

Getting S&OP Done Right

Sales and Operations Planning (S&OP) comes in many flavors and variations including Integrated Business Planning (IBP) and Sales, Inventory and Operations Planning (SI&OP). All these cross-functional planning processes, however, boil down to the same core competencies that:

- Span strategy to execution
- Leverage a single end-to-end data model of the supply chain
- Give a clear view of the best (optimal) options and associated tradeoffs
- Give executives the ability to make informed strategic and tactical decisions
- Provide the ability to execute those decisions daily

As companies deploying S&OP mature and upskill, the emphasis on one competency or another can shift, but each is important and necessary for a solid S&OP strategy. Despite this, few companies tick all these boxes.



What's Wrong with S&OP?

There's more focus on collaboration across sales, finance and operations than ever before. Most S&OP processes are starting to horizontally connect Finance, Sales and Operations (or Supply Chain) silos. In a recent Gartner Magic Quadrant for Sales & Operations Planning Systems of Differentiation "collaboration support" was moving more toward a multi-enterprise environment and supporting the socialization of plans and scenarios.¹

Mid-to-long range only has meaning if it translates into execution. Too often there's a disconnect between strategic and tactical plans modeled on aggregate sales and demand numbers and operational execution plans that need detailed data down to the daily SKU-Location level. In these cases, the longer-term tactical plan doesn't translate well into the execution plan and the execution plan doesn't translate back up to the financial plan.

Connecting S&OP with operational execution is a difficult and widespread problem. According to Gartner, "The No. 1 challenge among manufacturing companies is connecting sales and operations planning (S&OP) to operational plan/execution."² They also claim a key challenge in S&OP is the "lack of an end-to-end supply chain view results in gaps between customer value, business strategy and an integrated delivery of product/service offerings."³ Most S&OP users cannot create a consistently achievable S&OP plan.

This planning disconnect can relegate S&OP to a passive exercise, rather than one actively connecting to business outcomes. In monthly S&OP meetings, managers make strategic decisions such as increasing revenue or adding new products that don't always translate into operational plans that can be practically executed downstream. This happens because companies frequently have separate planning and operations models that don't map to each other.

Another persistent problem is optimizing the S&OP plan. In order to collaborate in S&OP, firms must aggregate. It's the only way management can participate efficiently and make trade-off decisions. But conversely, they must verify feasibility and optimize S&OP in a way that respects real-world constraints – such as plant level production and distribution center receiving capacities. While sales and finance can stay at a higher level, for optimization and execution, "the devil is in the details." Both sides need to be synched up completely for S&OP to function properly.

That makes optimization a problem. Optimization not only drives the process to superior outcomes, but cuts also a lot of manual decision guesswork out of an already complex process. Most companies' S&OP processes are currently collaborative, but not well optimized.

Bridging this S&OP gap requires an integrated data model, consistent from strategic to tactical to operational and at every level in between, continuously synchronized through seamless mapping.



No company will ever have all the information to perfectly optimize S&OP. Some market information, for example, will always be missing. But effective collaboration and high quality decision making depends on a single integrated data model supported by optimization. Without it, functional bias consistently disrupts the sales and operational plan. Everyone in the process needs to be able to make meaningful tradeoffs between: margin and volume, inventory and customer service, and supply and demand. A model that can clearly show the impact of each decision enables teams to choose outcomes that best align with business goals.

Finally, many S&OP systems run astray by continuing to use the outdated approach of top-down demand forecasting. This approach aggregates demand to smooth out variability, which makes it easier to generate a high-level forecast. However, the Item-Location level forecast quality is poor because demand signal details are dismissed along with the “noise”. This approach only works for simple and highly predictable businesses with few fast-moving commodity items and single-channel distribution. As added complexity is introduced into the supply chain, top-down single number forecasts fail. They can’t address long-tail items or intermittent demand. They don’t do well in multi-channel environments. They fare poorly with increased complexity drivers such as:

- SKU proliferation and increased product and service customization
- Many new product launches
- Multiple concurrent supply chains
- Reduced lead times and variable lead times across retailers and suppliers
- Increased customer and consumer segmentation

Overcoming S&OP Challenges

By employing a single integrated data model with one version of the truth, a coherent plan can be created from tactical to operational.

This allows strict, single model, integration between the S&OP solution and Supply Chain Planning (SCP). S&OP can then make use of the data generated by SCP in terms of forecast, optimal inventory levels, and replenishment plans. In addition, the logic implemented within the S&OP solution scenarios can leverage additional SCP information such as promotion uplift, profiles of new product launches, and elasticity of demand to price changes. This improves the quality of the process and the reliability of the results, allowing integration between the tactical level of S&OP and the execution level.

The largest gap in organizations is often between the sales and operations teams. Better modeling can bridge that gap, provide a common language, align objectives and create visibility of trade-offs to balance decision making. This enables both sides to advocate their interests, yet make S&OP decisions based on the best overall outcomes for the company.

What's Next in S&OP?

The use of machine learning and advanced analytics is growing. These technologies offer a unique opportunity to discover relationships and predict trends based on a broader range of data. They provide unique insight when studying demand behaviors that are influenced by factors not normally considered (such as the physical location of goods at a point of sale during the execution of a promotional campaign). They also enforce collaboration and process alignment between the various players in the S&OP process: sales, marketing, planning and logistics.

In the end it's the core competencies that matter most; connecting S&OP with operational execution, giving executives the ability to make informed strategic and tactical decisions with a clear view of the best options and associated tradeoffs, and enabling those decisions to be implemented day-to-day. The best tools are still tools. Success should be measured by the ability to get the job done right.

(1) Gartner: Magic Quadrant for Sales and Operations Planning Systems of Differentiation. Published 7 May 2019

(2) Gartner: Set Up Sales and Operations Execution Process to Support the S&OP Cycle. Refreshed 6 July 2020

(3) Gartner: Implementing S&OP Basics: Building the Right Foundation, Refreshed 3 March 2016