



## Sales & Operations Planning Process Pillars

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I have been researching, speaking, and writing about Sales and Operations Planning (S&OP) for over 15 years and in that time I have seen the industry increasingly embrace the process. I have also noted an unsettling trend: The process has been subjected to too much hype and now appears to be positioned as too complicated, unwieldy, and costly to implement. Often times consultants and technology providers push too much technology and overly complicated processes. While indeed an important process, S&OP is simple.

The process merely involves conducting a set of periodic cross-functional meetings to develop consensus-based, aligned (i.e., matched) tactical supply and demand plans. Getting a working process started is tantamount to successful implementation, as this provides a firm foundation upon which to build the use of sophisticated methods often needing more technology—such as advanced planning and scheduling, the use of Big Data (e.g., upstream/downstream signals), and risk management techniques.

### Ten “Foundational” Success Factors

Exhibit 1 depicts a list of 10 “foundational” S&OP process success factors. The factors deal with meetings and the support needed to conduct them. None deal with technology per se because technology enables businesses processes—and as a process—S&OP may not need much as long as it ultimately leads to consensus, accountability, and commitment to supply-demand plans. The factors are described below.

#### 1. *Ongoing routine S&OP meetings.*

Routine is the operative word and means that if a meeting is to be held, it gets held. For example, participants meet despite the fact that all might believe the current plans do not need to be changed. The main purpose of the meetings is to vet out whether or not to change supply-demand plans.

2. *Structured meeting agenda.* S&OP meetings are routine, so they should follow a fixed agenda. The first portion of a meeting should be focused on analyzing past

plan performance. Root-cause analysis is needed to assess what can be learned from the past in order to improve the accuracy of future plans. This renders S&OP a continuous learning process. The latter (larger) portion of a meeting should focus on assessing the future. The meeting culminates with a consensus of whether plans should be changed. Closure is important so that finalized plans can be published and distributed around the company on a timely basis.

3. *An unbiased baseline forecast to start the process.*

#### EXHIBIT 1

### S&OP Foundational Process Success Factors

- 1 Ongoing Routine S&OP Meetings
- 2 Structured Meeting Agendas
- 3 An Unbiased Baseline Forecast to Start the Process
- 4 A Planning Horizon as Long as the Longest Supply-Demand Lead Time
- 5 Pre-Work to Support Meeting Inputs
- 6 Cross-Functional Participation
- 7 Clearly Defined Functional Roles at the Meetings
- 8 Participants Empowered to Make Decisions
- 9 An Unbiased, Responsible Organization to Run a Disciplined Process
- 10 Internal Collaborative Process Leading to Consensus and Accountability (by Leveraging a Forecast/Planning Hierarchy)

Source: Larry Lapide, Ph.D.

Discussions about the future focus on an unbiased and unconstrained demand forecast. The forecast should be generated by a credible and professionally run forecasting organization, so that the forecast can be considered “innocent until proven guilty.” The forecast organization should be prepared to defend its forecasts by clearly explaining the facts, figures, and assumptions that were incorporated into them.

**4. A planning horizon as long as the longest supply-demand lead time.** An S&OP planning horizon needs to consider all supply-demand lead times, not just the lead times of items sourced for production. On the supply side it also has to consider resource lead times such as those for labor, indirect materials, and equipment, as well as process times. On the demand side, it needs to consider lead times involved in sales and marketing activities such as new product launch, promotional, pricing, and product placement processes.

**5. Pre-work to support meeting inputs.** A demand forecast and rough-cut supply plans and limitations need to be brought into S&OP meetings. These need to be aggregated, synthesized, and translated in multiple ways prior to the meetings to help facilitate meaningful discussions. In addition, rough-cut demand plans should include all known impacts on the future, including details on planned marketing and sales actions. A lot of homework needs to be done in advance of S&OP meetings.

**6. Cross-functional participation.** The S&OP process needs to be cross-functional, involving representation from sales, customer service, and marketing as well as from manufacturing, logistics, procurement, and supply chain. In addition, finance managers are also involved to help marry the operational plans developed with the financial performance objectives of a company. Attendance at meetings is not sufficient towards making the S&OP process successful; there also needs to be active participation and engagement among attendees.

**7. Clearly defined functional roles at each meeting.** Each attendee should have a role to play that leverages their functional expertise. Sales managers should identify major sales opportunities, sales plans, and on-the-ground market assumptions. Marketing managers should identify all pricing, new product, promotional, and product placement plans, as well as market assumptions. Operations and supply chain managers are responsible for developing the supply plans that include what will be sourced, made, inventoried, and delivered. Lastly, finance managers’ major responsibilities are to monetize the supply-demand plans and estimate their financial implications.

**8. Participants empowered to make decisions.** Participants in the S&OP process have to make decisions regarding the supply-demand plans. Therefore, they need to be empowered by the executive team to make decisions based on their beliefs and interactions with other participants during the meetings. SVPs and VPs need to support all decisions made by their subordinate managers at mid-manager meetings.

**9. An unbiased, responsible organization to run a disciplined process.** S&OP needs to be conducted as a repeatable process that runs on time and according to schedule. To accomplish this, it needs to be organized and run by a responsible organization that routinely schedules meetings, sets agendas, moderates meetings, and ensures that pre- and post-meeting work is done in a timely fashion. The person moderating meetings is usually a senior middle manager who is constantly focused

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on driving towards consensus among the participants.

**10. Internal collaborative process leading to consensus and accountability (by leveraging a forecast/planning hierarchy).** To ensure that supply and demand plans get buy-in from all functional organizations, a collaborative process designed to lead to consensus-based plans is required. This means each manager needs to commit to make plans happen and be accountable for doing so. To help ensure that participants truly understand what they are agreeing and committing to, I recommend developing a forecasting/planning hierarchy. The hierarchy enables a planning group to “translate” forecasts/plans into the “language” of a functional manager by aggregating information into a view that is aligned with the way he or she thinks about the business. For example, sales managers are most comfortable dealing with demand in terms of dollars not units, and demand broken down by major accounts and sales territories. Meanwhile, marketing managers want to see aggregations into brands and product groupings, logistics managers by warehouses and in cases, and manufacturing managers by production lines and manufacturing plants in terms of units.

S&OP teams should use the above list of 10 foundational success factors to gauge whether their S&OP process is at a minimum sustainable level, as well as provides a sound foundation upon which to enhance. Building on a deficient foundation often leads to a house of cards that topples down.