

SALES & OPERATION PLANNING: MANAGEMENT'S CONTROL LEVER

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Abstract

A lot of consultancy work is with organisations that are “getting over” a prior misunderstanding about what a management process like Sales & Operations Planning can and should do for them. Indeed, this term means many different things to different people. The tragedy is that, whatever the label, there are so many organisations that do not know what they are missing. A checklist is provided to assess the management process.

บทคัดย่อ

หลาย ๆ งานในฐานะที่ปรึกษาขององค์กร คือการจัดการกับความเข้าใจผิด เกี่ยวกับกระบวนการจัดการอย่าง Sales & Operations Planning ว่าสามารถทำและควรจะทำอะไรให้องค์กรได้ ในความเป็นจริงคำๆ นี้มีความหมายที่แตกต่างกันไปตามแต่คนจะให้คำจำกัดความ แต่ไม่ว่าจะใช้คำศัพท์อะไรมาเรียก สิ่งที่น่าเศร้าคือว่ายังมีองค์กรอีกมากที่ยังไม่รู้ว่าคุณเองขาดอะไรไป งานเขียนชิ้นนี้มีการให้รายการตรวจสอบเพื่อประเมินกระบวนการจัดการ

INTRODUCTION

A lot of consultancy work is with organisations that are “getting over” a prior misunderstanding about what a management process like Sales & Operations Planning can and should do for them. Indeed, this term means many different things to different people. The tragedy is that, whatever the label, there are so many organisations that do not know what they are missing. A checklist is provided to assess the management process.

“Sales & Operations Planning (S&OP) is a process that provides management the ability to strategically direct their businesses to competitive advantage on a continual basis by

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integrating customer-focused marketing plans for new and existing products with the management of the supply chain” (APICS Dictionary, 8th Edition).

S&OP is not intended to be only a mid-management level meeting with a very basic objective of balancing sales and supply projections, of great importance to the supply chain.

We are regularly confronted by people who figure that their management process is up to scratch. However, in most cases, we find that it is not. So, how can one tell? Well, following is the sort of check-up check-list that one can use:

1. Your Company’s Operating Plan.

Which individual operating plans are formally maintained and used in your business:

- Marketing plans - customer focused for new and existing products
- Sales plans - forecast of sales (bookings and/or shipments)
- Development plans - new product and major existing product extension availability
- Manufacturing plans - production, capacity and inventory
- Sourcing plans - capacity, material, and product
- Financial plans - strategic, annual business, budgets

These are the components of your company’s operating plan. Are they synchronized (integrated); do the numbers tie up across the different plans? Are they reviewed and updated on a regular cycle? These are important roles of Sales and Operations Planning.

2. Sales & Operations Planning S&OP is not an easy task. Sales, marketing, development, manufacturing, sourcing, and financial planning cycles and plans reflect their own levels of detail, time cycles, and measurements. S&OP processes can be confounded by conflicting objectives, personalities, and lack of cooperation across departmental boundaries that have evolved over a long period of time. Key to overcoming these obstacles is the top manager providing strong leadership, a vision for the business, and making that vision happen via enthusiastic participation in managing the business based on facts.

3. Level of Detail Needed The S&OP planning horizon must be sufficient to plan for resources as well as support the annual business planning process. The plans are developed in terms that reflect both manufacturing product/process families and marketing groupings. Each family has an appropriate unit of measure which can be translated into financial terms.

4. **Performance Data** Typically, a limited but very valuable three months of historical planning and performance data is made available for each family. This data is important for validating and challenging the commitments made when developing a new plan.
5. **Sales Plan (Forecast)** This is a demand forecast. Data is a combination of booked orders and a forecast of new sales (shipments) presented in units. Other expressions of the data could include converting it to average selling price, standard cost, yards, pounds... whatever facilitates communicating customer demand in a meaningful way to all operating participants.

There must be consistency between the aggregate and detail forecasts. There needs to be a mechanism that adds up the detailed item sales plans into their respective families and compares the two sets of data for agreement within tolerance.

6. **Inventory Plan or Backlog Package** In a make-to-stock family of products, the inventory plan is calculated by taking the starting inventory position and reconciling the sales and production plans month by month. The S&OP process is used to review and approve the resultant inventory plan and/or suggest changes.

