

Oliver Wight White Paper Series

Informative guides on
industry best practice

Sales & Operations Planning (Integrated Business Management) An Executive Level Synopsis

by George Palmatier

Oliver Wight consultants and educators have been helping clients prepare for and implement Sales & Operations Planning for many years. This synopsis is designed to help the people new to S&OP understand how it works and where it can benefit their company. It can help an executive manager or a new employee:

- To understand the role of an ongoing S&OP process where one already exists or
- To analyze the potential benefits where a new process is being considered.

Sales & Operations Planning (S&OP) is an Integrated Business Management process through which the executive team continually achieves focus and alignment between all the functions of the organization.

The S&OP/"IBM" process has evolved over the last 20 years from an industry best practice to an industry standard practice. The process has evolved from what was once known as production planning to a company-wide management process. Many companies have chosen to refer to the process as an Integrated Business Management process to differentiate it from earlier demand/supply review processes run mostly by middle managers.

Though S&OP is now an industry-standard practice, some companies execute the process very well and others less well. Research has shown that best-in-class processes yield considerably more benefits than laggardly processes. (ref. "The Sales and Operations Planning Benchmark Report: Leveraging S&OP for Competitive Advantage," The Aberdeen Group.)

Sales and Operations Planning is a significant contributor to improved company performance. In his presentation, "Demand-driven Supply Networks: Ideas and Innovations for Top-Line Revenue Growth," Kevin O'Meara, Senior Vice President of AMR, told his audience at the Stanford University symposium on Global Supply Chain Management that data supports the fact that S&OP is "the ultimate best practice."

The Aberdeen Group, in its report, "The Sales and Operations Planning Benchmark Report: Leveraging S&OP for Competitive Advantage," states that "Virtually all enterprises, irrespective of starting S&OP capabilities, size, and industry, generated improvement in key business performance with an S&OP program, sufficient to justify investment in these programs."

A properly implemented S&OP process routinely reviews customer demand and supply resources and "re-plans" quantitatively across an agreed-upon rolling horizon (typically 18 to 24 months). The re-planning process occurs at least monthly. Implemented correctly, the process focuses on change from the previously agreed-upon sales and operations plan. It helps the management team to understand how the company achieved its current level of performance but is primarily focused on future actions and anticipated results. The output of the S&OP process is a consensus on one set of operating numbers which the members of the executive team hold themselves accountable to execute. It includes an updated sales plan, production plan, inventory, customer lead time (backlog) plan, new product development plan, strategic initiative plan, and financial plan. Industry "best practices" are



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to conduct the S&OP process with open and honest communications and an agreement among the members of the management team that they will each “do what they say they are going to do.” Many companies use it to build and/or strengthen the company’s management team.

S&OP “best practices” include commitment to the process and active, disciplined, routine participation from all of the executive staff. They also include involvement of middle management through the “pre-S&OP” reviews of demand, supply, new product development, strategic initiatives, and finance/reconciliation. These reviews are typically held as individual steps prior to the formal executive Sales & Operations Planning meeting which is truly a Business Management Review meeting.

A key to a “best practice” S&OP process is that the process is demand driven. It starts with answering what is happening in our marketplace:

- What do our customers want to buy?
- What do we want to be prepared to sell?
- What are we committed to selling?

