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Sales and Operations Planning: Bringing Order Out of Chaos

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The Sales and Operations Planning (S&OP) process is not new or unknown to any company. Even companies that don't have a formal S&OP process probably have an informal or ad hoc S&OP process, because this is where the supply and demand alignment decisions are made.

The Bottom Line: An ad hoc S&OP process is neither efficient nor scalable, nor does it lend itself to making the best decisions. Companies need a formal, enterprise-level process supported with scalable technology to compete.

S&OP is gaining importance

As companies come out of the last downturn, S&OP is steadily gaining recognition and momentum. Focus has shifted from cost containment to growth, capacities are getting scarce, and in some industries, like High-Tech, component prices are starting to stabilize and creep up. Industries are now moving from a demand-constrained economy as initial signs of supply constraints appear. As a result, companies are forced to take a more balanced view of demand and supply. **The Takeaway:** The only enterprise process that balances the supply- and demand-side equation optimally is S&OP. In fact, a formal well-executed S&OP process was identified as one of the top practices of performance leaders in AMR Research's studies.

Technology is necessary for a scalable process

As product lines expand and manufacturing capacities get distributed, informal and manual S&OP fails miserably with disastrous results. One food manufacturer found itself strapped with several months' worth of a product that had a shelf life of only a few weeks.

Even for companies that execute formal S&OP, it becomes extremely necessary to have the right technology to support timely, accurate, and collaborative execution of the process.

Here are some functional capabilities that an application should allow:

- A single repository of numbers
- Views across multiple hierarchies
- Capabilities to roll up or roll down across different hierarchies
- Scenario planning and collaboration workflow

The Takeaway: Several vendors have products, but companies still need to implement the process across multiple functional groups for it to be useful.

Companies are also realizing that even in fast execution mode, a forward-looking alignment process that lets them create the supply flexibility (capacity or component inventory) is necessary for forming flexible capabilities within which the execution can operate.

S&OP is all about collaboration and consensus. Although it balances the demand and supply side as a primary goal, it is not only about the demand and supply alignment. Typically, S&OP will involve operations, sales, marketing, finance, and product development groups so that product transitions and phaseouts as well as financial implications such as revenue targets, profitability goals, and inventory investments could be planned. The biggest benefit is derived from a plan that everyone in the enterprise understands and signs on to follow.

Recommendations

- Establish a formal S&OP process that will incorporate all of the functional inputs mentioned above.
- Use adequate application support to ensure accuracy and frequent execution of the process.

- Use the collaborative toolsets and scenario planning to build consensus and agreements.
- Align the execution to S&OP plan and monitor the execution in the next cycle of S&OP.

Proper adoption and execution of S&OP has shown great returns in many areas, such as reduced inventories, improved revenue, higher service levels, and improved returns on assets, resulting in improving growth and profitability.

S&OP is one of the core processes that is incorporated into the Demand-Driven Supply Network (DDSN) capability model (see the *AMR Research Report* "Demand-Driven Supply Network: Striving for Demand Transparency," January 2004). AMR Research has future research planned on the S&OP process and its adoption. If you would like to participate in it or have any comments or suggestions, please feel to contact me at vasgekar@amrresearch.com or Marc McCluskey at mmccluskey@amrresearch.com.