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Integrated Decision Making – The Choices

Sales & Operations Planning: A Business Integration Process or a Supply Chain Planning Project?

By Andy Coldrick, Dick Ling & Chris Turner

StrataBridge

StrataBridge is a leading edge consulting firm helping organisations achieve sustainable growth in unpredictable circumstances. We focus on helping organisations align their business activity to strategy and understand the critical choices faced. Making the right choices enables our clients to achieve their business objectives.

Our approach forces breakthrough thinking with the emphasis on helping organisations understand the impact of change on their organisation, culture and behaviours. Our approach is recognisable by our focus on transferring our knowledge to our clients and coaching them to achieve future success. Working alongside our clients we create practical action plans that enable them to make their vision a reality.

Our strength lies in the abilities of our people; their breadth of experience, industry knowledge and progressive attitude. We add significant value to an organisation through the clarity of our thoughts and actions, seeking innovative solutions to improve business practices.

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Introduction

Since its inception in the late 80's, Sales & Operations Planning (S&OP) is a process that is used by many companies throughout the world in different ways. In 2003 we see it as a process that enables a business to accomplish the updating of its strategies using the monthly operating plan with integrated projections as a robust foundation.

This report describes some of the choices people have made, makes distinctions on these choices, suggests some reasons why people practise different methods and proposes a way of approaching integrated decision making in the 21st century.

For many years S&OP showed its manufacturing roots, along with enviable operational results. Originally conceived to make Manufacturing Resource Planning systems more stable, it's heritage was bound to be with the manufacturing (latterly 'Supply Chain') community.

However, progressive organisations pushed the boundaries into commercial functions, collaborative approaches developed the process across trading partners and the process has migrated, and mutated, across industry sectors.

Today, this framework offers an organising principle for any organisation that invents, develops, sells and supplies products and/or services and seeks a 'joined-up' approach to managing the business.

The major tangible benefits of improved customer service and lower inventories are seen consistently, along with greater focus on, and management of, decisions to drive growth.

About the Authors

Sales & Operations Planning has been used for the last fifteen years or so and during that time has evolved. Dick Ling was the originator of the process back in 1987. He realised that a forward looking planning process was essential to make MRP II work in a single plant. From 1992 Dick Ling and Andy Coldrick developed the process to integrate New Product, Volume and Financial Planning and answer some of the challenges raised by globalisation and regionalisation in large multi national companies. Chris Turner joined the effort in the mid-90's, expanding the view beyond 'Product' and manufacturing sectors and expanding the application of 'new' to the broader definition of 'New Activities'. Throughout this period the process has developed into a means of business integration and is now seen as a powerful integrated decision making process along with an integrated scorecard to accomplish the updating of strategies. The intellectual property rights belong to the authors who are founder members of StrataBridge Limited.

The StrataBridge Five Step Process

The StrataBridge Five Step Process, developed by Andy Coldrick and Dick Ling in 1993[1] has now been used by many businesses successfully as both an operational and a business process (figure 1).

We saw many companies struggling with traditional Sales & Operations Planning, which concentrated on demand and supply volume planning, striving to engage senior

