

# Organized common sense

The final article in a three-part series on retail sales and operations planning shows the impact of retail S&OP on the retailer and the retailer's suppliers

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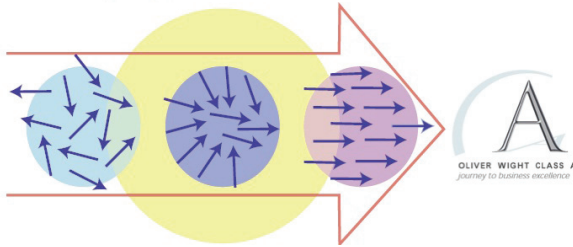
One of the greatest impacts on a best-in-class retail S&OP process is consistent with our observations of impacts on a best-in-class manufacturing S&OP process, and that is the elimination of “organizational silos” and the transparency of information visibility. S&OP is truly working and operating in an integrated business planning organization. As one executive told us: “There is no place to hide.”

Integration is the key word here. If all of our people, processes, and tools are integrated, we now can operate with more directional alignment. When we have trust in the S&OP process, we find ourselves strategically managing the company, versus living in a chaotic world of what appears to be constant firefighting. As the chart below illustrates, we are all either working in different directions, or we are going to collectively work in the same direction, which is our ultimate goal.





Excellence Requires Focus, Alignment, and Engagement of *Leadership, People, Processes, and Tools*



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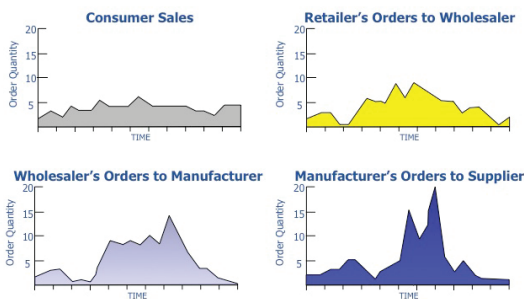
When we see that a retailer operates an efficient S&OP process and it is linked using CPFR to a supplier's S&OP process, the supply chain has made a dramatic transformation that not only has strategic benefits but has significant financial benefits as well.

### Smoothing the supply chain bullwhip

The supply chain bullwhip effect has been described in various forms over the past 50 years. We can trace it back to Jay Forrester, at MIT, discussing this effect of up-and-down order processing through the links of the supply chain, to Hau Lee, of Stanford University, showing a graphical representation of the bullwhip effect as seen below.

Why the bullwhip? It is normally the result of siloed processing, poor communication, and poor collaboration, internally as well as externally. We find that the order generation does not align to what the true consumer demand is for products, as illustrated below.

How much money could we make if we smooth the Retail Supply Chain Bullwhip

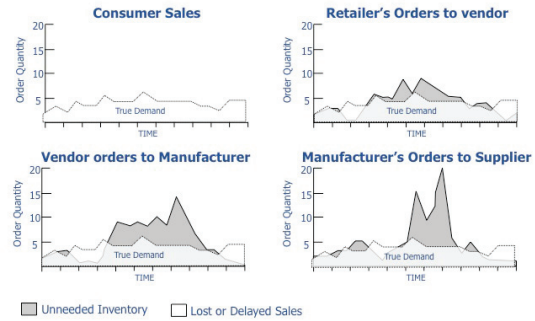


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As you can easily see by this illustration, with supply orders that are not aligned with true demand, the excessive cost in the supply chain can become astronomical. Thus, the bullwhip amplification gets worse further down the supply chain. The result; millions of dollars of wasted inventory, logistic expediting, stockouts, and inefficient manufacturing due to misalignment with what is truly needed in the supply chain.

Aligning Demand with Supply to smooth the Bullwhip Effect if we had S&OP talking to S&OP using CPFR



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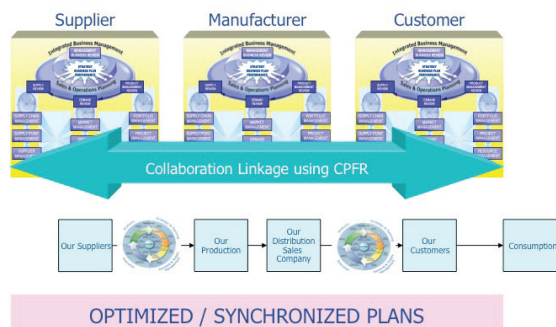
It is when we have the integration of the demand-driven retail S&OP strategic processes, that integrate and align with the execution of the demand-driven manufacturer/supplier S&OP process, that we can see a significant opportunity to "smooth the bullwhip effect" resulting in a significant financial benefit.

