



Embrace Sales and Operations Planning (S&OP) to enhance business performance

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S&OP brings proven benefits to business

Started in the 1970s, S&OP has evolved along the way and now becomes a norm for business success. With the development of over 3 decades and proven benefits, S&OP has gained great popularity amongst the business world. 92% of Fortune 500 companies and big businesses have now implemented S&OP.

More executives across different sectors want to deploy S&OP process because of the economic benefits derived from the successful implementation, including better revenue and working capital. From the demand side, organizations could expect higher forecast accuracy while the supply side would be able to reduce cost and reach higher service levels.

S&OP has been seen as a collaborative way of working across functions that increases transparency levels and cross-functional trust. Organizations with successful implementations of S&OP also have an opportunity to make a social impact. The improved forecast accuracy enables companies to plan labor resources to better comply with SCR requirement. This includes possible overtime reduction and lay-off avoidance. With the implementation of S&OP and execution of proper peak and valley balancing practices, one of Weave’s footwear manufacturer clients in Vietnam achieved zero labor lay-off in their traditional low season.

Global companies with S&OP practice



CASE STUDY: Division of a leading global chemical company benefits major improvement with S&OP roll-out.

- Gross margin increases by €1.3 million
- €120,000 cost saving through reduction of days of supply
- Service level increases from 78% to 83%
- Better reporting efficiency between controlling, production and planning

Source: Innovation Enterprise

According to industry survey result, companies report consistent improved performance after implementing S&OP process

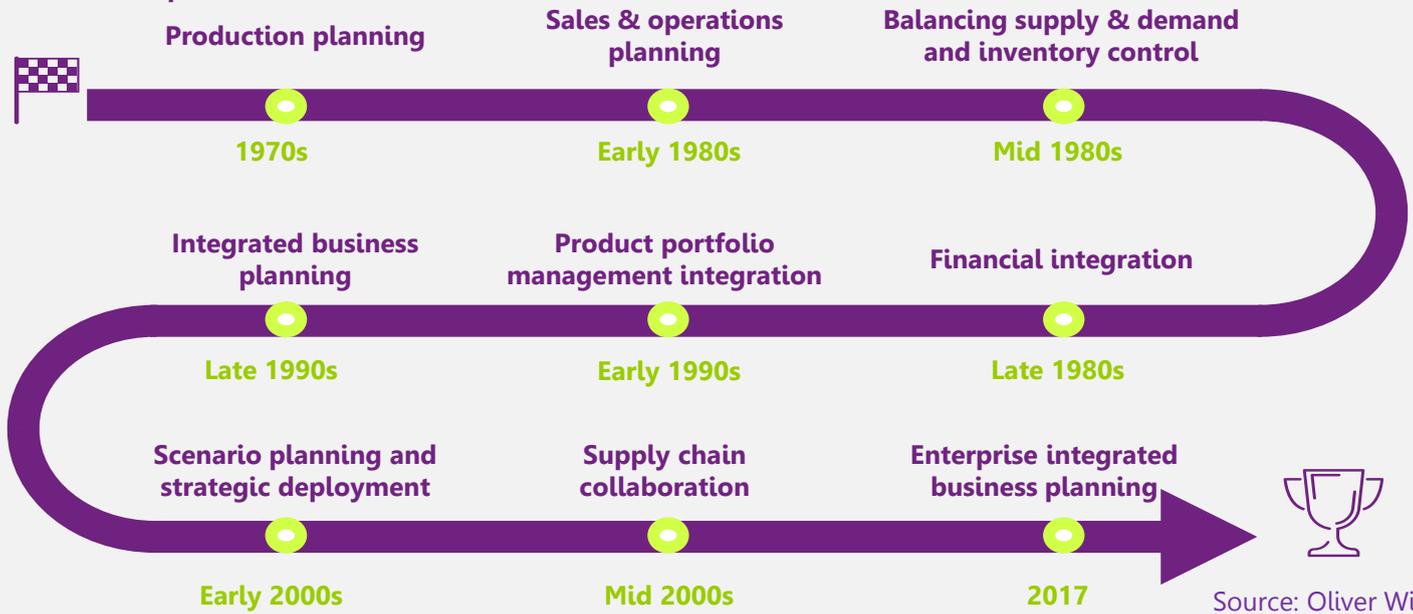


Source: Aberdeen

S&OP is a journey – not a destination

S&OP has evolved much since the 1970s. Started as production planning, S&OP has incorporated more elements along the way to move beyond matching supply and demand, until most the recent edition as enterprise integrated business planning, which synchronizes the elements of corporate strategies, financial goals and operational plans

S&OP development



Industry surveys show different maturity level of S&OP practices exist among those organizations adopting it. Some key features of these levels of maturity are summarized as following:

Level 1	Level 2	Level 3	Level 4
Supply chain integrated <ul style="list-style-type: none"> S&OP is purely owned by and within supply chain function Focus on matching demand - supply based on forecast 	Commercial integrated <ul style="list-style-type: none"> Include Sales & Marketing into the S&OP process Sales & Marketing leads the demand planning process & owns the demand plan 	Financial integrated <ul style="list-style-type: none"> Apply financial models to address constraints between supply - demand Integrate financial projection 	Business integrated <ul style="list-style-type: none"> ONE plan aligned for business across functions Integrate corporate strategies, financial goals and operational plans

With the enriched scope of S&OP, the implementation is also a journey, not a destination. It takes a lot of hard work to implement S&OP, which makes it always a good strategy to start with a basic S&OP model fitting with the organization readiness level, and then advance the maturity once ready.

