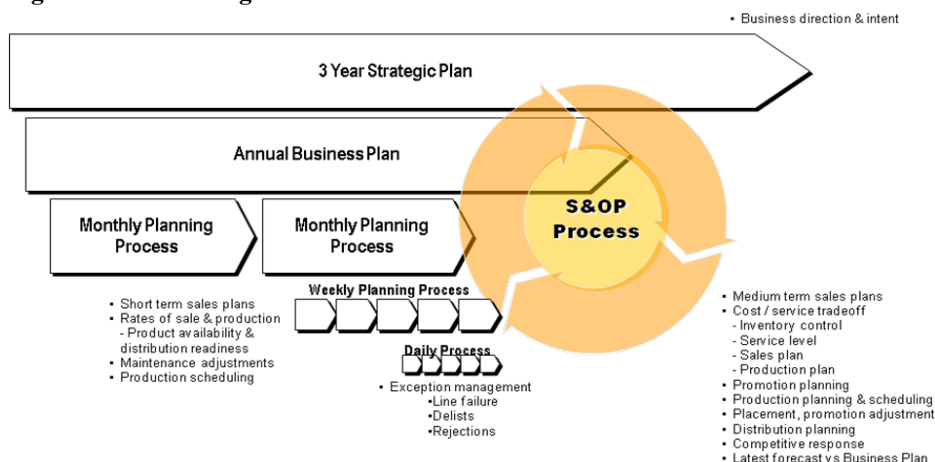


Trend #6 – S&OP becomes more prevalent and global

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Sales and Operations Planning (S&OP) is the DNA by which a company operates. AMR Research describes S&OP in a simple but effective manner: "It is the translation of upstream demand data into an actionable operational plan. This collaborative process profitably aligns demand with supply against a defined business strategy." S&OP is not a new concept or a new process – it has been around for the last 20 years. It used to be a more supply chain oriented process and concept, where the demand planners would try and match up the demand signal (the sales or shipment forecast) with the supply constraints (e.g. production, distribution, storage). Today, 20 years later, as AMR Research puts it, "the S&OP process is being redefined, morphed into industry-specific processes and used as a key initiative to drive cross-functional teamwork and actualize Demand-Driven Supply Networks (DDSN) initiatives. This S&OP renaissance is driven by the need to increase revenue and be more profitable in a tougher business environment." S&OP continues to evolve and be the 'glue' that binds together and truly integrates the long term and strategic plans with the short term and tactical plans, so that the strategy drives the tactics, and tactics do not exist on their own without the context of the overall strategy, as shown in Figure 1 below.

Figure 1: The Strategic & Tactical Context of S&OP



The Bottom Line

Sales and Operations Planning (S&OP) was invented as a 'supply chain thing', and has evolved to a 'business process', and will evolve further into a 'global process'. S&OP is the process by which a business can put together all the different functional pieces of information and intelligence through functional processes and make cross-business decisions on the basis of this information for both the short and long term. S&OP becomes the forum in which global, regional, and local tradeoffs are made. Expect S&OP to be the way that the Global company leaders run the business. New tools and techniques to make S&OP more streamlined will be required, which enable the process to work more efficiently and link in real-time and synchronize with ERP and APS applications / services. This has already started coming true, with major players like Oracle having acquired emerging solutions like *Interlace Systems* recently, for their S&OP functionality, which Oracle envisions embedding within their business solutions portfolio. Focus changes from absolute decisions to relative decisions and tradeoffs – knowledge of finance must embed all functions to make valid decisions. S&OP becomes mandatory – not optional – those who do not embrace it are at risk. We see logistics providers being part of the overall discussion and debates within the S&OP process of the enterprise, since they provide critical service to the companies.

