

# Strategic and Tactical IBP

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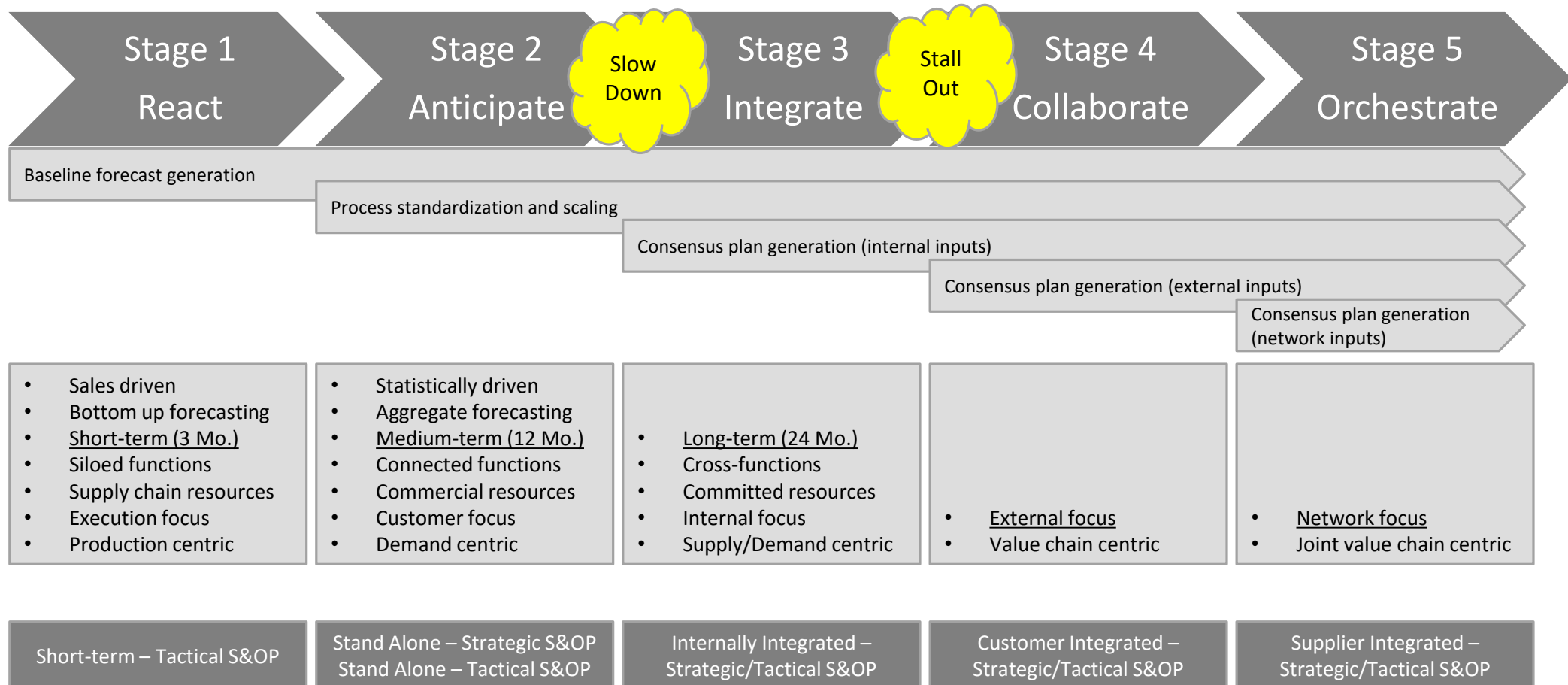
A PRACTICAL APPROACH TO OUTSIDE-IN ANALYSIS

