Executive Sales and Operations Planning

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Planning is a strategy for survival.

Planning can be anywhere on the spectrum from the dream to the nightmare.
Why Do Organizations Plan?

- To anticipate and prepare for the future
- To ensure adequate and available resources
- To complete projects on time
- To avoid problems
- To establish backup plans
- To ensure we don’t forget tasks
- To determine potential results
What’s The Alternative?

The alternative to planning is NOT planning, & businesses that do not plan are extremely difficult to control and manage:

- **EXPEDITING** is endemic
- Drift from **Crisis** to **Crisis**
- **Priorities** change from minute to minute
- **High Stress** diminishes customer service
- **Costs** are difficult to contain
What needs to be planned?

- Resources
- Information Systems
- Finances
- Services
- Products
- Materials
- Labor
- Equipment
- Facilities
SALES AND OPERATIONS PLANNING
Sales and Operations Planning

All functions are aligned on one business plan

CUSTOMER

Strategic Plan

Business Plan

Sales and Operations Planning (Integrated set of Numbers)

Mfg.  Lab  Finance  HR  Sales & Mktg.

- Prd’n Plan
- Master Schedules
- Inventory Plan
- Raw Material Schedules

- New Product Development Plans
- Data Integrity
- Simplified Reporting and Accounting
- Capital Expenditure Plans

- People and Skills Req’ts
- Aggregate Sales Plan
- Key Accounts
- Recruitment and Training Plans
- Territories
- Countries

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S & OP is a process led by senior management that, on a monthly basis, evaluates revised, time-phased projections for supply, demand, and resulting financials. It is a decision making process that ensures that tactical plans in all business functions are aligned and support the business plan.
It is done once a month and is reviewed (discussion & decision making) by senior management at an aggregate (product or service family) level.
The process must reconcile all supply, demand and new products at both the detail and aggregate level and tie to the Business Plan.
It is the definitive statement of what the company plans to do for the near to intermediate term covering a horizon sufficient to plan for resources and support the annual Business Planning process.
Executed properly the Sales and Operations Planning Process links the Strategic Plans for the business with execution and reviews performance measures for continuous improvement.
## S & OP in the Planning Cycle

<table>
<thead>
<tr>
<th>Detailed planning &amp; control</th>
<th>Tactical planning S&amp;OP</th>
<th>Strategic planning Long-Range Plan</th>
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<tbody>
<tr>
<td>(days, weeks out)</td>
<td>(months out)</td>
<td>(years out)</td>
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<tr>
<td>• Limited ability to adjust capacity</td>
<td>• Workforce, inventory, subcontracting, and logistics decisions</td>
<td>• “Bricks &amp; mortar” and major process choice decisions</td>
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<tr>
<td>• Detailed planning (day to day, hour by hour)</td>
<td>• Planning numbers somewhat “aggregated” (month by month)</td>
<td>• Planning done at a very high level (quarterly or yearly)</td>
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<tr>
<td>• Lowest Risk</td>
<td>• Moderate risk</td>
<td>• High risk</td>
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<th>Days/weeks out</th>
<th>Months out</th>
<th>Years out</th>
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S&OP continued

(2 - 18 months out)
- Outside of time frame ⇒ strategic planning
- Inside of time frame ⇒ tactical planning

“Big Picture” approach to planning
- Families or groups (aggregation) of:
  - Products
  - Services
  - Resources
  - Technologies or skills
- Provide “rough” estimates
The objective of Sales and Operations Planning is to *reach consensus* on a *single operating plan* that allocates the critical resources of people, capacity, materials, time, and money to most effectively meet the market place in a profitable way.
Why Do Companies Use S&OP?

- Many companies have difficulty in establishing a valid game plan for sales, production, procurement, and inventory levels -- and then tying them to day-to-day scheduling and execution. As a result, performance suffers: customer service is poor, production and procurement are inefficient, inventories are too high or too low, or all of the above.
Why Do Companies Use S&OP?

- Sales & Operations Planning has emerged as an essential management tool in this age of rapid changes, increasingly demanding customers, and supply chains that extend half a world away. It's rightfully been called "top management's handle on the business."
What is Executive S&OP?

Executive S&OP is top management's part of the overall set of Sales & Operations Planning processes. It's a tool that enables the top management team to establish in advance the desired levels of customer service, inventory investment, and lead times - and then manage the business proactively to achieve those targets.
What is Executive S&OP?

