

INDUSTRY COMPARISON FOR BEST-IN-CLASS S&OP/IBP CAPABILITIES

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This report is a cross-industry comparison on S&OP/IBP advanced capabilities that would move companies beyond the supply/demand match in terms of their process maturity. The industry adoption of these capabilities is also compared to the adoption rate of Best-in-Class companies.

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The intent of comparing industries by these capabilities is to see if there are any differences that indicate process growth beyond the supply/demand match.

How do industries compare to each other on key capabilities for the S&OP/IBP process? How do their adoption rates of these capabilities by industry compare to the Best-in-Class?

We will not spend much time discussing the capabilities as they have been discussed in depth in previous reports; [S&OP: Beyond the Demand/Supply Match – A Journey, Not a Destination](#), and [Integrated Business Planning \(IBP\): Capability Advantages for IBP Users vs. Non Users](#). The capabilities would be considered advanced scenario planning and responsiveness based, that are representative of an S&OP/IBP process that has evolved to be more prescriptive in nature.

Key Process Capabilities and Cross-Industry Comparison

Figure 1 provides the key capabilities that will be used for our cross-industry comparison, and shows the Best-in-Class vs. All Others (see sidebar for definition). These capabilities are related to scenario planning, responsiveness as a result of scenario

planning, and the integration of financial planning and budgeting with the S&OP/IBP process.

Figure 1: Best-in-Class Performance

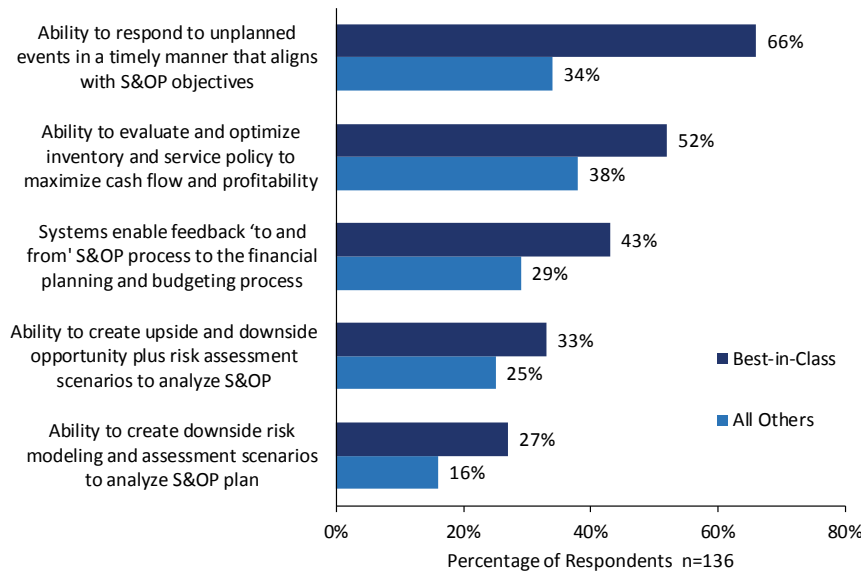


Table 1, on the following page, provides the cross-industry comparison by key process capabilities identified in Figure 1. The data is the sum of *all* respondents by industry (including the Best-in-Class for the industry), and therefore show less adoption by capability than the Best-in-Class. For reference purposes, the Best-in-Class percentages are shown in the second column to the left of the industry groups and are ranked by most widely adopted to the least adopted.

Best-in-Class S&OP Maturity Matrix

- Customer service level
 - Best-in-Class 93.7%
 - All Others 85.3%
- Cash-to-Cash Cycle - Days
 - Best-in-Class 44 Days
 - All Others 65 Days
- Average forecast accuracy at the product family level
 - Best-in-Class 81.5%
 - All Others 63.0%
- Gross margin improvement
 - Best-in-Class 2.7%
 - All Others 1.3%

Table 1: Cross-Industry Comparison for Key Capabilities

Key S&OP/IBP Capability	Best-in-Class	Trans Equip	Cons Good	Proc Chem	Hi Tech	Ind Prod	Food & Bev	Ind Equip	Whsl Retail
Ability to respond to unplanned events in a timely manner that aligns with S&OP objectives	66%	42%	42%	50%	29%	53%	46%	50%	32%
Ability to evaluate and optimize inventory and service policy to maximize cash flow and profitability	52%	23%	45%	53%	47%	41%	32%	50%	60%
Systems enable feedback to and from S&OP process to the financial planning and budgeting process	43%	8%	32%	36%	31%	22%	26%	23%	30%
Ability to create upside and downside opportunity assessment scenarios to analyze S&OP	33%	15%	17%	40%	18%	13%	17%	25%	5%
Ability to create downside risk modeling and assessment scenarios to analyze S&OP plan	27%	8%	11%	16%	18%	6%	14%	17%	0%

Industry Abbreviations Definitions Key:

- *Trans Equip* - Transportation Equipment - Automotive & Aerospace
- *Cons Good* - Consumer Goods
- *Proc Chem* - Process and Chemical industries - Oil & Gas & Pharma
- *Hi Tech* - Hi Tech & Electronics
- *Ind Prod* - Industrial Products
- *Food & Bev* - Food & Beverage
- *Ind Equip* - Industrial Equipment
- *Whsl Retail* - Wholesale and Distribution
- Note: service industries were not included

The capability rankings for each industry is reasonably consistent with the ranking of the Best-in-Class. They may be swapped in one or two places, but in several cases, such as Industrial Products, Food and Beverage, and Industrial Equipment, they match fairly closely. Transportation Equipment and Consumer Goods each have one swap between the rankings.

