



APPLYING THOUGHT LEADERSHIP TO THE SALES AND OPERATIONS PLANNING PROCESS

How does thought leadership work?

How does one become a thought leader?

It should not be a self-proclaimed title. It requires diligence, tenacity, and some followers. It also requires a large degree of creativity and innovative thinking.

Mainly it requires questioning the status quo and creating discussion around the new and improved future vision. You must have some idea of the future vision, and a guiding voice to lead the evolution of thought. And you must be open to where that evolution of thought leads you.

Follow me down the rabbit hole of Sales and Operations Planning. Please.



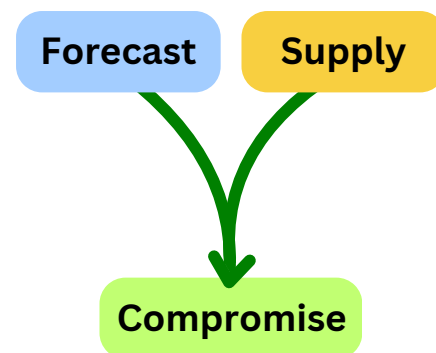
What makes us think
in time-bound
cycles?

Doesn't it strike you
as odd that Sales and
Operations Planning
fits nicely into a
monthly cadence of
repetition?

A little too perfect?

The starting input for traditional S&OP processes is the prediction of demand (Forecast). And traditionally, forecasting is updated once per month.

The end goal of traditional S&OP processes is the agreement and approval of the compromised plan between what the customer wants (prediction) and the plan to which we are willing to commit (our capabilities). That gets reported to leadership, also monthly.



If we started a Sales and Operations Planning process today, what would be the goals. Maybe something like this?

1. Achieve customer service (measured by On-Time Delivery).
2. Keep expenses (or investment) low, but still achieve #1.
3. Make Visible the inevitable Variation, in time to adjust #2 and still achieve #1.
4. Align the current actions to ensure the achievement of future expectations.

My Assumptions and Challenges:

- It is not sufficient to predict (forecast) what is going to happen.
- That prediction answers the question: What are we trying to achieve, and perhaps why are we trying to achieve it.
- We must also know: How we are going to achieve it? And, how effective are our actions in achieving that goal?

If we think about S&OP as a collection point for reporting outcomes or results, and then separately think of managing certain aspects of our business to impact those outcomes, we achieve a different picture. The inputs to S&OP can be made at any interval and sometimes should be made at every interval.

Forcing everything to a monthly cadence is misleading and problematic. Removing the monthly cadence opens many possibilities.

Sometimes outputs from one process are inputs to another process. But they are seldom the only inputs. Waiting for one input when it is only a percentage of the necessary information adds to the disruption. So, the sequential element is not a requirement.



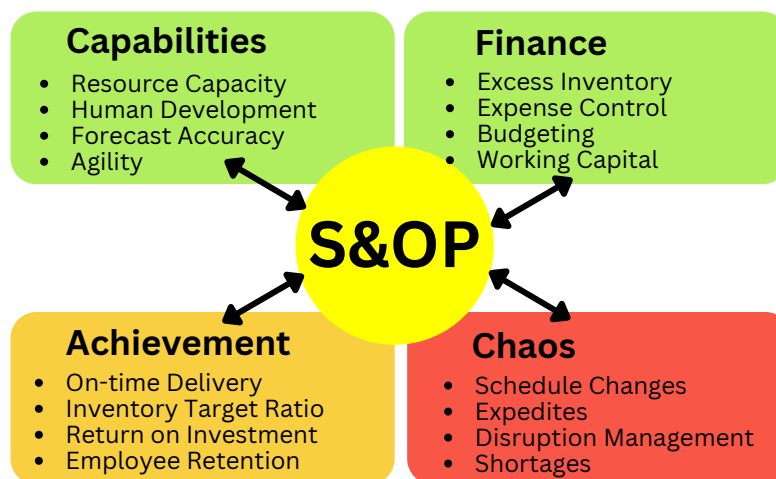
Let's challenge two basic assumptions of traditional S&OP

1. That a monthly cycle is the natural cadence for all related processes.
2. That performing all processes sequentially is relevant and appropriate.

My fear is that, over time, S&OP has become the reason we perform the related activities. And that the S&OP deadlines and reporting of S&OP are the driving force, not business requirements.

It's more important to understand what activities (and their cadence) are important for our business and that S&OP is the collection and coordination point.

S&OP is not the final goal. S&OP is a tool to help us manage our business. What if, instead of a sequence of meetings for S&OP, we looked at S&OP at the center of a series of activities?



Highlighted in **gold** are the goals and desired outcomes for our company. I've labeled that as Achievement. Those can be results or they can be goals, hence the double arrow.

In **Green**, we see the levers that control our results; Capabilities and Finance. Maintaining capabilities requires finance perspective. And we keep finances reasonable by aligning with requirements.

The last section, in **Red**, is Chaos. These describe the outliers, the areas that require effort to improve to maintain some degree of stability without destroying our capabilities or financials.

