

Lisa Anderson's Profit Through People® Newsletter



Enabling Scalable, Profitable Growth No 183, March 2022

As our inaugural newsletter from LMA Consulting's founding in 2005, Profit through People remains our flagship brand because although most clients call us because of our manufacturing, supply chain and technology expertise, the 80/20 of success goes straight to people!

Lisa's Note

Happy February!

My nephew Ryan had a baby on November 28th, and so I've been enjoying time with Isaiah. I was given the name of Grandma Silly, so we'll see whether he takes to that name! Fortunately, I went to Chapel Hill for a client workshop, and so I was able to purchase a few outfits for Isaiah in my alma mater (although his dad purchased additional outfits). I think Ryan and Isaiah will be on my page for the Final 4 Game:-).



I also went to an event for my consulting mentor for his 76th birthday (postponed from last year due to the pandemic), and so I spent a few days with my best friends as well. Of course, I have also been extremely busy supporting clients during these volatile times. We have been gaining significant results in getting ahead of the curve with strategic decisions by rolling out tailored SIOP processes, successfully and proactively managing customer service, profitability, and cash flow (inventory) by upgrading planning processes, and better utilizing ERP functionality and data to gain insights and make decisions.

IN THE NEWS

I continue to be excited about media pickups & accolades.

- Published an article in *MPO (Medical Product Outsourcing) Magazine*, "[The Path Forward for Supply Chain Success](#)"
- Published an article "[Is It Possible to Realign the Supply Chain?](#)" and participated in a [podcast](#) with *Quality Digest*.
- Quoted in *Investment Monitor* on "[Who will be the supply chain winners and losers in 2022?](#)".
- Featured as a panelist in the LinkedIn Live "[Women in ERP](#)" webinar by SourceDay and WBSRocks.
- Featured guest in a *Shark Bite Biz* podcast, "[Why Are Store Shelves Still Empty?](#)"
- Spoke in a WBSRocks podcast, "[Grow Your Business By Being Directionally Correct with Sales and Operations Planning](#)"
- Featured in a Baking Business.com Since Sliced Bread podcast "[Companies get strategic to](#)

[pull ahead of supply chain crunch](#)"

- Appeared on NewsNation segment "[COVID-19 protests threaten Canada-US border trade](#)"
- Featured in press releases about our LMA special report on [Thriving in 2022: Learning from Supply Chain Chaos](#), on succeeding in the [hybrid world](#), and on [prioritization](#). These were picked up by [CSCMP](#), [Quality Digest](#), [Today's Medical Developments](#), and [Southern California CEO](#).

Enjoy,
Lisa

[Email](#)

[LMA Consulting Group, Inc.](#)

P.S. Know anyone who is interested in getting ahead of the surge with strategies to thrive in 2023 and 2024? Refer them to [us](#).

STRATEGY

Thriving in an Inflationary Environment Using SIOP/ S&OP



We have entered a new era of with inflationary pressures. It started during the pandemic due to limited supply, but it has been spurred on with the rising oil and gas prices, commodity shortages, and rising food prices. Navigating successfully through these inflationary times will make the strong companies stronger, and the weak companies weaker. In our view, there will be more winners that propel forward during this period of time than any other since

the Great Depression. Are you reacting to inflation or thinking three steps forward so that you can take advantage of the opportunities that arise?

Utilize SIOP to Take a Strategic Look at Customer & Product Profitability

To support customer needs and be prepared to pursue revenue opportunities in an inflationary environment, the smart are taking control. They aren't waiting to see how their supply chain partners respond or what customers request. Instead, they are getting on top of what they should do to thrive during an inflationary environment NOW! The smart are utilizing SIOP/ S&OP (Sales and Operations Planning) programs to quickly determine which customers and products are profitable and their impact on their future business.

SIOP will provide a view into customer forecasts. Those forecasts will be translated into operations and supply chain plans, and options will emerge for how to successfully fulfill the forecasts. Before proceeding with a specific alternative to meet customer forecasts such as adding capacity, repositioning your supply network, nearshoring critical components, and/or purchasing additional warehouse space, look strategically at your customer and product profitability in conjunction with your forecasts to determine what to prioritize and the down-the-line impacts of your decision.