The abbreviations used in the table for each industry are explained in the *Industry Abbreviations Definitions Key* sidebar.

Key Capability - Responding to Unplanned Events in a Timely Manner

The norm is in the 40%-50% range with the top industries being Industrial Products at 53% and Process and Chemicals at 50%. On the low side, Hi Tech is at 29% and Wholesale/Retail is at 32%. The companies with strong scenario planning are generally more prepared to handle an unplanned event, due to the modeling they've incorporated into their normal process. That appears to be the case for Wholesale and Retail, but does not

completely explain Hi Tech, which is strong in risk and scenario planning, but is closer to the middle range.

Key Capability - Ability to Evaluate and Optimize Inventory and Service Policy to Maximize Cash Flow and Profitability

The norm is in the 40% -50% range with the high side exception being Wholesale and Retail, who are at 60%, which is higher than the Best-in-Class. This is the core of their business to position inventory and maximize service. It may explain why the Transportation Equipment vertical is less concerned, since they may be working on "build to order" contracts and are far less sensitive to finished goods and inventory turnover compared to Retail. It does not explain Food and Beverage, which might be expected to follow Retail or Consumer Goods, but they are comparatively low at 32%. One possible explanation is that a large percentage of their business is on contract, replenishment driven, and not tied as directly to consumer orders.

Key Capability - Systems Enable Feedback to and from S&OP Process to the Financial Planning and Budgeting Process

Across the board, there is less adoption on tying the financials to the S&OP/IBP process. Transportation Equipment is extremely low at 8% and would indicate that there is less apparent benefit for this vertical. If their business is more "build to order" then the profitability by order or contract may be the more common approach to getting a financial view of the business. Industrial products and industrial equipment tend to be lower here as well, for similar reasons.

Consumer Goods, Process and Chemicals, and Wholesale and Retail are the stronger players who may be working from a standard cost and plan by product groupings. The mix and gross margins associated with this type of product offering may have a stronger interest and find greater value in financial integration.

66%

of Best-in-Class companies can respond to unplanned events in a timely manner in line with S&OP objectives.

Key Capability - Ability to Create Upside and Downside Opportunity Assessment Scenarios to Analyze S&OP

This is the key to responding to unplanned events. Simulating upside and downside scenarios may directly model the event. The norm is in the middle teens as a percentage, but this is one area where Wholesale and Retail are very low. This may also explain why their responsiveness to unplanned events is behind the norm as well. It may also indicate a lack of system capability to pull the scenarios together in a timely manner.

Key Capability - Ability to Create Downside Risk Modeling and Assessment Scenarios to Analyze S&OP plan

This is another area where scenario modeling and simulation is getting a lot of attention as a result of the natural disasters that have taken their toll on supply chains, creating disruptions for entire industries, particularly those dependent on manufacturing and international sourcing. Hi-Tech companies, who commonly have global supply chains, are strong leaders in risk modeling, putting them at the top of the list as some of the hardest hit in their supplier ranks from natural disasters.

Retail is at 0% which adds to the concern over their capabilities. However, they are not concerned with manufacturing, but rather sourcing from multiple suppliers, so their risk may already be distributed to some degree. Other leaders are Food and Beverage and Industrial Equipment. Transportation Equipment is not strong in this area at 8% with an industry norm in the teens.

Summary and Key Takeaways

There is some consistency across industries when looking at the average, but the Transportation Equipment and Wholesale and Retail verticals appear to lag behind the average as far as adoption of the S&OP/IBP processes. In general, Process and Chemical tends to be higher on the list than most. Hi Tech is a leader in the area of risk management. There is a rough

correlation between those that are weak on the upside and downside of scenario planning and have a relative *lack* of ability to respond to unplanned events in a timely manner. The flip side is that those who appear to be relatively strong in scenario and risk planning, are more likely to respond to unplanned events in a timely manner with the one exception of Hi Tech who is relatively decent in scenario planning but very low in responsiveness to unplanned events. The one constant for consideration is that companies should consider their performance compared to the Best-in-Class to see how they compare and then look at these core processes to see if they are lagging in any areas. Following the lead set by the Best-in-Class in general is a solid approach to improving performance, but as the cross-industry comparison shows, there are some differences for each vertical that should be taken into consideration.

About Aberdeen Group

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