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Is Your S&OP or IBP Process Delivering the Results you Expected?



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Inspiring Business Excellence

"Why isn't this process working?"

Unfortunately, this is a frequent and frustrating sentiment in business; even more so when it's referring to recent investments in the aggregate planning process.

As Sales and Operations Planning (S&OP) and, more recently, Integrated Business Planning (IBP) also known as Advanced S&OP, have gained broad acceptance due to many successes across countless industries, it has also become common to hear stories of underperforming implementations, or even outright failures. There has been a lot written about the great successes of S&OP or IBP, but much less attention has been paid to the many challenges companies experience in their journey to true business excellence.

"We put all this effort into our S&OP/IBP process but…"



There can be many causes of these gaps. At the same time, when IBP and the associated aggregate planning principles are applied effectively, the results are exceptional. Executives will often commit to never again operating without it.

So why do many companies experience gaps?

The problem often begins with a poor understanding of how IBP really works, what is required to leverage it properly, and appropriately recognizing the limitations of the process. This, unfortunately, has been compounded by promises of easy implementations, exaggerated results, and poor linkage to the enabling execution processes.

The interesting challenge is, while companies need this firm linkage to execution, detailed execution itself should not be taken on by the executives but rather led by the executives. There is a big difference. One is easy…and tempting. The other is the more impactful way to operate. An executive may be able to "help" or "rescue" a situation by dropping down and overseeing detailed execution for a time, but the reverse is impossible. The execution level and middle management are not able to rise up and do the many mid- and long-term executive tasks that

> *"…when S&OP or IBP and the associated aggregate planning principles are applied effectively, the results are exceptional. Executives will often commit to never again operating without it."*



allow a company to prosper and avoid crises and firefighting in the first place. There is a key principle here: "No amount of effort in the detail will truly make up for errors made in the aggregate."

Here are four important truths.

Truth #1: Executives need to own their S&OP or IBP process and lead their people but personally get out of the weeds.



A recent survey conducted by Oliver Wight shows that many IBP processes are not owned at the executive level. Of over 125 respondents, more than 65 percent indicated that their IBP process is not owned by executive leadership but rather by lower-level employees, often as junior in the organization as demand or material planners. This results in a weak IBP process, with executives often out of touch with the critical issues while, at the same time, often overruling decisions made in the IBP step meetings and a tendency for decisions made in the planning meetings to be overruled.

When executives don't own the IBP steps and process, they are often tempted to dive in when a problem occurs. The executives may get the problem resolved but total cost, including employee confidence and cascaded accountability, is compromised. If this becomes a frequent pattern, even highly competent mid-level leaders will quietly think, "Just tell me what you want" and then resent the intrusion and lack of trust, while possibly energizing a search for employment elsewhere. Apart from the visible impacts, less obvious consequences also occur, such as the executives taking their eyes off the ball, meaning long-term planning suffers. This is a vicious and difficult cycle to break, as one problem leads to another. The irony is that a high-functioning S&OP or IBP process is designed to get well ahead of the execution zone and avoid these problems.

In a recent client diagnostic review, it was discovered that the entire senior executive team would convene monthly for what they called their "S&OP Management Business Review," where they drilled down on the output of a very complex

spreadsheet of the profit and loss outlook. The meeting rarely got out of the current quarter, and the executives searched for the only lever they really had left to fill the gaps; "Who can we get another order from, and what price drops, favors, fancy accounting, etc. can we apply to make the quarter?" In the process, virtually all of their mid- and long-term and, ultimately, more effective and profitable options were lost.



After a full redesign and implementation of their IBP process, this executive team operates very differently. Although they still struggle at times with their old behaviors, they drive the discipline to get out from the day to day and into the future quarters. They have made an impressive return to growth and added 2.4 percent to their EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). Much of this success can be linked either explicitly or indirectly to their executives owning the IBP program. They have visibility, understand and make decisions on their most important business issues, and support the development of their robust and repeatable execution process. To be clear, the executives will still go deep when they need to, but it is with the intention of reducing or eliminating the need to do so because their teams are getting stronger from this exception-based involvement. Finally, everyone is gaining confidence that the right decisions are being made by the right people when they need to be made.

Truth #2: Executives must understand how aggregate planning is designed to work and how this fits in with their enabling processes (i.e., sales execution, order management, master scheduling, inventory management, detailed financial planning).

The S&OP or IBP process exists to execute long-term objectives and plans, and an executive who properly executes the process needs to keep in mind one simple fact: This higher-level planning still needs to be appropriately linked to the day to day. Errors made at the aggregate level often cannot be fixed by just working harder at the execution level (or it is very costly to do so), but it is equally true that successful execution on the "big items" must include consideration and appropriate linkage to the actual execution in the many departments, with the individual responsibilities and everyday tasks.

Here are a few examples of questions that will require attention and consideration in a successful IBP implementation. "Above the line" references the aggregate planning realm, and "below the line" references the enabling/execution systems and processes:



"Do we have clarity on what above and below the line is and what is going to occur in each of these critical areas?"

"What decisions will occur where, by whom, and when?"