# A path to better – Tactical vs. Strategic?

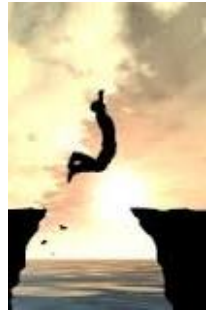
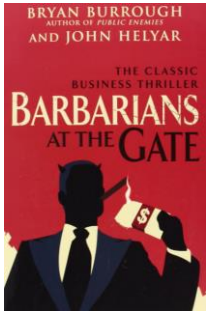


# Where are you in the journey?

Stages come from Gartner Maturity model

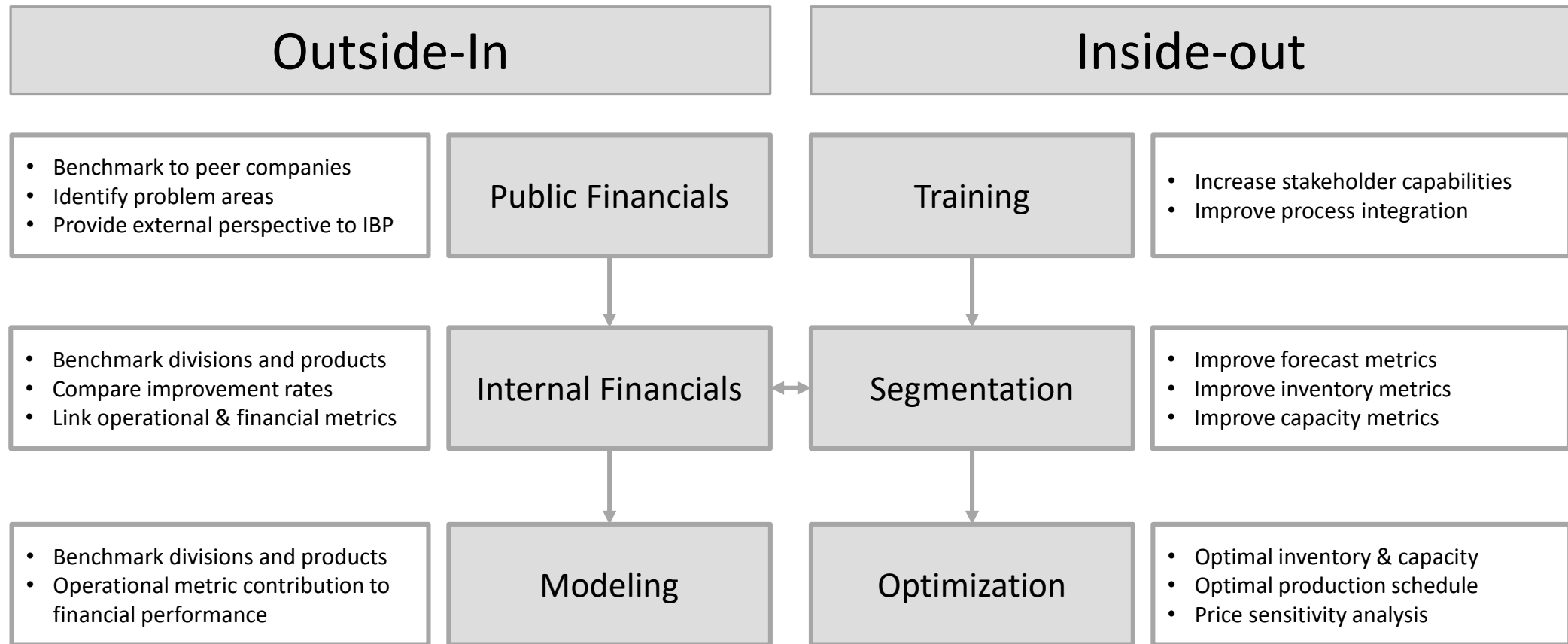


# Why does outside-in approach matter?

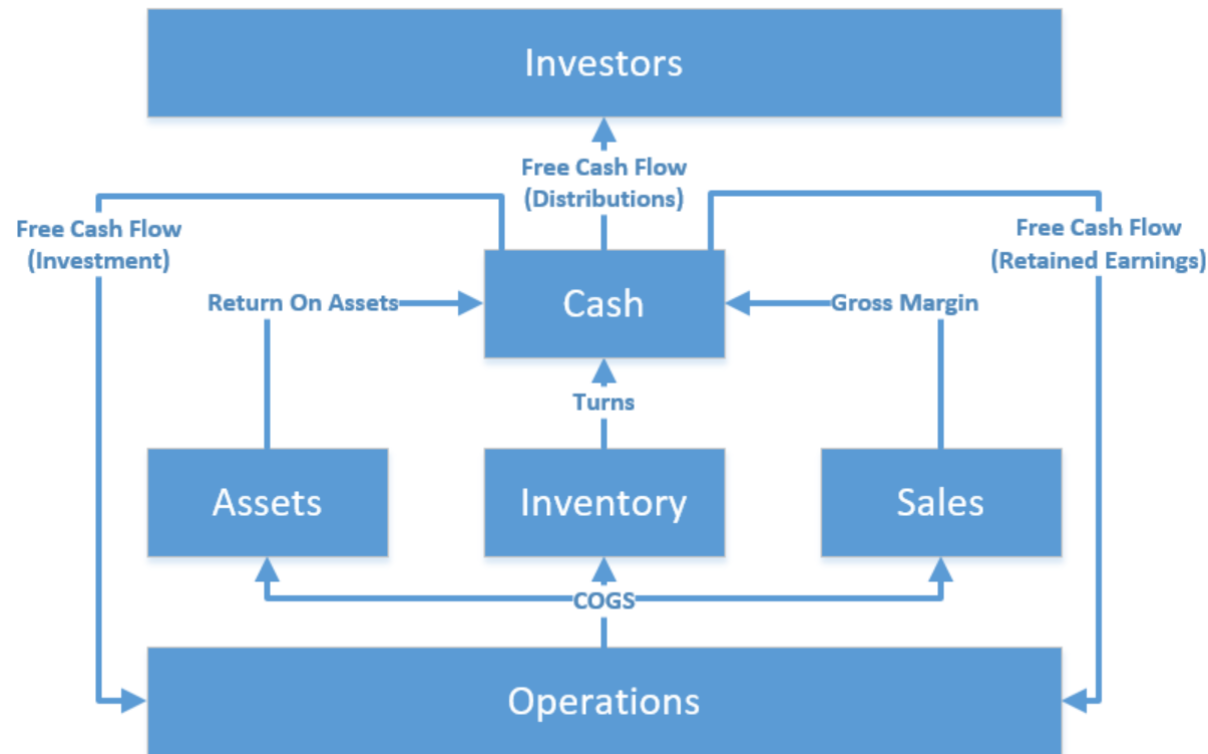


- Activist investors actively target successful companies for short-term gain
- *Pushing back or Partnering possible when outside-in view in place*
- IBP achieves operational gains, but fails to align with strategy
- *Outside-in metrics that speak directly to management concerns*
- IBP metrics not directly linked to metrics that drive financial performance
- *Drives discipline that evaluates initiatives relative to other uses of capital*