Since SIOP projects future sales, manufacturing requirements, supplier purchases, and inventory levels, if you add costs into the mix, it will also forecast profitability. You can take it one step further by analyzing what if price and cost changes into your SIOP model. It will become a powerful process for evaluating options and making strategic decisions.

Customer & Product Profitability Example

An industrial gear manufacturer wasn't keeping up with inflationary pressures and margins were declining. We worked together to quickly develop a directionally correct SIOP process. We started

with a revenue forecast by customer based on historical trends and customer insights, and we extracted data and partnered with key resources to categorize by market, customer type, product line, and manufacturing cell. We had to deep dive into rebates, discounts, and other adjustments to gain a reasonably correct net sales picture.

Next, we gained a directionally correct view of manufacturing/ assembly requirements. Since they weren't keeping track of operational costs at the detailed level and it wasn't feasible near-term, we worked with the appropriate resources to develop directionally correct cost estimates for groups of products. The end result is that we were able to dissect the following:

- Top/ bottom customers by revenue dollars and margin percentage
- Top/ bottom products by revenue and margin and margin percentage
- Top/ bottom customers and products by margin dollars
- Top/ bottom items by revenue dollars and margins
- Average selling price trends
- Projected change in revenue and margin with new pricing and/or new costs or improvement plans.

The leadership team could slice and dice this data to evaluate pricing options and determine the best way to maximize efficiencies and margins in supplying the items. Thus, they could insource, outsource, implement operational improvement plans for the cells that would provide the largest return for their strategic or key customers, etc. The bottom line is that they had the information to proactively evaluate options to quickly increase customer and product profitability.

Taking Actions to Thrive in an Inflationary Environment

Leaders should quickly pivot, utilize their SIOP process to gain data and insights into key information for decision-making, and consider several actions. Our most successful clients are reviewing the following actions:

- Quick and successive price increases as needed to integrate cost increases
- Strategic purchasing for key materials/ ingredients (forward purchases, contracts that include escalators and ranges, etc.)
- Evaluate capex investments required to meet future demands including market share increases if the competition isn't as proactive.
- Rigorous focus on operating cash flow
- Prioritize and /or address customers and products based on customer and product profitability and related capacity analyses
- Reevaluate inventory from a strategic and tactical point-of-view. From a daily planning perspective, consider upgrading your [planning processes](#) to better manage working capital levels while achieving high customer service levels (OTIF, lead times, etc.)
- Reevaluate your manufacturing footprint - [reshoring](#), nearshoring, finding new partners
- Invest in your people and culture to think 5 steps ahead of the competition and successfully deliver improvements.

SIOP Is Not a One-Time Solution

Setting strategy for the next 5 years no longer works! In fact, most companies find that setting strategy a year out can be a tall order. During times of volatility and change, it is critical to stay on top of your changing market conditions and customer needs, incorporate new and changing product and service offerings, and constantly reevaluate your end-to-end supply chain for what will best position you for success.

SIOP is not an off-the-shelf solution, and it is not a one-time "magic bullet". Instead, the most successful clients look out a minimum of a year to three years (if they have long-term customer contracts) on a monthly cadence, incorporate changing conditions, and evaluate results. Typically, they will reconfirm prior decisions and priorities and address critical changing conditions. Of course, this process must be accompanied with strong execution. If you follow this path, you will thrive during this inflationary environment.

Refer to our [blog](#) for many articles on SIOP. Also, read more about these types of strategies in our

eBook, [Thriving in 2022: Learning from Supply Chain Chaos](#). If you are interested in talking about what it would take to pursue the SIOP journey in your business, [contact us](#).

[Did you like this article? Continue reading on this topic: Taking Control of Customer Success Using SIOP](#)

WBS Rocks Interview on SIOP/ S&OP

Grow Your Business By Being Directionally Correct with Sales & Operations Planning



PLANNING

Preparing for Sales Growth with Capacity Planning Best Practices

Sales Growth: Can Operations & Supply Chain Keep Up?