"Do we know the relationship between market/ customer needs and the necessary decision timing and execution capability of our organization?"

"Do we have a demand planning or forecasting process?" (There is a big difference.)

"How will I best aggregate and build the draft demand plan and disaggregate my approved demand/IBP plan each month?"

"Will I be able to sense, assess, and respond appropriately to short-term demand/consumption issues?"

"Will I be able to sense, assess, and respond appropriately to short-term supply issues?"

"What do we do about the skills and capability gaps throughout our teams?"

In short, making linkage is crucial. Unfortunately, many executives who are very good at high-level planning and strategy development are not as involved or knowledgeable about the interplay of more detailed execution processes. This is one of the fundamental reasons why costly and time-consuming company strategies often deliver poor results.

Perhaps the most frequent complaint from mid-level managers and high-level contributors is, "Management is out of touch with reality" or "It feels like we're being asked to run two companies: one that operates in the executives' heads and one that's stuck dealing with reality."

The result is "multiplicity;" multiple versions of the truth and multiple forecasts (i.e., one told to shareholders, one from commercial teams, another from the plants and, yet, another - the finance team). This leads to a lot of unnecessary work, frequent rework, and poor trust up, down, and across the organization where execution suffers.

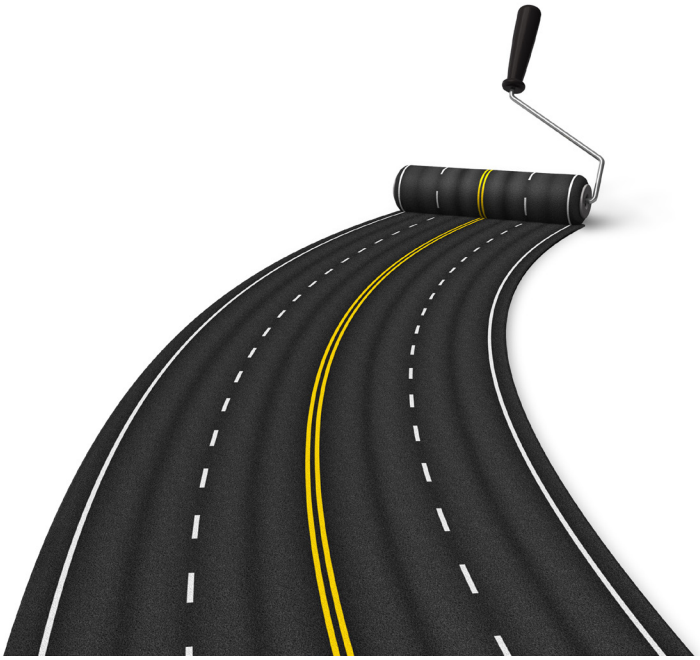
It is absolutely critical to understand high-level planning and the enabling execution processes and to understand the linkage between the two. Only then can all departments each play their positions; all executing to the same game plan.

Truth #3 – Software is often blamed incorrectly. These are generally not tool problems, though these issues can be reflected in the toolsets.



Remember the term "decision support tools," as it highlights that it is people, not these tools, that make the decisions. However, for the software to provide the necessary information to support a decision, the system must be fed the right information and be configured correctly. If the software is improperly applied or configured, it will simply allow bad decisions to be reached faster and more expensively.

While certain tools are important and play a vital role in helping to solve business problems, the picture of near-magical connectivity and linkage of entire enterprise



systems is a common error. Another common problem is to search for a level of specificity and accuracy that is simply not required for many of the most important top-level decisions.

The real question of, "What do I need?" should be answered by first asking, "What am I trying to accomplish?" When this direction is clear, the team is better positioned to develop the processes, tools, and, often most importantly, behavioral change that will be required to deliver the results.

These are first and foremost business issues requiring better understanding, clear options and, most critically, committed decision making at the executive level.

Truth #4: While the software may not be the problem, software configuration may contribute to the issues.

Proper software configuration requires a clear vision and set of requirements. As noted earlier, this means that the leadership team knows which problems they are working to solve and the people, process, and tool investments to get there. A clear understanding of current reality is imperative and is often compromised by problems such as these:

- The plant manager doesn't want to admit that the operation's yield isn't meeting the 95% goal – more like 80% – and "secret rework" is covering up the rest.
- A supplier's promised lead time of six days is more like nine to ten days, but the system is programmed at two weeks because the extra "security blanket" makes execution easier.
- First-pass quality isn't accurate nor properly measured.
- Inventory record accuracy is incorrect, and the process ownership is unclear.
- Sales isn't selling what they promised, but the system is still driving to deliver to the incorrect forecast.
- The "routings" in the system (the information which tells the system how to make product) are inaccurate and out of date.

The reality behind Truth #4 is that this "detail and discipline stuff" can really trip up an otherwise excellent executive team and their excellent plan. Master data maintenance, proper scheduling, better prediction of future demand, better customer integration…all of these are boring to talk about and tedious to maintain but are essential enablers to successful delivery of bigger goals. Most software packages will do what they claim to do but will only do it under three circumstances:

1. The configuration reflects reality, in that the timing and data is set up correctly and according to the reality of the situations modeled.

