S&OP and Strategy: Building the Bridge and Making the Process Stick

By Duncan Alexander

EXECUTIVE SUMMARY | Sales and Operations Planning has come a long way since its invention in the 1980s as a process to align sales and manufacturing volumes. But after early success, the process often falters. This article explains why building a strong bridge between strategy and S&OP will drive successful strategy execution and help build S&OP into the culture.

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Sales and Operations Planning/Integrated Business Planning/Sales, Inventory, and Operations Planning (call it what you like, but S&OP for the purposes of this article) has come a long way since its invention in the 1980s as a way to balance sales and production volumes in a single factory. It is now the core operating process of most manufacturing businesses and drives integration between different functions, geographies, categories, processes, and people.

After initial success, many S&OP processes falter, for various reasons including the following:

- The lack of understanding of what S&OP is (ranging from basic supply-and-demand balancing as advocated by most applications vendors and many large consulting firms to a strategy deployment and delivery process as we recommend).
- The very wide scope of a typical S&OP process makes it a difficult change project because it touches on so many different parts of the organization.
- Not keeping pace with the drastically different and changing context from when the process was first conceived; for example, globalization, increasingly net-

worked organizations, outsourcing, offshoring, and working across multiple organizational boundaries.

- Focusing on process and systems and forgetting the people side.
- The Law of Change—A good test for an S&OP process is whether it survives a change of Managing Director or President.
- The Law of Entropy—Will your great new process survive once the project team is disbanded?
- The Law of Perspective—Your process does a great job for you in supply chain, but if it feels really painful from the perspective of Sales, there will be problems ahead.

But the most common complaint from managers tasked with developing S&OP in their organizations is that "senior management doesn't get it" or, typically when the process leader is from a supply background, "I can't get Sales and Marketing to engage in the process."

There is a solution however—and it's not just about "educating" senior management and Sales and Marketing! Instead, it is about ensuring that your process gives them what they need to run the business. So, it's good to place much less focus on forecast error and inventory record accuracy KPIs and much more focus on revenues, growth, category development, brands, and channels. In short, focus more on strategic concerns and the associated decisions.

So, how do we ensure our S&OP process is used by the whole business to deploy and deliver strategy? Structure follows strategy. Your strategic direction and progress towards your overarching objectives should lead to an evolving organizational structure that is best suited to delivering the strategy. But if your S&OP structure is not changing in lockstep with this, the process will become irrelevant pretty quickly. Common examples of this are when a regional or global category structure has been introduced, but S&OP is still based around countries or operating units. This can also be the case with regional or global supply chains and regional or global innovation functions. A typical trap is to try to aggregate the outputs of outdated processes, which invariably insert more non-value added layers into the process, distancing decision-makers from the input, and frustrating and slowing down decision-making. To avoid this trap, you must update your S&OP process in line with the new decision-making rights as the organizational structure evolves.

Next consider the planning horizon, if your process has a 12-month rolling horizon, or worse, a horizon to the year-end that concertinas as the financial year progresses, then your S&OP process will always be tactical and of little interest to senior management. Your strategic plan takes a longer-term perspective, so if you want your deployment and delivery process to help you navigate towards your strategic direction, its horizon must cover at least the first two years. In effect, the decisions you want to make in your process define the required horizon.

Then think about the granularity of data within your process. Do you have different time buckets over the horizon? Or do you use weeks and/or months for every bucket? Months are appropriate for the first year, but beyond that, quarters make more sense. The process is used to manage change, and while there will be plenty of changes to our planning assumptions in the first year as tactics change, in the second and later years there will be less change on a month-to-month basis, so quarterly time buckets are better in that part of the horizon.

