Sales and operations planning (S&OP) is an integrated business management process through which the executive/leadership team continually achieves focus, alignment, and synchronization among all of 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 then 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 24 months.

Until now all the plans have been stated in units or rates of output. At what rate are we going to sell? At what rate are we going to manufacture? What are the resulting inventory levels or backlogs?

However, to be truly effective, these plans must be converted to the language of senior management—revenue, profit, costs, cash flow, and so forth. The integrated reconciliation review step converts the plans from units to dollars, from rates of output to profit and loss impact, from functional plans to the
enablement of effective business management decision making at the management business review meeting.

In this series we have described the first three steps of the sales and operations planning process (Figure 1): the product management review; the demand review; and the supply review. Each of the individual reviews was done within the functional area accountable, such as product development, sales and marketing, and manufacturing and supply chain.

In the integrated reconciliation review each of these functional perspectives is evaluated and considered before combining them into an integrated approach that will guide the business operation. During this review the issues from the first three steps of the S&OP process are identified, a financial appraisal of the functional plans is developed, the gaps to the strategic plans, business plans, and performance goals are documented, various scenarios are created around those issues/gaps, and assembled into the S&OP packet.

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There are essentially two key parts to this step: the financial appraisal and the integrated reconciliation. Financial appraisal begins with a financial evaluation of the plans from steps one through three (product, demand, supply) and a projection of the cash flow based on those plans. The financial assumptions are documented (future product mix, currency rates, customer mix, average selling prices, etc.), from which a “rough cut” financial plan is developed for the business.

That rough cut financial plan is then compared to actual financial results to test the reasonableness of the projected financial plan. Once the financial plan is considered “reasonable”, the financials are then forecast for the next 24 months. Ultimately, the goal for this financial appraisal is to forecast, on a monthly basis, a full profit and loss statement.
for the upcoming 24 months.

This financial appraisal will require an integrated view from demand, supply and finance. For example, the average selling price needs to be forecast for each family and sub-family over the planning horizon. This price forecast is provided as an output of the demand review, and must take into account as cash flow plans generated from the operational plans. The financial data in this step converts the plans developed in steps one through three from units to dollars and allows senior management to better understand the impact of the plan on the profit and loss statement of the business.

Once the financial evaluation is complete, the issues arising from steps one through three and the performance metrics of the business. A gap analysis is then performed where there are shortfalls to the business and strategic plans or a performance metric such as EBITA (earnings before interest, tax and amortization).

The individuals accountable for this step discuss the issues and gaps and create alternative solutions to resolve these issues and gaps. The integration reconciliation team then develops recommendations on the selection of the right alternative (or alternatives if there are valid scenarios around the issue or gaps) and fully costs and evaluates those alternatives. Once all the appropriate information is gathered, the group prepares the “S&OP packet” that is sent, at least 24 hours in advance, to the attendees of the management business review (MBR) meeting.

There are some companywide projects or initiatives that do not naturally fit into the first three S&OP steps (product, demand, and supply). These projects are coordinated through the integrated reconciliation step. The integrated reconciliation team will communicate the impact of these projects or initiatives on common resources to the other process steps and recommend priorities for those projects. The senior management team will establish the overall priorities for these projects.

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I was recently in a company that had 42 number one projects, many of which required the same resources to develop, manage, and implement. At best, companies can accomplish four or five major initiatives in a year. That’s why management must set the priorities and provide the resources for only a few critical initiatives in order for them to be delivered complete and on time. The initiatives, projects, resource requirements, schedules, and priorities all are included in the S&OP packet for management’s review, action and approval.

The integrated reconciliation review meeting follows the supply review meeting by a couple of days. The inputs for the integrated reconciliation review meeting include the issues raised from the product management, demand, and supply meetings, the financial evaluation of the new plans and changes to the plan from the previous month, and the alternative proposals developed in the product, demand, and supply steps (figure 2).

The integrated reconciliation meeting of the sales and operations planning process develops the financial evaluation of the plans, identifies the gaps to the strategic and business plans, develops scenarios around those gaps, and publishes the S&OP packet that will be used in the management review meeting.

The S&OP packet is a critical component and requires some explanation. The packet contains the essential management information required for decision making. It is not a spreadsheet data dump but rather a packet of visual information that clearly spells out the issues and frames the decisions required (figure 3).

The packet typically contains a KPI dashboard that provides management with a quick visual indication of business performance. Also in the packet is the documentation of a family-by-family summary of the trends, changes, assumptions, financial impacts of the changes, and appropriate recommendations. Gaps to the business and strategic plans are visually displayed with the supporting information documented as well as the recommended actions noted. The packet outputs in figure 3 are from the Oliver Wight ESOPT presentation tool, and will be discussed in greater detail in the next article of the S&OP series.

Experience has shown that where the sales and operations planning process is viable and effective, companies have named an S&OP coordinator to manage the process and the data. In effect, this person acts as the quality assurance manager for the S&OP process.

The S&OP coordinator orchestrates the integrated reconciliation meeting, oversees the issue resolution process, and liaises closely with the coordinators and owners of each step of the S&OP process. The coordinator selects the integrated reconciliation issues, facilitates the appropriate players to develop scenarios that re-optimize the business and develops gap closing solutions. He/she orchestrates the discussions, both one-on-one and in small groups, and coordinates the development of the agenda for the senior management meeting to ensure an integrated and seamless process. This individual requires a broad-based experience (exposure to multiple aspects of the business) and must view issues from a “business” perspective.

The sixth and final article in the S&OP series will address the management business review meeting.

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