Almost every client has the opportunity to grow substantially. The question is whether their operations and supply chain can keep up. Unfortunately, across the board, planners are wringing their hands to expedite orders, prioritize customers, schedule additional production, understand the impact on inventory across their facilities, and increase capacity.



If that wasn't enough, customer orders are changing on a daily basis (due to shortages from other suppliers, changing market conditions, etc.), forecasts are in a constant state of flux, manufacturing capabilities are constrained (due to lack of people, flexibility, trials and/or difficulties in running with substitute materials, etc.), and the extended supply chain (material purchases, warehousing/ distribution, transportation) is in chaos. Thus, how should we answer the question on whether operations and the supply chain can keep up?

Rough Cut Capacity Planning

From a best practice point-of-view, in order to answer the question on whether you are prepared to grow, you need to focus on rough cut capacity planning. Ideally, you have a SIOP/ S&OP process (sales, inventory & operations planning) process with a clear picture of demand. However, in 80% of the situations, this is not the case. Thus, start with demand although don't get too wrapped up in creating the perfect demand plan that you lose sight of your capacity plans.

At a minimum, review last year's sales and current customer orders, incorporate key trends and mix changes, and start there. For more details on developing a demand plan, read about [creating predictable revenue with demand planning best practices](#). The bottom line is that you'll need a place to start with what to produce, purchase, replenish, and/or store.

Start your capacity planning process with whatever data you have. Ideally, you have a long-term production plan, purchase plan, and/or replenishment/ distribution plan. From a systems perspective, these can be referred to as a [master production schedule](#) (MPS), material requirements plan (MRP), and distribution requirements plan (DRP) although they also can be all

rolled into an ERP/MRP system. Don't worry about the debate of MRP vs. Lean as both are valuable for different purposes. For capacity planning, you'll need a longer term view of requirements, and it doesn't matter if you use MRP or Kanbans.

From a technology perspective, you might not have an ERP system that supports these functions. Don't despair as you can start by converting your sales forecast into a directionally correct production, materials, and/or replenishment plan.

Manufacturing Capacity

Let's start with a long range view of a production plan in units or hours. Break your production into product groupings ideally by work center groups or production cells if possible. If not, break into whatever groups make sense from a manufacturing point-of-view that you can do quickly. You can always evolve over time. From a rough cut perspective, there is no need to worry about days and weeks. Think in terms of months or quarters, depending on the needs of your business. There is also no reason to worry about items. Stick to larger product groupings when dealing with rough cut capacity. This is a pitfall several clients fall into. They get bogged down in item details and never get a directional view of required capacity.

The tricky part is that you'll need to put your requirements into a base unit of measure. For example, you cannot add boxes, pieces and ounces together and make sense of capacity figures. This is a constant challenge even with sophisticated clients. For example, we worked with a life sciences manufacturer, and we thought it would be an easy exercise to convert milligrams and grams, into milligrams. Although that issue was solved with a simple calculation, there were also custom products with different units of measure. Unfortunately, 1 unit could be 1 microgram or 1 unit could be 1 milligram, but they both said 1 unit. Thus, we had to design a directionally correct way to convert custom products into the base unit of measure so that the data would make sense for capacity analysis.

You'll then convert production requirements into a base unit of measure that makes sense across all products. Compare these requirements by product grouping to your available capacity for that product grouping. It will give you a place to start. Advanced clients review requirements as compared with various staffing configurations, overtime, full capacity, transferring capacity among sites, and additional scenarios to find the optimal approach to meet customer needs while maximizing operational performance and meeting inventory targets. They also review improvement opportunities to increase output and capacity. In addition to staffing, review machinery, equipment, tooling, and other support functions vs. requirements. The key decision becomes how to adjust capacity in alignment with requirements in the optimal manner. It is rarely ever a straight line in manufacturing. For example, if you need 1 crew, 5 days a week on average, you are likely to need 1.5 crews during peak season and .75 crews during low season or you need 6 days a day on average throughout the year, making it difficult to run overtime continuously yet not requiring a 7 day schedule.