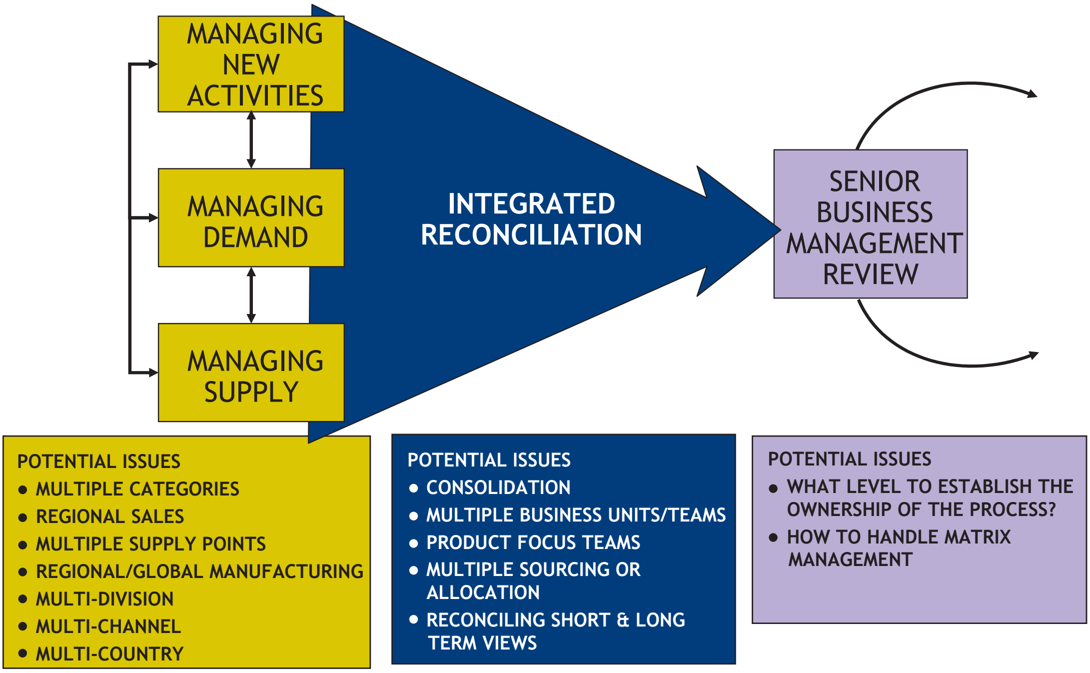

Figure 1: Integrated Decision Making Using S&OP

management who were more interested in the financial outcome of demand management and new activities management. Working with many companies who wanted to drive Integrated Decision Making, we identified the critical process connections and, more importantly, the required behaviours to drive joined-up decisions and sustainable results. The major benefits which are now being achieved include:

- A business management process based on a robust operational view of new activities, demand and supply.
- A balance of new activities, demand and supply in line with the value proposition of the business.
- Volume and financial integration being driven throughout the process.
- Creating the forum to proactively develop options, choices and recommendations through the integrated reconciliation process.
- A robust process that manages the complexities and organisational ambiguities in regional and global businesses with multiple demand streams (geographic/sector/route to market/channel) and multiple supply points, internal or external.
- Understanding that the process is iterative, normally on a monthly cycle and focusing on change.
- Emphasis on a monthly *process* and robust management information, as opposed to the ritual of a monthly *meeting* with too many detailed numbers.

Sales & Operations Planning Choices

In 2003 we see organisations run the Sales & Operations process in four distinct ways.

I. A business management process with visibility of 24 months, two year ends or six rolling quarters.
II. An operational management process with visibility of 12 to 18 months.
III. A supply chain led project with visibility of 12 months or less.
IV. A supply chain planning project expecting incremental improvements with a visibility of four to six months.

These four approaches have very different characteristics.

I. Business Management Process (figure 2).

Because the visibility is 24 months, two year ends or six rolling quarters the monthly iteration focusing on changes to the latest view goes beyond tracking progress against budget alone. Year-end is important, but decisions are made to meet budget ensuring that consequences for the next year are fully understood. The major question to answer is that we progress against the strategic direction.

