Informative guides on industry best practice

OLIVER WIGHTPAPER series

Five Simple Questions

How to get the best from your S&OP or IBP process



Inspiring Business Performance



By Mike Reed
Oliver Wight Partner

Introduction

Since it was originated by Oliver Wight in the early 1980s, sales and operations planning (S&OP) has become the business management process of choice for thousands of organizations all over the world. But although these organizations may have all adopted the language of S&OP, they have not always adopted the fundamental practices, which have made it successful. Consequently, many have not yet experienced the true benefits it can bring. Of course, some have either chosen not to keep their S&OP process up to date with business and market demands, or simply neglected to do so. Many though, are keen to evolve, and for them, help is at hand with five simple questions for successful S&OP.

For those that want to change, the major issue is how to get their S&OP process to become the decision making forum they intended it to be; one in which plans are reviewed and validated, key business issues identified and one which helps them drive the business towards its financial and strategic objectives. In short, a process that becomes the very DNA of the business. This is 'Advanced S&OP' (or Integrated Business Planning as it is more widely known) - the evolution of S&OP into a fully integrated management and supply chain collaboration process.



From S&OP to Integrated Business Planning

At the heart of the Integrated Business Planning process is a five-step monthly planning cycle, comprising a series of scheduled review meetings for: product or activity management; demand; supply; integrated reconciliation; and the management business review. Unless organizations implement these meetings effectively to review, present and communicate progress and change, their S&OP process will never mature beyond a simple forecast run by supply chain to estimate required production volumes.

One of the challenges for organizations, which are new to Integrated Business Planning (IBP) or which are trying to transition from traditional S&OP to IBP, is to make these individual review meetings as productive as possible. The objective should be to sign off the plan at each step of the IBP process (product, demand, supply etc.), and 'sign-off' means that every Chair of the five review meetings has agreed:

1. The plan is realistic and achievable
2. The plan meets the business needs
3. Resources and actions requested have been authorized

The IBP review meetings should not be discovery meetings but action-oriented: key assumptions supporting each part of the plan need to be understood; any changes from previously agreed plans acknowledged and the implications of these changes identified; and finally, action plans need to be agreed to support the business over a 24 month horizon.

In order for this to work effectively, each of the IBP review plans needs to be visualized, so it can be validated and then signed off. A clear structure is therefore essential to retain focus and to drive key meeting outcomes. Many companies have developed 'meeting effectiveness templates' to assist in driving S&OP process improvement but often these become overly complicated and as a result, counter-productive.

So Oliver Wight have developed a series of five questions – simple 'must-haves', which can be applied to any organization and which can be used in each of the five IBP review meetings to ensure they address the key issues facing the business in a standardized way, validate the plans and make required decisions. In short, it provides a means of pushing the S&OP process to become more than just 'forecasting', and help it mature into the series of valuable business meetings required by IBP.

The Five Question Concept

These are the key questions that need to be considered by all participants and answered by the end of each IBP review meeting in order for plans to be 'signed off':

1. **How are we performing now?** Have we met our stated plans so far? If not, what does this mean with respect to our assumptions for the plan going forward? What do we need to do to get back on track?

2. **Is the plan valid?** Is it realistic? Are the assumptions sound and well understood and are they likely to produce the planned result? Do we believe it, based on the activities as stated?

3. **Is the plan sufficient?** Does it the meet our commitments in terms of strategic objectives and the financial targets of business plan?

4. **What if?** Does the plan contain any key 'sensitivities' (upsides and downsides) that require "what-if" analysis and contingency plans to defend or exploit as required? Have alternative scenarios been presented? What are these and how will they be progressed through the process?

5. **What is needed to deliver the plan that is not already in place?** What additional resources or team alignment are required to ensure the plan can be delivered as stated? What decisions need to be made?

The Five Questions Unbundled

A key design feature of best practice Integrated Business Planning meetings is the use of a business segment or 'family' sheet that allows for effective visualization and understanding of the plans for appropriate aggregates of the business. The family sheets should therefore be structured to ensure the Five Questions can be answered. It isn't essential that the Five Questions are asked explicitly, but they must be fundamental to the structure of the information pack prepared for each review, and in the presentations and discussions during the meeting. They should provide the very foundation for each of the family sheets and all the major segments of the business plan.

Question 1 – How are we performing now?

Before discussing future plans, it is vital to understand how well the organization has performed against previous plans. Understanding this performance will provide insight into the quality of the assumptions and therefore how such assumptions might apply in the future.

Each of the IBP review steps requires a set of key performance indicators (KPIs) to be identified. For the Product Management Review the KPIs should include 'milestone adherence', 'new product success rate' and a portfolio health measure (such as 'average margin', or 'A:B:C ratio'). The Demand Review KPIs should include 'aggregate sales plan performance' and 'forecast accuracy', plus '% assumptions realized'. At the Supply Review, KPIs will include 'aggregate supply plan performance' and 'master schedule adherence'.

Each KPI requires a target and the performance review needs to include an understanding of the root cause when targets are not being met, as well as what corrective action is planned. These of course, will provide insight into how to improve the quality of assumptions being used in future plans.

Question 2 – Is the plan valid?

