BEDFORD Consulting

Sales & Operations Planning (S&OP)

Why it should be at the heart of your scenario planning

Anaplan Partner

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An effective S&OP function is essential to thrive in today's operating environment

Sales and operations planning, often abbreviated to S&OP, is the cross-functional process of assessing customer buying habits to ensure the organisation's able to meet the forecasted production, distribution, and purchasing demands required of it. And, never has it played a more vital role.

Increasing disruption in the business environment has created an urgent opportunity for S&OP to expand its role. Uncertainty makes high-functioning agility and integrated business planning essential to success.

"S&OP is the single most important and critical cross-functional process. If S&OP is done properly, it leads to significant returns, including increased revenue and profitability."

Micheal Youssef, Senior Director Analyst, Gartner[1]

Though sales and operations planning (S&OP) originally aspired to bring business functions together for a more collaborative approach to business planning, today's S&OP is most often used to address gaps between supply and demand. It can and should do much more.

Some key benefits of S&OP:

- Increased transparency and collaboration between departments
- Informed decision making about a product's demand and supply
- Agreement across teams on short- and long-term goals
- Improved sales forecasting and budgeting
- A clearer understanding of a product's lifecycle
- Improved resource planning

In an era where ecommerce and omnichannel fulfilment are pushing companies across many industries to develop logistics and supply chain management processes that move at 'digital speeds', the globalisation of the business world introduces a new set of problems such as higher risk, longer lead times, and less inventory. As more companies get involved with these global networks, the more complex those networks become.

S&OP is most often used to address gaps between supply and demand. It can and should do much more.

1 Gartner

Six phases of S&OP

All companies plan, but not all companies plan well. One key area that sets organisations apart from the rest is a connected, comprehensive approach to sales and operations planning (S&OP).

S&OP is a monthly integrated business management process that empowers leadership to focus on key supply chain drivers, including sales, marketing, demand management, production, inventory management, and new product introduction.

The six phases of S&OP are product review, demand review, supply review, finance review, pre-S&OP, and executive S&OP. Without all of the steps in place, the process will likely falter.

Each phase needs the others for the process, as a whole, to thrive.

The six phases of next-generation S&OP

Product Review
Goal: Product planning decisions

Demand Review
Goal: Consensus demand plan

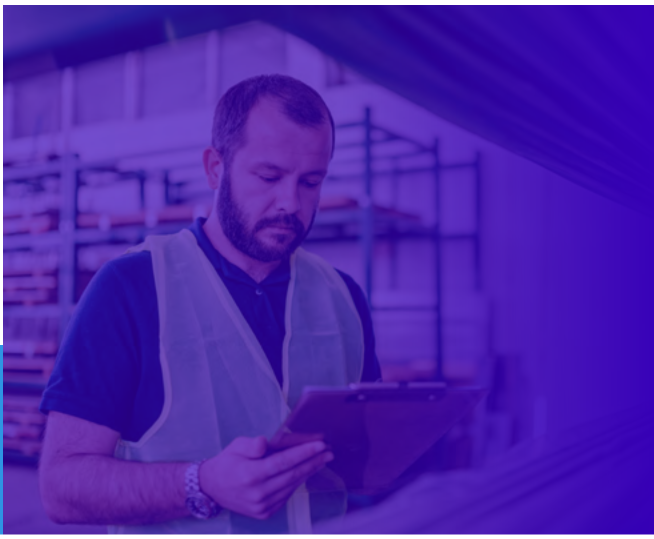
Supply Review
Goal: Supply plan sync with demand plan

Finance Review
Goal: Baselines to adjust other plans

Pre-S&OP
Goal: Find gaps and disconnects, determine how to fix them

Executive S&OP
Goal: Well-informed executive decisions based on all the data

There are varying opinions on the exact order of the steps, but their effect on each other remains the same. For example, the output of product review feeds into demand review, and demand review flows into supply review. Finance review often brings adjustments to supply, demand, and product reviews, and sets up inputs for pre-S&OP and executive S&OP.



S&OP is perfectly positioned to align different functions behind a common plan.

1. Product review

In the first phase, planners involved in R&D, product development, and new product introduction analyse the health of products in the market, examine product pipelines, and arrive at decisions about product planning. For example, setting dates for new production or sunsetting to determine project prioritisation and resource allocation. Other options may include the impact on existing products when a new product is introduced, also known as cannibalization, or supersession. Input from many departments are needed to combine into one easily accessible plan.

