ARLA FOODS
CREATING A NEW PARADIGM FOR IMPROVING SALES AND OPERATIONS PLANNING

QUICK FACTS

Industry
Consumer products

Revenue
DKr 46.2 billion (€6.2 billion)

Employees
16,231

Headquarters
Viby J, Århus, Denmark

Web Site
www.arla.com

SAP® Solutions and Services
SAP® Advanced Planning & Optimization and SAP NetWeaver® Business Warehouse components

Implementation Partner
Implement Consulting Group

Arla is the world's seventh-largest dairy company, measured by turnover. Being such a large producer of dairy produce, the company also has to manage vast amounts of milk surplus, which are often processed into powdered milk. To improve the planning and forecasting of surplus sales, Arla decided to adapt its existing SAP® software landscape. By refining processes, the company set out to provide its divisions with a quicker, uniform view of all plans.

Key Challenges
- Increase contribution margin for powdered milk through better matching of supply and demand
- Optimize forecasting ability for powdered milk products to maximize sales to regular customers based on long-term contracts
- Implement proper process for sales and operation planning throughout all plants
- Improve process of consolidating overview of plants to decrease lead times
- Reduce inventory and stock costs

Implementation Best Practices
- Process prototyping prior to implementing functionality, for fast, optimized development
- Functionality to support first process live within 2 months; full support within 6 months
- Iterative implementation of functionality on production software, allowing users to get acquainted with changes to software and provide feedback
- New functionality adopted in two-thirds of operations through merger of divisions

Financial and Strategic Benefits
- Fully uniform view of sales plan, financial plan, and production plan
- Considerable decrease in lead times
- Increase in data available for planning personnel, both centralized and decentralized
- 10% improvement in forecasting accuracy through more reliable forecasts from sales
- Optimization of inventory through improved planning of surplus demand and supply

Why SAP Was Selected
- SAP® Advanced Planning & Optimization and SAP NetWeaver® Business Warehouse components integral part of software landscape
- Constant accessibility to large amounts of financial, supply, and demand data online through integrated SAP software
- Better consolidation of demand view with supply and capacity views
- Extension of roles and information for more customized use of master data for planning

Low Total Cost of Ownership
- Reduction in cost through precise development and finalizing of required functionality
- Stable, consistent rollout of functionality based on prototyping and iterations
- Process optimization based on data already available and accessible
- Cost-effective adoption of changes through avoidance of redundancy in key functionality
- Reusability of developments for rollouts to other divisions
- Maximum of 3 or 4 days for training

Operational Benefits

Key Performance Indicator	Impact
Annual increase in earnings	DKr 15 million (€2 million)
Improvement in forecast accuracy	10%
Decrease in lead times from data to overview	21 days to 10 days
Reduced tied-up capital in stocks	DKr 42 million (€5.63 million)

Arla

SAP

The Importance of Optimizing Surplus Planning

The dairy industry can be highly volatile. Different yields in different seasons, quotas, and shifts in demand are all factors that influence how much milk is available, how quickly the industry can react to demand, and how high margins are. This applies just as much, if not more so, to the powdered milk division at Arla Foods amba, one of the world's largest dairy cooperatives. As René Gaarde-Vahlberg, Director of Global Categories and Operations (GCO) Planning and Allocation in Arla's Butter, Spreadable, and Margarines (BSM)/Powder Division, explains, "Our part of the business deals with milk surplus, the leftovers from the other businesses, which varies strongly over the year." Arla needs to know how much surplus it will have, so it can sell as much as possible to its regular customers. As Gaarde-Vahlberg adds, "The powdered milk we don't sell to our regular contracts goes out into the trading market, where contribution margins are lower. Even a 1% improvement on the margin can mean a lot when you look at how much milk goes through our plants."

Refining Functionality Already Present in SAP® Software

The division needed to improve its methods of forecasting how much surplus it would have. With sales and operations planning already supported by the SAP® Advanced Planning & Optimization and SAP NetWeaver® Business Warehouse components, the organization wanted to integrate additional views and reporting in its software. As Benny Christensen,

process coordinator for planning and forecasting in Arla's global IT department confirms, "The change we wanted to make focused more on refining the process. We wanted to cut our lead times from 21 days to 10 days, from data to overview, and give organizations a single view of the truth."

Implementing on the Basis of Business Process Prototyping

Together with its partner, Implement Consulting Group, Arla went about the implementation in a rather unconventional manner – by prototyping process improvements in the running production software, followed by upgrades to the software. Gaarde-Vahlberg and Christensen agree it was the right method. Christensen explains, "Arla had all the information it needed, so it was only a matter of using the master data differently and extending roles. Approaching the project by prototyping the process, followed by the IT, was a big benefit, because we could see the first results a month or two down the road. That's what management wants to see: results. With Implement's help, we were live within six months – on time and on budget." With feedback from the process prototyping, it was easy for Implement to develop clean functionality and set up the process the way Arla needed it.

Complete Optimization of Forecasting Processes

During the rollout, the powdered milk division was incorporated in the larger BSM division. This doubled the size of the organization and led to a rollout of the new functionality to a wider set of users,

two-thirds of the business landscape in all. As the software was the same, training could be kept to a minimum, and users could carry on working without interruption. Gaarde-Vahlberg notes, "We needed a maximum of 3 to 4 days to get key users up and running. The main difference is that they now have extra data for their processes. And we have halved lead times from data to overview down to 10 days and improved forecasting accuracy by about 10%."

The goal of better forecasting is to minimize surplus and free up inventory. With powdered milk accounting for a third of the milk income, Arla saw that it can increase revenue by almost DKr 15 million (€2 million) in a year. And the company reduced tied-up capital in stocks by DKr 42 million (€5.63 million). Gaarde-Vahlberg says, "From a business standpoint, what we need is the right view – one sales plan, one financial plan, and one production plan – from the software we have. Having that now is a huge achievement."

Implementation Partner
Implement Consulting Group supports customers in realizing impactful strategic change. This is achieved by designing new business concepts and implementing changes to processes and SAP software systems, leveraging change management methodology.

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