# How to move forward?

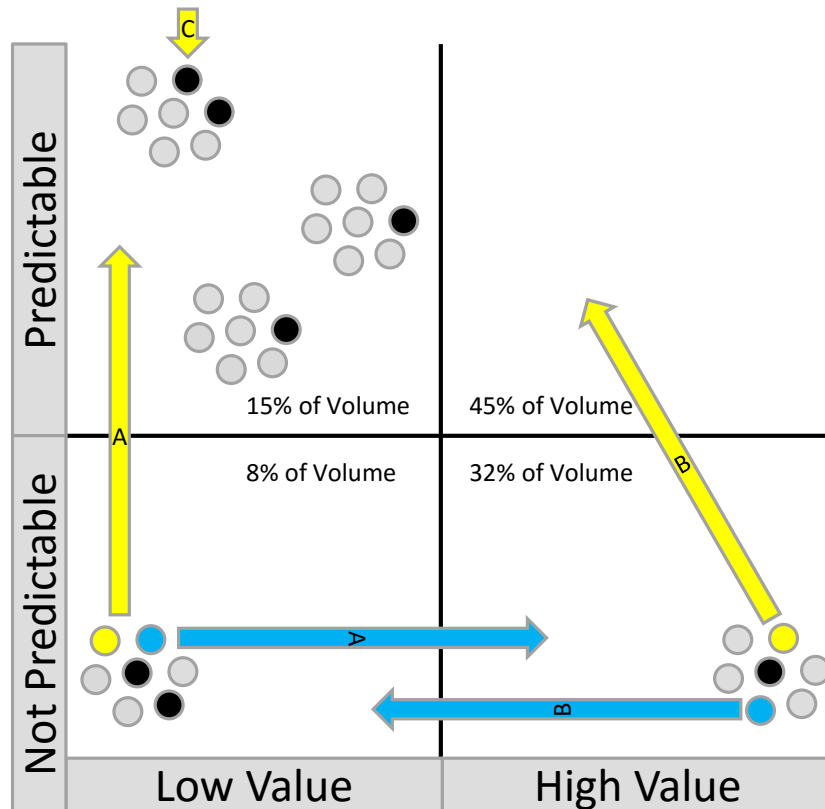


# How to add an outside-in perspective?



- Evaluates efforts through financial lens; e.g. do we need better forecast accuracy decrease inventory?
- Examines operating strategy from a value based perspective; e.g. is scheduling high capacity utilization really beneficial?
- Assesses if market facing operations are impacted by margin or COGS; e.g. can we cannibalize our own business before someone else does?

# What changes in the IBP process?



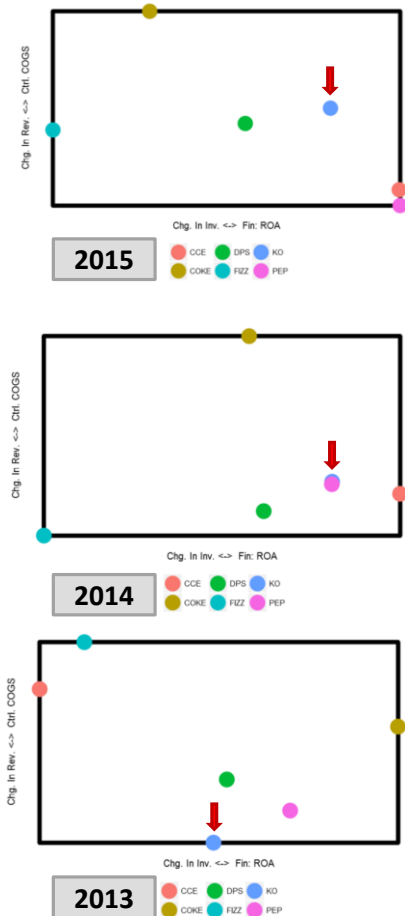
## An outside-in focus changes the decisions process

- A: When product is tight committed orders often shipped first; consider netting out predictable demand to support most reliable customers before shipping unreliable customers or taking price action. Opportunity failure.
- B: In the box thinking may limit fully leveraging supply chain capabilities driving early price concessions to move excess inventory without increasing predictability. Financial target failure.
- C: Effort diffusion focuses on all items and can miss the most impactful few. More input failure.

