Sales & Operations Planning

A Two-Part Journey to a Bigger Bottom Line



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Introduction

You can have a financial plan for your distribution business. You can have an operations plan, as well. However, until you can see your operational decisions within the context of your financial plan, you will continue to struggle financially as your supply and demand levels fail to match.

This whitepaper will demonstrate how you can positively impact your bottom line through improved sales and operations planning (S&OP), defined as "continuously balancing supply and demand, while connecting the impact of operational decisions to your financial plan."

In this regard, S&OP cannot be talked about in isolation. It includes elements of demand planning, supply planning and budgeting. Its purpose is to create the demand-supply balance essential to guiding operational decisions that have been evaluated against the financial context. Effectively executed, S&OP will deliver improved inventory turns and margins, leading to increased revenue, higher customer satisfaction and better use of capital. Simply put:

- Good intelligence sets up good planning.
- Good planning sets up efficient operations.
- Efficient operations support a growing, loyal customer base.
- And happy customers build the bottom line.

With a well-conceived, well-managed S&OP function, you will be able to create the kind of useful playbook it takes to generate a healthy bottom line – and build long-term shareholder value.

You know you have a S&OP problem if…

In the context of a distribution-intensive operation (handling lots of SKUs at a time), the difficulty of getting one version of the truth is a major stumbling block. Where customers in diverse locations present a wide array of changing demands, season-to-season, day-to-day, suppliers experience an ongoing ebb and flow of goods in stock, goods in production and goods in transit. Distributors are stuck in the middle, constantly struggling to connect the dots and reconcile their financial plans.

The data landscape is mottled by a crazy quilt of disparate systems, serving various streams of static and real-time information into a decision matrix overloaded with ecommerce, electronic and hard copy historical and transactional reports and records. Who is responsible for untangling the mess? How do you arrive at a reliable forecast? How do you tame this unruly universe, while business is pending?

The fact is, you may have a S&OP problem if you are experiencing:

- Communication disconnects due to varying functional versions of data.
- Difficulty connecting your business strategy to your operational planning.
- Difficulty turning your business strategy into an effective action plan.
- Both excess inventory and stock-outs on the same product within a few months.
- Fill rates not improving even after specific initiatives take place.
- Declining margins and declining revenue.
- Declining customer satisfaction, leading to a loss of customers.

Clearly, the way out is to devise a functioning S&OP system, where demand and supply are balanced, thereby enabling the financial plan. This system improves coordination across the supply chain, leading to improved customer satisfaction. When operational decisions improve, reality across the supply chain begins matching up with the financial plan. As the supply rate balances the demand rate, inventory turns faster. Customers begin getting what they want – when they want it – increasing revenues. Working capital gets put to better use. Margins increase. And the business grows along with shareholder value.

The challenge, in practice, is keeping it scalable, matching IT resources and computer power to accommodate the needs of the various S&OP stakeholders. The goal should be one look and feel for all, reducing training burdens and easing adoption of the platform for all concerned.

It comes down to the right process, the right tools

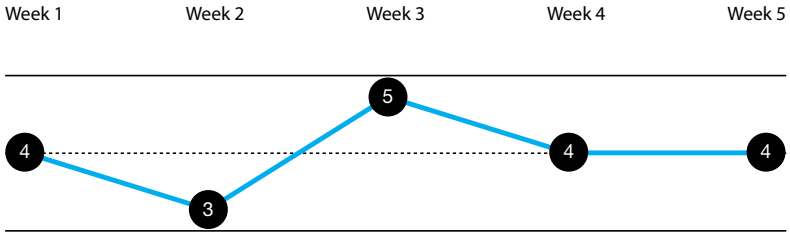
To accomplish a compelling S&OP solution you will need to consider two key ingredients: 1) an effective operations process and 2) the right technology for the job. In effect, you will be striving for a solution that embraces demand planning, supply planning, constraint-based planning and financial planning/ budgeting all in one. Thus, a component approach will not work; your process and technology should work together to form a holistic, sustainable, seamless solution.

The Process

Your process needs to work on a level that matters e.g. SKU level to turn strategy into results at the end of the day. Consider constructing a “gameboard” for a number of SKUs as a test. Each week, gather your sales, marketing, supply chain and manufacturing partners together to match demand with supply, attempting to balance SKUs between Maximum Weeks on Hand and Minimum Weeks on Hand. This will allow you to focus on exceptions at the SKU level.

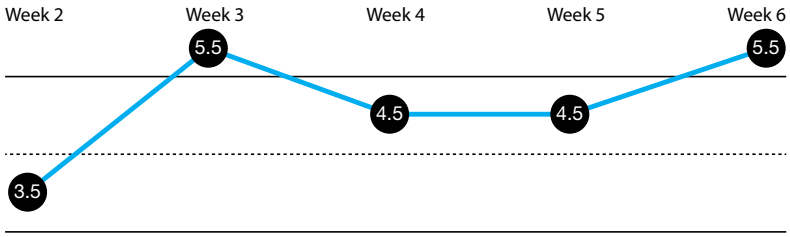
Product #123, Week 1 - Original Plan *

Product SKU #123	Week 1	Week 2	Week 3	Week 4	Week 5
Inventory	400	300	500	400	400
Sales Forecast	100	100	100	100	100
Production/Purchase	0	300	0	100	200
Weeks-on-Hand	4	3	5	4	4
Weeks-on-Hand Maximum	5	5	5	5	5
Weeks-on-Hand Minimum	3	3	3	3	3



Product #123, Week 2 *

Product SKU #123	Week 2	Week 3	Week 4	Week 5	Week 6
Inventory	350	550	450	450	550
Sales Forecast	100	100	100	100	100
Production/Purchase	300	0	100	200	100
Weeks-on-Hand	3.5	5.5	4.5	4.5	5.5
Weeks-on-Hand Maximum	5	5	5	5	5
Weeks-on-Hand Minimum	3	3	3	3	3



Managing for exceptions is the way to create more margin and improve inventory turns on the SKU level.

