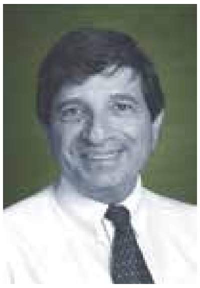

InSIGHTS

BY LARRY LAPIDE

Looking Over the Visible Planning Horizon

For successful S&OP, Telescoping Planning Horizons are best

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I met a young woman at a semi-conductor manufacturer who wanted advice concerning Sales and Operations Planning (S&OP) processes. Her Chief Operating Officer (COO) had asked her to start a process among executives. Her main concern was that the COO wanted it to focus exclusively on the immediate fiscal quarter.

This planning horizon is too short for executives to have meaningful future impact. Sales and marketing activities can't be significantly changed, supply is relatively limited, and the S&OP meetings are too operationally-oriented. I advised that she should focus on getting a routine process started and eventually convince the COO to move the planning horizon out to at least six months, and possibly up to 18 months; consistent with typical S&OP processes.

Planning Horizons, Goals, and Objectives

My November 2011 Insights column, "S&OP: The Linchpin Planning Process," discussed three types of planning processes that companies conduct. The planning horizon for Strategic Planning is typically three or more years out and driven by a future vision of a company. Its develops strategic objectives and goals that should drive Tactical Planning processes, such as S&OP, that develop weekly and monthly demand-supply plans. S&OP would then provide the linkage from strategy to the third type of planning, Operational Planning, that typically has planning horizons looking out up to a few weeks on a day-to-day or week-to-week basis.

An S&OP process should have the major objective of helping companies achieve financial performance goals. As such, a cross-functional S&OP team of managers is responsible for routinely assessing whether a company is on a path toward achieving these, re-charting a path to get there, or changing to more realistic goals.

Length of the Planning Horizon

Using the analogy of a ship crossing an ocean, the captain and officers of the ship (i.e., the executives of a company) are supported by a navigation team (i.e., S&OP) that is constantly re-charting the path to reach the final destination (i.e., the financial goals). Much as the ship's navigators are responsible for using global positioning equipment and weather and tide forecasts to assess if a course correction is needed, an S&OP team needs to routinely update supply-demand plans based on where the company is going relative to goals and assessing whether extenuating factors prevent them from achieving them.

Thus, an S&OP process that only deals with a planning horizon significantly less than six months will not tap into S&OP's full potential. For example, using a planning horizon of one fiscal quarter is like navigating a ship by just looking ahead as far as the eye can see, without knowledge about what things are happening over the visible horizon. (Indeed, in ancient times sailors worried about falling off the edge of a "flat" Earth.)

When thinking about what should be the

length of planning horizons, most supply chain managers say that it should be as long as the longest lead-time production material or component. However, this approach is manufacturing-centric. An S&OP planning horizon needs to consider all supply-demand lead times, not just those of production-based items. On the supply side, for example, it must also consider resource lead times such as those of labor, indirect materials, and equipment, as well as supply chain processes. 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.

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Telescoping Planning Horizons

A Stock Keeping Unit (SKU) for companies in the apparel and footwear industry is largely designated by an item's color, style, size, and width (for footwear). Yet these companies typically focus planning processes on the color and style of an item, possibly looking out up to 18 months. The planning horizon looks out that far because a company has to make decisions on the quantity of neutrally colored textiles to source in advance of production. Twelve months out, it needs to start making decisions on dying textiles. Closer in, such as six months out, it needs to decide on the quantities that will be sewn and stocked in terms of color, style, size, and width.

This industry follows a best practice that involves a Telescoping Planning Horizon, which is expanded up to 18 months and divided into three major segments. The period of time is extended this far out in order to support decisions that need to be made well in advance, while also recognizing that other decisions are made within shorter planning windows. Generally, the practice segments the planning horizon into two or more parts, and formally considers the decisions that need to be made within various segments of the planning horizon.

Some time ago, my Demand Management Research Group surveyed about 200 supply chain managers to get an understanding of the length of supply-demand planning horizons and the decision-making taking place within these horizons. (The survey solicited information for two segments of a Telescopic Planning Horizon: short term and long term).

Regarding the horizon, 68 percent of the respondents stated that their company plans supply-demand one or more years out, with only 16 percent using planning horizons less than six months. Eighty-six percent stated that during planning meetings, major decisions varied by the short term versus the long term, demonstrating telescoping approaches were prevalent. Lastly, the point at which respondents split the short term versus long term varied, with 33 percent stating that long term was after 12 months and 28 percent after six months.

Qualitative results on the focus of decision-making in the short versus the long term, as well as the aggregation of data used to support decisions within each segment, are summarized in Exhibit 1. The results support my advice to the young woman. An S&OP meeting focused exclusively on a planning horizon of only three months is too detailed and does not involve strategically impactful decision making. Executives need to attend meetings that deal with the long term as well as the short term.

EXHIBIT 1

Ranked Qualitative Results from S&OP Planning Horizon Survey

	Segment Within the Planning Horizon: Short-Term	Long-Term
Decision-Making Focus (ranked)	1. Inventory Replenishment 2. Production and Operations Scheduling 3. Buying or Procurement 4. Plant Capacity Planning	1. Outsourcing 2. New Product Launches 3. Plant Capacity Planning
Decision-Supporting Data Aggregations (ranked)	1. Detailed Item & SKU Level 2. Regional (Geographic) Demand 3. Customer Segments	1. Product Family 2. Brand 3. Customer Segments

Source: Demand Management Solutions Group Supply Chain Manager Survey (Fall 2007; 199 respondents)

I recommend using an SO&P process with a Telescoping Planning Horizon so that executive-level meetings are not entirely consumed by short-term decision making—often the purview of middle managers. It takes too much time away from an executive's focus on strategic issues. If executives are only looking three months out, much like ancient sailors, the failure to look beyond the visible horizon might result in a fall off the edge of the Earth.