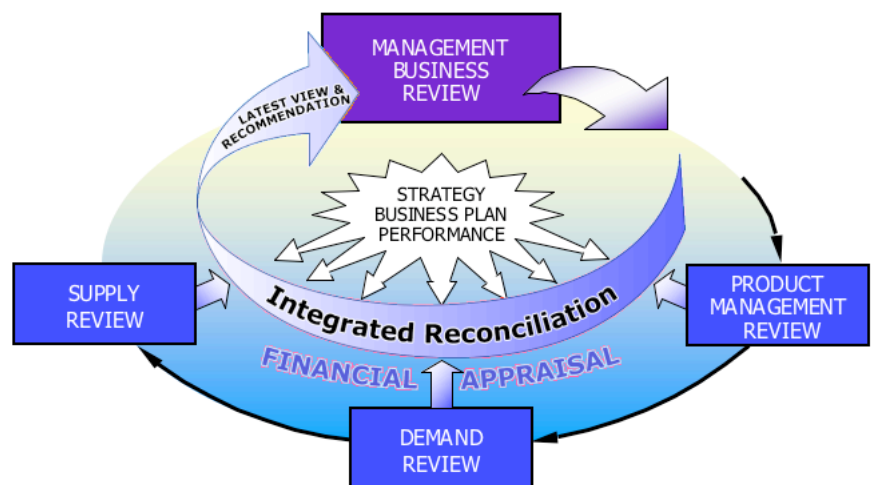
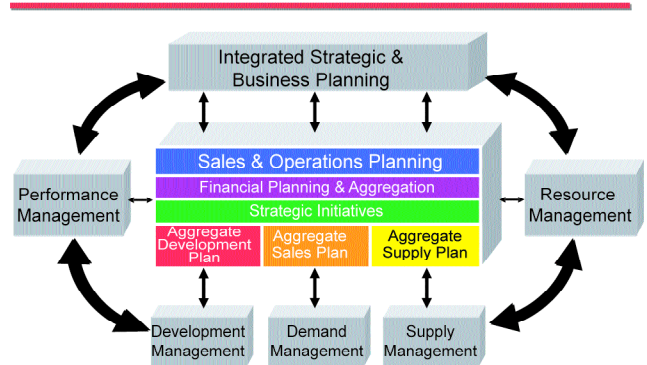
From this anticipated demand forecast, supply resource priorities and plans are developed. Conflicts are resolved in each S&OP monthly cycle. **Implementation of S&OP is often the result of companies recognizing that long-term market success requires more than just product leadership.**

As is pointed out in the book, *The Discipline of Market Leaders*, by Treacy and Wiersema, sustained market leadership is a result of focus on one of the three areas: product leadership, operational excellence, or customer intimacy. Through their research, the authors not only arrived at the above conclusion, but also identified that to focus in one area is necessary but not sufficient. Sustained market leadership requires at least competence in the other two areas. Sales & Operations Planning is key to ensuring that manufacturing and engineering companies will achieve competence in operational excellence.

It has been my experience that industrial companies tend to be product focused. When it becomes apparent that they have delivery, cost, quality, or new product problems, the successful companies strive to achieve operational excellence. As a company focuses on operational excellence, it becomes apparent that improved communications and visibility of anticipated demand will improve in all operational areas. Thus, Sales & Operations Planning is implemented, and the demand planning (forecasting) process is strengthened. This, in turn, leads to improved customer knowledge and moves the company toward customer intimacy. Improved customer intimacy then leads to improvements in the company’s offering, including new products. Done well, each of the focus areas – product leadership, operational excellence, and customer intimacy – feeds the others.

During implementation of S&OP, most likely the process will first uncover demand and supply misalignment. The early decisions to be made will center on balancing supplier resources with customer demand. Key in this rebalancing is whether to purposely decouple demand from supply. Simply stated, a company can produce with a different volume and timing than the demand is or will be received. This provides the supply side of the business with the ability to control its own destiny regarding manufacturing, engineering, and supplier efficiencies and costs. In decoupling demand and supply, the management team needs to decide for each product line what variable will be used to enable the decoupling. This results in decisions about whether to produce to inventory, to manage customer lead time (backlog), to cost-effectively flex capacity, or to restrict demand. In practice, a company will use a combination of these alternatives, and the decisions will vary with different business situations. Sales & Operations Planning, properly implemented, will make those decisions as overt choices by the management team based upon customer/marketplace needs, the manufacturing/supply cycle time, and the ease in which manufacturing, engineering, and suppliers can efficiently flex capacity.

S&OP Structure



By understanding what the marketplace requires for delivery lead time and how that lines up with the manufacturing cycle time, a company can determine “where it should meet the customer.” This evaluation determines whether a specific product line should be make-to-stock, make-to-order, finish-to-order, or engineer-to-order. Many companies fail to proactively choose resulting in customer delivery problems or in inventory and/or manufacturing costs running out of control. It is through this effort that postponement tactics are developed with consensus being achieved among the management team.

Once demand and supply are in balance, the next issue reveals that the most current Sales & Operations Plan is not in sync with a previously-communicated business or financial plan. The next decisions required are around reconciling current reality to previous financial commitments. What is required to fulfill previous financial performance promises? At a minimum, expectations may need to be changed.

