

WE LEAD TO EXCELLENCE



How to meet business goals through Sales & Operations Planning

What is a SNAPSHOT?

A snapshot is an overview of a subject at a specific point in time. Advance Supply Chain Solutions provides Snapshots of Operations, Supply Chain, Lean Six Sigma and Procurement topics and shares them with the Advance public. The sources of these snapshots are generally implementations by our Senior Consultants, best practices and the content of our events and webinars. It is a quick and easy way to share state-of-the-art knowledge on topics dear to Advance Supply Chain Solutions.

This Snapshot comes from one of the Live Webinars on S&OP held by our subject matter expert Flavio Pietrocola of Oliver Wight EAME.



How to meet business goals through Sales & Operations Planning

S&OP (or Integrated Business Planning – IBP) is a process that supports the deployment of business strategies to achieve expected results and involves the entire Leadership of the company across departments like Sales, Marketing, Operations, Supply Chain, HR, R&D and, last but not least, Finance.

S&OP was developed several decades ago as the evolution of MRP II and is a key business process both today and for the foreseeable future, as Gartner argues in its recent report “Hype Cycle for Supply Chain Planning Technologies”. Though this process and its best practices are still mainly adopted by medium-sized and large businesses in a variety of sectors, for years Advance has also been successfully supporting it in various small and medium-sized Enterprises.

In fact, it is of the utmost importance to coordinate and integrate the plans of all departments in order to achieve medium and long-term business goals, balancing Demand with Supply, optimising inventories and procurement, improving customer service and therefore in general improving the efficiency of the entire business rather than just the production area.

Without this structured process and the commitment of all departments, the business is less able to foresee problems, discuss them internally and prepare shared plans to mitigate risk: additionally, there is also the risk that it isn't able to take advantage of opportunities.

For example, major opportunities will be lost if the launch of new products, with the risks these normally involve, or unforeseen market growth are poorly managed and/or not discussed sufficiently in advance as part of a structured process like S&OP.

To take advantage of these opportunities it will be necessary to plan, over a typical time span of 24 to 36 months, for example, human and financial resources to purchase new equipment, install it, engineer new products, hire and train new production staff, and finance all these activities. S&OP facilitates discussions between all departments which have to work together increasingly frequently in order to take advantage of such opportunities.

S&OP - Not a Supply Chain process

S&OP is not a Supply Chain process as you might think or as it was under the acronym MRPII. It is a Business process, a process that connects Strategic Planning, which covers 5 to 10 years, with short-term Detailed Planning & Control, which has a 3-month focus. For this reason the sponsor can only be the Management or CEO. S&OP examines the period after 3 months to cover at least 24 months.

It is on this timeframe that the Top Management must focus and **spend at least 80% of its time**. The other 20% of the Top Management's time should be spent on execution, i.e. the next 3 months and only in exceptional circumstances. In fact, the 3-month horizon is reserved for Manufacturing Planning & Control and Sales execution, and therefore the subsequent levels to those which report to the Top Management.

Too often Advance SC Solutions, together with the experts that work with us, observes that Top Management spends 80% of its time within the 3 months: this **prevents them from focusing on commercial, business and innovation strategies** (an approach identified by some as the "fire fighter" syndrome with the focus on putting out fires rather than preventing them).

There are different reasons for this anomalous division of the Top Management's time including the fact that the Manufacturing Planning & Control process, like Sales execution, is not well configured and controlled, causing instability in production and customer service: all of this inevitably draws the attention of the Top Management, often in emergency mode.

S&OP consists of 5 steps, which take in the phases commonly known as Product Management Review, Demand Review and Supply Review before arriving at the penultimate step, Reconciliation Review, which involves a discussion of the risks and opportunities that can undermine or improve the expected financial result, and during which the recommendations to close the gap are prepared. An Executive Summary with scenarios and recommendations is then presented to the company Leadership Team in the Management Business Review step, which closes the monthly cycle.