2. Demand review

The goal of this phase is a consensus demand plan, incorporating a holistic picture of independent and dependent demand, including factors such as marketing, new product introduction, consumer trends, product hierarchy, and interplant part demand. The consensus demand plan is based on a combination of sales, marketing, and product plans (measured either in units or revenue). Statistical forecasting is combined with input from customers and marketing plans to estimate, refine, and arrive at a consensus plan. Historic performance should be factored, and compared to the results of the finance review to find any revenue or demand gaps.

3. Supply review

The supply plan should balance customer service and minimise inventory as well as operating costs, while syncing with the consensus demand plan, ensuring they work in unison. A baseline production plan and rough-cut capacity plan are developed, along with alternate supply plans that factor in capacity and demand variations. 'What-if' scenarios play a key role in this phase and should vary from more tactical 'what-if' questions to longer-term scenarios. Examples include inventory or workforce re-balancing, onboarding a new supplier, new capacity, or workforce training. Ideally, as these scenarios develop, they're connected to budgetary needs so financial risk projections can be made.

4. Finance review

In this phase, financial performance for the previous month is consolidated to provide inputs for analysing the current month's S&OP cycle, and produce a set of baselines that then become adjustments to product, demand, and supply review, along with input used in pre-S&OP and executive S&OP reviews. Finance owns this process, and it can include different categories or views, including product, geography, customer, and channel. Actual costs are compared with budgets and forecasts to analyse forecast accuracy over a rolling time frame. A connected approach to S&OP means that no matter where this step in the process falls, financial analysis plays a key role in producing inputs into pre-S&OP and executive S&OP.

5. Pre-S&OP

Pre-S&OP is a series of meetings conducted with leaders at various levels that showcase the connectivity of plans across product, demand, supply, and finance. This enables leaders to identify key gaps and disconnects and create strategies to handle those issues. The plans are reviewed in shared dashboards and actual vs. variance is analysed, keeping targets and budgets in mind. Metrics like revenue, profit, and inventory are analysed by both rolling up to the corporate level and down to the product-line level to gain an understanding of the financial and operational implications of decisions. Adjustments to the product, demand, and supply plans are made in real-time.

6. Executive S&OP

The final phase of S&OP brings all plans and data together to be used in executive S&OP meetings. What-if scenarios and the associated risks are reviewed, and decision points are noted so leadership knows when they'll need to make the appropriate choices. Any key decisions that weren't resolved in the first five phases are addressed in this phase, the reasons for escalation are examined, and decision deadlines are set. The goal of executive S&OP is to generate a final, aggregated plan that's sent to cross-functional owners and distributed downstream to all affected areas.

Growing uncertainty in the business environment presents an opportunity for businesses to get back to the original goals of S&OP: Bring siloed business functions together to anticipate change and build on each other's efforts to drive growth.

Practical tips for improving your S&OP process

The S&OP process frequently can be challenging to supply chain planning leaders. It's crucial to business success, but rarely delivers on its full potential.

That's because it relies - more than any other supply chain process - on people from functions outside the supply chain recognising and addressing the interdependencies between projects, product launches and phase-outs, and all the other things that make up an organisation's business. By expanding the scope and mandate of S&OP, enterprises can access a powerful engine for aligning the organisation, making good business decisions (not just good supply chain decisions), and achieving broader business objectives, especially increased revenue.

1 Align to business objectives

Planners must use forecasts to find pathways that guide the business to where it wants to go, not only plotting the best route, but also foreseeing potential blockers and how to navigate them.

They should include real-time visibility and the early identification and rapid resolution of exceptions (ideally before they have an impact on customers or finances). To create an effective S&OP process, it's important to limit the scope and focus on how the planning process can support the organisation's highest priorities.

This works best when a top-down approach is combined with a bottom-up approach for example, identifying the outcomes will deliver based on the priorities of the C-suite, as well as solving any operational issues.

2 Key stakeholders make all the differnce

The S&OP planning efforts will only be successful if company leaders buy-in and lead the charge. Without executives, the process will get bogged down as lower-level employees continually seek approval. Bring key stakeholders into the S&OP process to align planning across the business, build consensus, and execute decisions quickly. Involve planning leaders from across all functions - operational, finance (back office), and commercial (front office) - to solve problems and recognise opportunities.

Empower planners to make decisions on the cutting edge of the business, rather than in slow, centralized planning cycles. In a business environment that's changing as fast as it is today, slowing down means getting left behind.

3 Make decisions using accurate, updated data

Organisations will have a hard time making optimal decisions based on corrupt, outdated data, especially when those decisions will have a far-reaching effect on the business.

