



OLIVER WIGHT CASE STUDY SERIES

How S&OP Sparked a Revival at Formica

"S&OP isn't a parallel process running alongside the business; it is really interwoven into everything that is important to the business."

Mike Fischer
President, North America,
Formica Corporation

Oliver Wight

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Formica Corporation

Highlights:

"Sales and Operations Planning is our most important initiative this year," Mike Fischer, President, North America, Formica Corporation, proclaimed throughout 2005. He visibly and actively championed the concept by repeating this mantra continuously and regularly referencing it in his quarterly business updates to the Formica family. Most importantly, however, is that he acknowledged and accepted ownership of Formica's formal S&OP process.

Within the first year after beginning their S&OP implementation, the achievements reported by Formica's teams are impressive:

- 93% forecast accuracy at year end, a significant improvement;
- 90+% in many of their warehouses, up from 75%;
- 85+% Available-to-Promise First Date, an increase from less than 70%;
- 11% inventory reduction in its core laminate business;
- EBITDA in excess of 10%; and
- Sales in excess of 5%.

In addition to these accomplishments, there has been a significant improvement in communications within and among the various business organizations. Oliver Wight consultant Jon Minerich agrees, "As we went through the S&OP transformation, there was a noticeable cultural shift as the communication and teamwork dramatically changed. People began working as a team; they now are cooperating and have confidence in each other, and they are communicating more."



The compelling reason leading to S&OP

Formica Corporation, headquartered in Cincinnati, Ohio, is a leading global designer and manufacturer of decorative surfacing materials for commercial and residential applications. Products include high pressure laminates, solid surfacing, and other decorative surfacing products, including granite and quartz. In North America the privately-held company has four manufacturing facilities and eight distribution centers. It also has manufacturing plants, warehouses, and customer service centers located throughout Europe and Asia, including Mainland China.

One of the issues confronting Formica, not unlike many other companies, was the functional silos that had built up over the years, negating any meaningful communications, especially between demand and supply. Another was the uneven performance in service to the customer. This was

Formica Corporation

due, in part, to the existing business process that primarily focused on what was happening currently, that month, and relying on an unreliable forecast for the next month.

“When I became president almost two years ago,” Fischer explains, “we formed the North American Business Team (NABT) with all of the functional vice presidents, many of whom were new to Formica, to meet every week to make sure that we’re all on the same page, working together, and driving the operation correctly and meeting our numbers.” This started to move the company in a positive direction, albeit at a very high level. However, Fischer acknowledged, “We were not able to make the cultural change in middle management and below to have this better teamwork and communication.”

This recognition led to the investigation of S&OP as a process to “move us forward.” One of the first actions taken, and which Fischer strongly recommends, is the appointment of a full-time project leader whose primary responsibility is to be fully involved with and drive the S&OP initiative.

Jim Mintzer, a Regional Sales Manager and Formica veteran, was named S&OP project leader. While familiarizing himself with S&OP, Mintzer interviewed consulting firms to learn what is involved with the process and what he needed to do to lead the project. “I selected Oliver Wight because they were responsive to my needs, reliable, and we could relate to them,” he said.

Changing the culture at Formica

Formica’s S&OP initiative consists of five distinct, yet interrelated processes: new product planning; demand planning, supply planning, financial planning, and executive (NABT) planning, all of which look ahead 60 days and beyond.

In addition to these five meetings each month, other sub-level meetings occur within each area to provide necessary information and data to the monthly demand, supply, or other planning meeting.

“The S&OP initiative was just as much a culture change as it was a process implementation,” Mintzer explains. “Most people throughout the organization really didn’t know about S&OP, what it meant, and how it was going to help the company.”

Mintzer began the education process by sending letters to all employees in which he defined and explained the S&OP concept and process. He also constructed a diagram of the S&OP cycle, and by focusing on the demand side, indicated all of the inputs and where they originated, and related how that information would be used, its importance, and how the results would then be transferred to the supply side.

Mintzer next assembled a cross-functional team of individuals from Formica’s North American facilities who would become the core leaders of the process. They received intensive training from Mintzer and Oliver Wight consultants, as did the executive (NABT) team who owned the process.



The demand planning process received a great deal of focus by Mintzer and Minerich. Today, a sophisticated forecasting process is in place providing meaningful—and insightful—information.

One significant change in demand planning was to engage the regional sales managers in the forecasting process; the other was to create a demand planning manager position. Among other responsibilities, the demand planning manager confers with each regional sales manager for about 90 minutes each week gathering appropriate input.

Each regional sales manager now provides information about product families, as well as types of finish and grade, during the demand planning meeting. “We now drill down to a level that is more finite than our managers have ever managed before,” Sid Adler, Vice President of Sales, North America, states.

But most important, Adler explains, is that each regional sales manager now must publicly state in front of their peer group that they own the forecast they just made. Should a change become necessary, they affirm they will notify the demand manager who can then incorporate the change into the demand signal sent to the supply organization.

Rick Kerrigan, Vice President, Global Supply Chain, together with Adler, defined the appropriate signal, or the common denominator, to be sent from demand planning to supply planning. “We receive a signal from sales of finish and grade level by region in square feet,” Kerrigan explains. “That allows us to go through our rough-cut capacity, look at our loading on our plants, and put it into another template to provide the plants the outlook signal for the next 30, 60, 90 and 120-plus days.”

Kerrigan notes that while there is still a void, that is, the SKU demand at the plant level, the signal received from sales today “essentially makes sure that in the 60-plus day outlook, we don’t run into a bottleneck with plates, starting up or shutting down a major press, and that we have the right inventory levels within our plants or at least in the distribution centers.”





The financial planning part was the slowest to be integrated as there was no alignment between what the S&OP numbers showed and what the financials showed. However, Robert Goss, Vice President, Finance, mentioned that for the 2006 budget, the two sets of numbers are aligned and that the budget has more detail than any previous business plan. However, he cautions, "We need to make sure that we keep that alignment and that the forecast is realistic."

Mintzer, who has been promoted to General Manager, Hard Surfaces, maintains, "We're maturing in our process, and it's getting better every month." Attesting to that is the plan to expand the S&OP process into other



product categories (solid surfaces, stone and granite) that are smaller businesses with less infrastructure. There is talk about introducing S&OP to Formica operations in Europe and Asia.

What is Sales & Operations Planning?

Sales & Operations Planning is a process developed by Oliver Wight and led by senior management that, on a monthly basis, evaluates revised, time-phased projections for supply, demand and the resulting financials. It's a decision-making process that ensures that the tactical plans in all business functions are aligned and are in support of the business plan.

The objective of S&OP is to reach consensus on a single operating plan that allocates the critical resources of people, capacity, materials, time, and money to most effectively meet the marketplace in a profitable way.



Oliver Wight Americas, Inc

52 Newport Road, New London
New Hampshire, 03257, USA

Telephone: 1 800-258-3862
1 603-526-5800

Facsimile: 1 603-526-5809

info@oliverwight.com
www.oliverwight.com

Americas

52 Newport Road, New London
New Hampshire 03257, USA

Europe, Africa & Middle East

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

Asia/Pacific

Suite 2, 15 - 17 Forest Road, Hurstville
N.S.W. 2220, Australia