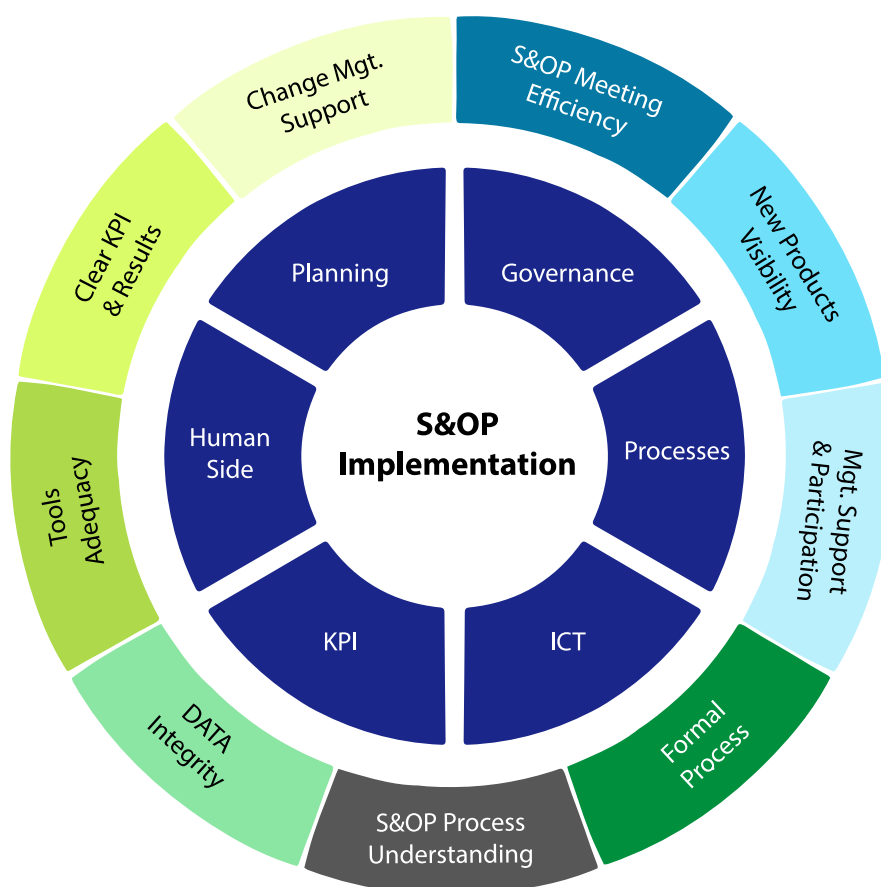
It should also be remembered that this process, a Best Practice for some years now, is fuelled by “aggregate” market demand, i.e. demand at product family or product group level rather than SKU level.



Implementation maturities

Like other planning processes, S&OP has different implementation maturities. When we go into a company to improve the planning system, the first thing we do is assess the S&OP in order to evaluate the gap compared with the TO BE situation. We do this employing a method that assesses its processes, expertise, technology and governance.

The graphic shows one of the models we used to map the challenges that needed addressing during an S&OP implementation project.



IBP, Integrated Business Planning, is the highest level of maturity of S&OP and involves an analysis of the effect of different scenarios on the financial aspect. Very few businesses in some countries have implemented IBP because achieving this advanced stage requires time, consolidated processes, systems and strong leadership. Nevertheless, we anticipate a growing demand for IBP implementations because analysing scenarios and translating them into economic/financial terms is becoming essential.