Supplier Capacity

Similarly to manufacturing, once they have a long range view of requirements in a base unit of measure by commodity groupings, they convert the base unit of measure into purchase plans. The most successful clients provide material and commodity level forecasts to suppliers so that they can plan for capacity. They also incorporate into contracts and pricing within ranges or they partner with suppliers to build Kanban systems with stockpiles of strategic materials. Frequently, there is significant opportunity for improvement in service, reduction in lead times and shared cost savings with collaborative planning so that suppliers can proactively plan capacity as well.

Logistics Capacity

Similarly to manufacturing, once they have a long term view of requirements in a base unit of measure, they convert the base unit of measure into space requirements to evaluate storage and material handling equipment needs. There are various storage strategies and associated equipment needs with tradeoffs depending on volumes, frequency, storage size, and several other factors. For example, you might evaluate storage needs in pallets, bins, cubic feet, and other alternatives. Order frequency, handling requirements, and picking needs are also relevant factors. After collecting your requirements by groups of products or customers (as there can be different requirements by customer), you'll compare with available capacity. Similarly to manufacturing, you can choose to increase capacity in several ways and you can build flexible options into your strategy.

Transportation capacity is also a key topic so that you can plan for the appropriate number of

trucks, container loads, or packages and can optimize the mode of transportation, service levels and rates. For example, if you will need an average of 3 trucks per week to go across the country, you might plan ahead and send intermodal to save money. Or you might decide to put together a milk run with a consistent route that your transportation partner builds into a consistent plan. You might decide to build a multiple-stop truckload for certain routes if you don't have enough product for one customer to fit on a truck. There are several options to evaluate; however, in order to ensure you have sufficient capacity to deliver your customer orders on time and to support your transportation needs, forecasting your transportation requirements ahead of time will not only ensure higher service levels, but it will also provide opportunities for cost savings.

Incorporate Capacity Planning into a Monthly Review Cadence

Review your capacity plans as a part of your monthly SIOP/ S&OP process. Gather inputs from appropriate parties, compile and synthesize data, and design a monthly review of required capacity vs. available capacity for your critical areas. Start with your key machines, overloaded people/ positions, and your most bottlenecked resources. This will quickly highlight strategic decisions and/or bottlenecks that require attention to meet your customer needs.

Refer to our [blog](#) for many articles on planning, capacity and related systems. . Also, read more about these types of strategies in our eBooks, [Thriving in 2022: Learning from Supply Chain Chaos](#) and [Future-Proofing Manufacturing & Supply Chain Post COVID-19](#). If you are interested in talking about what it would take to pursue the capacity planning and SIOP journey in your business, [contact us](#).

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Thriving in 2022: Learning from Supply Chain Chaos

Check out our [eBook](#) on what is relevant in 2021 according to manufacturing, supply chain and technology executives.



ERP & RELATED TECHNOLOGIES

Cleansing, Connecting & Consolidating Data to Support SIOP / S&OP and a Superior Customer Experience

One issue of significant importance during the current volatile times that was also key during previous periods (aggressive growth prior to the pandemic, the downturn of the Great Recession, etc.) is the critical importance of providing a superior customer experience. It is evergreen for companies that want to grow and succeed. This metric is measured in various ways including OTIF (on-time-in-full), OTD (on-time-delivery), lead times, perfect order (no errors/ quality issues from order to invoice), easy returns, and more.



During periods of volatility, customer service becomes more challenging because customer requirements constantly change and evolve, and supply can also change and evolve. Thus, a SIOP/ S&OP (Sales and Operations Planning) process becomes essential to keep up with these changes and proactively adjust sales forecasts, production strategies, supply plans, inventory strategies, etc. If SIOP/ S&OP were cookie cutter, every client would have it in place. Instead, it should be tailored to each company's unique situation, objectives, people, processes, systems, and data.

Data is a particularly key element for SIOP/ S&OP because cleansing, connecting, consolidating, checking, and charting data is frequently not nearly as easy as it appears. If not done properly, you

will make decisions based on incorrect data. Perfection isn't required or even encouraged; however, directionally correct results are of paramount importance. For example, an industrial manufacturing client wanted to forecast long lead-time material purchases. Unfortunately, their sales quotes (forecasts) were in one system, and their sales orders, manufacturing, and engineering specs were in a different system. The two did not connect. Additionally, there were several data integrity issues and no field in common to connect the two systems. Yet, it was critical to look into the future to avoid critical supply disruptions. They quickly started down a path to get directionally correct data for analysis and decision-making.