- An important point: Executive S&OP is essential to gain the maximum benefits from the other parts of Sales & Operations Planning, the ones that address the details
What is Executive S&OP?

- The results from the monthly Executive S&OP process drive downward to impact directly the day-to-day activities in Sales, Purchasing, Production, and Service - and also drive upward, so that the company's Financial Plans can reflect current realities and future operational plans.
What are the Benefits of Using S&OP?

- "Hard" benefits -- ones that can be readily measured -- include:
  - higher customer service
  - lower finished goods inventories
  - more stable production/service rates
  - faster and more controlled new product introductions
  - reduced obsolescence
  - shorter customer lead times
What are the Benefits of Using S&OP?

"Soft" benefits resulting from Executive S&OP include:

- enhanced teamwork in the executive and mid-management groups
- better decisions with less effort
- one set of numbers, in both units and dollars, with which to run the business
- a tight linkage between strategic plans and day-to-day activities
- a "window into the future"
Who's Using S&OP Successfully?

- Large companies such as Coca-Cola, Caterpillar, Procter & Gamble, Eli Lilly, Dow Chemical, Honeywell, Allied Signal, Pfizer, Newell-Rubbermaid and many more - plus a large and growing number of mid-size and smaller companies.
Microsoft, among many others, also uses Executive S&OP and all of their manufacturing is outsourced. Companies in this category may need Executive S&OP even more, because they have less control over their sources of supply.
In addition, S&OP is starting to take hold in retailing and banking, and in companies that produce products of a non-physical nature: product design firms, process engineering organizations, and so forth.
In contrast to these sizeable benefits, the costs to implement Executive S&OP are small. The primary "costs" in making the process work are not financial, but are in time, energy, and the need to change.
Sales and Operations Planning

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New Product Development Plans  Data Integrity  People and Skills Req’ts  Aggregate Sales Plan

Detailed Plans and Milestones  Simplified Reporting and Accounting  Recruitment and Training Plans  Key Accounts

Capital Expenditure Plans  Simplified Reporting and Accounting  Countries  Territories

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SALES AND OPERATIONS PLANNING
THE MONTHLY PROCESS
Inputs into S & OP

**Input**
- Projected demand
- Market intelligence
- Actual sales
- Capacity information
- Management targets
- Financial requirements
- New product information
- New process information
- Workforce availability

**Responsibility**
- Marketing
- Marketing
- Sales
- Manufacturing
- Management
- Finance
- R & D
- Process engineering
- Human resources
Forecast Laws

- Almost always wrong by some amount
- More accurate for shorter time periods
- More accurate for groups or families
- No substitute for calculated values.
“Radical” thoughts on forecasting
The supply side
Decision making
Implementation
The Monthly S&OP Process

Step #1
Run Month End Reports

Step #2
Demand Planning

- Management Forecast
- 1st-pass spreadsheets (with new forecast)

End of Month

- Statistical Forecasts
- Field Sales Worksheets
Thoughts on Forecasting:

- Forecasting is a Process

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The Forecasting Process

**Inputs**

- Current Customers
- New Customers
- Competition
- Economic Outlook
- New Products/Services
- Pricing Strategy
- Promotions
- Bid Activity
- Management Directives
- Intra-Company Demand
- History (Data)
- Other

**Process**

**Outputs**

Forecasts that are:

1. Reasoned
2. Reasonable
3. Reviewed Frequently
4. Represent the Total Demand

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Thoughts on Forecasting:

- Forecasting is a Process
- Don’t Focus on Forecast Accuracy
• Which is more accurate?
• Which can be fixed more easily?
• Which is more “dangerous?”
Thoughts on Forecasting:

- Forecasting is a Process
- Don’t Focus on Forecast Accuracy
- Focus on Bias – Stamp It Out
The Monthly S&OP Process

**Step #1**
Run Month End Reports

**End of Month**

**Step #2**
Demand Planning

- Statistical Forecasts
- Field Sales Worksheets

**Step #3**
Supply Planning

- Capacity constraints
- 2nd-pass spreadsheets (with new production/service plan)

- Management Forecast
- 1st-pass spreadsheets (with new forecast)

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1. Develop New Production/Service Plan

2. Translate New Production/Service Plan:
   - from product/service families to resources
   - from units of product/service to units of workload req’d

