



Simplot Australia



OLIVER WIGHT

Customer profile

Appetite for Change

Simplot Australia is leading the way for food manufacturers around the world. Partnering with Oliver Wight, Simplot has rolled out Integrated Business Planning across its organisation with phenomenal results. Service levels are up at 98%; it achieved Class A accreditation for capable planning and control and is driving product innovation on its journey to world-class performance.

Inspiring
Business
Performance



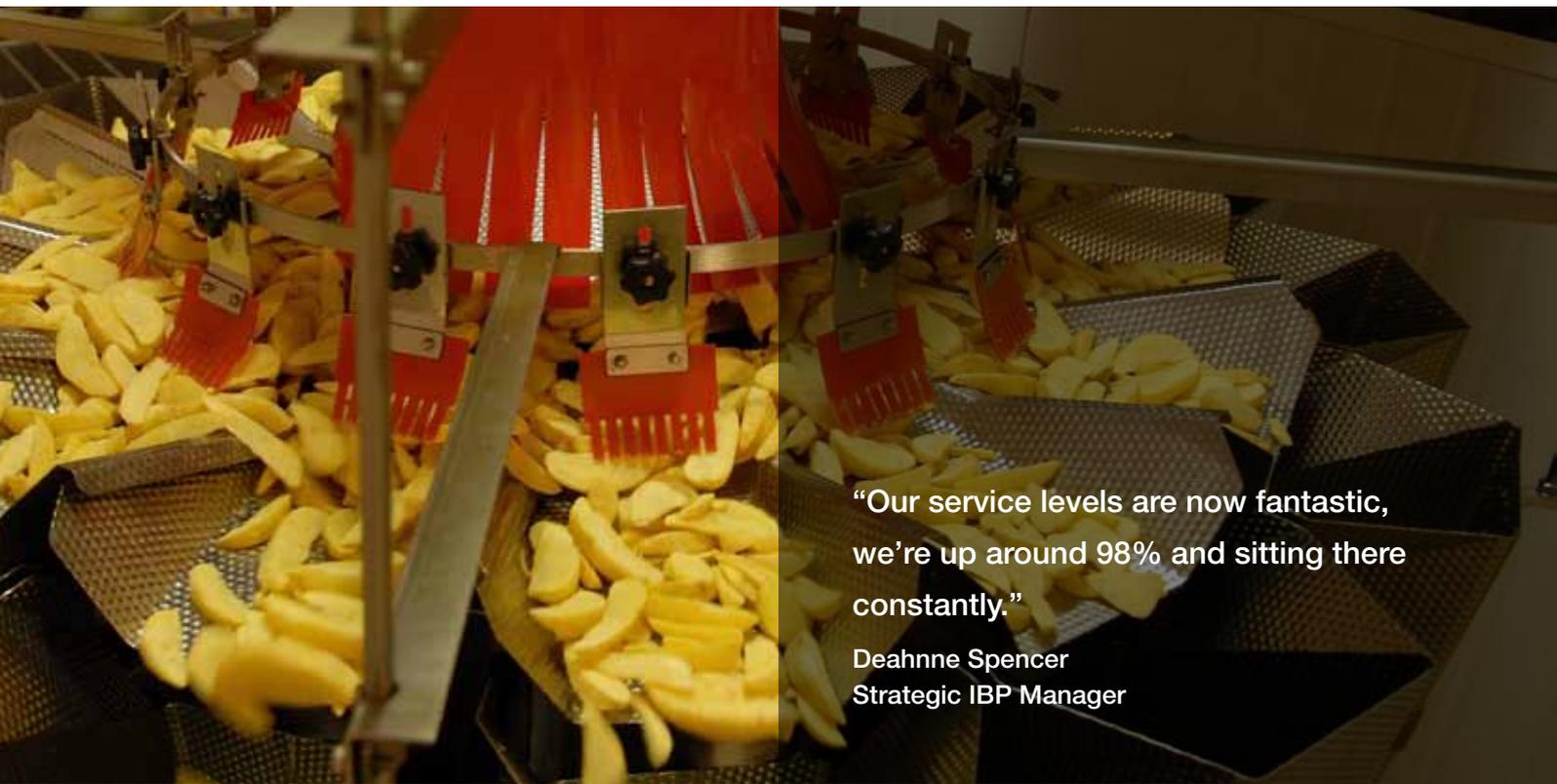
Simplot Australia is a wholly owned subsidiary of J R Simplot Company, a US-based food and agribusiness corporation founded in the 1930s. Simplot expanded into Australia in 1995 and since then has boasted some of Australia's most iconic food brands, including; Edgell, Chiko, Birds Eye, John West, Lean Cuisine and Leggo's.

