

# Five Easy Fixes: How You Can Quickly Improve S&OP Performance

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Sales & Operations Planning (S&OP) activities are among the most important, but also the most complicated, tasks in supply chain management. And we need not dwell on the complexity--you all know too well the difficulties of running successful S&OP processes. But if you read the current articles on S&OP by supply chain software vendors, consultants and pundits, you will frequently find them recommending only expensive and long term fixes to the problem—often involving a complete redo of your S&OP process and technology.

So the title reflects what we would like to accomplish in our paper—discuss **Five Easy Fixes** to help you improve the performance of your S&OP processes without embarking on an expensive, company-wide, transformation journey which could take you many months. And please accept my apologies, Jack Nicholson, for stealing the title idea from one of your best movies—Five Easy Pieces.

The following paper will present some easy to implement ideas which can help make your S&OP processes more effective and efficient, as well as hopefully less painful for all those involved.

## Objectives

The paper has four key objectives:

First, we will review key trends in the S&OP space by examining some of the latest research and prognostications from top technology industry analysts who cover supply chain technology.

Next, we will discuss five easy fixes to common S&OP problems, based on my thirty years of consulting experiences in designing and installing new integrated sales and operations planning systems for companies.

Then, to illustrate possible fixes, we will also present a number of leading-edge company case studies to illustrate potential solution options for these common S&OP problems.

And, finally, we will present some thoughts on how you can best get started making a few easy fixes on your own S&OP processes.

### **What Does Analyst Research Reveal about S&OP Investment Priorities?**

Client research surveys by leading supply chain analysts show that S&OP has and continues to be a really hot topic among companies of all sizes and industries. How to develop an effective S&OP process is, as a result, one of the most studied areas in the supply chain analyst community.

AMR Research's Bruce Richardson, for example, says that S&OP is the number one topic among clients seeking their advice and counsel around supply chain issues. AMR's latest research in the S&OP space indicates that companies are increasingly concerned that they do not have sufficient technology resources to effectively run an S&OP process inside their company.

Recent survey results from the Aberdeen Group, based on responses from over 200 companies, large and small, and across all industries indicate that S&OP and supply chain visibility are the two top supply chain investment priorities for 2008.

And ARC Research analyses reveal that supply chain data quality continues to cause significant problems in running an effective S&OP process.

Honestly, much of this is old news to most S&OP practitioners, especially around the technology resources, data quality and management issues. It is, however, surprising, after thirty years in consulting, to see these same issues continue to crop up again and again in discussions around S&OP improvement options. Designing and managing an effective S&OP process continues to be a major problem for many companies.

What is new is the high level of focus on S&OP as a critical supply chain management activity. This may have a lot to do with our recessionary economic environment and the need to better match supply and demand in an uncertain world. When the economy was growing, the focus was on supplying enough products to consumers. Now profitability and avoiding over production have become the major financial drivers as demand slows. S&OP is obviously a key tool in determining how profit will be best created in today's challenging sales/production cycle.

## How do the analysts think S&OP will evolve and change going forward?

The major trend, shared by many of the top analysts, is that S&OP should be more “business-analysis inclusive”, adding, in particular, inventory and network optimization and analysis capabilities, to the S&OP mix. They have adopted a new name—**Integrated Business Planning**—to describe this broader, and more analytical, S&OP environment.

A second observation by analysts is that new product introductions (NPI) as well as end of life (EOL) product sell through should be a more important part of S&OP processes. The rapid growth in new products, both in total and in geographic diversity, is cited as the main reason for more extensive inclusion in, and evaluation of, the impact of product lifecycles on S&OP.

A third view is that the overall governance processes underlying S&OP need to be reviewed on a periodic basis to ensure that the activities support the expected outcomes. Too often, S&OP can become a “legacy application” for companies, where the same bad analyses and activities produce the same poor results. Garbage in-garbage out, as they say.

A fourth trend is that more direct knowledge of customer behavior, beyond what your channel partners provide in terms of forecasts and data, can improve S&OP accuracy. Traditional supply chain partners are often not the best judge of overall consumer buying habits. As an example, the proliferation of web-enabled sales channels is attracting new types of consumers for many companies. These consumers have probably not bought your products through existing channels. Mining additional insights on their behavior would be a key input to S&OP planning.

## Five Easy Fixes

With these ideas as background, the million dollar question is whether there are some “easy fixes” to help us adapt our S&OP processes to fast changing economic and market environments.

The following fixes are simple improvements to your S&OP process that do not involve large capital outlays or a major “change management” project. They should help upgrade your S&OP processes to take advantage of the improvements suggested by the analysts in the previous sections without breaking the bank, or trying the patience of your senior executives.