Effective Integrated Business Planning requires that all plans be founded on clear assumptions. Each of the assumptions needs to be supported by actions that make the assumption real.

Presentations of each family plan at the reviews need to clearly identify the assumptions and actions that make the plan real. For the Product Management Review, assumptions will include 'project status', 'projected launch dates', 'portfolio rationalization activities' and 'projected revenues and profits', as well as supporting project resources and their availability.

At the Demand Review, plans for each family will need to be underpinned by assumptions about projected market share, sales and marketing activities (promotions, tenders, campaigns, etc.), pricing activity, competitor activity and so on. For each of these, there will be assumptions as to expected outcomes – volumes and revenues – time phased.

For the Supply Review, assumptions deal with capacity availability, throughput rates, projected material costs, and improvement activities. As with the prior review steps, assumptions must wherever possible, be founded on demonstrated performance.

When discussing or reviewing the assumptions and activities, participants should be asking themselves: 'Do we believe that the projections stated represent the most likely outcome based on the activities described?" If not – the plan is not valid and needs to be revised.

Question 3 – Is the plan sufficient?

Having come to an agreement that the plan is valid based on the activities and assumptions the next question is: 'Is this going to deliver the results we need to achieve our stated business goals?' The answer requires referral to the business plan and the strategy.

At the Product Management Review: Is the new product pipeline being shaped effectively? Are we projecting the required revenues and profits from new products to deliver the business plan goals? Will the portfolio be re-shaped to match strategic objectives? Will this occur in time? If not, where are the gaps?

At the Demand Review: Will the required revenue and margin targets be achieved (this fiscal year and the next)? What actions are required to close gaps? If targets are being exceeded, what actions are required to sustain the additional performance?

At the Supply Review: Will the plan effectively meet all projected demand? Are there cost implications in doing this? What are the options and alternatives to be considered?

Question 4 – What-if?

This question cannot be answered without in-depth knowledge and understanding of the assumptions that underpin the plans – in other words, the answers to Question 2. The objective here is to identify any key 'sensitivities' in the plan (vulnerabilities or opportunities); potential downsides or upsides to the plan that should be defended against or exploited respectively. Once these have been identified, different scenarios can be constructed and contingency plans put in place. Such plans then need to be shared and developed through the Integrated Reconciliation process.

Note that 'vulnerabilities and opportunities' should not be used as excuses in advance for something that 'might be different to our projections'. It is about identifying areas in which there is significant uncertainty beyond the normal range of variability expected from any projection into the future.

Question 5 - What is needed to deliver the plan that is not already in place?

Here is where the rubber hits the road. This is how the key decisions required to make the plan happen are made. These may be an authorization to do something, an agreed alignment across the team regarding a particular set of activities (such as agreement to certain priorities or support required), or a specific allocation of resource (money, time, people) to make a part of the plan work.

Not all plans will require additional resource or team alignment. Sometimes the answer to the question is, 'nothing, we're good to go as long as everyone agrees to the assumptions'. However, it is always important to think through whether there is additional support needed. It is often valuable for the meeting chair to simply ask at the end of each family review, 'is there anything you need from me?'

Summary

The Five Question concept is a simple way of structuring information and discussions for each of the review steps within an Integrated Business Planning process. The concept works best when applied to each family or business segment being presented within the review. If the Five Questions can be asked and answered for each family or business segment, the plan can be properly "signed off". Plus, required decisions will be clearly identified and put in front of the meeting. This approach not only makes review meetings much more effective in their own right but can also accelerate and accentuate the benefits from the IBP process as a whole. Those organizations serious about gaining more from their S&OP or IBP process would be well advised to consider it.



About Oliver Wight

Oliver Wight has a 40 year track record of delivering business improvement to some of the world's best-known organisations. We believe that sustainable improvement can only be made through your own people. So unlike other consultancy firms, we transfer our knowledge to you, which means you can achieve performance levels and financial results that last.

At the leading edge of management thinking and practice, our Integrated Business Planning (IBP) model lies at the heart of our clients' journey to outstanding business performance. Oliver Wight originated Sales and Operations Planning in the 1970s and IBP can most simply be described as advanced S&OP; evolving from its production planning roots over 40 years ago into the fully integrated management and supply chain collaboration process it is today. IBP allows the senior executive to plan and manage the entire organisation over a 24 month horizon, aligning tactical and strategic plans each month and allocating critical resources to satisfy customers in the most profitable way.

OLIVER WIGHT

Oliver Wight Asia/Pacific
131 Martin Street, Brighton
Victoria 3186, Australia

T: +61 (0)3 9596-5830
F: +61 (0)3 9596-5840

information@oliverwight-ap.com

www.oliverwight-ap.com

Oliver Wight Europe, Africa & Middle East
The Willows, The Steadings Business Centre
Maisemore, Gloucester GL2 8EY, UK

Oliver Wight Americas
P.O. Box 368, 292 Main Street
New London, NH 03257, USA

The information contained is proprietary to Oliver Wight International and may not be modified, reproduced, distributed or utilised in any manner in whole or in part, without the express prior written permission of Oliver Wight International.

Inspiring
Business
Performance