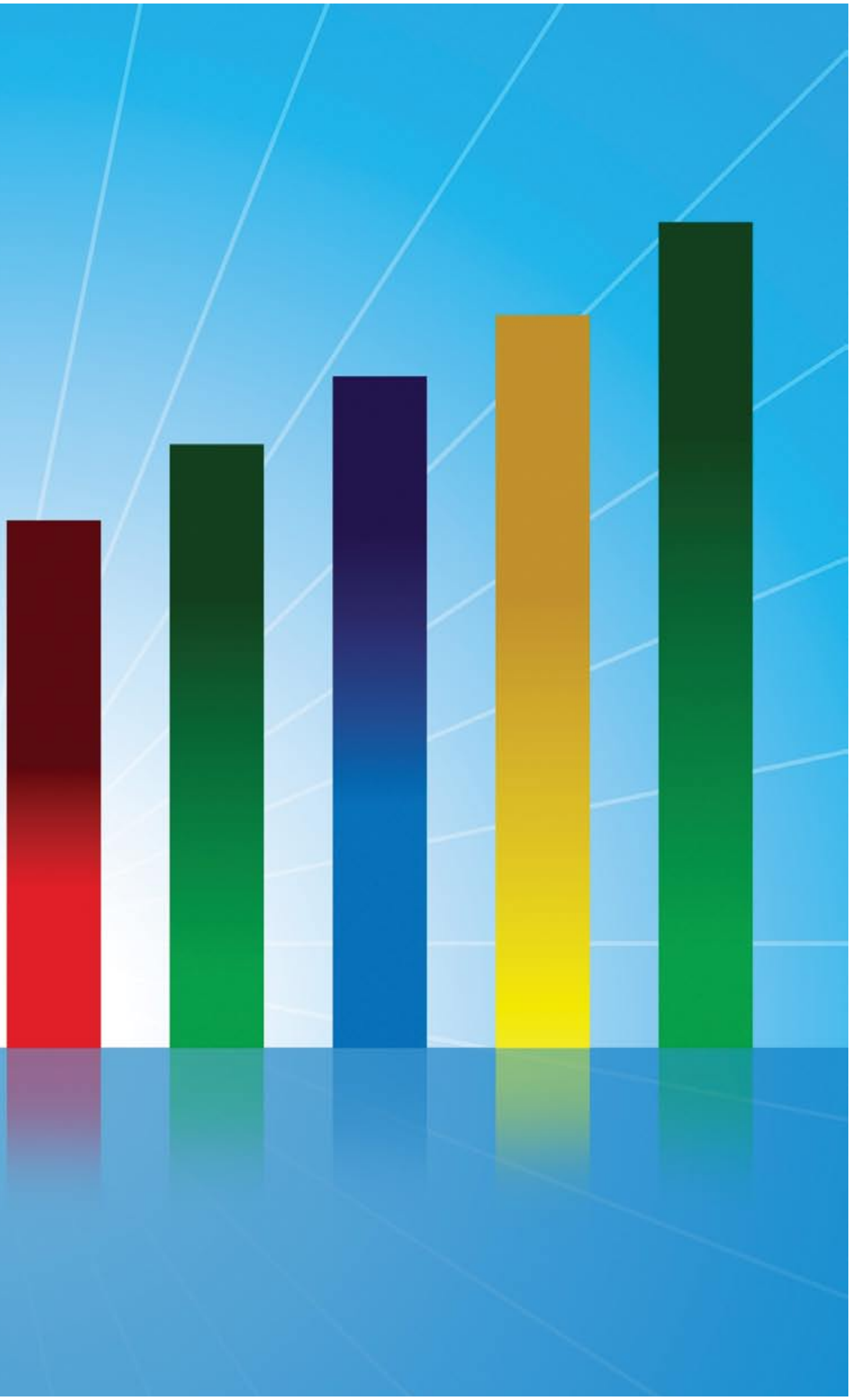
Integrated business management

In the first of a new series of articles on sales and operations planning, John Schorr argues that S&OP is much more than a tactical logistics and supply chain process; it's a way of managing the business as a whole