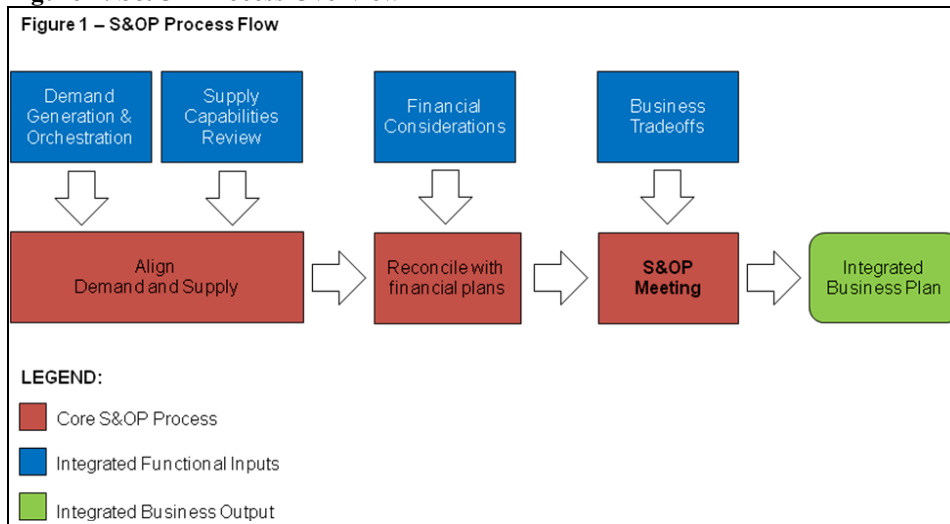
S&OP Process Overview & Application

S&OP is a process that can be adopted to any industry – it is the way in which business is conducted within a company between the different functions, and also establishes how the company interacts with its business partners – its 'customers' and its 'suppliers'. Almost any industry fits into this mode of operation.

S&OP is a means of aligning targets and objectives across the different functions by taking sales & marketing ambitions, supply possibilities and financial goals and balance them to create a single, achievable plan. It must be a cross-functional business activity which needs to be led from and owned by the Board or the senior decision making body of the company or business unit. It is a process that should be designed with the following fundamental principles:

- Discussions should be fact based
- There must be clear ownership of each element of the process and of the decisions made
- The operating plan must be formally linked by assumptions to a financial plan
- There needs to be a formal balancing of demand and supply across a rolling horizon
- Gaps (against the annual plan or against business targets) must be recognised and action plans formulated to close them
- Trade-offs must be clearly articulated and commercially evaluated

Figure 2: S&OP Process Overview



Consider the general process flow for S&OP, as shown in Figure 1. There are 5 key components:

1. **Generating, shaping, and orchestrating the demand** – understand forecast bias (the degree to which the business over or under sold the forecast) – this is a critical indicator in measuring the health of the business. Many businesses have multiple 'forecasts', one typically for each function, because the different functions don't have sufficient trust in each other. This is where the problem begins. For instance, Marketing believes that the new innovation will sell 100,000 units, but Sales mistrusts this due to customer feedback, and believes the volume will not exceed 80,000. Meanwhile, the Supply Chain function disbelieves both based on previous historical failures to deliver, and ensures that they will support only 50,000 so as not to be stuck with obsolete inventory, and Finance is aiming for a 'stretch' target of 150,000, then there is a severe disconnect in the business. Logistics Service Providers (LSP) also get caught by surprise, when the particular logistics function has contracted them to move / ship only 50,000 units and actual orders come in to the order of double this amount and capacity needed falls severely short of expected service levels.

2. **Identifying supply capabilities** – developing insights into the true level and bandwidth of extended supply chain capabilities, such as from the supplier through to the customer, accounting for every node in the supply chain. This includes 3PL storage and handling capacity, throughput, lead / lag times, and other constraints, as well as other similar LSP considerations such as carrier capacity, number of assets, etc. This step should also include a clear view of tradeoffs such as the traditional time/cost tradeoff (the shorter the ship-time, the higher the cost, traditionally), and visibility into demand-based supply capabilities, i.e. how much production and distribution bandwidth is available to counter the impact of the volatile and global nature of the demand.
3. **Aligning Demand & Supply** – this step essentially compares supply capabilities and constraints with demand requirements (“sales & marketing ambitions” as we stated earlier), in order to understand how best to satisfy the demand (e.g. dynamic local sourcing considerations, global sourcing considerations). This is a critical step in order to understand the tradeoffs of meeting the demand, and understanding what spare capabilities are available, in order to meet unexpected or induced demand.
4. **Financial Considerations** – this is where many companies make a misstep, and allow the financial targets to drive the operational forecasts without the bottom-up consideration of what true demand really is. Many over-zealous business leaders want to make their targets come to life by just adjusting numbers on their projections and hope for the best. Worse, they may manipulate the numbers so that they push product into the marketplace and load the trade. The purpose of this step is to establish the top-down targets that the business has committed to in the marketplace and to shareholders.
5. **Reconciliation with Financial Plans** – this step of the process is to reconcile the leadership-driven top-down targets with the bottom-up, fact-based business forecasts using customer and market intelligence (see Figure 2). This step also identifies the financial risks and opportunities for the business with respect to the financial target and reconciled & supply-constrained demand forecasts. This is a critical contributor to the next step, the S&OP meeting.

