

# Next-Generation S&OP: Tracking the Evolution from Tactical to Strategic Operational Excellence

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## Best-Practice S&OP Approaches that Progressive Companies are Taking to Enhance Operations with Increased Visibility, Reduced Costs and Improved Business Performance



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**T**he concept of Sales & Operations Planning (S&OP) has been around for decades, primarily as a collaborative supply chain planning process designed to drive more accurate demand forecasts and align demand with production capabilities to ensure timely fulfillment of customer orders. Many manufacturers still adhere to that view.

Today, however, as companies face increased global competition and supply chain challenges, along with rising transportation costs and volatile economic and market conditions, a transformation of S&OP is occurring.

Many industry-leading manufacturers – as well as consumer goods distributors and their retail partners – have been working towards elevating their S&OP processes to an enterprise-wide global scale in order to enhance supply chain visibility, reduce costs and achieve more integrated business planning and management. As a result, businesses of all types and sizes are now discovering how this next generation of S&OP can actually become a mission-critical element of an integrated business management strategy.

### Traditional S&OP: Focused on Supply Chain Operations

S&OP, comprising a set of managerial tools and techniques used for manufacturing supply chain planning and control, has traditionally been viewed as a business process geared towards unifying plans across different internal functional departments. Its objective is to balance and synchronize supply and demand by reconciling predicted sales, or unconstrained demand forecasts, with supply plans in terms of volume, plant capacity, inventories, available labor, equipment and other constrained resources.

To maximize operational efficiency, traditional S&OP relies on coordinating planning efforts across multiple functional departments such as sales, marketing, distributors and business partners, customers and forecasters on the demand side, and inventory, procurement, plant management, production planners and schedulers on the supply side.

Many companies using S&OP typically perform this collaborative planning exercise on a relatively short-term basis – typically on a rolling monthly basis with a time horizon of at least three to 12 months. Planning may be done at a SKU- or item-level basis or may be done on an aggregated product-line level if the process is more strategic and has an executive-level review with time constraints. The goal of most S&OP initiatives to date has been purely tactical – namely, to achieve supply chain balance and operational excellence. For some, this goal has been realized; others have fallen short for a variety of reasons.



## Limitations of Tactical S&OP

One challenge facing companies seeking to support an S&OP process is a lack of advanced technology to drive process and workflow integration across the functional areas involved. A surprising number are still using PC desktop tools such as Excel or Access to manage their departments. Others have a virtual array of automated technology systems in place to manage various functions. Their internal and field sales organizations may use Customer Relationship Management (CRM) or Sales Force Automation (SFA), while production planners may use Enterprise Resource Planning (ERP) or Materials Resource Planning (MRP) applications. And their forecasting and demand planners may use any number of supply chain planning and supply chain management solutions.

Yet, without an enterprise-wide integrated information platform, this non-cohesive mix of data systems can lead to incorrect assumptions, not to mention the need to move and manipulate numbers between disparate systems – which can raise doubts about the accuracy and integrity of the data used to formulate the S&OP consensus plan.

Another major concern that has surfaced more recently around S&OP is its purely tactical near-term focus and disconnect from a company's overall business strategy,

which can result in missed opportunities. Too often, while the teams involved in creating S&OP plans are executing according to one set of numbers, corporate and financial management may be setting, expecting and communicating a completely different set of financial plans and projections to the board and other key stakeholders. Disparate plans that do not incorporate key functional and trading partner insights can create a credibility gap for a company and its key executives when performance falls short and customers are left unsatisfied.

A perfectly balanced unit-based supply and demand plan could achieve the key objectives of functional leaders from the demand and supply organization but could fail to deliver what the company has committed to the market and key stakeholders from a business plan perspective. This realization is the foundation for the transformation that is now occurring within the process.

Some enterprises struggle with achieving success with S&OP because of the coordination that involves multiple stakeholders across multiple organizations – operations, sales, marketing and finance, as well as outside trading partners – all of which must unify to determine a cohesive strategy. The path to the next-generation process will require key changes in behavior, process and tools to transition to higher levels of performance.

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## Next-Generation S&OP: Linking Operations to Business Performance

Industry analysts and leaders in the manufacturing, distribution and retail industries have come to recognize that the gaps that exist between tactical operations planning and strategic business management need to be reconciled if S&OP is to contribute to more profitable business performance. A few of the S&OP best practices that industry-leading firms have been implementing to pave the way to the new ideal of integrated business management include:

- 1 Leadership education, total involvement and accountability of senior financial and corporate management in driving the integration of S&OP with business management processes
- 2 Formalizing the new S&OP process and implementing a quantitative modeling “what-if” framework based on key performance indicators designed to make the decisions made within S&OP more optimal
- 3 Enhancing quantitative modeling with qualitative insights tied to each planning category including the assumptions, risks and opportunities associated with the plan
- 4 Adoption of advanced supply chain technology to ensure cohesive S&OP collaboration, with integrated workflow processes and the assurance of data accuracy and integrity
- 5 Leveraging an enterprise information technology platform, as well as advanced supply chain solutions and analysis capabilities to facilitate data flow and decision-making that enables alignment of the S&OP plan with the company’s financial goals
- 6 Coming to a consensus on a single operating plan that supports a company’s overall strategy and business plan – the detailed plans are integrated horizontally across business functions and vertically from strategy to execution
- 7 Focusing on continuous reconciliation, managing gaps and alternative scenario plans
- 8 Stronger financial modeling beyond the near-term to determine the optimal economic responses to changes in customer needs and demand
- 9 Global alignment across regions and operating divisions involving collaboration with key levels of management, sales and operations

When executed properly, the new S&OP paradigm will be a formal process led by senior management that, on a monthly basis, evaluates time-phased projections for new products, demand, supply and the resulting financials over a rolling timeframe ranging from 24 to 36 months. Aligning supply and demand helps ensure product availability with minimal waste and inefficiency. This process is designed to ensure that the plans in all functions and geographies are aligned with and support corporate or division strategy. Once a consensus is reached on a single operating plan, members of the executive and operational management teams hold themselves accountable for allocating critical resources to effectively and profitably meet customers’ needs.

## S&OP Best Practices: Creating Measurable Business Value

The key to driving S&OP benefits through the enterprise and bridging the gaps between the demand and supply side of manufacturing operations, logistics, purchasing and upstream suppliers is integrating financial profitability analysis at every step – with senior leadership responsible for setting the strategic direction of the firm.

The outputs of a well-executed, next-generation S&OP process enable not only the creation of successful demand forecasting and production plans that meet business objectives, but also help executives and functional managers build synchronized time-phased plans for sales, marketing, promotional, inventory management and purchasing activities, as well as optimal financial management strategies.

S&OP is applicable to all business enterprises. Nearly all companies – regardless of their industry, size and competencies – are capable of generating improvements in key business performance with a well-planned, strategic S&OP program.

The benefits of expanding and institutionalizing S&OP across the enterprise can be quite impressive. Measurable benefits typically include lower inventory and procurement expenses, reduced expediting and logistics costs, better forecast accuracy and more profitable production scheduling.

From a qualitative standpoint, next-generation S&OP benefits include increased supply chain visibility, improved customer service and a better balance between demand, capacity and profitability across the enterprise. Taken together, these factors add up to significant improvements in overall business performance. ■