### The linking of retail S&OP and supplier S&OP using CPFR

As we discuss in the first article on retail S&OP, we can define S&OP as being an internal collaboration process and CPFR as an external collaboration process. Because both S&OP and CPFR are well-documented best practices for collaboration, CPFR becomes the perfect process, with the supporting collaborative tools, in which to link the retail S&OP process and the supplier S&OP processes as shown below.

With this linkage of S&OP to S&OP using CPFR, we do see a change in the planning horizons and the level of detail that we normally see in traditional CPFR trading

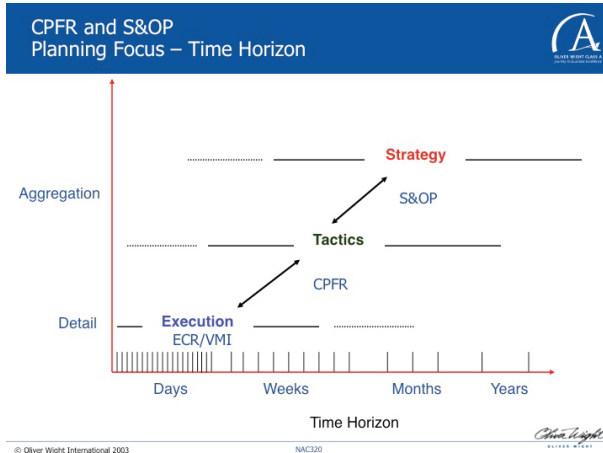
Extended Supply Chain S&OP with CPFR



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partner relationships. Most CPFR programs range from forecast collaboration at a stock-keeping unit (SKU) level, in weekly time horizons for the next 13 weeks, and perhaps monthly time horizons going out for the next 6 to 12 months. Whereas we have discussed earlier, traditional best-in-class S&OP processes are performed at a product family aggregate level, in monthly time periods, over a planning horizon of 24 months.



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- ▶ Integrate Your Internal Processes
- ▶ Implement Sales and Operations Planning and Planning and Control
- ▶ Develop Collaboration – Internal and External
- ▶ Become an Excellent Supplier and Customer

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What is advantageous about the CPFR industry guidelines is the flexibility to handle these differences. CPFR is able to provide for the external collaboration that supports both detail as well as aggregate levels of collaboration. The data sharing, at the different levels of collaboration, can easily be handled with today's CPFR technology. What changes is the level of collaboration using the longer-range strategic planning horizons. The collaboration tends to be in support of strategic alignment between trading partners as each develop future visions and strategies to execute these strategies in collaboration within the retail supply chain.

**What's next and what should you do about it?**

Hopefully by now, after reading all three of these articles on retail S&OP and the linkage using CPFR, you can see the importance and benefits that this industry transformation will have. Retailers are always on the prowl to lower costs, and suppliers are always on the defensive to maintain margins and profits. Yet we can all easily identify significant waste in the supply chain, both with our own internal supply chain as well as with the external supply chain.

The VICS CPFR working group is publishing a new set of CPFR guidelines that define what the best practices are in retail S&OP and the linkage of S&OP to S&OP using CPFR. We see that the industry gorillas, in both retail and retail suppliers, will quickly adopt these guidelines. The time is here for retailers and suppliers to take note and ensure they are not left behind on what logically makes sense to pursue.

So what should you do? The first thing to do is to get your own house in order by implementing a best-in-class

S&OP process. If you cannot collaborate well internally using S&OP, then collaborating externally will be hard to do. The greatest reason a CPFR program fails is due to lack of trust. Human behavior is the real cause for this concern and how it affects the integration and alignment of internal processes. Lacking trust in the data can also become an issue if there is a lack of proper collaboration to ensure it is as accurate as possible.

The second step you should take is to pilot CPFR, if you have not done so before, using the basic collaborative process, in an area such as sales and order forecasting. Some keys for a successful CPFR pilot are to keep the collaboration simple and to execute the pilot with a key trading partner that is willing to have a win/win collaborative partnership.

Finally, once your own house is in order and you have implemented a good S&OP process, and you now can collaborate in the extended supply chain using CPFR, you are ready to advance your collaboration to the strategic and executive-led levels of retail S&OP to supplier S&OP.

The benefits can be significant, and it is where the leading companies are migrating to next. This is what some may call "organized common sense." On one side, it can be easily seen as the right thing to do but hard to implement, as it deals with the breaking down of internal and external silos at all levels of the organization. It is for this reason that this is defined as a transformation of the retail supply chain, and for transformation to successfully occur, it begins with the vision and commitment from the executives of both organizations.

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