Collaborate with partners, customers, and suppliers to share information and build a more complete picture of the marketplace. External insights and perspectives can help round out the organisation's view of what's happening in the market, supply chain, and business environment, particularly in a crisis.

Including additional external data beyond your network of customers, suppliers, and partners can help leaders assess fast-changing situations and add nuance to analytics and scenario planning.

Bring key stakeholders into the S&OP process to align planning across the entire business.

4 Get on the right dashboard

Putting the right KPIs and metrics into place is a giant step toward S&OP success. Meaningful, shared dashboards are the backbone of next generation S&OP. Unless planners from sales, finance, supply chain, and beyond are seeing the same data at the same time, the process is hampered.

Once the KPIs and metrics are established, it's easier to manage improvement, participation, and accuracy. It's also important to understand and agree on what your assumptions and drivers are.

Dashboards on a cloud-based platform give users always-on access that inform worldwide processes and provide an easily accessible information source when you need to present findings to executives.

5 Plan for the unknown

Explore options with robust analytics and scenario planning to calculate the impact on the business in real time, supported by empowered planners who are able to make decisions quickly in times of crisis. While analysis offers insights, the planners have the experience to make informed decisions when it counts.

For instance, an organisation may be considering two alternatives such as geographical expansion versus a new target segment of customers within an existing geographical region.

By using scenario planning, the leadership team, are able to assess the impact of the scenarios covering all potential outcomes and risks associated.

6 Collaborate with finance

Finance is a critical piece of successful S&OP given today's accelerated pace of business. Run S&OP in tandem with financial planning, not sequentially, to make financial implications clear in real time, allowing you to take action to address gaps in the plan while there is still time to do so. And, with so many moving parts, it's essential to focus on the changes that will make the biggest difference. S&OP should be positioned alongside key financial planning processes and not just trued up on a monthly and quarterly basis.

7 Take action to drive demand

Planners should take a business-level perspective, looking for opportunities to create synergies, increase demand, and optimise supply. Demand sets the pace for the rest of the organisation. Forecasting demand isn't enough.

With forecasting, the team is at risk of still being reactive. Proactive planners should be taking steps to shape demand.

S&OP brings together what the sales and marketing teams are doing in terms of pricing, promotions, and incentives and lets you game-plan those efforts against the supply chain's ability to produce and deliver, so you can shape demand and eliminate supply constraints, giving the business the freedom to grow.

While many organisations have been making investments in their planning tools, the best-in-class planning relies on cross-functional integration, short planning cycles and advanced-analytics enablement supported by a high degree of automation. S&OP is a process that must evolve in line with business requirements as well as any product or portfolio changes.

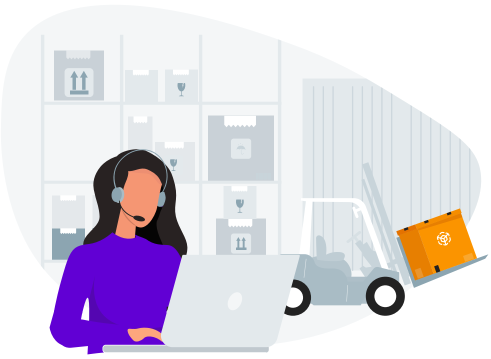
Finally, S&OP must be a medium-term process. Short-term S&OP drives more tactical discussions and decisions but fails to enable leaders to look beyond a 12-month horizon. However, many decisions need to be made well in advance, such as negotiating contracts with suppliers, or increasing manufacturing or even warehouse capacity.

There's never been a more important time to consider S&OP as part of your transformation

Supply chain issues have a direct effect on business performance. When the supply chain suffers, the bottom line suffers.

The modern consumer expects speedy, on-time delivery, easy omnichannel fulfilment, and a smooth return process. The company that fulfils those desires is likely to earn repeat business, and vice versa. And more loyal customers lead to better business performance.

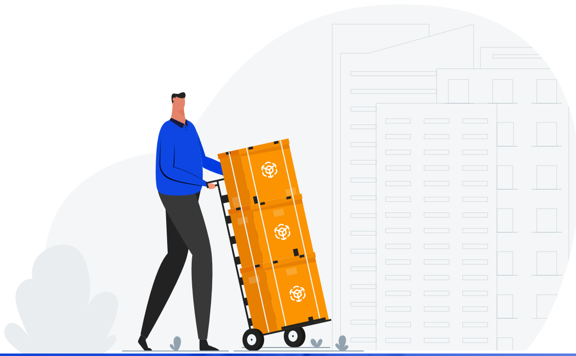
So, at a time of constantly fluctuating consumer demand, ongoing business disruptions and increasingly volatile raw material prices, connected planning is rapidly becoming a must-have capability. S&OP enables effective supply chain management and focuses the resources of an organisation on delivering what their customers need while staying profitable.



