



**S&OP:**

## Now More Than Ever

*By William Atkinson*

Politicians sometimes turn to the catchphrase “Now, more than ever” to encourage citizens to vote for them. Yet while this overused term has lost much of its persuasiveness in the political arena, it still has real significance in a business setting—particularly in tough economic times. A case in point: Sales and Operations Planning, or S&OP.

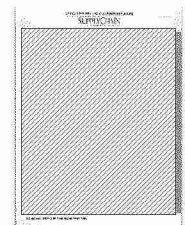
S&OP is an integrated business management process that allows management to achieve

focus, alignment, and synchronization among all functions of the organization. It is the set of business processes and technologies that enables a company to respond effectively to demand and supply variability with insight into the optimal market deployment and most profitable supply chain mix.

Monthly S&OP plans include an updated sales plan, production plan, inventory plan, customer leadtime (backlog) plan, new product develop-

**Sales & Operations Planning (S&OP)—a structured process of helping balance demand and supply—is beneficial under any business conditions. And in tough economic times, it takes on a whole new level of importance.**

Jim Frazier



ment plan, strategic initiative plan, and resulting financial plan. The S&OP process routinely reviews customer demand and supply resources, then re-plans quantitatively each month across an agreed-upon rolling horizon, usually 24 months. The re-planning process focuses on changes from the previous S&OP.

In sum, S&OP strategies help companies make planning decisions at the right time for the best combination of products, customers, and markets to serve. If done properly, it can have a direct impact on profitability, performance, customer satisfaction, and the product portfolio.

### **S&OP Is Right for the Times**

While S&OP has value for companies in any economy, experts agree that it is a particularly important technique to apply during tough economic times. "In this economy, we have definitely seen an uptick in interest in S&OP as a strategy," comments Fred Baumann, vice president, industry strategies for JDA Software Group. "A lot of it has been driven by the need to do scenario management more than ever before, due to the unknowns of the future of the economy.

Larry Lapide, a recognized expert on S&OP and research affiliate with the MIT [Center for Transportation & Logistics](#), agrees. "If revenues aren't changing that much, S&OP is not as critical," he points out. "However, S&OP is extremely important in times like this, because revenues are changing very quickly and drastically." As a result, Dr. Lapide notes, you need to maintain the connection between what is happening in the revenue stream and what is happening in supply chain, manufacturing, and logistics.

"You need to plan more, and plan more frequently," continues Lapide. In particular, he notes, you need to schedule multi-function meetings with marketing, sales, finance, and operations, to figure out what you are going to sell, make, and keep in inventory. In volatile times, it is very important to be able to do this well. "For example, operations people really need to know what is happening on the sales side," he adds.

Tim Vaio, an expert on supply chain solutions at Hitachi Consulting, confirms the critical value of S&OP in tough times. However, he

emphasizes, the benefits of implementing the process will only be as good as the quality of the S&OP strategy itself.

"In a good economy, a poor or even average S&OP process can mask a lot of flaws and inefficiencies," he explains. As a result, you can make a bad decision, and it won't hurt you very much. "In a poor economy, though, having a poor or average S&OP process can really hurt you, because the bad decisions you make will have a direct negative impact."

Vaio sees two other reasons to have a top-notch S&OP process in times like these. "Competition is fiercer in a down economy, so innovation becomes more important, such as new product introduction," he states. An effective S&OP process is a keystone to having a successful new product introduction, Vaio adds.

Third, a strong S&OP process provides better visibility and integrated information that can be used in the business planning process. "This allows you to project with more consistency and confidence what your results will be, both from an operations and financial perspective," the Hitachi consultant says. (The accompanying sidebar shows how one company, BASE, has realized widespread advantage from its S&OP program.)

### **Integrated Business Planning**

So, it seems that you can struggle with an average S&OP process, or achieve a measure of success with a good one. However, some companies are taking things a step further, transforming traditional S&OP into an even more robust strategy called Integrated Business Planning (IBP). Some analysts say that this advanced version of S&OP may be the single best guide for navigating through tough economic times.

One expert who understands the edge that IBP can provide to companies is Nari Viswanathan, vice president and principal analyst, supply chain management practices, for Aberdeen Group. Viswanathan's recent research

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has shown that some leaders are moving toward this more advanced technique. "IBP involves extensive collaboration between the various groups in an organization and enables the unification of business goals and strategies, rather than just being a functional supply chain process, as S&OP is," he explains.

Viswanathan contrasts traditional S&OP and IBP as follows. S&OP's core elements:

- Involve volumetric supply demand balancing only.
- Represent a tactical process with limited linkage to overall business goals.
- Is spearheaded primarily by the sales or operations organizations.