3. Compare required workload (demand for capacity) to demonstrated capacity (proven supply of capacity)

4. Adjust where necessary and practical

5. Where not practical, elevate to Pre-SOP Meeting
The Monthly S&OP Process

Step #1: Run Month End Reports

Step #2: Demand Planning
- Management Forecast
- 1st-pass spreadsheets (with new forecast)

Step #3: Supply Planning
- Capacity constraints
- 2nd-pass spreadsheets (with new production plan)

Step #4: Pre-SOP Meeting
- Recommendations & Agenda for Exec Meeting
- 3rd-pass spreadsheets (consensus, alternatives, what-ifs)

End of Month
### S&OP Example

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<thead>
<tr>
<th>Product Family B</th>
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The Monthly S&OP Process

**Step #1**
- Run Month
- End Reports

**Step #2**
- Demand Planning
- Management Forecast
- 1st-pass spreadsheets (with new forecast)

**Step #3**
- Supply Planning
- Capacity constraints
- 2nd-pass spreadsheets (with new production plan)

**Step #4**
- Pre-SOP Meeting
- Recommendations & Agenda for Exec Meeting
- 3rd-pass spreadsheets (consensus, alternatives, what-ifs)

**Step #5**
- Executive S&OP Meeting
- Decisions
- Company Game Plan

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End of Month

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The purpose of the Executive Sales and Operations Planning Meeting is to update the Sales and Operations Plan as a result of changes in the external and internal environments.
Objectives:
- Make decisions on each product family, accept Pre-S&OP team recommendations or alternatives
- Authorize production/service or procurement changes
- Compare plans to business plan and make required adjustments
- Make decisions where no agreement on Pre-S&OP team
- Review business key performance indicators where performance was less than planned
The Monthly S & OP Process: Summary

1. Run month end sales forecast reports
   - statistical forecasts and field sales worksheets
2. Demand planning
   - management forecast and first pass spreadsheets
3. Supply planning
   - capacity constraints and second pass spreadsheets
4. Pre-S & OP meeting
   - Recommendations and agenda for Executive S & OP meeting
5. Executive S & OP meeting
   - Approved single companywide game plan
Advantages of S&OP

- **Negotiated process**
  - “Agreed” demand

- **Functional coordination**
  - Budgets and cash flow analyses

- Reduces operations and supply chain tasks to “meeting the plan”
The President and COO has the responsibility to develop and oversee the S & OP process which:

- Enables the business plan to be executed
- Provides the bridge between strategic planning and operational activity
- Is specific in terms of projected volume by product family
Implementation
Implementing S&OP

Bad News

▪ Change

▪ 8-12 Months

Good News

▪ Few People

▪ Early Results (2-3 Months)

▪ Low Cost
The ABC’s of Implementation

C - Computer

B - Data

A - People

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Implementation Challenge . . .

. . . is not in understanding S&OP. It’s simple

The hard part is

Behavior Change . . .

. . . changing the way we do our jobs:

Discipline
Accountability
Conflict
Principles of S & O P

- The Sales and Operations Planning is the Company Game Plan
- The Sales and Operations Plan is the vital link between long range and short range planning
- Sales and Operations Plans are established at the Product/Service Group level
- The Sales and Operations Plan includes all management targets
- The Sales and Operations plan is monitored and revised monthly
S&OP: Key Points

- Balance demand & supply
- Harmonize units & dollars, one set of #s
- Focus is volume and medium/long term.
- Monthly cycle
- Cross-functional
- Decision-making
- Window into the Future
- Top Managements Handle on the Business
What Can Sales & Operations Planning Deliver?

- Formal way of running, developing & **growing** a business
- Integrated new product/service, sales and supply volume re-planning and their financial implication (12 – 18 months)
- **Managing change** to assumptions about the business
What Can Sales & Operations Planning Deliver?

- Led and owned by business management
- Less meetings, less duplication
- Common sense is not so common
References

- Orchestrating Success: Improve Control of the Business with Sales & Operations Planning --- Richard Ling and Walter E. Goddard


- Introduction to Operations and Supply Chain Management, 2/e --- Bozarth and Handfield

- Executive S&OP – How to implement it Successfully
  - Presentation by Bob Stahl at the The Best of the Best S&OP Conference sponsored by APICS and IBF on December 12, 2008, in Dallas, TX.