

SALES AND OPERATIONS PLANNING

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- Is an aspect of supply chain planning whose goal is the creation of a unified, consensus-based business plan.
- It draws input from an organization's key functional areas, including sales, marketing, manufacturing, distribution, and finance.
- Cross-functional collaboration results in plans that all stakeholders understand and are committed to supporting.

S&OP process should also help to answer the following basic questions:

- How does projected demand compare to projected supply?
- What are the projected resource requirements to meet both service and cost targets?
- What actions are required to ensure the appropriate levels of resources are available when needed?

Need for Sales and Operations Planning

- The aim of sales and operations planning is to gain a holistic view of planning by extending the forecasting process to sales, marketing, finance and operation for their collective input and adjustments.

- Studies show that compared to their peers, high performing S&OP-driven companies on average experience:
 - 15% less inventory
 - 17% stronger perfect order fulfillment
 - 35% shorter cash-to-cash cycle times
 - 1/10th tenth of the stock-outs

S&OP Benefits

- Increased customer service levels
- Improved profitability
- Higher product revenues
- Lower inventories and obsolescence
- Reduced lead times
- Quicker responsiveness
- Top-down management control
- Predictable operating performance for shareholders

Translating Benefits to Real Business Value

Typical Improvement	Business Impact
Reduce inventory	Reduced inventory carrying costs and improved cash flow
Reduce time to market for new products	Increased revenue by staying ahead of the competition
Increase capacity and throughput	Reduced operating costs and increased productivity
Higher product quality	Reduced cost of goods sold
Reduce lead times	Reduced expediting costs and inventory while increasing sales
Better customer service	Increased sales and customer satisfaction

S&OP Steps



Credit: Wallace & Stahl

- **Data Gathering/Management:** Collect information on past sales, analyze trends, and report forecasts. Run Pareto analysis to assign forecast parameters (i.e., item vs. group). Manage new items and discontinue old items.
- **Demand Planning:** Validate forecasts, understand sources of demand, account for variability, and revise customer service policies; layer on promotion plans, one time events, and new product and customer launches.
- **Supply Planning:** Assess the ability to meet demand by reviewing available capacity, inventory, and scheduling required operations. Set inventory targets and plan supply by level loading and/or demand chase.
- **Plan Reconciliation (Pre S&OP):** Match supply and demand plans with financial considerations.
- **Finalize and Release the S&OP:** Finalize the plan and release it to implementation.

The Value of Integrated S&OP

- The end goal of S&OP is to create a plan that unifies all demand and supply planning activities around a consensus-based plan.

Implementing Sales and Operations Planning (S&OP)



STEPS IN IMPLEMENTING S&OP

Step 1: Gather and Manage Data

- This step entails the collection of data on past sales, trend analysis, and assessments of forecast accuracy.
- The Demand Planner is typically responsible for leading this step in the process. Key inputs for this step will come from sales and marketing, but input from operations/supply, logistics, and finance should also be considered.

- **Sub-steps:**
- **Manage New Items or Existing Item Changes (On-Going).** This includes linking an existing finished goods item to a new existing goods item, along with assigning new items to the planning hierarchy and entering dates for discontinued items.
- **Run Analytics.** If your supply chain planning solution provides an analytic function, run it at this point. As an example, [go here](#) to see how to run analytics in DemandCaster. Solutions such as DemandCaster also enable you to schedule analytics on an automated basis.
- **Review Performance Measures.** Determine which performance measures you wish to capture for planning purposes. Get appropriate input from sales and operations as needed.
- **Adjust Item Level Supply Attributes.** This entails:
 - Setting appropriate supply policies, such as stocking requirements, lead times, etc., which should be reviewed monthly.
 - Determining the type of supply planning to apply: Demand Chase or Level Load.
 - Demand Chase means that supply increases and decreases with demand on a period-by-period basis.
 - Level Loading means supply is level loaded between a beginning and ending inventory target.

Step 2: Develop Demand Plan

- Demand planning includes validating forecasts, understanding sources of demand, accounting for variability, and revising customer service policies. Additionally, it encompasses the inclusion of promotion plans, one-time events, and new product and customer launches.
- The Demand Planner will be responsible for developing the Demand Plan, but sales and marketing should be consulted for input and verification.

Sub Steps

- **Create an S&OP Review Report.** Supply chain planning software that has built-in reporting functionality enables you to run custom reports.
- **Share Reports for Input (recommended).** Distribute reports to sales or other participants to build consensus.
- **Edit Demand Plans as Required.** Incorporate input from performance measure reviews, any sales related information, and edit demand plans accordingly. Also consider establishing a freeze period that's approximately equal to the longest cumulative lead-time be established to prevent editing of demand plans within that time period.
- **Review and Finalize Consensus Demand Plan.** This review takes place during the monthly demand planning review meeting with sales. It includes reviews of the past month's performance and sales data, along with quantitative-based assumptions behind the numbers.