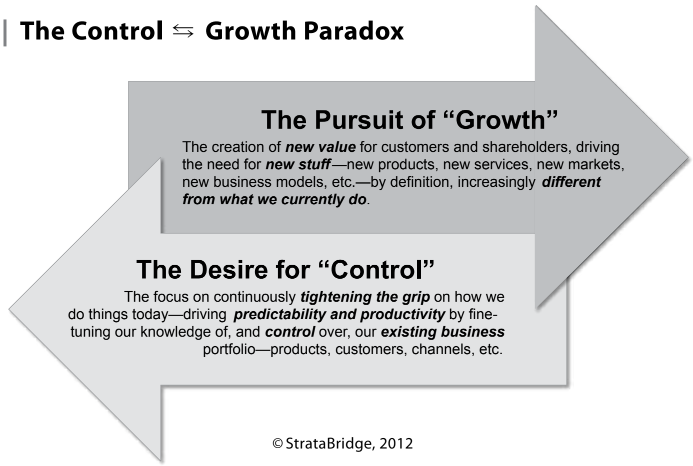
Similarly at what level of the planning hierarchy are your discussions? Strategy-focused processes talk about brands, categories, channels, strategic market sectors, and so forth—not SKU level detail.

Using your S&OP process to deploy and deliver strategy means there must be a financial perspective throughout the process. Old style processes focused on volumes (units, tons, liters, barrels, cases, and the like). This is not enough for a strategy-focused process. Yes, the translation to volumes must be available throughout the process where appropriate, but the primary language should be financial and externally focused (e.g., revenues, margins, market shares, growth rates, etc.). The strategy is expressed in financial terms, so the deployment of it, the measurement of the gap to plan, the impact of potential gap closing activities, and the risks and opportunities around the forecast must all be expressed in financial terms.

Then consider performance management frameworks such as balanced scorecards and strategy maps. S&OP is the obvious process within which to embed most of the KPIs that must be optimized to help deliver the strategy. But if the KPIs managed within S&OP are the ones selected for an old strategy, (commonly) a generic set of KPIs with no link to strategy, or (most commonly) a supply chain biased set of KPIs focused solely on cost and efficiency, then you have some work to do.

Maturity and assessment guides are the next things to look at. These are used to complete assessments of S&OP processes both by external assessors and by internal process owners to

Figure 1 | The Control ⇆ Growth Paradox



ensure that the processes work as designed and that weaknesses can be addressed. Questions should cover all aspects of the process including the behavioral aspects. Rather than use an off-the-shelf checklist that promotes someone else’s view of best practice, you should tailor your assessment guide to your business—recognizing the language, acronyms, focus, culture, values, and, in particular, the connection drawn between S&OP and strategy. If your strategy is about growth by innovation, for example, there should be more questions about how the process works in that area instead of questions about how you measure line utilization, overall equipment effectiveness, SKU counts, and so forth.

Setting a strategic direction must involve choice: Choices about projects that must be pursued; choices about which markets, channels, categories and brands must be grown; choices about resource allocation; and, just as importantly, choices about what not to do. Reports and models used within the S&OP process must be adapted to the evolving choices the business is making so that the process can be used to drive the strategy forward rather than act as a brake on it by reflecting an outdated strategy. Beyond this, the process must surface emergent choices as we progress and frame these decisions at the appropriate time.

One of the areas for choice in strategy development is always growth—growth from innovation, growth from new markets, growth from new services, etc. However, S&OP grew from a control mind-set—basically how best to get manufacturing capacity aligned with volume sales forecasts. This control mentality is still visible in many S&OP processes: Keeping control of inventory, driving forecast accuracy improvements, controlling SKU counts, and so forth. This causes a problem, as seen in Figure 1, because a growth strategy involves new stuff, and unless your process can adapt to continuous change and loads of new stuff, necessitating excellent integration with new business development, new product development, and product life cycle management processes, increasing irrelevance is assured.

From a Portfolio perspective, strategic decisions are being made on brands to exit, brands to grow, brands to harvest, and the like. We need to tailor our process and use our resource carefully so that execution of these differentiated brand strategies is ensured. In the Demand perspective, for example, growth brands and the new products around which our growth strategy is focused, are likely to be the most difficult to forecast, and thus will require a great deal of marketing and sales input. On the other hand, because we have more knowledge of their seasonality, trend and reaction to promotions, mature brands should be easier to forecast, so we can use less of our limited sales and marketing resource here, and rely more on statistical forecasting methods. If we approach everything within S&OP with a “one size fits all” policy, we will undermine the strategic choices we have made.