Figure 3: Reconciling Top-Down targets with Bottom-Up Forecasts



6. **The S&OP Meeting** – this is the culmination of all this effort, information gathering, and other business planning efforts. One can (and generally does) have one S&OP meeting for each level of management, so that what is submitted to the executive level is a consensus based plan across all functions. During this meeting, many issues are discussed:
 - a. Year to date:
 - i. Operational performance, considering such metrics as fill rate, service levels, forecast performance (error & bias), working capital (specifically inventory) position

- ii. Market performance, such as market share, competitive analysis, growth trends, new insights
- iii. Financial performance, such as the P&L to date (top line, bottom line), cash flow, capital expenditure review, and margin performance
- b. Year to Go and ideally rolling 18 months:
 - i. Expected operational performance, such as working capital shifts, potential service losses, resolution on current operational issues
 - ii. Expected market performance, such as market share, competitive analysis, growth trends, new insights
 - iii. Expected financial performance, such as the P&L to date, cash flow, capital expenditure review, etc.
 - iv. Opportunity / Risk evaluation – whether the company will be able to meet financial targets, and if not, what is the plan to close the gap between the current forecast and the desired target and what funding will be provided to close that gap

The output is the Integrated Business Plan or S&OP Plan as it is called, which contains all of this information, such that every month, the business is up to date on common assumptions, operational, market, and financial performance, and have a plan and monitoring mechanism to review it every month to make course corrections over the period of a rolling 18 month horizon.

We recently caught up with Martin Jarvis, Vice President of Global Operations for Biodiesels at *British Petroleum*, ~~and formerly Global Vice President of the Global S&OP Program at Unilever~~, who strongly believes that companies should “stick to the process. Sticking to the process that you agreed implies that you should not agree a process that you can’t stick to! This requires an understanding of your corporate culture and the modus operandi of people within it. It is far better to have a relatively “light” process that is followed than a very complex, detailed process that people don’t follow all the time (the process cannot be abandoned for every crisis de jour). S&OP does not require complex processes to be effective – it is, at heart, a very simple idea: make forecasts of what you are going to sell and what you can make (or buy); take actions to balance the equation supply = demand over the whole horizon you have decide you need to look at; look at the financial consequences of those actions versus your targets; initiate actions to address the difference between the target and the current, balanced forecast.”

Benefits of S&OP

The benefits of S&OP are multi-layered and many. It basically forms the foundation ‘glue’ of all your business processes, and creates the forums and contexts in which to discuss the key issues and update the plan with consensus. It impacts the top-line as well as the bottom-line, and significantly impacts your cash position. [Steve Innes, Vice President of Supply Chain for Unilever United States, is a firm believer in the benefits of S&OP. In our discussion with him on this topic, his view is that "S&OP provides Unilever US the ability to derive key insights from robust operational metrics and allows management at each level of the organization to make focused decisions. We can clearly see trends, take learning's, and make responsive decisions to changes in the marketplace much better than ever before."](#) We highlight below, many of the quantifiable benefits that we have seen our clients realize:

- **Top-line Growth**
 - Through Customers
 - By optimizing levels of customer service
 - By allocating the right level of resource to the relationship

- Through Consumers
 - Brand equity - Making choices about investment
 - Choosing the right innovations and promotional activities
 - Effectively managing those innovations, and killing quickly the ones that don't work
- **Cash**
 - Through Growth
 - Through financial engineering
 - Through management of capital and working capital - capacity vs. stock vs. service
- **Margin Growth**
 - Through Lower Costs
 - Trade-offs between cost and complexity; between efficiency and speed to market; between obsolescence and waste
 - Through Better Asset management
 - Longer term planning enables better asset utilisation and less ad hoc changes
 - More informed trade off decisions between Capital expenditure spend and working capital investment
 - Promotional Spend
 - Targeting & evaluating promotions enables better understanding and efficiency

Critical Success Factors

In order to make S&OP work, it needs executive team LEADERSHIP, and not just support. It needs to become the ONLY way of working for the business, and all functions need to follow the process. It is a change management journey, but once embedded, you'll never believe you can do without it! Leadership must foster different behavior, and nurture the process through a shift in their attitudes and reactions:

Shift from...	To...
• <i>'this forecast is unacceptable you must do better....'</i>	• <i>'explain why your forecast has changed'</i>
• <i>'bring your numbers back to target....'</i>	• <i>'what do we need to do to improve performance?'</i>
• <i>'your numbers have changed. Are you in control?....'</i>	• <i>'what is driving volatility? How can we mitigate forecast risks and seize opportunities?'</i>
• <i>'why did you screw up again?'</i> ...	• <i>'were the actuals within the predicted range? Is there bias?'</i>

Essential to understanding the process better, one needs to understand the underlying shift in emphasis from a business forecast being a 'commitment' to being the best estimate of what the business thinks where they will end up:

Shift from...

- *as a precise prediction...*
- *as commitment...*
- *an art...*
- *an unregulated process...*
- *a requirement of 'the centre...*

To...

- *to understanding probabilities*
- *to a decision making tool*
- *to judgement structured in a scientific way*
- *to formally managed (like 'actuals')*
- *to the way we manage the business*

S&OP has been the core of the success and turnaround of many companies in different sectors and industries.

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