For make-to-order, the backlog plan should be calculated from the system taking the starting back-log position and reconciling the sales and production plans month by month. As with the inventory plan, the S&OP process is used to review and approve the resultant backlog plan and/or suggest changes.

7. **S&OP Process Steps** S&OP is typically done on a monthly cycle. There are a series of steps in a pre-S&OP process where participants use functional meetings to prepare for the S&OP approval meeting. These meetings involve management who are concerned with finance, sales, marketing, product development, and manufacturing to review alternatives and strive for consensus. All significant changes to existing plans are communicated and reconciled. Sales, product development, production, and inventory/backlog plans are updated in these discussions. The production plan is balanced to support the sales plan. Rough-cut capacity planning is used to compare required and demonstrated capacities for each S&OP family.

The S&OP approval meeting (often called the Management Business Review) culminates the monthly process. An agreed-upon sales and production plan with resultant inventory and/or backlog plans for each S&OP family is the principal outcome of the process.

8. **Who Should Participate?** The general manager leads the S&OP meeting. Top

operating management who are concerned with sales, marketing, product development, finance, and manufacturing, at a minimum, attend the S&OP meeting and lead the pre-S&OP process.

Sales and marketing participation is critical. If your strategies start with objectives for supporting demands from your customers, they are an integral part of determining these strategies and, therefore, their input is an integral part of the regular review process that updates those strategies as well as the sales plans.

Product development must provide current information for new product and major product enhancement projects, especially if time-to-market and product life cycles are critical to servicing your customers.

Finance must provide input with respect to the projected financial impact of changes to the sales, production, and product development plans.

Manufacturing must accept the responsibility to meet the proposed production plan. Consistency in achieving the production plan requires that effective material and capacity planning and control processes be in place.

9. **Get S&OP Going** How effective are your sales and operations planning processes? The initial reaction we frequently get from top operating management; “We already do most of what you are calling S&OP”. If you evaluated what you “already do”, would you find a great deal of informality and/or limited and poorly-integrated facts to base inventory and capacity decisions on? That’s what we typically find if a well-designed, formal S&OP process isn’t in use.

It will take three to six months to implement a formal Sales & Operations Planning process. It can take longer waiting until “all” of the data and reports are available before getting started. Don’t wait; the first meeting should be a brain-storming session. Issues that are typically discussed include:

- It seems too complicated ... why do we need to do this?
- Isn’t it just another meeting?
- Do we understand S&OP?
- What data is needed?
- How long it will take to prepare the data?
- Who is going to do it?
- What are the pre-S&OP steps?
- Whose (S&OP) meeting is it?
- Who sets the agenda?
- Who should be in the meetings?

- What happens if we miss the S&OP meeting?
- How often should we do S&OP?

Continue to build on the process through a candid critique after each meeting. Focus on future issues that can be solved. Participants must come prepared having taken action on open issues from previous S&OP meetings and be readily accountable for any additional action items in their areas of responsibility. Be pro-active to improve the process.

10. Symptoms of S&OP Faltering Companies that are doing S&OP effectively will tell you they couldn't go back to the "old way". They have found that S&OP is a team builder for management because it has them consistently focused on anticipating and solving problems before they become a crisis. Typically, this doesn't happen without overcoming a number of stumbling blocks.

The following are serious symptoms of S&OP faltering:

- Anyone is rightfully criticizing it as a "pick-on-us" meeting ... finger pointing!
- The general manager or other key managers are consistently absent ... not a key management process!
- The meeting time is spent discussing poor performance leaving little, if any, time spent on future plans/issues ... poor meeting management.
- Heated exchanges occur across departmental boundaries ... silos and personality conflicts!
- The data is found to be consistently in error or unavailable ...poor systems!

We love this quote: "... Whenever we have an opportunity to sit in on a Sales & Operations Planning meeting, we can quickly judge its effectiveness; it is always very apparent, as well as impressive, when a group of individuals works as a confident team. Three ingredients generate such meetings: timely and accurate data, the right attitude, and a correct understanding of the process". (*Orchestrating Success, Richard C. Ling and Walter E. Goddard*).

We see two types of top management approaches in our experience, those who view proactive inventory and capacity strategy development and management as key management tasks and regularly address them. These management teams invariably have effective S&OP processes in place and in use.

On the other hand, we more often see others where top management reacts from crisis to crisis. These companies rarely have adequate S&OP mechanisms.