## **Fix # 1 --Identify better information on end customer behavior and incorporate it into the S&OP planning process**

If you are a manufacturer who relies on various retailer distribution channels to reach your consumers, you know that these retailers do not always put a high priority on providing accurate sales forecasts. Often, a low-level analyst is responsible for forecasting the sell through of thousands of products, including yours. The quality of these forecasts is questionable, yet they become a key input to many S&OP processes.

A best practice around securing better end customer data is to initiate a demand planning process with one or more of your “benchmark” retail customers. By benchmark customer, I mean a channel partner who carries a broad line of your products and represents an important share of overall sales. The idea is that this channel partner should have good knowledge of major market trends among consumers. By better utilizing their POS and related sales information as input to your presumably higher quality forecasting capabilities, you can acquire more direct consumer data, helping you better understand and predict underlying forecast drivers.

A broad-line, global CPG manufacturer worked with one of its major retailers to set up a process whereby, in exchange for access to more detailed sales and inventory data on their products, the manufacturer would use its account team and its sophisticated forecasting group to generate more accurate sales estimates. The pilot project involved only a subset of products, but resulted in an over a 10% improvement in forecast accuracy as well as additional sales lift and inventory reductions for both parties. The manufacturer was also better able to see overall consumer market trends for key product categories, information it applied to its analyses of other retailer sales data and forecasts.

Note all this was accomplished without any new investments in technology or changes in how their S&OP process operated.

## **Fix # 2--Expand post meeting management of the S&OP process.**

For many companies, the time between S&OP meetings can range from weeks to a month. Often, conditions change in one part of the planning process that can impact many other areas.

For example, manufacturing may have problems obtaining needed materials or parts, leading to a potential shortfall in product availability. It often happens that the rest of the S&OP players have incomplete knowledge of this issue until the next meeting. In addition, S&OP participants have been known to alter parts of the consensus plan without notifying all affected partners.

A best practice that we have used in the past is to have the company appoint a watchdog to monitor and approve any proposed changes to the consensus plan. Not always a popular position, the watchdog provides a forum between meetings to consider necessary

changes, or alert interested parties regarding unexpected shifts in production or sales plans. The key to the success of such a position is to appoint someone that all parties trust to be fair and understanding. The person should also report to a senior executive to ensure they have the powers needed to enforce necessary rules.

A global technology manufacturer adapted its business intelligence (BI) software to allow executives to monitor potential post-meeting changes to the consensus S&OP forecasts. Acting as sort of an “electronic watchdog”, their new S&OP executive dashboard alerts all relevant executives of any changes in key assumptions or constraints in the consensus forecast, ensuring “no surprises”, or at least fewer surprises in the implementation of the consensus plan.

### **Fix # 3--Include New Product Introductions (NPI) and End of Life (EOL) product forecasts in the S&OP planning process.**

Insufficient knowledge around when new products will be introduced, and in what channels, geographies and volumes (or terminated in the case of EOL products), can cause havoc with product profitability. This is especially true when the replacement product hits the market before the old product has mostly completed its sell through.

Again, a simple solution is to assign ownership of the NPI/EOL forecasting process to one group, or assign a person to be in charge of collecting and analyzing best available information on these transitions. Remember that you do not need precise data on all NPI/EOL products, only on the key ones that can have a major impact on an S&OP consensus forecast.

Analyst surveys show that NPI/EOL forecast error rates can be as high as 80%, potentially wreaking havoc on S&OP consensus plans. A little analytical work in this space can yield a lot of dividends around overall S&OP performance.

In an interesting trend, global fashion houses and fast-moving fashion retailers like Zara and H&M Stores devote a lot of time in their S&OP processes to tracking NPI/EOL products. That’s because product life cycles can be as short as two weeks in many circumstances for fast-fashion clothing, leading to costly mistakes if the channels are loaded with too little or too much inventory. These retailers often have their store managers heavily involved in the S&OP process, especially on preliminary planning calls to help determine what is or is not selling. The managers also provide important information on what new products consumers are asking for. This assists the NPI staff in determining what to introduce next and helps the EOL people to accelerate markdowns on some items or leave the prices alone if they are selling well.

#### **Fix # 4--Incorporate social networking as an integral part of your S&OP processes.**

If you really want to go “high culture” with S&OP and measurably improve communications among S&OP participants, try adopting social networking technologies to enhance interactions among them.

Readily available and inexpensive tools exist to help a company set up a business-oriented social network. Jive Software and Microsoft’s SharePoint, for example, enable companies to build and manage their own private networks, allowing the creation of Blogs, wikis, forums, discussions and data sharing in a single interface. Since key assumptions underlying consensus forecasts can change quickly pre or post the S&OP meeting, the software uses instant messaging, data sharing and forecast comment and analysis tools to quickly communicate among logged in members. This allows project work teams to increase collaboration, share ideas, and evaluate proposed changes in a more open and virtual environment.