From a Supply perspective, the differentiated brand strategies also require a tailored response, prompting questions: Do we require different safety stock policies for the growth brands? Should we build buffer stocks of raw materials and packaging? Is it worth renegotiating supply contracts to reduce supplier lead times?

From a macro Supply perspective, as strategy changes, so will the supply chain. Growth may require more outsourcing, whole new supply chains, new raw material suppliers, reverse logistics processes, and so forth; therefore, the original design for the Supply Planning process will need to adapt. Now the focus may need to be on supply chain risk and management of extended supply chain capabilities, not just on internal manufacturing capacity. Balancing control and growth across a business definitely means there is no “one size fits all.”

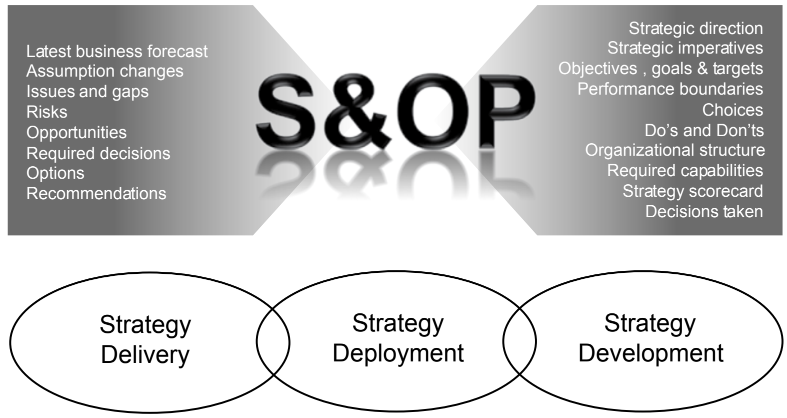
The final step in making your S&OP process strategy focused is to look at the Optimization process (Integrated Reconciliation as it is often called, or, originally, “Pre-S&OP”). In a strategy-focused process, the Optimization team will be clear on the strategic direction of the business, and understand the priorities and choices already made. Their job is to help execute the strategy and propose refinements and adjustments as time passes, and there are two main activities that do this job: Performance monitoring and decision support.

First, let's look at performance monitoring. Here, the Optimization team uses the S&OP reports and strategic KPIs to identify emerging gaps/issues and trends that will affect the business in the future. Second, in the decision support part of their role, the Optimization team works on the strategic cross-functional issues identified during the performance monitoring exercise and establishes the facts, develops options, and subsequently supports the leadership team in decision-making through their findings and recommendations.

If the Optimization team has done its job properly, the leadership team will be able to make rapid decisions and navigate the business successfully towards its strategic direction. All too often, however, the Optimization team ducks the big issues, choosing instead non-strategic issues or raising problems rather than developing potential solutions. If the big discussion in Optimization is about re-organizing car parking at the Head Office, then it is safe to say that your process is not yet strategy focused.

Figure 2 shows the overall concept of a strategy-focused S&OP process. S&OP is the key process to deploying strategy in the business. It forms the bridge between real-world delivery and execution, and the ideal world of your strategy. Strategic direction, strategic imperatives, objectives, goals and targets, performance boundaries, choices, dos and don'ts, organizational structure, required capabilities, strategic scorecards, and decisions made all come from the strategy development process. Coming from the S&OP process every month is the latest business forecast, assumption changes, emerging issues and gaps, risks and opportunities, required decisions, options, and recommendations. S&OP is the bridge to strategy.

Figure 2 | S&OP is the Bridge to Strategy



Of course, there is a great deal more to successful strategy execution than making your S&OP process focused on strategy, but assuming your strategy development process is good and your business has the capability to deliver it, S&OP as the primary deployment and delivery mechanism is hard to beat. *(info@ibf.org)*