Cleansing Data

Every client has an overload of data. The key is whether the data is directionally correct in supporting decision-making. One of the first steps is to cleanse the data. Every client believes their data is reasonably correct until the reports compiled show strange results. Unfortunately, the key is not to overreact and cleanse every piece of data 100% before proceeding as that will likely put you WAY behind your competition. Instead, use the pareto principle. Start with the data that is most meaningful to your decision. Work with broad groups of products and cleanse with directionally correct updates. This is where the saying "garbage in, garbage out" comes into play. If you don't cleanse your data, all you will achieve is getting garbage quicker. For example, the industrial manufacturing client had to clean up their master records (starting by focusing on the 20% that drove 80% of the volume) to make sense of their data. It would have taken years to fully cleanse data, but it took weeks to start with a pilot set of items and cleanse critical fields.

Connecting & Consolidating Data

Once your data is cleansed, it is likely you'll have to connect your data from multiple sources, tables, or databases. It is also far more complex than it appears. If you don't join the data properly, it will appear correct but you'll get inaccurate results. Bringing a data analyst or systems analyst into the mix to assist in connecting data properly will go a long way. This is often the single largest client issue. For example, the industrial manufacturer had to develop a link between the two data bases so that they could successfully connect the records.

Checking

Certainly, once you've consolidated data into one source or report, you would check and validate the accuracy. This is also an often overlooked yet critical step. Clients frequently spend days developing reports to get a result that doesn't add up. Because they get so lost in the data and it took a long time to develop, they immediately share these incorrect results proudly. For example, the industrial manufacturing client spent many hours developing a purchase report. However, the results didn't add up to a number that made sense. Upon further review, it turned out that one of the processes put into place to dig out the appropriate dollars didn't add up in terms of the quantities. They changed the report design, and the results became directionally correct.

Charting

The final step is to turn an overload of data into an easy-to-understand chart that provides immediate insights. These charts are incorporated into a SIOP/ S&OP process to quickly assess the situation and trend, and the discussion will lead to the evaluation of options and decisions. For example, the industrial manufacturing client was able to make reasonable assumptions and purchase ahead for long lead-time materials months before getting the details squared away by seeing the percentages by material type in a pie chart, and then making educated assumptions when placing orders.

Turn Data Into Insights

By following the process of cleansing, connecting, consolidating, checking and charting data, the industrial manufacturing client was able to get ahead of its competition because it had materials available for production once the increased level of sales quotes were turned into sales orders and engineering specifications were completed. They were able to turn [data into insights](#) and achieve record sales during a time when companies struggled with supply chain disruptions because they placed orders for long lead-time materials proactively (in addition to other proactive steps).

When your data analysis is achieving directionally correct results, it will make sense to take it to the next level with dashboards and slicing and dicing ability with a [business intelligence](#) solution. Once you can slice and dice data and have a dashboard available with the push of a button, consider moving on to advanced data topics such as predictive analytics. Instead of solely using data for decision-making, you can take it to the next level and predict your future to get ahead of pack.

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Achieving Customer Growth by Turning Data into Insights](#)

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Supply chain disruptions and labor shortages impacting Americans



Connections

THIS MONTH'S REQUESTS:

- If you know of a machine shop operator interested in a family-friendly lifestyle in Kansas working for a great company, please contact [Charlotte McElroy](#).
- If you have a supply chain or operations position, post it on our Association for Supply Chain Management Chapter (ASCM/ APICS) [website](#).
- If you know of an inventory planner interested in an opportunity near San Diego, please [contact me](#).
- Do you know a top notch investment banker in the Southern California area interested in growing his/her business and meeting top-notch trusted advisor colleagues in the Inland Southern CA area? My [ProVisors](#) group has an opening for these professions, and we have lots of referrals for these professions on a regular basis. Please introduce [me](#).

NOTE: To submit an item for this section, please send me an email with a short description of your needs and an email address. Please note that NOT all requests will be published as it must fit the guidelines and align with the Profit through People brand.

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