# What does it look like?

## It takes time to align operational and financial strategy

- 2015 – Coke begins to see improved results
- 2014 – Coke begins to sell off bottling assets to increase margins
- 2013 – Coke recognizes that margins are impacted by bottling assets





# Where does outside-in add value?

Revenue							
Ticker	Rev. (RY)	Rev. (RY -1)	Rev. (RY -2)	Avg. Rev.	Pct. Var. Avg.	Sust. Growth	Rev. CAGR
CCE	8,264	8,212	8,062	7,887	0.04	0.25	0.01
DPS	6,121	5,997	5,995	6,099	0.01	0.16	0.01
FIZZ	641	662	629	644	0.02	0.44	0.01
KO	45,998	46,854	48,017	46,291	0.02	0.09	-0.02
PEP	66,683	66,415	65,492	65,412	0.01	0.13	0.01

Capacity									
Ticker	\$ Avg. Rev.	\$ Avg. COGS	\$ Avg. Inv.	\$ Avg. PP&E	Avg. Chg. In Rev.	Avg. Chg. In COGS	Avg. Chg. In Inv.	Avg. Chg. In PP&E	Estimated Utilization
CCE	7,887	5,061	390	4,507	-0.04	-0.05	-0.04	-0.08	1.04
DPS	6,099	2,512	202	2,502	0.02	0.01	0.02	0.04	0.97
FIZZ	644	428	42	205	0.01	0.01	0.02	0.04	0.97
KO	46,291	18,211	3,136	24,032	-0.03	-0.03	-0.04	-0.01	0.98
PEP	65,412	30,450	3,213	36,292	-0.01	-0.03	-0.09	0.00	0.97

Inventory									
Ticker	Days Inv. (RY)	Days Inv. (RY -1)	Days Inv. (RY -2)	Days Opt. Inv. (RY)	Days Opt. Inv. (RY -1)	Days Opt. Inv. (RY -2)	Act. - Opt. (RY)	Act. - Opt. (RY -1)	Act. - Opt. (RY -2)
CCE	28	27	31	26	26	30	-2	-1	-1
DPS	30	30	29	30	30	29	0	0	0
FIZZ	37	38	32	36	37	31	-1	-1	-1
KO	61	63	65	62	64	66	1	1	1
PEP	35	37	40	36	38	40	1	1	0

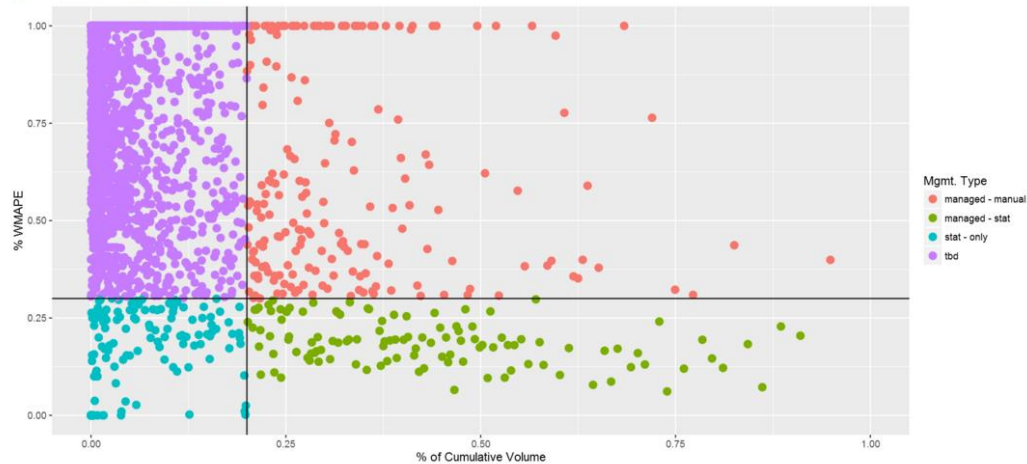
Process Control												
Ticker	Ctrl. Acct. Pay.	Ctrl. Acct. Rec.	Ctrl. COGS	Ctrl. Csh 2 Csh	Ctrl. Cur. Asset	Ctrl. Inv.	Ctrl. Opex.	Ctrl. PP&E	Ctrl. SG&A	Ctrl. Ttl. Exp.	Relative Financial Shaping	Absolute Financial Shaping
CCE	N				Y						Y	Y
DPS					N		N				Y	Y
FIZZ	Y			Y	N							
KO				Y	N		Y					
PEP	N			N	N	Y						Y

Peer based comparison drives “competitive capability” vs. “table stakes need” into IBP meetings.