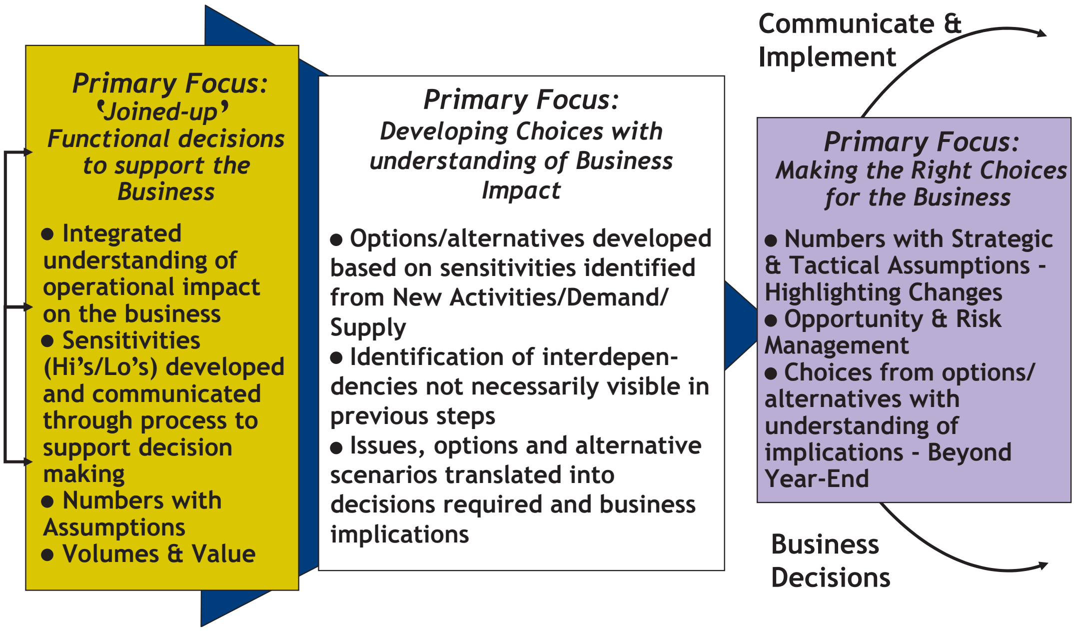

Figure 2: Business Management Process

Because options and contingency management are evaluated, senior management has the opportunity to look at choices and make decisions on the right choices.

Because of the longer visibility, annual budgeting and business planning are no longer separate exercises. The latest view from Sales & Operations Planning becomes the first pass at the budget. This increased visibility also gets emerging issues and opportunities 'on the radar' earlier, allowing real value-add in the option development and decision making process.

Improved customer service and lower inventories are a direct result because the focus is on integrated management and planning of new activities, demand and supply and the financial implications. Volumes and financials are reconciled and integrated.

A key characteristic is that the process is led from the business. Sales & marketing understand the value and the process is focused on the external environment, the competition and ultimately the customer and consumer. Finance value the process as a means of developing robust fiscal projections. Senior management use the process to bring rigour to decision making on 'big issues'.

The business process is truly in the fabric and the ways of working are sustainable, exploiting joined-up behaviour to manage conflict, ensure alignment and drive commitment to the decisions made. There is a 'line of sight to strategy' combined with a 'discipline of execution'.

This paradoxical mix of long and short term understanding provides clarity for the short term information requirements, as well as the medium to long term information to support risk management and decision making – an integrated range of numbers with assumptions. Graham Kendrick (formerly CEO of Scottish Courage) called this "a scorecard with a story".

II. Operational Management Process (figure 3).

The visibility here is 12 months or greater and results in an agreed latest view against the budget. Different views are not seen as a hindrance, rather they add value, forcing a dialogue to reconcile different knowledge and insight prior to agreeing one plan. There is strong volume and financial linking and the monetarised operational view is based on robust data. The decision making process is not so much about options and contingencies, it is about analysing the gap and developing actions to close the gap.

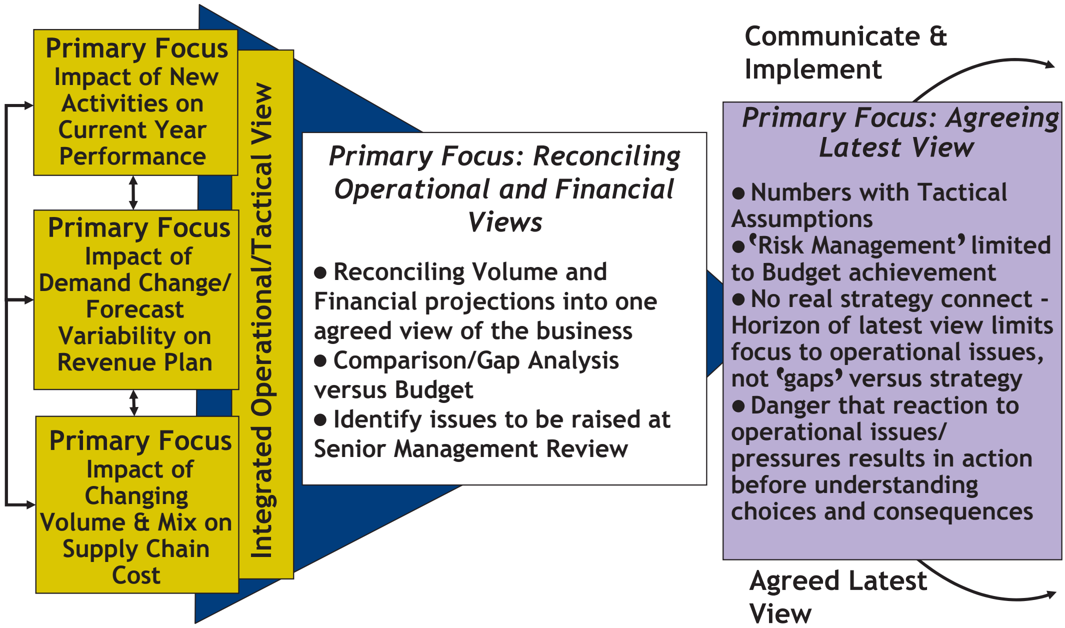

Figure 3: Operational Management Process

The focus is agreeing a latest view on "numbers with assumptions" and communicating them.