Step 3: Supply Planning

- Supply planning involves translating the demand plan into an appropriate supply plan.
- Among its tasks are determining inventory targets, safety stock levels, and production methods for level loading and demand chase.
- It also includes assessing the ability to meet demand by reviewing available capacity, inventory, and operations scheduling.
- Head of Supply will be responsible for the creation of the Supply Plan. Key staff from manufacturing, operations, logistics, and finance should be consulted for input and verification.

Step 4: Reconciliation of Plans | Pre-S&OP Meeting

- This step occurs during the monthly pre-S&OP meeting.
- It entails sorting through supply-side issues to determine if the sales plan can be accommodated and inventory and backlog objectives can be met.
- Additional tasks include reviewing supply performance from the previous month and presenting forecasts.
- The S&OP leader is typically responsible for the efficient execution of this meeting. Key participants include sales, marketing, operations, logistics, and finance.

Step 5: Approve and Release | Executive S&OP Meeting

- Once the demand and supply plans are reconciled and finalized, the result is presented to the executive team during the monthly Executive S&OP meeting.
- The output of the meeting is an approved demand and supply plan that can be efficiently executed by operations.
- The S&OP leader will oversee this meeting/step in the process, but the Executive Sponsor is a required participant and will be needed to finalize all decisions/outcomes of the meeting.

S&OP Roles and Responsibilities

Executive Management – CEO/Leader

- Chairs the executive S&OP meeting and serves as ultimate decision-making arbiter
- Holds organization accountable to plan

Is the primary contact for dispute resolution throughout the S&OP process

Sales & Marketing Leader

- Sets expectations with sales team members that they are going to perform sales forecasting and work to improve forecast accuracy
- Owns and speaks to sales performance and forecasts in the executive S&OP meeting
- Ensures that forecasting is a monthly (or periodic) process

Is the primary contact for issues related to strategic sales/customer decisions

Demand Planner

- Presents the demand plan information in a timely, accurate, ready-to-use condition
- Does some of the pre-plan analysis and statistical forecasting
- Interacts with sales to complete data collection and demand planning
- Focuses on issues and addresses any disconnections with the future forecast

Is the primary contact for issues related to roll-up of sales forecasts, analysis of forecasts and development of ultimate demand plan

Sales Personnel

- Gather intelligence from assigned customers and integrate findings into demand planning
- Perform sales forecasting for their assigned customers, markets or other sales segmentation
- Must know the actual vs. forecast performance for sales, the reasons, and the corrective actions
- Update the sales forecast monthly and speak to the above in the corporate sales review meeting

Each individual is the primary contact for issues related to sales forecasts for their particular customer and segments

Operations Leader

- Sets the expectation with the production and materials team that they will help with developing the supply plan according to the process and run to that plan
- Ensures the aggregate level data to be presented is linked to all of the derived detailed planning
- Chairs the monthly or periodic supply planning meeting
- Speaks to inventory and backlog performance versus forecast in the executive S&OP meeting
- Presents the actual vs. forecast performance for inventory

Is the primary contact for issues related to strategic operations/supply decisions

Supply Planning and Master Scheduling

- Updates the inventory plan monthly or periodically
- Maintains safety stocks, production rates, vendor performance, lead times and other supply planning attributes
- Speaks to the inventory detail in the supply planning meeting
- Reviews orders, due dates, and inventory and determines via analysis what to build, when to build, and where to build per the supply plan

Are the primary contacts for issues related to orders, inventory, and the supply planning process

- **Sample Agenda for Executive S&OP Meeting**

- Review S&OP calendar – critical dates
- S&OP aggregate summary
 - Actual to plan budget, sales, supply
 - Performance metrics – on time, stock-outs, and inventory levels (excess and obsolete)
 - Review applicable action items related to this section
- Last Month Performance – actual to plan review by category
 - Sales and operations deltas
 - Causals
 - Inventory
 - Utilization
 - Review applicable action items related to this section
- Review 12-month rolling demand and supply plan by category including;
 - Short-term concerns
 - Capacity and scheduling challenges and plan of action
 - New products introduction
 - New or lost critical customers
 - New or lost critical suppliers
 - Product transfers from one facility to another
 - Inventory and supply projections and targets
 - Other major risk factors in the business
 - Review applicable action items related to this section
- Summary of new action items
- Final approval