



Cadbury Schweppes

Cadbury Schweppes is the world's largest confectionery company and also has a sizeable beverages business. The company has annual revenues of more than \$12 billion and 60,000 employees in 200 countries.

“DPM allowed us to automate an optimization process in a way that we couldn't do manually ourselves.”

***- Andrew Dennis,
Regional Supply Chain
Process Director,
Cadbury Schweppes
Americas Beverage***

Project & Objectives

The supply chain group at Cadbury Schweppes had been given a challenging cash flow directive from corporate finance. Cadbury ranked in the lowest (4th) quartile in working capital performance in their peer group, and they had been trying for several years to improve their numbers. Several other initiatives to improve operating performance had not been successful, ending up with excuses or minor improvements.

Andrew Dennis was Regional Supply Chain Process Director for the company's largest operating unit, Americas Beverage. His goal was to move the business from the bottom quartile to “best in class”.

Andrew also knew they needed some culture change. Cadbury traditionally had been manufacturing-focused, sometimes producing product based more for efficiency than for market demand. They needed to plan inventories better to meet required service levels, and also needed to make what was planned.

... Day to Day

After reviewing several options, Cadbury Schweppes selected a DPM-based solution from ToolsGroup that seamlessly bolts on to their SAP APO system. It retrieves forecast and order data from APO and returns inventory safety stocks at the most detailed SKU level. SAP remains the host system of record, whereas DPM is the analytical engine that runs and updates APO weekly.

This new approach is quite different in many respects. Previously, safety stocks had been determined by historical values or by spreadsheets, using basic statistics. Cadbury had been lucky to get their desired service level, and if they did, it often required manual intervention. Now, safety stocks are calculated by algorithms that model the natural uncertainty of demand and supply. The correct relationship between inventory and service is defined at the item/location level. As a result, Cadbury can maintain and guarantee target customer service levels because inventory is effectively buffering supply and demand variability.

Results & Benefits

The system first went live in their Concentrated Syrup Division, a high margin part of the business. Although the project was initially justified on inventory savings, Cadbury soon discovered a different opportunity – driving up customer

Case Study



service to previously unattainable levels. They were able to generate more than a full extra percent of service level out of their inventory, achieving a near perfect 99.6%. Cadbury even took advantage of a DPM algorithm that optimizes inventory to maximize overall margin from the business.

The second part of the phased roll-out was in the Finished Goods division, which included bottled product of popular brands such as Dr. Pepper, Motts, and Snapple. Here the company drove out more than \$7 million in inventory savings (more than 12%) in the first three months after go-live, not counting inventory savings from process changes associated with the project. Andrew also identified additional millions (3-4%) in expected savings, based on incremental improvements slated for the year ahead.

Finally, Andrew notes they are achieving their service level targets consistently and with less manual intervention and extra effort than ever before.

<i>Before</i>	<i>After</i>
Inventory buffered variability in supply and demand. Planners chased demand due to unreliable stocks.	Inventory buffers variability in supply and demand with much less manual intervention
Safety stocks determined by historical values or by spreadsheets using basic statistics	Safety stocks determined by algorithms that model the natural uncertainty of demand and supply
Used normal distribution, if anything	Reliably defines correct relationship between stock and service level at the item/location level
Intermittent analysis and static results could not keep up with dynamic changing environment	Optimal inventory level for each SKU/location across the network dynamically fed to R/3
Not integrated with R/3 — manually updated	Highly automated. Direct interface to R/3.
Inventory management focused	“Service-driven” inventory solution; maintains and guarantees target customer service level
Lag 2 Forecast Error at the SKU level	Historical order/line item variability generates safety stock. Considers not only quantities, but also order frequency.

Source: SAP Logistics and SCM Conference, February, 2007