Budgeting and business planning, however, still remain separate exercises with the danger of duplication and inefficiency, but there is a robust reconciliation process.

There are benefits in improved customer service and lower inventories on a continuous basis, sponsored by supply chain and finance.

Sales and marketing are starting to see the value of the supply chain instead of an opportunity to cut costs.

The leadership of the process is normally focused in supply chain and finance and is still seen as an S&OP 'project', because the ways of working are not firmly embedded in the business. The information focus is agreeing a plan and communicating the agreed plan. Assumptions are evaluated to validate the numbers.

There are obvious benefits from a process that brings about an 'agreed latest view' and the initial energy created from delivering some tactical decisions in a joined-up way, can keep the interest of commercial functions for some time. However, without challenging the sacred cows of the incumbent budgeting process and other potentially disintegrated/disconnected decision making forums, this approach remains fragile and in danger of not driving sustainable results.

III. Supply Chain Project (figure 4).

At the beginning of the fiscal year the visibility is 12 months, but as year-end approaches the planning horizon decreases because the principal goal is to answer the question "Can we meet year end"? Because it is led by supply chain the process is largely about demand/supply planning with too much detail. 12 months rolling forecast at the stock keeping unit (SKU), individual line item or pack level are common. New activities and promotions, and their impact on demand, are not really integrated into the process.

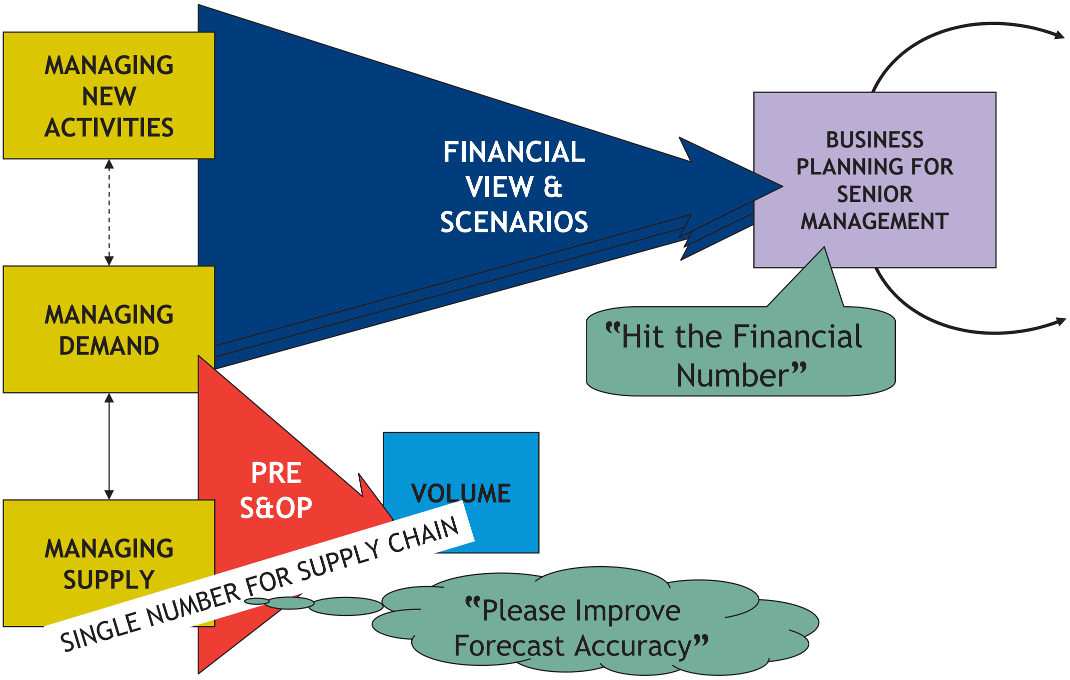

Figure 4: Supply Chain Project

The operational number is typically different from the financial number and because sales and marketing and business management are measured against financial criteria, the operational number is a lower priority and seen as a supply chain view only. In this environment, the 'S&OP' process and the budgeting process are in 'competition' for management attention and time. Not surprisingly, the budget process 'wins'.