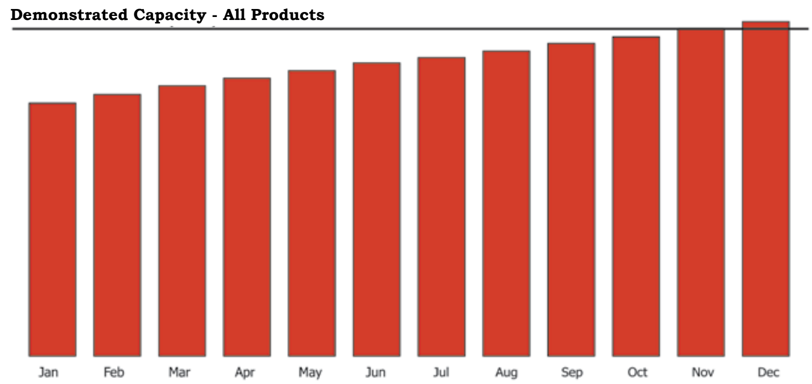
Over the years many companies have moved from disconnected management processes, with all their informality and fire-fighting activities, to having capable planning and control processes in place. This movement has allowed companies to improve their customer service, improve their inventory management, improve direct labor productivity, and lower purchasing costs. Surveys have shown dramatic results in companies that have achieved Class 'A' results. One of the keys to this improvement has been sales and operations planning (S&OP).

Sales and operations planning is an integrated business management process through which the executive/leadership team continually achieves focus, alignment and synchronization among all the functions of the organization. The monthly S&OP plan brings together all the plans for the business (customers, sales, marketing development, manufacturing, servicing, and financial) into an integrated set of plans. These plans are reviewed by senior management at an aggregate (product family) level and the output of the process is a definitive statement of what the company plans to do for the next 18 to 24 months.

Unfortunately, many companies today that have an S&OP process are not getting all the benefits they should because they undervalue the process and treat it as tactical supply and demand balancing only. They see it as a logistics and supply chain process to better manage inventory, production and the logistics functions of the business. In fact, sales and operations planning is much more than that.

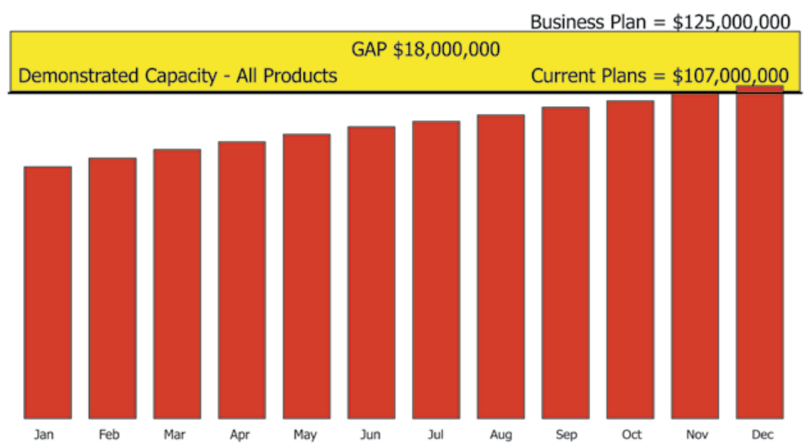
S&OP is a strategic process that talks about the gaps to the strategic plan, business plan, and performance metrics and develops scenarios to

Demand / Supply - All Products Total Revenue
Next 12 Months $107,000,000



© Oliver Wight Revenue Per Month **figure 1**

Demand / Supply - All Products Total Revenue
Next 12 Months $107,000,000



© Oliver Wight Revenue Per Month **figure 2**

fill those gaps. Let me give you an example of the difference between a tactical and a strategic S&OP process.

I was asked a few years ago to visit a company in Lincoln, Nebraska to assess its current S&OP process. I sat in on the demand review meeting and listened as the VP of sales laid out the demand plan for the next 12 months. The projections showed a steady growth in revenue month after month and the assumptions that were given backed up the growth. The VP of sales concluded that revenue would hit $107 million for the year. After a good discussion on the tactics and action plans behind that projection, everyone at the demand meeting agreed it was a valid demand plan.

The supply meeting followed a couple of days later, and after much discussion and review of alternate supply scenarios, it was agreed that only one work center was short of the required capacity to hit the demand plan. The addition of a $50,000 piece of equipment would resolve the problem and the money was available to buy the equipment. As a result, the supply plan was agreed. I then sat in on the finance meeting and after running a few financial scenarios, it was determined that costs were rising in a couple of areas. A study had already been completed showing that by off-shoring some products, costs could be kept below budget. Everyone agreed to recommend those products be produced in China. The S&OP packet was assembled for the S&OP executive meeting, reflecting the addition of a piece of equipment and the move of a few products to China. Tactically, everyone was happy.

