When it comes to matching capacity and output with demand, it’s easier to ramp down than it is to ramp up, which always requires much more preparation. That’s just one of the management challenges that an effective sales and operations planning (S&OP) can address. At its heart S&OP – sometimes broadened to sales, inventory and operations planning (SIOP) – is a re-planning process focused on changes from previous sales and production estimates. Key variables include demand volume, demand mix, purchase prices, labor rates, labor productivity, vendor substitution, foreign exchange rates, and so on. In addition to aligning supply and demand, S&OP helps the management team understand current financial results, and anticipate future performance.
performance. By pulling together functional leaders from sales, marketing, manufacturing, supply chain and finance in on a regular basis, S&OP can build a common understanding of business priorities, increase trust, and improve consistency across financial and operating plans. How to make such meetings an ongoing priority for everyone is one of the ongoing challenges that many people talk about when doling out S&OP advice.

Here are six other challenges and solutions for improving your S&OP process.

1. **Align Your S&OP Horizon with Your Business**

   Most S&OP processes tend to be fairly effective at aligning supply and demand in the near term. Miscues requiring last-minute scrambling can still occur because the management team fails to look far enough out into the future. The timeframes that managers consider and measure accuracy against have to be aligned with the capabilities and priorities of the business. For example, if you depend on parts or materials with long delivery lead times, say 24 weeks or longer, you will need a fairly accurate understanding of demand that far out. Likewise, if you have to manage major demand swings, and it takes six months to hire and train people, you need to be planning at least that far in advance.

2. **Broaden Your Understanding and Measurement of Forecast Accuracy**

   On the demand management side of the S&OP process everyone is always complaining about and pushing for better forecast accuracy. But perfect accuracy is like the quest for zero quality defects. You’ll never quite get there. That’s not to say you can’t get better. In large part what level in the product hierarchy you look at determines how accurate your forecasts are. Many organizations measure forecast accuracy within the designated leadtime windows. You should also look at how accurate forecasts are across longer timeframes. For example, you might be 30% accurate six months out, and 45 percent accurate three months out, and maybe 60% accurate one month out. Understanding that progression helps operations understand the degree of variability and plan for it.

3. **Consider Tertiary Influences on Supply and Demand**

   Beyond supplier capabilities and customer forecasts, it’s important to understand the external factors that influence supply and demand, and then calculate the potential impact. For example, for those shipping to retail outlets, when Walmart opens a new store, past history can be used to calculate the demand impact on existing customers in that area. A similar perspective is necessary on the supply side. Three months down the road a supplier of a mission critical component may be due to enter a contentious contract negotiation with its union. Alternative suppliers need to be identified and qualified well before plant
workers go on strike.

4. **Demonstrate the Value of Supplier and Customer Collaboration** -

Everyone talks about the benefits of partnerships and deeper collaboration with suppliers and customers. Doing that in real life starts with demonstrating the value of working together. If you can’t show them the value, why would they make the extra effort? Take a retail customer, for example. The benefit of deeper collaboration could be helping them improve sell-through rates, and increase gross margin per square foot. For a supplier the benefit might be lower inventory levels, and reduced working capital requirements.

5. **Model Demand and Supply Changes, Including the Financial Impact** -

Most companies don’t do any kind of modeling and scenario planning as part of their S&OP process. Such modeling needs to factor in a wide variety of variables, including how much existing suppliers can flex with demand changes and what their lead times are to ramp up production. Finance should be able to take the potential scenarios and forecast profitability, working capital requirements, accounts payable and so on, and thereby improve executive decision making. For example, if a manufacturer suddenly needs to increase capacity over the next three months, finance can help work out the cost implications, showing how the company might suffer a short-term hit to the budget, but it will ultimately drive revenue and earnings growth.

6. **S&OP Should Be Central to How the Business Is Run** -

I left the biggest point for last. An effective S&OP process will have a clear impact on key performance metrics and the financial statements, which is why it must be lead from the top as an integral part of how the business is managed. Of course functional leaders still need to understand why it’s important for them to attend the meetings. Sales people need to know, for example, how their insights into incoming orders are needed to align production operations to support customers. It’s also important for the operations people to have a clear understanding of what’s happening in the marketplace and what customers are asking for.

S&OP is one the key management processes that’s necessary to make a business as financially successful as it can be. When executed most effectively, the management team can strike the right balance between customer service, working capital investment and total costs.
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