Decisions on gap closure are focused on achieving year-end regardless of the implications for the following year. There are some sporadic improvements in customer service and lower inventories, but the temptation is to see S&OP as one of several supply chain initiatives directed to reduce cost and improve supply visibility, and sustainability is lost. In extreme cases the pursuit of operational efficiencies constrains competitiveness in the market place (eg fixed time fences where the business needs responsiveness) alienating the commercial functions in the process.

Sales and marketing still see supply chain as a cost and the S&OP process is often used as supply chain's formal defence with explanations (bordering on excuses), answering questions on service aberrations, or running endless historic analysis to 'justify' a sub-optimal cost or working capital position. The S&OP process is still a project and is seen as a supply chain initiative led by supply chain people.

With no meaningful vision or commitment to this process supporting integrated business decision making, the key drivers of future performance and the levers used by senior management are not understood by those running the S&OP process. This alienates the very decision makers that we should be engaging. Supply chain leads the process calling for a single set of numbers (resulting in academic debates), and focus on forecast accuracy instead of customer service or growth.

IV. Supply Chain Planning Project expecting incremental improvements (figure 5).

In this environment demand planners and supply chain planners work incredibly hard trying to get some supply chain stability using a forecast with numbers that are constantly changing.

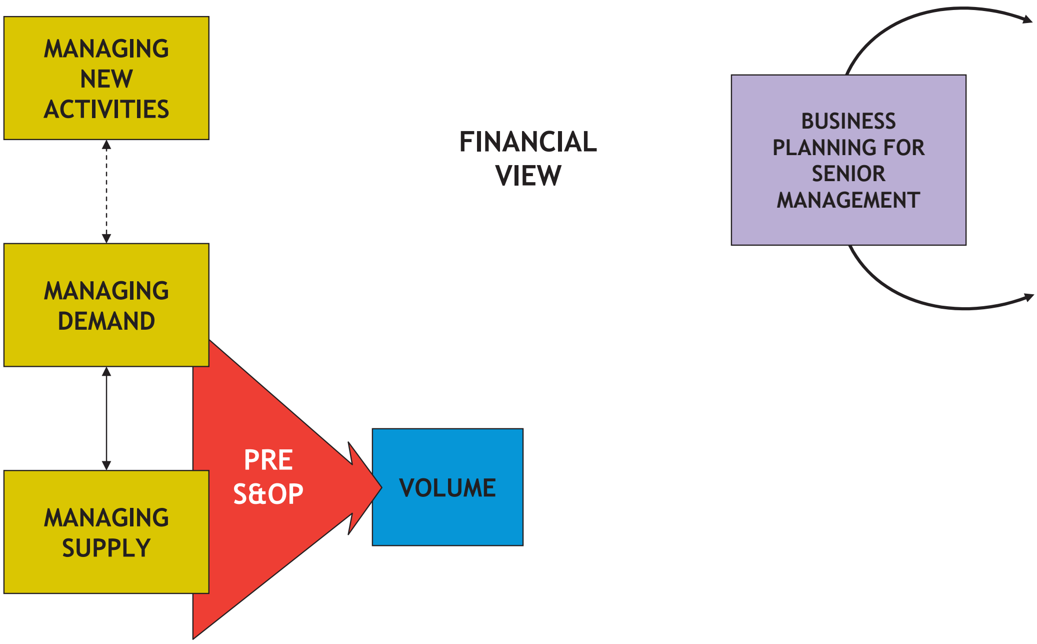

Figure 5: Supply Chain Planning Project expecting incremental improvements

In a promotion driven environment, bottom-up plans assume that all promotions will be successful. Common sense suggests there are some vulnerabilities. When actuals are different from plan, reactive behaviour ensues.

Customer service issues are seen by sales and marketing as supply chain problems and high inventories are supply chain's fault.

The supply chain complains about inaccurate forecasts, and sales response is "how can you expect it to be accurate?"

The operational numbers are normally in a different system from financial numbers and little or no attempt is made to reconcile the two.

There is a year-end obsession and frequently sales and marketing will bypass planning to get the product from a sourcing unit, and when the internal manufacturing costs appear too high, the question is invariably "Why not outsource?"

Incredible effort is expended on balancing the detailed plans and supply chain planning is seen by the business as defensive.

Supply chain planning lead the process and there are still multiple sets of numbers within the business. All functions collude in creating this environment and are all guilty of perpetuating the view that 'my view is right'.