Everyone attended the S&OP meeting and reviewed their plans and assumptions. They all told the president of the company how they were going to hit the $107 million demand plan and all agreed they had the business well under control. Their summary report looked like this:

Recommendations:

1. Add piece of equipment in month twelve.
2. Off-shore the production of product line A to reduce costs.

The president looked at them all in amazement and said the S&OP plan was unacceptable. Everyone was shocked; they had covered all the issues and had supply and demand in balance. The president identified the problem. "I have committed to the board of directors that we would hit $125 million in revenue this year and no one talked about how we will fill the $18 million dollar gap (see figure 2) between the business plan and the demand plan."

Sales and operations planning is all about how to hit the strategic plan, the business plan, and the performance metrics. The emphasis is on running the business as a

Integrated Business Managment - S&OP

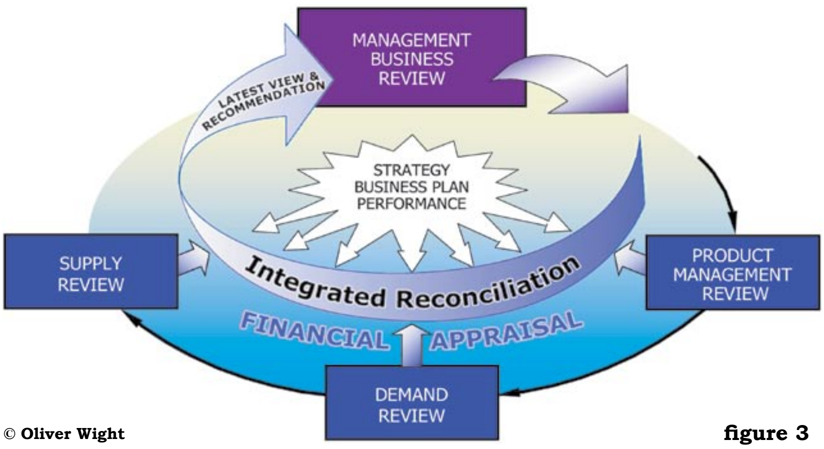


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figure 3

whole, and not individual tactical plans. The diagram below illustrates the integrated business management, sales & operation planning process. It is a five step process.

Step one is a product management review. This step includes a complete review of the product portfolio and includes new products, product changes, rationalization of products, as well as any 'new' activities which influence demand, supply, or the financials of the business. These new activities can range from company-wide initiatives to process/technology changes. The output of this step is a new activities plan which documents all the new products and new activities and the resources needed to implement those plans.

Step two is a demand review. This step includes a complete review of the demand for all the company's products, both new and existing. The output of this step is a timely, aggregate, unconstrained forecast with all the assumptions, action plans, opportunities, and vulnerabilities documented. This unconstrained demand plan becomes the basis for the integrated set of planning numbers.

Step three is a supply review. This step evaluates the supply side's ability to support the demand plan. This would include a review of the issues and options around the materials, capacity, hedging, flex potential, improvement plans, and seasonality patterns. Using rough cut capacity planning and demonstrated performance, the supply side determines if there are any issues with producing the demand plan. Where there are issues, the supply side develops alternative supply plans to resolve those issues. The outputs of this step are alternative supply plans and a proposed plan.

Step four in the process is the integrated reconciliation meeting. This step takes the plans developed in the first three steps, pulls them into an integrated business plan, develops a financial appraisal of those plans, identifies the gaps to the strategic plans, business plans, and performance metrics and recommends gap filling actions. The output of this step is the S&OP packet that goes to senior management at least 24 hours prior to the management review meeting and is used to facilitate the S&OP review.

Step five is the senior management business review meeting. The inputs to this meeting are the key performance indicators, business trends, major changes to the plan both internal and external, key issues to be reviewed and decisions required by family, and the latest view of the alignment of the business with both the strategic plan and annual business plan. The output of this meeting is agreement on an integrated set of numbers, a rolling business planning appraisal of the next 18 to 24 months, and valid performance measurements. If done correctly, the management business review meeting is senior management's handle on the business and gives them real management control over running the business.

Over the next five months, I will review each of these steps (new product, demand, supply, integrated reconciliation, and the business review meeting) and what is required to make the sales and operations planning process successful. Needless to say, if any of these steps are deficient it will reduce the effectiveness of the management review meeting and senior management's ability to run the business.

John E. Schorr, a principal with Oliver Wight, has been with the company since 1979. For several years, he served as president of Oliver Wight International. He is recognized as one of the leading experts in the areas of sales & operations planning (S&OP) and the interface of purchasing with ERP. Prior to joining Oliver Wight, John worked for two Class A companies and was involved in the implementation of MRP II at both: Haworth, where he was vice president of manufacturing, and Steelcase, one of the leading Class A users of MRP II, where he was director of purchasing. ■