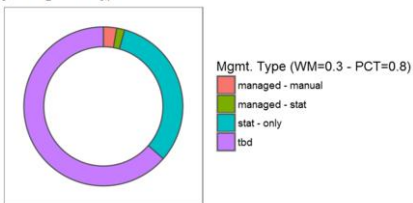
- Growth below peers – perhaps a more defensive or innovative product stance required?
- Inventory levels significantly above peers – *were assets traded for inventory?*
- Capacity in line with peers – will further asset sales degrade customer service?
- Industry appears to have systematic issues with current asset control – *perhaps inventory is the issue?*

# Where does segmentation add value?

Actual Volume By Bottom Up WMAPE



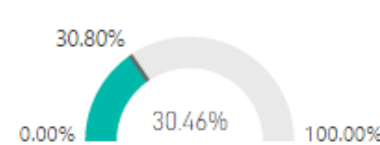
Item Count By Management Type



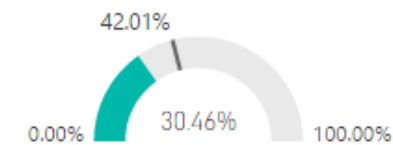
Lbs By Management Type



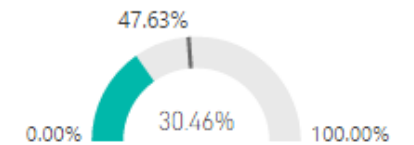
Top Down Best v. Bottom Up Best



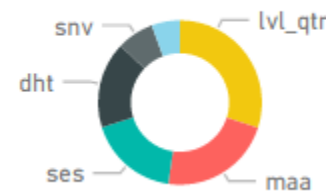
Top Down Snv v. Bottom Up Best



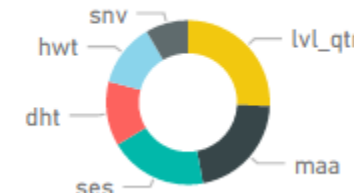
Top Down Maa v. Bottom Up Best



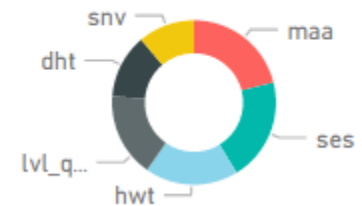
Actual By Method - Cycle 1



Actual By Method - Cycle 2



Actual By Method - Cycle 3



**Improve forecast accuracy and process efficiency.**

- Where to apply human effort?
- What to discuss in IBP meetings?
- Do disaggregation factors matter?
- What forecasting methods are most effective?

# Where does modeling add value?

Metric	ROA	ROE	Sustainable Growth	Gross Profit	Net Profit	Operating Profit	Accounts Payable	Accounts Receivable	COGS	Inventory	PP&E	Gross Revenue	SG&A
Fin: ROA													
Fin: ROE													
Fin: Sust. Growth													
Pct. Gr. Prf.						Y							
Pct. Net Prf.						Y							
Pct. Op. Prf.				Y	Y								
Raw Acct. Pay.								Y	Y		Y	Y	Y
Raw Acct. Rec.							Y		Y	Y	Y	Y	Y
Raw COGS							Y	Y		Y	Y	Y	Y
Raw Inv.								Y	Y		Y	Y	Y
Raw PP&E							Y	Y	Y	Y		Y	Y
Raw Rev.							Y	Y	Y	Y	Y		Y
Raw SG&A							Y	Y	Y	Y	Y	Y	

# What is the best way to get started?

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- Pilot to prove concept and value
- Transition testing to prove knowledge transfer
- Mentoring and support to support final project transition