Sales and Operations Planning Assessment 2001/2002.

We made a qualitative assessment in 2001/2002 in small and large businesses to get a view of how they operated the S&OP process.

A key finding is that many who are running a supply chain project (III) had really set out with the good intention of running an operational process (II). The common theme is that supply chain has retained a process leadership, and has never transferred it to finance or the other parts of the business, who are 'spectators' rather than 'enthusiastic

Only 5% of businesses running 'S&OP' type projects were doing so as an integrated business decision making process, updating strategies from the monthly operating of the business. Around 20% ran a good operational planning and forecasting process. Of the remaining 75%, 45% were still running as a supply chain project hoping to evolve to an operational management process. The remaining 30% were focusing on the short term supply chain improvements before extending the horizon.

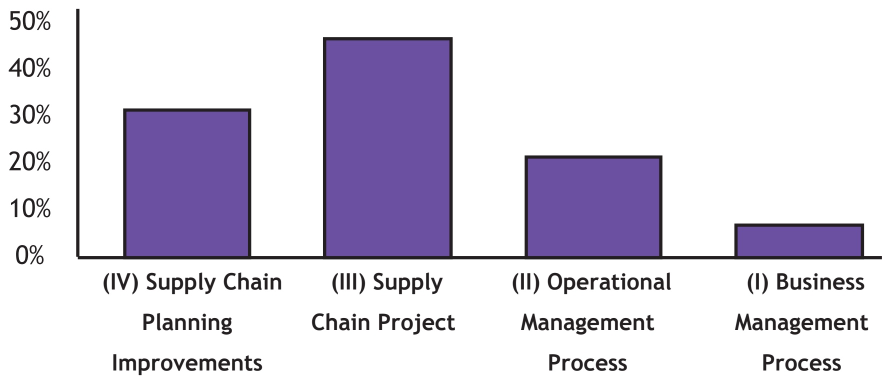

Figure 6: Qualitative Assessment 2001/2002

contributors/leaders'. Customer service improvements are intermittent and too many misconceptions on S&OP exist in the business, characterised by:

- supply chain language dominating the conversation - e.g. 'single set of numbers' (a supply chain dream)
- forecasting focused on the accuracy (and precision) of numbers without assumptions or range
- too much detail in existing planning systems, creating an industry of number-crunching
- product families (and S&OP forums) based on supply definition, rather than finance or sales and marketing perspectives
- description (and perception) of 'Sales and Operations' not engaging finance or marketing.

Our view is that unless businesses like these address the fundamentals of leadership transfer to the business and the use of business language, the process will always be a supply chain project.

Without doubt major benefits result from sales and operations planning used as a business management process (I). Implementing an operational management foundation (II) first, and using this as a springboard for further development, has a proven track record of success, particularly in organisations where the discipline of execution is weak.

Another interesting finding in multi-national companies in Europe is that several are using S&OP as the 'glue' to put demand and supply back together after globalisation and regionalisation have fractured the value chain. Sales and marketing are now often organised by country, and supply chain/sourcing is very often regional, sometimes global. In such an environment the strength of a regional or global S&OP process is only as a good as the weakest link. A robust regional demand plan (six quarters) is only possible when each sales and marketing entity is providing similar information on new activities and demand (using similar processes which integrate) and the aggregate from the countries is reconciled with the medium to long term plan in regional marketing. Without this, regional supply has limited visibility (typically four to six months). In the historic organisation supply points were often country based and many countries had some form of local S&OP.

Regionalisation presents a different challenge in reconciling country and regional views of new activities, demand and supply and their financial implications.

These trends are reflected, to different degrees in different sectors, companies and in the Asia/Pacific and Latin American regions. Although these do not always (yet?) have the same level of movement of goods and services between countries, they do have unexploited opportunities for greater coordination/co-operation.

The Way Forward

In our discussions with many customers and clients, almost without exception, there is a desire for a truly integrated business management process. There are some businesses that are satisfied with an operational process and they largely fall into the category of a commitment to operational excellence. Their focus is often internal - lowest cost and waste reduction. They may have little need for big innovations and wish to maximise efficiencies from an existing portfolio.

In the fast moving consumer goods, healthcare and retail sectors, where there is a strong external focus on consumers and customers the need to integrate innovation through a business process led by sales, marketing and/or merchandising is more evident and a process to evaluate options and make decisions on the right choices is fundamentally important to the strategic direction. In these organisations, the business management choice is seen as a means to keep us on track with the strategic direction of 'business sustainability' and growth (figure 7).