It is found that top performing companies demonstrate more mature practices in S&OP which leads to better performance. This becomes an aspiration for the organizations to keep improving their S&OP to reach higher level of maturity.

>50%

Best-in-Class are over 50% more likely to have established an **inventory optimization initiative**

>60%

Best-in-Class are over 60% more likely to **quickly respond to unplanned events**

>100%

Best-in-Class are more than twice as likely to **include marketing** in the demand planning process

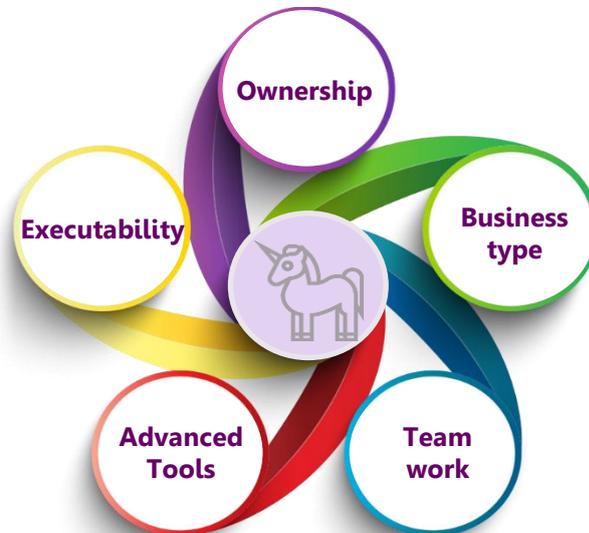
>75%

Best-in-Class are over 75% more likely to have the ability to **evaluate unconstrained planning scenarios**

Source: Aberdeen

There are some common myths with S&OP which can handicap the implementation and effectiveness of S&OP within organizations.

Implementing S&OP takes time and resource, we must understand S&OP properly to ensure that the effort amounts to a fruitful result in the end. It is important to have clarity not to fall under **these 5 common myths** about S&OP for any organizations pursuing S&OP



Myth: **Ownership** – S&OP is for balancing supply & demand and owned by supply chain
Reality: S&OP in its lowest maturity level could be seen as Supply Chain initiative. However it is an integrated business management process through which the leadership team continually achieves focus, alignment and synchronization among all functions of the organization. It must be owned by the executive-level to drive company-wide collaboration to achieve business improvement.

Myth: **Business type** - S&OP is only suitable for manufacturers
Reality: As an integrated business management process, S&OP can be applied to manufacturers, distributors, retailers or even organizations in service industries. For those companies outsourced probably need S&OP more, because they will have less control over the supply side of the business which S&OP can help. It can also have significant impact when being applied in service industries as well.

Myth: **Teamwork** - S&OP can only work effectively in highly collaborative organizations
Reality: Teamwork is not a prerequisite. In fact, S&OP helps improve teamwork across functions. S&OP brings different functions together to establish a common plan for everyone to work on, which helps break silos and enable each function to achieve their objectives. This helps enhance cross-functional collaboration as a result.

Myth: **Advanced Tools** - With advanced software in place, it will be simple to install S&OP
Reality: Only having advanced tools will not safeguard the success. It is also not always the case that simple tools such as Excel is not sufficient for your S&OP process. S&OP implementation is a transformation journey, which takes a combination of processes, people and system to ensure success. Furthermore, it must be carried out with proper change management.

Myth: **Executability** - S&OP is just a tactical executive level meeting with very few decisions made at the executive meeting get executed in daily work
Reality: This would be true if S&OP misses out on the following two elements:

- Lacking true buy-in from senior leadership
- Consensus plan is not linked back to function management process

So a company must fix these two elements to ensure effectiveness of S&OP

Implementing S&OP is a powerful transformation with significant undertaking, which requires strong fundamental covering 3 aspects of **Processes, System** and **People**.