Getting S&OP/IBP to work

The key ingredients for getting it to work are the following, for which we have developed our own methodology:

a) Governance & Commitment

The process must be heavily sponsored by the Top Management: CEO, General Manager or BU Leader who must also play an active part in the process. S&OP is not a process that the Supply Chain Manager can perform on their own.

b) Single set of data

When we talk about forecasts, orders, new products and demonstrated production capacity, it is necessary to discuss and examine a single correct set of data (Master Data). This is one of the biggest challenges facing businesses.

c) Training and development of skills

It is necessary to invest in training programmes to create a common pool of expertise and to communicate the benefits of S&OP and how this process is connected with underlying planning levels (MPS and MRP), as well as the quality of the forecast and information from Marketing. This phase is necessary in any implementation. Some examples of the Training best in class on S&OP that we supply are the APICS, IBF certifications and customised courses for the customer, based on international BOK. After this it is time to move on to processes and systems.

d) Congruous, comprehensible and effective definition of product families

The choice should be made making sure that the question on families highlights the gaps of the plan in terms of capacity and critical resources.

e) Change Management

Communicating and raising awareness of the project and process are just as important. Implementing S&OP is a complex project that requires a Project Manager and a strong Sponsor but also across-the-board commitment. In the initial phase it can be very useful to carry out benchmarking visits of other businesses that have implemented S&OP in order to overcome any initial resistance as quickly as possible.

The importance of the planning Master Data

A special mention is reserved for the Master Data referred to in point b) illustrated above, which is key for correct planning.

As illustrated, planning data isn't always accurate. Many businesses don't invest enough in improving the quality of their data. For example, are the BOM correct? Are work cycles in line with reality? Are the demonstrated capacities of the scheduler realistic? Is the accuracy of the forecast monitored?

The accuracy of planning data can make the difference between the good and the poor execution over the following weeks of that which was established at S&OP level: inaccurate planning data can lead to the failure to meet company goals and this can result, for example, in very poor service levels, high levels of stock, costs relating to unused resources and reduced cash flow.

S&OP: Process output

The monthly plans produced in the S&OP cycle:

- ▶ **Pertain to all departments: e.g. Production, Sales, Marketing, HR, Finance, etc.**
- ▶ **Are integrated and realistic: for example, if the production plan involves stock building at a certain time of year, Finance must confirm that the necessary funds are available**
- ▶ **Represent the best forecast available at that time of the company's activities over a typical time horizon of 24 to 36 months**
- ▶ **Must be aligned with the goals of the Business/Strategy Plan (which typically has a time horizon of 3-5 years)**
- ▶ **Are approved by the department managers (e.g. the Vice Presidents)**

Sales & Operations Planning: Outlook

Below are the main messages from the Advance SC Solutions Webinar on S&OP held together with Oliver Wight:

- ▶ The climate of growing uncertainty and the strong variability in supply and demand are the “New Normal”. **It will be increasingly necessary to use S&OP and IBP to manage the Business and achieve its goals.**
- ▶ Systems will be more powerful and accessible to all companies, large and small, to support this process.
- ▶ There will continue to be the right mix of Push and Pull management in the company. There aren't any solutions which can be applied to all contexts and it will be necessary to evaluate the best solution or right mix of solutions case by case.
- ▶ Customer Lead Time will continue to shorten as has happened in recent years: new techniques are available to help cut Order Lead Times but they are highly unlikely to coincide. So, even if systems help in this direction, S&OP and the need to carry out medium and long-term planning will continue to be a key process.
- ▶ Leaders and Managers will increasingly be expected to think in terms of processes but also systems. It will no longer be possible to exclusively entrust IT with the task of deciding how company information will be managed in the future: this will be a strategic Business decision that involves other Leaders as well as IT.



Advance Supply Chain Solutions

Advance Supply Chain Solutions is the consultancy division of Advance, Premier Elite Partner of ASCM/APICS. It provides consultancy services in the Procurement, Supply Chain Management, Lean Six Sigma and DDMRP areas.

Advance SC Solutions' assessment and implementation method has allowed companies of various sizes and from different sectors to quickly improve their performance levels and reduce Supply Chain costs.

Reviews:

"We are delighted with how Advance is supporting us in the Procurement and S&OP areas. We are achieving excellent results thanks to their expertise and their effective approach, which has allowed us to involve the whole organisation."

Michele Storci, COO e CFO Atlantic Fluid Tech.

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