Developments in Enablement of Sales & Operations Planning (S&OP) Solutions

By Chris Norek, PhD and Jeff Keckler

An agreed upon forecast in aggregate for the company's products and the ability to understand the impact of changes is a central point of S&OP.

ONE OF THE MORE POPULAR TOPICS in

the demand planning area of late is sales and operations planning (S&OP). At its most simple level, S&OP is a formal process led by senior management that on a monthly basis evaluates the timephased rolling projections for new products, demand, supply, and the resulting financials. It is a decision-making process that aligns tactical plans to the company's strategy over a rolling 18- to 24-month horizon with the objective to reach consensus on a single operating plan. *By better aligning forecasts across the company, S&OP can help reduce forecast error, which translates into fewer out-of-stocks and less obsolete inventory. Your company might have a slightly different take on the definition or process of S&OP, but the end goal, regardless, is to agree on one operating plan across all departments. In addition, it seems that the execution and scope of S&OP is continually being tweaked to further improve the process within those companies using S&OP. So in some sense, its true "meaning" could be somewhat of a moving target.

Needs for S&OP

To effectively implement an S&OP program, an organization must be willing to migrate to a collaborative, multi-stakeholder process across a potentially dispersed global organization that would also include external collaboration with key customers and/or suppliers. Obviously, the traditional yet still very common, departmental silos don't work

with the S&OP concept. Not only do departments have to work together, they have to be comfortable sharing data. The ability to support a collaborative, frequent exchange of planning data (forecasts, promotions, pricing, costs) down to the individual SKUs by region and customer, or any other meaningful planning dimension, is a necessity. In addition, the ability to aggregate/allocate plan data at any level and share with other operating groups is important.

There also has to be the capability to capture and manage the underlying assumptions used to justify input to plan changes and scenarios — that is, both documenting and explaining any changes to the overall operating plan.

An agreed upon forecast in aggregate for the company's products and the ability to understand the impact of changes is a central point of S&OP. This means one aggregate forecast upon which all must agree. The ability to work with planning data across multiple measurement types including units, revenue, costs, and margins must also be present. Last, but not least, is the need to be comfortable sharing the single operating plan with suppliers and customers to allow better supply chain planning. Sharing one number with supply chain partners helps them reduce the inventory buffers traditionally held to account for changes in plans of business partners.

Difficulties in S&OP

There's a lot of process work required to make S&OP work effectively. You can't just implement a new technology and think that S&OP will be effective.

• Changes to specific forecasts (e.g., SKU in each region) are often made sequentially,

thereby requiring more time and an effective mechanism for sharing changes between multiple stakeholders both inside and outside the company.

- A lack of collaboration affects the latency of data, data quality, and how to best manage multiple plan versions.
- The ability to link summary and detailed plans.
- The ability to accommodate changes to your business like new products, customers, partners, or planning data.

Software Developments to Improve S&OP

Traditional Excel-based S&OP processes require sequential changes to forecast numbers where a change is made, saved and then emailed to other stakeholders to make their changes. This results in latency of data when updates are available. A new development that corrects this problem is on-demand, real-time updating of all forecast numbers across the country or world from within an Excel spreadsheet, providing complete visibility. Everyone literally gets on the same page, seeing the same data at the same time. In addition, there is a record as to when any changes have been made to the forecast numbers and by whom. Other developments in the enablement of S&OP solutions include:

- the ability to integrate data from multiple environments into a single, collaborative view of the data;
- documentation and visibility of all operating plan changes or updates so all stakeholders can assess the impact of necessary changes; and
- cloud-based data management coupled with an Excel application environment.

Summary

While companies continue to tweak their S&OP process, they now have access to some new software functionality that gives them true corporate visibility to forecast changes that should even further enhance S&OP benefits.

*Source: VICS, Linking CPFR and S&OP: A Roadmap to Integrated Business Planning, 2012.