Under processes, fully master the **5-step process** with clear roles and responsibility set up across different functions is cornerstone of successful S&OP implementation



At a tactical level, most companies have monthly S&OP cycles. At the starting point, organizations could run S&OP with planning coverage for 6 to 12 months, some companies would cover up to 24 months depending on the availability of the information and organizational readiness to support S&OP. Building complete process of S&OP requires clearly defined input and output for each step, assigned roles and responsibilities for each party involved in the process, along with confirmed monthly schedule cadence. We would expect companies will complete these basic steps, but from a study from Hackett Group, an estimated 30% of the companies with S&OP does not fully adopt the required practices which leads to less effective benefits. Process discipline belongs to the top three main roadblocks in implementing S&OP.

Systems with necessary tools will equip an organization with S&OP execution. There are **3 key types of system and tools** needed to support S&OP process:

- **Data source systems:** Capture and provide data for reporting and analytics, e.g. ERP
- **Visualization tools:** Enable effective presentation of KPIs and analysis
- **Analytics tools:** Model forecasting and what-if scenarios with possible impact to address demand-supply constraint through three common lever management categories.

According to a Nexview survey, a majority of companies with S&OP use spreadsheets and only 10% of the companies uses advanced systems and tools to support the process. Gartner research reveals a "Magic Quadrant for S&OP Systems of Differentiation" in 2019 with some leaders such as Logility, Kinaxis, DELMIA Quintiq, Adexa. These advanced systems and tools with faster speeds, scalable ability and dynamic views will help enable higher maturity levels of S&OP for the businesses if being used effectively.

Finally, people will drive the execution to realize the impact of S&OP process, hence getting the right staff involved and providing training of the necessary skill sets to those will be critical for success. There are **five common capabilities which are highly relevant to S&OP**

- **Data processing:** covers data gathering, cleansing, analytics and reporting
- **Forecasting:** methods and measurement
- **Supply planning:** capacity calculation methods and measurement
- **Scenario analysis:** cost modelling and what-if
- **Meeting effectiveness:** S&OP consists of a series of meetings. The organization will need to deploy effective meeting mechanisms to assist this process execution in a proper way.

3 levers management to balance supply and demand gaps



Implementing S&OP will bring change to the organization. It requires proper change management and roll-out to govern the whole transformation journey.

Integrate principles of **change management** into the whole transformation journey

- **Answer "WHY":** Number one challenge in S&OP is the understanding of why the organization needs S&OP. Executive leaders need to communicate the rationale of implementing S&OP to the whole organization to gain buy-in from senior management to frontline staff.
- **Role model:** It is estimated that up to 80% companies under an AVATA survey do not have or have little executive involvement in S&OP which is the main reason of low level of S&OP maturity in organizations. Executive sponsorship should role model advocating and driving the change, this is one of the best characteristics of Best in Class of S&OP implementation.
- **Reinforcement mechanism:** The change can only be sustained when proper business processes are established and linked to metric incentives to drive individual compliance and performance.
- **Set a case for change:** Estimated 70% of change program fails, with identified leading causes of employee resistance and management behaviours. Starting with a basic model of S&OP, then piloting with selected area with high control and drive impact will create a case for change and motivation before rolling out to safeguard success the whole program.
Once the organization is fully transformed into the new way of working, it is time for the organization to advance to next level to realize more potential of S&OP.

Case reference of S&OP implementation by Weave

COMPANY	APPROACH			IMPACT
<p>A >HK\$1B leading company in intimate manufacturing with footprints in HK, China, Thailand and Cambodia</p>	<p>1 ESTABLISH THE FOUNDATION FOR THE IMPLEMENTATION</p>			
<p>CHALLENGES</p> <ul style="list-style-type: none"> • High forecast error with multiple forms of sales projections • Lack of cross-functional alignment on forecast and capacity priorities as well as unbalance visibility led to lost sales and high production cost • Unstructured communication between sales and multiple factory sites • Poor OTIF performance 	<p>Define S&OP process and governance</p>	<ul style="list-style-type: none"> • Standardize sales projection • Develop production planning framework • Set up meeting cadence 		<p>Forecast accuracy improvement by</p> <p>↑ ~40%</p>
	<p>Set up supporting tools with sustainable improvement plans</p>	<ul style="list-style-type: none"> • Establish data exchange methods • Install effective meetings • Deploy dashboard reports 		<p>Production OTIF improvement by</p> <p>↑ 15%</p>
	<p>Develop in-house capability</p>	<ul style="list-style-type: none"> • Assess skills gap then conduct series of training workshops and hands-on coaching • Set up control tower team 		
	<p>2 EXECUTIVE INVOLVEMENT THROUGH PROJECT</p>		<p>3 PHASES TO DRIVE NEW WAY OF WORKING</p>	
		<p>Define Design Pilot Roll out</p> <p>Diagnostic and solution design Test Refine Roll out by site</p>	<p>Profit margin improvement by</p> <p>↑ 15%</p>	



*"He who fails to plan
is planning to fail."*

Winston Churchill

WILL YOU START YOUR S&OP JOURNEY?

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Contact:



Ronaldo Lin

Coach

ronaldolin@weavenow.com



Lai Phan

Director

laiphan@weavenow.com

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