S&OP is perfectly positioned to bring cross functional stakeholders together. They should align the different functions behind a common plan. Planning activities have traditionally been a supply-chain topic. However, digital and advanced analytics are now unlocking the ability to make complex trade-offs among functions such as sales, production, and the supply chain that will become more critical in the coming years.

Mature S&OP organisations deploy advanced analytics tools to calculate scenarios and their impact on the business in real time. Using machine-learning forecasting algorithms using internal and external data sources, as well as their ability to 'learn' from historic demand patterns, to continually improve forecast accuracy and minimize manual planning.

It's time to create new goals for S&OP, reinvent your S&OP processes, and invest in connected planning capabilities to drive business agility and growth.



"Given the complexity of the work, at a product level, we never would've been able to do it on an excel spreadsheet. Combining the work on Anaplan, our cross functional teams were able to create action plans and communicate all options with our customers."

Matthew Shoard, Financial Controller, Casella Family Brands

Invest in the right technology to enable collaboration and analysis

A few years ago, the slow, spreadsheet-driven way of S&OP may have sufficed, but today, it's utterly inadequate. A disconnected process can't keep pace with a dynamic market. No amount of agile process and thinking can deliver results without full visibility into data streams throughout the business.

Emailing spreadsheets around or relying on an array of systems won't keep up with a fast-moving market. In addition, without the ability to explore alternative scenarios and run analytics and analysis, even the most engaged S&OP team will quickly fall back to intuition-based decisions when a crisis strikes.

Without the right cloud-based technology in place, plans don't sync; they exist in siloes. If you try to execute these phases with spreadsheets, email, and a mishmash of legacy systems, you'll likely spend your time fighting data instead of analysing data.

A key benefit of the right technology in this phase is the ability to adjust workforce plans dynamically as new products are introduced. If you need to shift factory workforce around to adjust for the impact of a new product, that's not easy to manage in spreadsheets and legacy systems.

Access to a single version of the truth in the form of real-time data and integrated planning capabilities is essential to next generation S&OP. The right blend of human and artificial intelligence can give the enterprise the confidence to assess situations quickly and make decisive moves.

Implement a collaborative technology platform, where you can build collaborative communication, increase transparency of information, and connect with key stakeholders seamlessly, improving overall supply chain visibility and leapfrogging others in the market.

There is no rule that says S&OP should be run monthly. This guidance dates back many years, before modern data analysis and decision-support tools were available. In that environment, it took a team of people the full four weeks to collect, merge, analyse and report on the data required to support S&OP decisions.

Today, companies can take advantage of next-generation technologies to drive smarter predictions and better decisions across supply chain processes.

Conclusion

Disruption can be a forceful motivator but being prepared for the next business disruption is far from the only reason to evolve your S&OP processes. Existing planning capabilities won't be sufficient for organisations to keep pace over the coming decade.

Technologies such as analytics and machine learning will be a major component, but to be truly effective, they must be supported by new processes, talent, and governance. When executed effectively, the leadership team can strike the right balance between customer service, working capital investment and total cost.

Next generation S&OP holds tremendous promise for improving overall business performance and achieving integrated business planning that drives results.

About Bedford Consulting

We're a company that enables businesses to connect their planning processes to make better, faster and more agile decisions and accelerate performance. We give businesses greater visibility and transparency using Anaplan.

Founded in 2008, we are an Anaplan Solution Advisory and Delivery Partner, with certified expertise in all functional and industry specialisations. Anaplan is a global cloud-based planning software company.

We specialise in the end-to-end Anaplan project journey and support customers to develop their business requirements, process improvements, delivery, onboarding, training and offer a best-in-class care programme. We are proudly recognised as Anaplan's Selected Delivery Partner for EMEA and have been awarded Partner of the Year for EMEA since 2015.

As one of the first Anaplan partners in EMEA, we have been involved in implementations across all industries in finance, supply chain, sales and operational planning teams within some of the world's largest companies.

We have dedicated Hubs in UKI, DACH, Nordics, France, Central Europe, Spain and Italy. Our 130+ deep-domain technical experts have delivered over 800 successful projects for 500+ customers and have been at the forefront of connected planning technology since our inception.

Learn more about the Bedford story, our offerings, and our focus on our customers at **bedfordconsulting.com**

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