Simplot manufactures and sells frozen and canned products through an extensive network of major supermarkets and the food service sector. With a turnover exceeding \$1.5b and employing over 3,000 people across Australia and New Zealand, Simplot Australia is ranked one of the top food companies in Australia.

Simplot Australia has always maintained a vision to achieve world-class standards in management processes and business performance; its hunger for change saw it embark on a journey with Oliver Wight back in the late 1990s working with the consultancy firm's Fourth Edition checklist on a Class A Planning and Control program. In 2001 the organization was awarded Class A for the first time. The results were nothing short of tremendous. In just two years the net value of every Stock Keeping Unit grew by over 22%; inventory levels dropped by 13%; accuracy in recording finished goods jumped from 82% to 98%; and it achieved a more than 96% customer service rate.

Simplot's journey to Class A accreditation however was not an isolated event; it formed part of an ongoing mission to become a world-class company. In 2001, after gaining Oliver Wight Class A for Planning and Control, Managing Director, Terry O'Brien, outlined his vision for the company, "We have achieved a great deal together. The task is, however, one of continuous improvement because the global reality is that our competitors also keep improving and our customers' expectations increase daily." As part of this mission, it was also O'Brien's belief that "new product development is fundamental to enhancing future profitability."

So it came as no surprise to Oliver Wight, when in 2006 Simplot decided to continue its Class A journey and recertify using the new Sixth Edition checklist. And once again the results have been excellent. Since rolling out Integrated Business Planning (advanced Sales and Operations Planning), across the organization, Simplot has witnessed improvements in every plant and division; inventory has



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Strategic IBP Manager**

been reduced; lot sizes optimized; profits improved, product innovation is a huge success and ultimately Simplot has become the supplier of choice over its key competitors.

The decision was made to re-embark on its journey with Oliver Wight when Simplot realized some of the core disciplines of Class A had started to slip away. Deahne Spencer, returning to Australia after rolling out Sales and Operations Planning across Simplot US and Canada, took on the role of Strategic IBP Manager to lead the new Class A project. Spencer describes how “at the factory execution level, the staff had continued to live and breathe the absolute disciplines of the Class A fourth edition checklist. It was at the corporate level we had begun to lose a bit of the culture. Over time, some key people had moved on to new roles and we hadn’t been diligent enough re-educating new starters in the Oliver Wight Class A and IBP process.”

As a result, the business service levels were taking a hit; working capital and inventory had gone up and service levels were challenged, whilst supply and demand disciplines had also slipped.

In addition to dropping performance levels, the business was also battling with volatile market conditions. “As a

manufacturer of agricultural-based products, we are often at the mercy of weather. This can result in either raw material surplus or constraints, which obviously provides challenges in managing inventory optimally,” explains Spencer. “With other products like salmon, you only get two hits a year, and whilst you can store some stock with the suppliers, the majority of the annual demand has to be brought in, which creates a large amount of inventory.”

Weather conditions also generate a state of flux. Australia had suffered widespread drought over a ten-year period, which peaked in 2008. This had a huge impact on the [lack of] availability of raw produce. It then faced the reverse situation, with one of the most successful agricultural years ever, resulting in a glut of raw harvested produce. Prices for fresh vegetables were lower than they had been in five years; with more people buying fresh produce and consequently, demand for frozen and canned products dropped. Such variation in market conditions makes the optimization of business processes not just beneficial, but a matter of necessity.