S&OP is the intersection and sharing point of all. S&OP is not the reason we want on-time delivery. Nor is it the process by which we achieve on-time delivery. It's merely the coordinating point where all information flows through to the appropriate parties.

On Time Delivery is a result of having the right inventory and resources creating the ability to produce to a schedule resulting in an on-time shipment. So, the “levers” impacting On Time Delivery are inventory and resources. And maybe agility within those levers.

On Time Delivery has a result component (outcome) which tells us how we are doing. It also may have a goal component (input) which tells us how we are expected to perform. Again, the double-headed arrow illustrates this. Like all components of S&OP, there is a give and take between the areas. I could put arrows everywhere, but rather I've chosen to illustrate using S&OP as the coordinating whirlwind and interconnection point.

The actions required to influence On Time Delivery are not fingers crossed, hope and wish. The actions are to appropriately manage inventory and resources. And these are not S&OP functions, these are functions that are always happening (or should be).

The financial metric of Inventory (dollars, days on hand, however you measure it) is a result. And it is not a very good metric in any case, without context. You might continue to measure Inventory in the same way, but it's not very meaningful.



DELIVERY
ALWAYS ON TIME

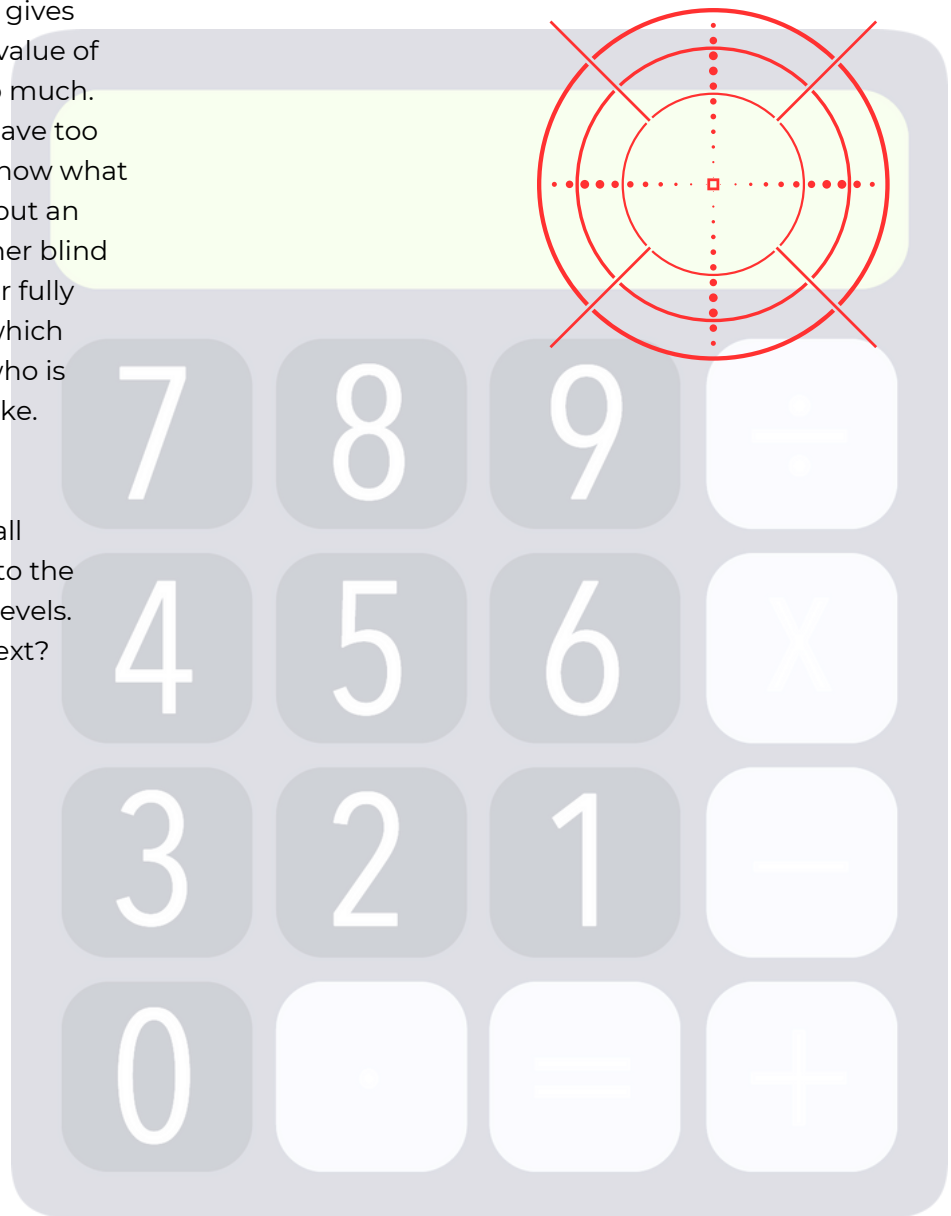
Inventory Target Ratio is a relatively new metric introduced by the Demand Driven Institute and the DDMRP methodology.