2. This reality-based master data and configuration is maintained objectively, vigorously, and routinely, with a process and ownership designed to support it.

3. The system or software is not modified nor customized extensively from its original form.

So, how does this apply to an S&OP or IBP process?

Let's revisit the four truths.

Truth #1 Executives need to own their S&OP or IBP process and lead their people but personally get out of the weeds.

Truth #2 Executives must understand how aggregate planning is designed to work and how this fits in with their enabling processes (i.e. sales execution, order management, master scheduling, inventory management, detailed financial planning).

Truth #3 Software is often blamed incorrectly. These are generally not tool problems, though these issues can be reflected in the toolsets.

Truth #4 While the software may not be the problem, software configuration may contribute to the issues.

The true key lies in the statement behind Truth #2: Once you have implemented and realize the power of aggregate-level business planning (IBP), then it is time to confirm the linkage to your execution processes. Execution can only meet reality when answering the question, "How does this execution support our higher-level plan, and how is our higher-level plan affected by our ability to execute?" The truth is that reality exists, not only at the level of product plans, demand plans, master data, bills of material, routings, and transactions, but also in the very real expectations of markets, stakeholders, shareholders, executives, and long-term business plans.



One key is to drive tactical and execution plans top-down from the strategic plan. This linkage is, and should be, an iterative top-down process that is straightforward, well prioritized, and with clear accountability of the execution teams to deliver.

Bottom up, however, is impossible. The organization cannot size the business appropriately in the 0 to 24-month (or beyond) horizon and drive a strategic plan by working up from execution-level efforts. Remember, no amount of effort in the detail can truly correct an error in the aggregate.

Taking the S&OP or IBP process to a high-performing state can be challenging to achieve but is worth the effort. Beginning with high-level planning, one can derive mid-level tactics. From mid-level tactics, execution steps can then be considered. The S&OP or IBP process can then be applied with confidence and well-orchestrated results.

Try it in reverse. Beginning only with transactions, it's difficult to align tactics and impossible to derive a sense of higher-level direction and expectations and realize the "how" behind meeting those very real expectations of markets, stakeholders, and shareholders.

In addition to the four truths, here are four critical realities:

Reality #1 Effective linkage is required up, down, and across the organization to fully optimize customer, operational, and financial performance.

Reality #2 Lack of focus and errors in the aggregate cannot be made up for by efforts in the details.

Reality #3 If this was easy, everyone would be doing it. This linkage is straightforward to describe but takes a lot of work to put in place.

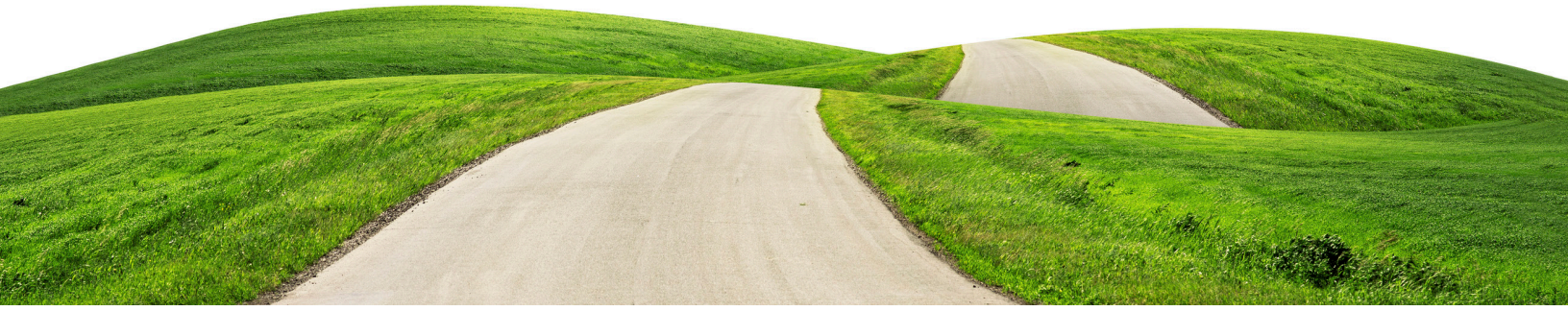
Reality #4 Linking plans to reality and the IBP process to enabling processes, while difficult, is possible and is a prime differentiator of top-tier performing companies.

In summary, as S&OP and IBP have proliferated into a "must have" for top-performing companies, there are many examples of successes, but also many instances of underperformance or even outright failure. The root causes of many of these failures include a poor understanding of how S&OP or IBP is designed to work, poor linkage into executional processes, overly complex/poorly configured systems, and insufficient focus on people and behaviors.

If you are experiencing one or more of these challenges, don't give up. Recognize that this is a journey that will deliver and exceed your most ambitious objectives only if you:

- Focus.
- Take a good, objective position on what you and your team need to focus on next (often an external resource helps in gaining this objectivity).
- Be accustomed to everybody playing their positions a little differently.

The results will start to flow, easily validating that the effort and the journey are worth it.





ABOUT THE AUTHORS

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