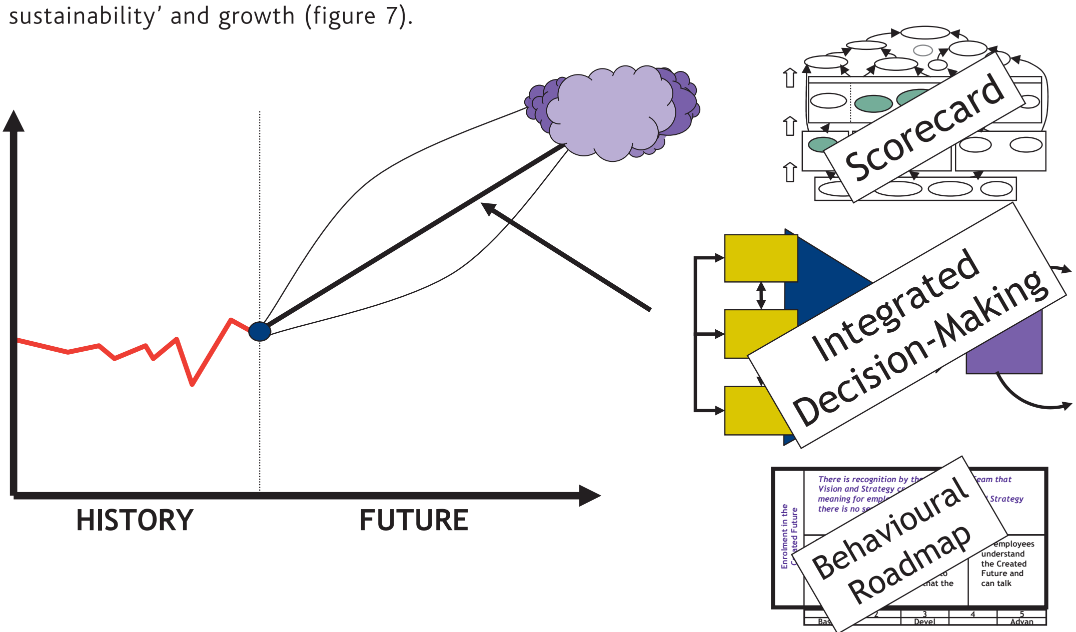

Figure 7: Delivering Business Sustainability

Although this paper focuses on the choices associated with S&OP – or more correctly Integrated Decision Making – for those companies who are serious about developing a sustainable 'means' to the 'end' of business performance, we have complemented our Five Step process with a way of integrating the key performance indicators and scorecard that reflects your strategy and a highly tailorable 'behavioural roadmap' which makes explicit the organisational DNA required for future success.

Used in this context, the scorecard provides a means of communicating strategy, setting targets, agreeing the measurement process and driving actions for improvement. This is often presented in the form of a strategy map or a key performance hierarchy. Traffic light coding of the performance measures can be used to add visual impact. In fact, several of our client companies using S&OP as a business management process have rebranded the process from S&OP to 'monthly performance management', or variations on that theme. When the decision making routines and associated performance measures are embedded to this level, it demonstrates how the S&OP process has become a way of life and is no longer a project.

The behavioural roadmap provides a structured framework to assess the gap between current reality and the required values, behaviours and competencies to identify and drive improvements. Our work with numerous multi-national, multi-cultural organisations, with very different organisational structures and strategies, has allowed us to understand the nuances of behaviours and competencies in different settings. Following the StrataBridge principle that 'one size does not fit all', we work with each client to specifically develop the roadmap to the individual business needs, and identify improvements needed in all five steps of the integrated decision making process described in figure 1, as well as other key processes.

In conclusion – your leadership role

Understanding these distinctions and making sure that you make a conscious choice, fully understanding the potential benefits/results and consequences is key to the effective leadership of the decision making process in your organisation. All too often we see organisations subconsciously accepting sub-optimal performance by taking the supposedly 'easy and low risk' direction, without understanding the other choices.

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[1] The Evolution of Sales and Operations Planning, by Andy Coldrick, Dick Ling and Chris Turner (July 2003).

For further general reading and information please see various editions of our regularly published thought piece, "Knowledge" available from StrataBridge or our website on **www.stratabridge.com/news.asp**

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