



Is Talent Management the Next Frontier for S&OP?

By Jim Rice and Daniel Stanton

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Supply chain management is not the only function that is grappling with the problems of matching supply and demand in a highly uncertain business environment. HR faces similar challenges. But with HR, the mandate is to deliver people—not products—to the right place, at the right time, at the right quality, and in the right quantity.

In fact, the “personnel supply chain” obeys many of the principles that govern its goods-carrying counterpart. Which begs the question: Can demand management methods that have been tried and tested in the goods distribution universe be applied to the movement of individuals? We think that the answer is yes, in the form of Sales & Operations Planning (S&OP).

As we describe below, Caterpillar Logistics Inc. is using S&OP practices to manage its talent pipeline. In addition to bringing more rigor to HR processes, the company is using the process to help improve its staff recruitment and retention programs in critical areas such as supply chain management.

Parallel Universes

The idea that the flow of talent is akin to the flow of product is not new. Wharton management professor Peter Cappelli describes the history of this relationship in detail in his new book *Talent on Demand: Managing Talent in an Age of Uncertainty* (Harvard Business Press, 2011). Many of the talent management challenges that companies face today are analogous to problems that have already been analyzed in the operations research field, Cappelli maintains.

Delve further and the challenges become familiar. HR managers are wrestling with the demands of globalization, business volatility, and a more complex mix of skills, at a time when planning horizons are contracting. They must ensure that their “inventory” of talent meets

short- and long-term demands. When HR forecasts are off the mark, the result can be excess talent—and the possibility of damaging layoffs—or a scramble for new blood.

Supply chain managers also can relate to the day-to-day challenges faced by their counterparts in HR. Take, for example, the extreme swings in demand that HR folks deal with. It is not uncommon for a manager to navigate through a protracted recruitment program and be ready to send out job offers, only to find that the positions no longer need to be filled. Also keep in mind that, in general, it is far more costly to manage a supply of people than a supply of widgets.

But the reasons for extending S&OP to the talent pipeline go beyond the similarities between the respective supply chains. Operations managers are trained to use and appreciate tools such as S&OP; they are masters of program management and applying technology to real world problems. Moreover, they are taught to evaluate and redesign supply chains in line with the organization’s strategic direction. HR managers, on the other hand, seldom have the opportunity to learn these technical skills. The HR team/function can benefit greatly from these disciplines—and, by extension, so can the company’s talent management strategy.

It is becoming increasingly important to take talent acquisition and retention to a more effective level. As the MIT Center for Transportation & Logistics described in its spring 2010 white paper *Are you Ready for the Talent Management Crisis?*, the supply chain profession faces a serious shortage of talent. The types of skills required to run a supply chain are changing, as are the methods for finding and recruiting professionals. The emergence of new channels such as social media sites, online networks, and so forth, illustrates the many new options available to companies when seeking job candidates.

S&OP as Talent Management Enabler

In this environment companies that develop world class recruitment and retention programs can attract the best and the brightest. Cat Logistics offers a solid example. Harnessing the planning capabilities of S&OP to build and manage the Cat Logistics talent pipeline is part of the company's strategy to deliver superior results by maintaining global leadership and building the best team in the industry.

From a supply chain management perspective, the application of S&OP in the Cat Logistics talent management program is basic. From an HR standpoint, however, it is a leading edge application that could become a significant innovation in talent management.

For some time, Cat Logistics' managers have been required to submit a five-year business plan forecast, but this now includes an estimate of their group's headcount requirements over the period. These estimates are used to analyze workforce trends—which groups are growing and the rate of growth in different geographies, for example—at the departmental, divisional, and corporate levels.

And in much the same way that production forecasting must respond to variations in demand, so the HR process also has to be sensitive to demand signals. An economic downturn or strategic course change can transform the supply/demand picture quickly. There are also regional nuances in demand patterns to consider. In India employees might need regional knowledge such as an understanding of local differences in tax codes and infrastructural limitations, in addition to more general supply chain competencies. Postings in other countries, notably China, may require a different set of skills.

The projections are assessed in terms of alignment with corporate strategy to determine whether adjustments need to be made. This process is called Strategic Workforce Planning (SWP). It originates at the corporate level and is carried out at the business unit level, providing Cat Logistics with a global footprint of the human resource needs over a five-year period.

This planning process includes a tactical element. One-year estimates are derived from the five-year figures to provide more accurate forecasts of future staffing needs. By taking the number of people currently employed and the projected staffing needs one year down the road, and building in an allowance for losses through attrition, it is possible to generate a robust recruitment target for the following year.

The number of sources of "inventory" available to fill the gap between current and future needs is limited.

Talent is recruited internally, from educational institutions, from other companies, or (increasingly) from the military. Recruits can be new graduates, mid-career, or senior professionals, employees or contractors.

S&OP enables Cat Logistics to manage these sources of talent more effectively. Armed with a more accurate picture of how many individuals they need to hire and what mix of skills is needed, Cat Logistics' HR managers can make smarter investments and derive more value from recruitment channels such as universities and search firms where appropriate.

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At present, the S&OP process is housed on a master spreadsheet that contains detailed forecasts at the global, regional, facility, and functional levels. Possible future refinements include automation of the data collection from managers and the ability to automatically update the reports—features that would greatly streamline the process.

Developing a New Consensus

The deployment of S&OP disciplines in the HR arena, still at an early stage, requires a more thorough knowledge of the process. Supply chain and HR professionals need to collaborate to further develop the approach. Cat Logistics is bridging these two functions, recognizing that the closer relationship is critical to the success of the company's S&OP-based talent management approach.

In an environment where everyone is busy, it can sometimes be difficult for HR to build support and maintain engagement from the operational team. Linda Smolek Abel, Strategic Workforce Planning Consultant for Caterpillar Inc., says, "An initial key to demonstrating SWP value at Caterpillar has been an intense focus on ensuring the process is easy, the data is accurate, and the results are useful."

It is also important to recognize that the learning process is two-way. Supply chain managers can benefit from the opportunity to appreciate "people" issues that are often overshadowed by the technical aspects of their role. These so-called soft issues are growing in importance for operations and HR managers because impending supply chain talent shortages impact both functions.