A four year project was planned with Oliver Wight; two years to complete a thorough diagnostic and determine where improvements needed to be made, before rolling



out a full cascade education program and implementing an IBP process model. This, explains Spencer, provided the opportunity to educate staff not involved in the Class A program the first time around: “Recertifying for Class A using the Sixth Edition Checklist was an opportunity to bring everyone onboard; identify where we could lift our game to become more agile and responsive; and ultimately improve performance levels and our management of the longer term,” she says.

The initial work with Oliver Wight began with an audit at the corporate head office, as well at two of the factories – the best and the worst. This provided a benchmark for the rest of the organization, and meant Deahne Spencer, with her previous experience of rolling out IBP, was able to continue diagnostics of the other three sites by herself. “Undergoing the pre-assessment for Class A really challenged our thinking,” she says. “Customers continue to challenge us to become more agile to meet their ever-changing demands, but when we began to work with Oliver Wight, it was then we really started to ask ourselves some probing questions like; ‘why do we stick to the firm time fences we have, instead of introducing shorter ones?’”.

The organization recognized that to become more

responsive to changes in customer demand, it had to increase production frequency and become more agile. Instead of fixing the manufacturing schedule for the coming three weeks, it started to firm up the first week only, allowing flexibility for weeks two and three, depending on what had gone on in the sales front and whether inventory needed to be replaced. The increased agility and responsiveness instantly reduced lead times, which, in turn, had a dramatic impact on service levels. “Our service levels are now fantastic,” says Spencer proudly. “We’re up around 98% and sitting there constantly.”

Every process change introduced has been accompanied by a shift in the culture of the organization. People started to change their behavior and take better ownership of processes and anything that had gone wrong. Spencer gives the example of sales and marketing representatives at the IBP Demand Management Review:

“Since implementing IBP, when sales and marketing attend the monthly Retail Sales & Marketing Review, their ownership on speaking out about why we didn’t sell what we had planned, is much more evident. They are expected to quantify what their assumptions were, what actually occurred and how it will impact the future. It’s OK to get



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things wrong; our focus is on taking the learning into the next month and following months; so we can better manage our plans going forward”.

“We are much better at planning across the full 24 month horizon. We’ve also established a better process of identifying risks and opportunities, which we didn’t have before,” explains Spencer. “We understand there will always be risks and opportunities to our demand and supply plans.” Now what we do really well is document them; we have our best set of assumptions and responding plans, but we also identify where the risks and opportunities are within both the demand and supply parts of the business and quantify the possible financial risk of them occurring.” At a time when market conditions have been so volatile this has proved particularly important. With improved processes to identify company-wide risks and opportunities combined with more agile time fences, the organization is now much better able to adapt to changing marketing conditions.

Australian supermarkets have been fighting a price war. As consumers hold their purse strings ever tighter, retailers have been bringing down the prices, resulting in an ongoing battle between supermarkets, each competing for the best promotional offers. As promotional deals are rolled out,

demand increases and suppliers are expected to fill that demand, often with little or no warning. There is no longer any guarantee of the number of promotions either and this has created tough conditions for food suppliers like Simplot. Having implemented IBP though, Simplot Australia has the processes firmly in place to manage this sort of variability. As soon as the sales team gets wind of something, which will affect demand, the supply side of the business is quickly alerted via a planning change request. The supply coming in can then be expedited, or stock allocated accordingly, across the customer base. This visibility and speed of response allows Simplot to maintain good control over its supply chain, and avoid giving away all its stock to one customer as soon as demand increases.

“Sometimes we may only get one or two weeks’ notice of a change in customer demand. This makes supporting last minute customer demand a challenge particularly for our imported lines, which have in excess of an eight-week lead time,” Spencer explains. “But because of our excellent processes, as a result of IBP, I think we deal with this challenge a lot better than our competitors. Our service levels are so good because IBP allows us to forecast the business two years out and where we identify potential supply constraints and issues, we can manage them by



slowly allocating stock, or deleting some non-profitable products to free up capacity or raw material. Plus we always know if we're going to 'out of stock' customers early enough to manage their expectations and plan for such issues in advance of our competitors."