After a company has progressed through the first two decision-making phases, it will begin to use the S&OP process to define and monitor company actions intended to close the gap between strategic goals and current reality. The S&OP process, coupled with long-range quantitative planning, provides the ability for the executive team to routinely manage the actions chosen to meet strategic goals.

Since S&OP is a monthly process, it provides a routine forum to monitor performance to strategic plans and helps ensure consistency across all functions in the implementation of strategic plans. It helps preclude a dysfunctional organization that can arise through lack of communication, understanding, or from lack of resources balanced to execute the plans. In short, it helps to ensure strategic goals are met. Some companies view the process as a synchronization process. Many larger companies benefit from Sales & Operations Planning because it replaces an often time-consuming, flawed annual business planning process. Since the planning horizon of S&OP is 18 to 24 months, the following fiscal year is already planned multiple times prior to committing to a financial plan. In essence, a flexible budgeting process replaces the annual budgeting process.

As a company implements the S&OP process, the executive team will realize that it provides visibility and regular communications to enable them to make the often difficult choices required to balance decisions affecting their “customers”: the buying customer, shareholders, and employees. Hewlett Packard used a triangular approach to communicate to new general managers. Each of the points of the triangle was labeled with one of the three primary “customers”. HP’s message was that the general manager lived inside the triangle and must constantly keep balance between the three. It is imperative that the general manager not consistently make one of the customers happy at the expense of the other two. Implemented in a “best practices” manner, Sales & Operations Planning is the general manager’s tool to enable that balance to occur.

A frequently-asked question that has to be answered in every S&OP implementation is: “What level of detail is required to be reviewed in the process?” “Best practice” has shown that the number of product families reviewed by the senior executive team should be limited to around ten. However, the pre-S&OP demand, supply, and financial reviews will usually be conducted at a subfamily level offering greater detail that may be required for understanding the mix of product demand and supply. Once the subfamily detail is completed in the pre-S&OP reviews, the information is aggregated into the product families for the executive review. If necessary, the executive team can look at the subfamily detail by exception.

Subfamily detail is all that is required to accomplish Sales & Operations Planning. Additional detail will be required for master scheduling. It is part of the demand management function and the master scheduling function to determine what level of detail is required. They will need to determine how the detailed information will be developed, how it will be communicated, and how it will be monitored to ensure it is sufficient for the master scheduling of company resources.

Oliver Wight has developed an Enterprise Sales & Operations Planning Tool designed to follow “best practices.”

It combines information, presentation, and aggregation with the ability to perform rough-cut capacity planning simulations. Once the template is populated, it provides the basic information necessary for a successful S&OP process. This Enterprise Sales & Operations Planning Tool is provided as part of our S&OP implementation services.



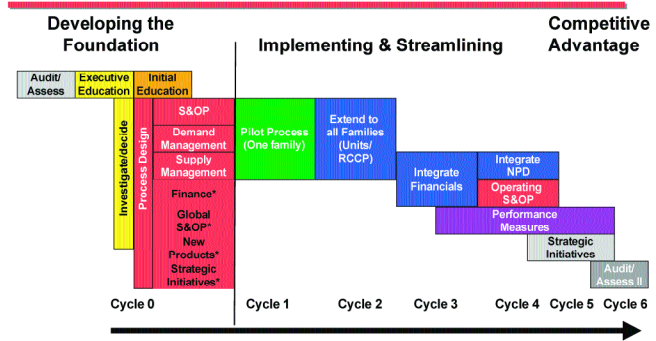
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A company should expect its S&OP process to be up and running within three cycles for a significant part of the business and will begin to realize benefits through the improved communications, problem solving, and problem prevention. It should be fully operational within six cycles. Oliver Wight's FasTrack S&OP program is specifically designed to minimize the time to benefit for a new S&OP installation.

Implementing Sales & Operations Planning



This synopsis has been developed to assist in executive communications. If you would like more information, please give us a call at: **1-800-258-3862** or email us at: info@oliverwight.com

Sales & Operations Planning is truly a disciplined communication and decision-making process. There is nothing magical about the process from a technical perspective. In fact, it is often referred to as "organized common sense." It is a logical, simple, but tremendously powerful process that brings with it the benefits of obtaining focus, alignment, and engagement by all the members of a company's management team. Synchronized, aligned, and Integrated Business Management is achieved through the implementation and operation of the Sales and Operations Planning process.



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