A global software development company has added social networking to its S&OP process, linking product upgrade and development staff to manufacturing and sales. Progress on bug fixes, new versions, additional applications and new software packages is readily available to the S&OP team members. Developers can also get feedback from the S&OP team on issues arising at customers, input on new features needed, etc, so that the development process can be more responsive to the marketplace.

#### **Fix # 5--Add network and inventory optimization capabilities to your S&OP process.**

Most companies already employ network design and inventory optimization tools in their overall supply chain management analyses. The outputs from these tools are sometimes included in the S&OP process, but often not. Even less frequent is deploying these tools as part of the S&OP scenario evaluation and analysis process.

Incorporating network and inventory into the S&OP process allows for improved profitability through correct inventory positioning in the channel and optimal product stock keeping levels for each location, including customer facilities if appropriate. Again, your company probably has sophisticated inventory and network tools that other supply chain professionals are using for related analyses. With a little reengineering, these tools could also become part of your S&OP analysis.

If you really want to get sophisticated, you could also explore the use of multi-echelon inventory optimization, such as [Optiant](#) provides. Many legacy software inventory tools in use today offer only single echelon inventory optimization capabilities. While useful, the single echelon tools do not evaluate whether it makes sense to hold inventories at various levels of the supply chain. Multi-echelon inventory tools also typically identify substantially higher levels of potential inventory reductions in the supply chain than do single echelon tools.

A global consumer products company recently added multi-echelon inventory analysis capabilities to their S&OP process. Prior to the new tool, inventory planning was at the aggregate level in the network, not at the distribution center level, leading to significant stock rebalancing during plan execution. The new S&OP process sets safety stock targets by SKU and distribution center in week one, significantly reducing the need for cross-network product shipments later in the month. Overall inventory reductions in their network have exceeded 15%, with an added benefit of substantially reducing transportation costs due to fewer stock rebalancing requirements.

Similarly, a major snack food manufacturer uses network optimization tools as a key part of its overall S&OP process. With hundreds of regional and local distribution centers, the company now re-optimizes their network on a monthly basis, depending on demand and seasonal product changes. For example, for seasonal demand swings, instead of maintaining their own facilities to handle summertime peaks, the network analysis tells them where and when they need to rent short term space to handle regional surges in sales.

### **Honeywell: A SIOP Case Study**

One of the latest companies to announce that they are including inventory in their S&OP planning process is Honeywell. A \$37 billion conglomerate best known for aerospace and automation products, Honeywell's sales and production planning was historically done on a decentralized basis, with no consolidated view of unconstrained demand and minimal capacity planning.

A centralized corporate planning initiative at Honeywell sought to identify and incorporate best practices in designing and implementing a new SIOP process. Key features of the new design included constrained capacity planning, full visibility of platform and spares demand, evaluation of inventories across multiple supply chain echelons (including customers), and what-if scenario planning.

There are four core steps in their redesigned monthly SIOP process:

- Week one focuses on locking down demand planning scenarios, and developing realistic projections of future volumes and demand mix,
- Week two initiates supply planning, a rough cut projection of capacity, inventory availability across echelons as well as scenario analyses around constraints,
- Week three hosts the initial SIOP meeting (including demand/supply/inventory planning and financial/profitability analyses)
- And, Week four culminates in the final SIOP meeting, where critical decisions and game plans are authorized.

Key benefits achieved from the new SIOP implementation include: silo reduction in the planning process (yielding higher quality plans), increased data visibility (allowing better planning across all functions), and improved inventory positioning (resulting in happier customers and higher, more profitable revenues).

### **How can you start making some simple, but value-creating changes to your S&OP process?**

Everyone's S&OP world is a bit different from everyone else's. You will need to adapt any suggested fixes to fit your operations and market requirements. It is easy to get caught up in the "let's replace everything in S&OP because it's badly broken" scenario. But as a first step, try to make some incremental changes in your S&OP operations to see if better results can be achieved without a major investment.

One way you can uncover potential improvement areas in your S&OP process is to ask yourself and your S&OP colleagues the following three questions:

1. Where can I get better information to help my S&OP process be more effective? Hint: you might start with improving knowledge of your customers and their buying habits.
- 2..Can I make better use of technologies in my S&OP processes, including advanced network and inventory management tools? Another hint: why not begin working more closely with your supply chain strategy and inventory experts as part of your S&OP process.
- 3...Will enhanced management techniques, such as assigning responsibility for forecasting difficult NPI/EOL products, produce better results? A final hint: assign critical S&OP tasks to specific individuals and make them more accountable for results.

Use the outcomes from this exercise to develop a list of potential changes to your S&OP process. Set priorities by determining which changes can yield the highest value for your company. Attack the list using the "highest benefit/easiest implementation first" approach. And dedicate sufficient resources to make the changes happen.

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