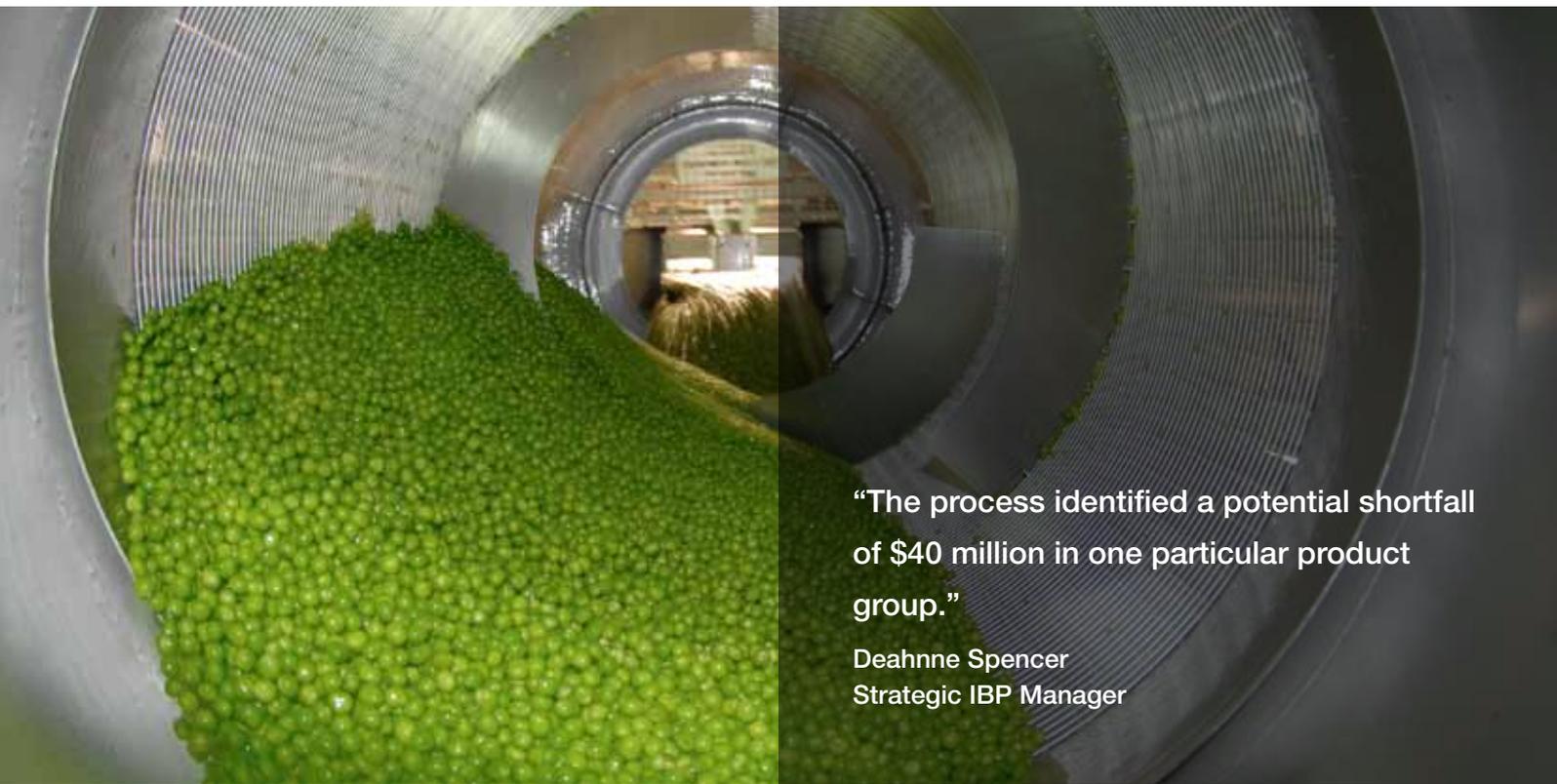
Oliver Wight's IBP process provides a 24-36 month rolling horizon for the business and directly links the corporate strategy and financial plans, meaning Simplot Australia is able to monitor its budget continually against the current year forecast, as well as the second year of the IBP horizon to our strategic goals for that year.