As SKUs breach their Weeks on Hand Maximum/Minimum thresholds, you clearly know the reasons and can then make decisions on possible resolutions for out-of-bounds instances. In the gameboards depicted above, actual sales for Product #123 were 50 units in week one versus 100 units forecasted in the original plan. The differences are reflected in the forward-looking inventory over time. All future inventory numbers are increased by 50. This SKU is going out of bounds and must be addressed as an exception in the weekly S&OP meeting.

Taken from "Make the Numbers, Don't Chase The Numbers" by Mark Payne

As the weeks progress, inventory numbers can be updated to maintain a balance. Consider the following formula in determining next week's inventory number:

Inventory – sales + production/purchase = next week's inventory number

Remember, for continuous improvement, simply focus on exception management. As the weeks go by, your gameboards for each SKU will begin to guide your decisions and reduce the number of SKUs that are out of balance. The core concept is to not rely on a black box system to evaluate each SKU, but to learn fundamentally how to analyze and manage out of balance situations.

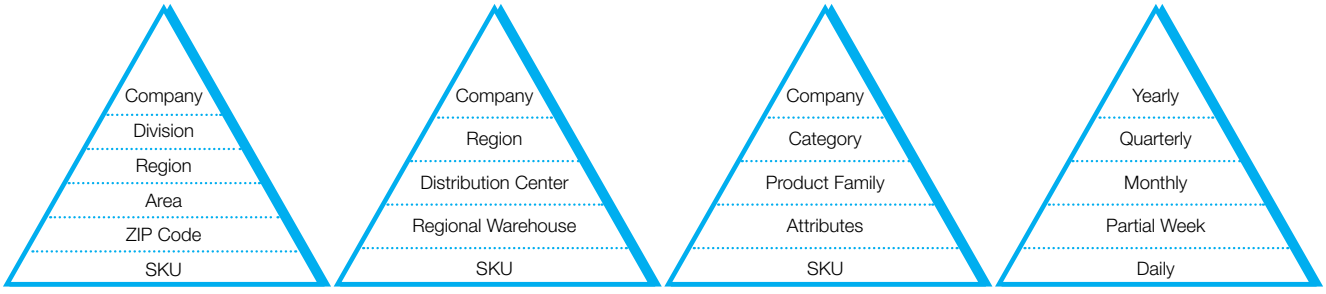
The Technology

With your team all on the same page, you can next focus on selecting an application to support your process across the combined demand, supply, production, inventory and financial gameplan.

Getting quality data is of primary importance in selecting any system. Your choice should be capable of providing you both root cause insights and a collaborative platform at once.

Regarding root cause insights, you will need a system powerful enough to provide you with drill-down analysis, dynamically by segmentation, into forecasting and historical data. You will want to analyze SKUs by geography, margin, company or business unit and product family, then cross-reference them against monthly, quarterly and yearly financials to arrive at one set of numbers.

As a collaborative platform, your choice must offer one version of truth. That is, everyone, including marketing, sales and supply chain partners, should all be able to access the same information to arrive at the same conclusions. Using role-based permissions and views, in familiar intuitive formats, this vision is achievable and should support quick deployment at all levels of implementation without the need for extensive training.



Geography Hierarchy **Supply Chain Hierarchy** **Marketing Hierarchy** **Time Hierarchy**

Root cause data should be viewed and analyzed by geography, margin, company/business unit, product family and over time.*

Taken from "Make the Numbers, Don't Chase The Numbers" by Mark Payne

Selecting a partner

Choosing a capable deployment partner will be critical to your success. Their familiarity with the distribution business will accelerate any S&OP deployment. A track record in your specific vertical market segment will also add value and facilitate implementation. Some questions to ask include:

- Does their solution integrate process with technology, or is it simply a software tool?
- Can they clearly articulate their process?
- Is their technology compatible with your existing enterprise system?
- Is it easy-to-use, easy-to-deploy?
- Is it scalable?
- Does the analysis capability demonstrate the desired financial outcomes?
- Are they a viable player with the resources to support your mission long-term?
- Does your team get along with their team?

Next steps toward a solution

Once you have selected a partner, the transition moving forward should emphasize process before technology. Gather the stakeholders, including your leaders in sales, marketing and supply chain operations, and gather their input. What is their current view of the situation? How do they see the process improving? Who will take the lead on their account in supporting the transition? Getting them involved early will create buy-in and raise potential champions for your cause.

Next, develop a financial baseline, setting financial goals and identifying the potential risks. Then, model your process using the SKU gameboard suggested above for a few key SKUs. Train the team on this weekly tracking method and test it for six weeks. Measure your outcomes against your goals and discuss what you learned as a team. This will create believers and produce momentum in your program moving forward.

With your team sufficiently schooled on the process and a few key SKUs already on track, run an application pilot using a limited number of SKUs. Again, after a couple of weeks, analyze your results, make any modifications necessary and fully install the program, testing it for integration with your enterprise system and general operations. As the pilot proves out, scale the venture across your entire SKU scheme. You should begin to see incremental improvements across the board, especially in the areas of margin and inventory, within a short period of time.

Summary

In the long run, your ability to balance supply and demand in the context of your financials will improve with a functional S&OP system in place. The improved collaboration will provide you with a single version of truth, improving decisions in all areas of your business. The combined process and technology together will empower your supply chain partners to manage what matters. And, the end result will be a market-driven system that maximizes your opportunity, mitigates risk and enables market-to-market demand orchestration for improved, long-term financial performance.

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