A N A L Y S T C O N N E C T I O N

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S&OP: Best Practices for Better Business Agility

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Sales and operations planning (S&OP) remains an area of particular interest to manufacturers. It was the highest-prioritized application area in the IDC vertical markets' IT survey in 2010 and was a strong topic of discussion with IDC Manufacturing Insights clients in 2011. We continue to see robust interest in the marketplace, but clients are now wrestling with the question of best of breed versus an integrated planning approach. In the past, S&OP was largely the purview of smaller, niche software vendors, but that's no longer the case as market-leading options are now available from the larger platform vendors. One consequence of this is the appeal of the integrated planning platform as a way to better align demand and supply and come to a consensus view — rapidly and repeatedly.

The following questions were posed by SAP to Simon Ellis, practice director for Supply Chain Strategies at IDC Manufacturing Insights, on behalf of SAP's customers.

Q. In recent years, S&OP has become a primary focus for many manufacturing companies. What's the reason for this trend, and why is S&OP important in the current manufacturing business environment?

A. Recent IDC Manufacturing Insights surveys certainly support the fact that companies are identifying S&OP as a top priority. This is interesting given that the concept has been around for 25 years. I think the reemergence of S&OP as a priority has to do primarily with the stress that the global recession put on so many businesses and the realization that in a volatile demand/complex supply business environment, all constituents in the planning process need to be aligned and focused around a consensus view of the business.

One can also make the argument that an effective S&OP process is as much about the business process as it is about the tools to facilitate that process. Further, as the external environment changes, so do the internal business processes, which in turn change the way that S&OP functions within the business. Particularly when businesses undergo substantial changes, as we have seen in manufacturing supply chains over the past few years, it heightens the need to reconsider and redefine S&OP.

The other factor driving the increased interest in S&OP is the need for greater agility in the business. Demand volatility is requiring companies to react more quickly to demand changes and, in turn, drive those requirements into the supply side of their supply chain. This has given rise to an "operational S&OP" that must iterate quickly and frequently.

Q. How are companies approaching S&OP, and what is the role of technology — more specifically, "big data," collaboration, and analytics?

A. This is partly a discussion of process maturity and partly a discussion of technology. If a company is relatively immature in S&OP, then the starting point must be to define both internal business processes and key external collaboration partners. Certainly, companies fit this description, but in the experience of IDC Manufacturing Insights, the majority of large enterprise manufacturers already have a defined process, and although the process is not perfect, they find themselves constrained by the lack of an effective IT tool to facilitate it.

Overall, S&OP is a complex process with many moving parts. The ability to have an effective process without technological enablement is increasingly difficult, particularly as it relates to real-time simulation/"what if" capabilities and cross-functional collaboration. The challenge of "big data" and practical analytics simply reinforces the need for IT capability and an S&OP application that can leverage the massive amounts of available data — both internal, downstream from retail and upstream from collaborating suppliers — to arrive at a better consensus view and, frankly, to do it in a timely enough fashion to be useful to the business.

As stated earlier, demand volatility is requiring companies to react more quickly to demand changes and, in turn, drive those requirements into the supply side of their supply chain. This increases the need for embedded analytics and real-time simulation capabilities as well as an application that integrates analytics, a unified process model, collaborative processes, and process management capabilities to enable the most effective S&OP process.

Q. What are some of the prerequisites and key steps involved in successfully implementing S&OP? How does speed factor into the S&OP process, and is this helping to drive the investment in technology?

A. Implementing an effective S&OP program has proven to be challenging for many companies. I think this is partly because of the level of complexity that is inherent in bringing multiple functions together into a common process, but it can also be because the process often has unrealistic expectations — at least at first.

At IDC Manufacturing Insights, we've heard the comment "I've implemented S&OP, and frankly I have not observed much change" many times from manufacturers, only to find that there was no common business process being followed, the process was being done exclusively through sales, or the IT tools necessary to support the endeavor were not supplied. Whatever the reason, it is important that when undertaking an S&OP journey, companies keep in mind a few simple rules:

- Companies need to ensure that a clearly defined project team is in place (executive champion, steering team, and process design team).
- Companies must be clear and pragmatic about the benefits to the business and how quickly they will accrue.
- To be effective, S&OP must be a cross-functional effort across sales, marketing, R&D, manufacturing, procurement, supply chain, and finance. For example, even if companies roll finance into the process in a second phase, they need to make sure that finance is involved in the up-front design and implementation process.
- As business complexity and the need for greater speed intensify, the old adage that S&OP is "80% process, 20% IT" seems to apply less and less. Companies should define the process first, certainly, but recognize that business complexity will be far better managed, and at a pace commensurate with the "speed of business," with a purpose-built S&OP application.

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Q. What are the business benefits that companies see from implementing S&OP?

A. When an S&OP process is properly implemented, the benefits can be extensive. There are the "hard," easily quantifiable improvements in customer service levels, reduction of inventory, more consistent supply production, and shorter supplier lead times — benefits that have been demonstrated by companies over and over again when implementing S&OP.

But there are also the "softer," less easily quantifiable improvements that can affect key performance indicators in indirect, but impactful ways. These improvements include better working relationships with other business functions, ownership in "achievable" targets, a sense of teamwork, a "can do" approach to delivering to the customer, and, of course, an agreed-upon and aligned plan across the company. The other soft benefit from S&OP that I hear about all the time is the ability to better anticipate future business changes through the regular process of consensus planning — that is, making better, faster decisions.

Q. What is the ideal breadth and depth of participation in the S&OP process? In other words, who should be involved?

A. As a general rule, S&OP is most successful with the broadest participation possible. At a minimum, sales and supply chain should be involved, but where companies also involve finance, marketing, and/or product development, the positive results can be significant. This breadth of involvement doesn't have to start right from the very beginning, however, and anecdotal evidence suggests that companies may be better served by starting slowly — for example, with just sales and supply chain — and adding broader functional participation as the process matures.

The determination of the breadth and depth of participation will also depend upon the type and purpose of the S&OP process. Many companies, for example, run different levels of S&OP at different frequencies. An "executive S&OP" may be run quarterly, or even semiannually, and involve only senior leadership of the major functions. Conversely, an "operational S&OP" is run more regularly, certainly monthly or even weekly, as a company's fiscal year draws to a close, and participation will be both functionally broad and subfunctionally discrete. So, for example, the "operational S&OP" might include a sales director, supply chain planning manager, marketing manager, and product development manager as regular participants but also include purchasing or logistics representation when business issues dictate.

Ultimately, the purpose of the S&OP process is to develop a cross-departmental consensus business plan that is achievable, given the business aspirations and constraints, and ensures that every function and subfunction within the business is working to achieve the same goal. Leading companies do this most effectively by involving as many areas of the business as is practical.

ABOUT THIS ANALYST

Simon Ellis currently leads the Supply Chain Strategies practice area at IDC Manufacturing Insights, one of IDC's industry business units that address the current market gap by providing fact-based research and analysis on best practices and the use of information technology to assist clients in improving their capabilities in key process areas. Within the Supply Chain Strategies practice, Mr. Ellis specializes in advising clients on low-cost sourcing (LCS), Lean, Six Sigma, and more. Mr. Ellis also contributes his supply chain expertise to IDC Retail Insights research.

A B O U T T H I S P U B L I C A T I O N

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