"When things get tough, it is easy to get sucked into the current year," admits Spencer. "But since working with Oliver Wight, management is much better focused at looking two years out. As part of the IBP implementation, we introduced a two-day board meeting, which takes place every three months, one entire day of which is dedicated to monitoring how our IBP forecast sits versus our strategy and out to the full strategic horizon of three-four years. We use a strategy scorecard, with a set of KPIs, which the board monitors versus the goals of that full three-four year period. " This continuous scanning of the future ensures any changes can be identified, evaluated and the appropriate response

decided. For example in the last quarter, Spencer says the process identified a potential shortfall of \$40 million in one particular product group. Having such long-term forward visibility through the IBP process, means you really challenge the whole portfolio, which is really good for the business – you know you're heading for of a loss of \$40 million in one area but there's a \$60 million opportunity elsewhere in the portfolio and you can re-divert your energy and effort.

In fact, for Spencer, product portfolio management has been a real success of the Sixth Edition project. "Cross-functional teams of people have been set up; individuals from marketing, sales, manufacturing supply chain, quality and innovation, for example. These groups are assigned to individual product portfolios, i.e. potato, seafood, vegetable. Each group then has the mandate to monitor how their portfolio sits within the strategy, and identify opportunities and changes, which will optimize their particular product," she explains. "People are now really starting to appreciate the benefit of working with a cross-functional team not for the good of the division, but for the good of the company."

Each product group has three distinct categories it can be put in; 'Invest to Grow', 'Reinforce and Expand' or 'Maximize Profit' portfolio. "Having three distinct categories



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we can assign products to, means, for the first time, we can clearly define spend levels and invest levels for individual product group. If a product is put in the ‘Maximize Profit’ portfolio it’s all about getting costs down and maintaining our position in the market. Whereas products in the ‘Invest to Grow’ portfolio, have more spending and effort concentrated on them, because we want to see big results from new products.”

Thanks to IBP, Simplot has achieved its goal of making product innovation a big success. With better visibility across the business and the introduction of a monthly Product Management Review, the organization is able to continually reassess its products and constantly improve. “We have a really good forum for prioritizing projects; re-addressing every month if we’re on track and if not, why not, and where we can we put our efforts to drive innovation and profitability.”

The future’s bright for Simplot Australia. Having gained Class A recertification for both Capable Planning & Control and Capable Integrated Business Planning under the Sixth Edition Checklist, the business has a truly best practice IBP process, which is embedded into the culture and the way the business is run. Despite flux in agricultural supply,

Simplot’s service levels have skyrocketed, and it now maintains a 97% case fill rate. With shorter more frequent runs, the organization is exceptionally agile. Combined with greater visibility across its supply chain, it is better able to meet the changing demands of its customers; proving essential with volatile market conditions and supermarket price wars. As well as dramatic short-term improvements, rolling out a cascade education program has helped align everyone behind the IBP process and impact the culture of the organization; whereby individuals now take ownership over their processes, work in teams to manage product portfolios and share a commitment to the overall success of the organization.

Simplot is now much better connected with its strategy; risks and opportunities are documented a lot more accurately; plans are made across a two-year horizon and product innovation drives its future success.

And the journey doesn’t end there. For Simplot Australia, implementing Oliver Wight’s IBP process was not just a quick-fix solution; its Class A journey is part of a continual commitment to become a world class company; to remain top in terms of customer service; to drive innovation and retain that all important competitive advantage.



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Oliver Wight

OLIVER WIGHT

Oliver Wight Asia/Pacific

131 Martin Street, Brighton
Victoria 3188, Australia

T: +61 (0)3 9596-5830

F: +61 (0)3 9596-5840

information@oliverwight-ap.com

www.oliverwight-ap.com

Oliver Wight Europe, Africa & Middle East

The Willows, The Steadings Business Centre
Maisemore, Gloucester GL2 8EY, UK

Oliver Wight Americas

P.O. Box 368, 292 Main Street
New London, NH 03257, USA

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