Integrated Business Planning, on the other hand:

- Profitably aligns supply, demand, product,

and service (with risk management being an important aspect of the process).

- Is a strategic technology-enabled process aligned and integrated with financial and corporate goals and metrics.
- Offers a balanced approach with equitable participation from key stakeholders: sales, operations, product development, finance, and service.

Hitachi's Vaio also sees a trend of companies expanding to IBP from S&OP as they recognize the need to become even more proactive in this economy. "These days, S&OP is being used more with 'integrated business planning' to create an overall business planning process," he says. "This involves linking traditional S&OP information with financial information."

## **BASF Credits S&OP as a Cornerstone of Success**

BASF is the world's largest chemical company, with revenues of \$82 billion in 2008. "We have doubled our revenues in the last seven years, and we are the world's most profitable chemical company," reports Alan Milliken, the firm's business process education manager. "S&OP has definitely played a part in this."

BASF implemented its first S&OP process in 1992. Since that time, it has been expanding the use of the strategy to all of its business units. Currently, the company has implemented S&OP in virtually all of its 75 or so business units. "The only units where it is not in place are those that we have just acquired in the last year or so," says Milliken.

Why is S&OP so useful to BASF? When people ask Milliken this question, most expect him to respond with one or more of S&OP's traditional benefits, such as better service, less inventory, and lower cost. Indeed, Milliken admits that these are important.

However, the greatest benefit that S&OP provides to the company, he states, has been the creation of formal and comprehensive cross-functional teamwork and communication. In effect, everyone in the organization now knows what everyone else is doing. "We have really benefited from having a truly integrated organization," he emphasizes.

According to Milliken, it works like this: When you are in difficult economic times like these, and you have the formal structure of the S&OP process, plus the formal cross-functional integration and collaboration structure that S&OP has helped to create, you can respond to market conditions so much faster and better. Milliken continues: "If you try to respond with traditional communication during tough economic times—the hierarchical route, where you 'throw it over the fence' and wait for a response—that will be a killer. In a siloed organization, you just can't deal with the problems that occur in an economy like this."

For BASF, its ability to respond effectively during any economic conditions is a result of having built a cohesive cross-functional teamwork and communication network. And the root of that, Milliken emphasizes, has been the S&OP process.

According to Vaio, S&OP's traditional benefits include improved service, reduced obsolescence, and improved inventory turns. Plus, an important additional benefit is enhanced responsiveness to the market as a whole. "To be more responsive to the market, you need visibility and control of your supply chain, and IBP provides this," he states. (A joint survey by SCMR, IBM, and Oracle conducted earlier this year identifies the main benefits that companies hoped to achieve through their S&OP effort. See Exhibit 1.)

JDA's Baumann echoes the inherent benefits of IBP. He notes that some companies have been working to elevate their S&OP processes to an enterprise-wide global scale in order to enhance supply chain visibility, reduce costs, and achieve more integrated business planning and management. This "next generation" S&OP can actually become a mission-critical element of an IBP strategy, Baumann notes, which in-

**EXHIBIT 1**

**Expected Benefits from S&OP**



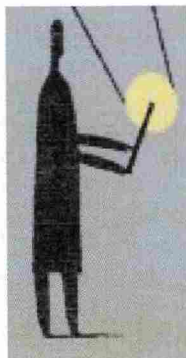
Source: Study by Supply Chain Management Review, IBM, and Oracle, February 2009.

volves linking operations to business performance. “In the past, S&OP has primarily been unit-based supply and demand balancing,” he explains. “These days, more companies are seeing it as an ‘integrated business planning’ framework.”

According to Baumann, when you have a well-defined and well-run IBP process, you quickly see improvements across at least two key metrics: (1) forecast accuracy because you have more cross-functional interaction within your own company as well as with trading partners and (2) stronger revenue because the forecast is more accurate and thus you are better able to manage risks and opportunities.

**S&OP as a Roadmap**

As companies evolve from average S&OP processes, to more strategic ones, and finally to integrated business planning, other transformations are also taking place, according to one observer. “For one, we are seeing more adoption of S&OP by senior leadership in



companies, especially the CFOs,” says Baumann of JDA. “We are also seeing more interest around demand sensing and shaping.” That is, as companies assess their time-phased S&OP plans, they are also coming up with “demand shaping.” This involves shaping demand upwards to close gaps that are exposed through the monthly S&OP cycle. New promotions or earlier new product launches are among the ways in which to accomplish this.

In short, the best-run S&OP and IBP strategies are those that not only provide executives with comprehensive information on what has happened, what is happening, and will happen, but also serve as roadmaps for navigating the twists and turns in a challenging economy. Given the magnitude of those challenges companies face today, the “now-more-than-ever” mandate of S&OP comes through loud and clear.

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