Any measure of inventory needs context to show whether it's good or bad. **With a target inventory calculation, we can compare our actual inventory to the target. Nothing else really matters.**

Having 10 days of inventory when I need 20 days is not a success. If it was, then having ZERO inventory would be the best, but hopefully we all know that having zero inventory would be devastating, in today's world.

Having a target inventory of \$50,000 (one example part number) gives context. A current on hand value of \$75,000 means we have too much. Having \$15,000 means we have too little. And accordingly, we know what actions we must take. Without an inventory target, we are either blind to what needs to be done, or fully dependent on experience which causes lost time debating who is right and which action to take.

We can consolidate ITR to understand groups, or overall inventory levels, compared to the target or desired inventory levels. See the importance of context?



We also need to think less in absolutes and more in trends and “comparables”.

A result of OTD=97% on the last day of the year tells very little. A six-month running history from 60% to 70% to 80% tells much. It could also be 99% to 98% to 97%. One says you're struggling, and one says you're succeeding. Can you tell which is which?

A result is an overall metric. This is why impacting something like Return on Investment or Total Inventory is elusive.

Because the work happens at the granular level. For example, you cannot simply reduce the overall inventory. You must approach individual part numbers with a reduction strategy. And if we impact enough individual part numbers (input), we will impact the overall metric (outcome).



Creativity with Capabilities is the required skillset for any company.

There is a path to change for all things. We can expand our workforce through overtime, personnel increase or decrease, automation, etc.... We can expand our resources through outsourcing, new equipment, process change, etc.... We can explore supplier options and be prepared with dual sourcing or a list of capable replacement or added suppliers.

And this is important. We do not need to wait for an emergency before we explore these options and have plans ready in preparation of various possible situations.

Is there anything in our traditional S&OP that mentions capabilities?

In the traditional process, it seems like Firefighting and Expediting are the expected “How”.

In the Traditional S&OP cycle, we first define demand for some future period (fitting for your company). Second, attempt to align supply with that future demand prediction. Third, make a compromise between the two, since we likely won't be able to achieve 100% alignment. Fourth, communicate the resulting plan to leadership for their agreement.

The result? Every month, we open an aggressive dialogue that puts everyone on the defensive. If we can agree upon a plan, we input the compromised plan into the planning software, which results in new plans, so that much of what we've been working on is no longer valid and a fresh round of firefighting and expediting begins. Chaos by Design.

When we redefine the S&OP process, we essentially end up with multiple groups working independently, but not without connection to each other. Something like this:

- Group 1 works on capabilities and stretching capacity or availability according to needs and expectations. And communicates to the other groups.
- Group 2 works on customer demand trends and communicates to the other groups.
- Group 3 works on supply alignment and supplier capabilities and communicates to the other groups.
- Group 4 works on the financial alignment, including investment needed in Capital Expenses, Overtime and Expedite Expenses, and the impact to ROI and OTD.

Each communicating as needed, each on an appropriate cadence, and each with a red emergency phone to share any unforeseen anomalies or disruptions and each with potentially shared members (not silos).

This makes so much more sense than the existing S&OP framework.



Appendix A

My answer to the question, “what are the levers that will impact the goals?”

- Having the right inventory.
- Setting a schedule that is maintainable, but also less impacted by disruption.
- Monitoring metrics that alert us to problems with inventory or with scheduling.

Some inputs to the S&OP circle and their relative cadences are:

1. Future Demand Predictions (Monthly) and Confirmed Demand (Daily)
2. Supply (Daily or Weekly)
3. Capabilities (Constantly)
4. Resources (Weekly, Monthly or Quarterly)

Each input represents a separate team, working independently yet influenced where appropriate. And hopefully with shared membership and participation (no silos).

Appendix B

Imagine your own Thanksgiving Dinner planning process. You assess the Demand (how many are coming and what they want to eat) and then the supply (we may not have access to certain foods). The rest is scrambling to find the ingredients and find the capability (do we have enough seating? Do we have enough ovens / refrigerators, etc.?)

No, we wouldn't do it like that. We start with our capabilities (we invite the appropriate number of people and set the menu, with some inputs like allergies). We don't wait to see how many are interested and then rent space at a conference center to accommodate.

Consider a restaurant. They have a menu (limitation) and seating capacity (boundary). Expectations are that people will order what is on the menu. And, we might have seating for 50, with 2 seatings possible, so around 100 people per evening possible. The expectations refine themselves as history will show patterns. Occupancy will vary based on days of the week. The most popular menu items will be revealed. Promotions and specials will be added to drive demand when needed or removed when supply is low.

Back to Sales and Operations Planning. What are the components? Demand, Supply, Resources, Capacity. A series of meetings trying to align supply and demand, including compromise, agreement, and presentation to leadership.

- Should I only work on aligning my capacity with demand once per month?
- Should I only work on achieving the required supply once the demand is known?

If I want to be agile and adapt to reality, I need to be working on these things constantly. Not on some random monthly cadence, when it's likely too late.

Would you fill your car's gas tank based on the planned travel schedule? Or would you use the actual travel progress.

Did this article make you think? Let me know.



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