuPont</td>
<td>Shell</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>McDonalds</td>
<td>KPMG</td>
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<tr>
<td>Akzo Nobel</td>
<td>DHL</td>
<td>Stork</td>
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<td>Bayer</td>
<td>Nutricia</td>
<td>Infor</td>
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<td>BASF</td>
<td>TNT</td>
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<td>GSK</td>
<td>Philips</td>
<td>Oracle</td>
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<td>Kuehne + Nagel</td>
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<td>Schenker</td>
<td>Walt Disney</td>
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<td>Deloitte</td>
<td>Merck Serono</td>
<td>Astellas</td>
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Thank you!

Hans Kremer, CPIM, CIRM, CSCP
Reach out to me on LinkedIn

email: h.kremer@inchainge.com

More info at:
www.thefreshconnection.biz
www.thecoolconnection.org

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