

White Paper

Getting to S&OP Success

How to make Sales and
Operations Planning (S&OP)
pay off for your company



Executive Summary

Research abounds on the benefits of developing a productive sales and operations planning (S&OP) process. It is one of the most discussed and written-about topics in the world of supply chain management. In countless surveys conducted by industry analyst firms, S&OP consistently ranks as one of the top three priorities for management teams.

S&OP is the decision process used to match a company's demand to supply, and align its supply chain plans to its business strategy. For many management teams, S&OP initiatives are agents of change that can dramatically reduce costs while improving customer service.


However, there is still a wide gap between a best-in-class and the typical S&OP process in place today. Many companies find it difficult to push past the challenges preventing them from achieving a highly effective S&OP process and realizing the associated benefits.

This white paper reveals many of the common challenges and presents potential ways to overcome them and maximize S&OP success.



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Implementing an S&OP
process and seeing it to
full maturity takes time—
**there are no quick fixes
or short cuts.**

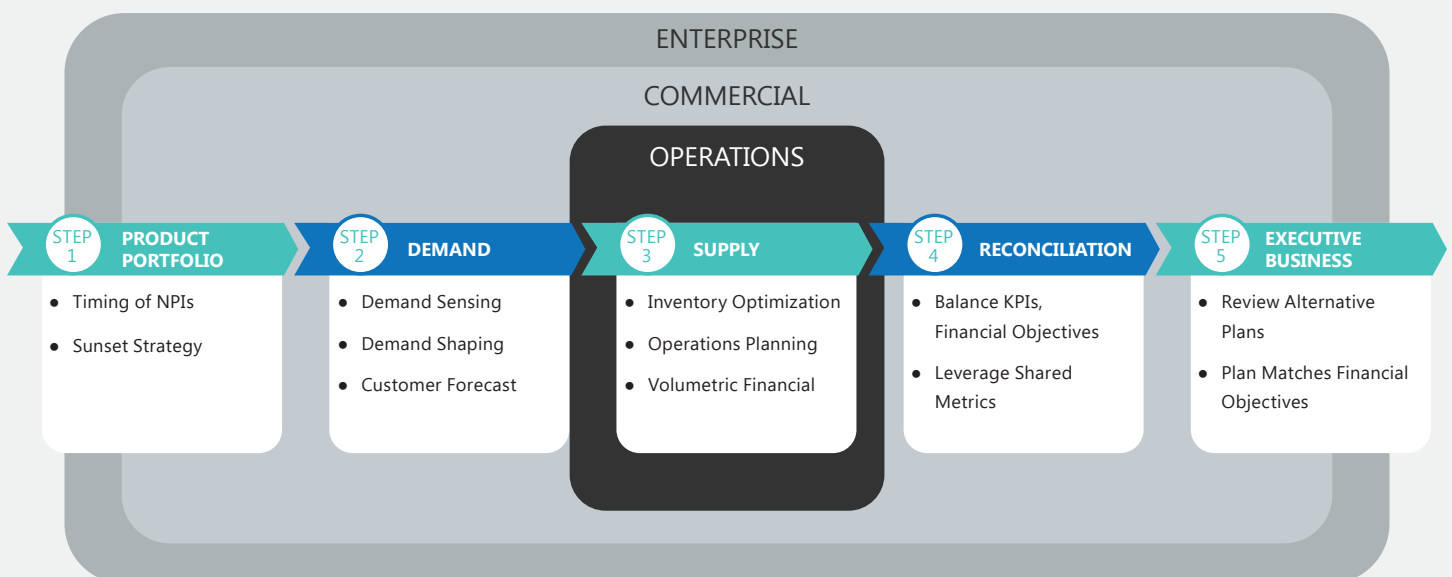
The Case for S&OP

The S&OP process offers a reliable, consistent way to get predictable financial results. A typical S&OP process flow looks like this:

- 1 Product Portfolio Review.**
 At product review meetings, planners calculate the impact of new products and end of life products, and then pass information to the demand team.
- 2 Demand Review.**
 The demand review produces a demand forecast for the company, which then passes to the supply team.
- 3 Supply Review.**
 The supply review estimates the impact of the demand plan on the supply plan.
- 4 Reconciliation Review.**
 Often called Financial Integration, the finance managers agree that everything translates well to their plans.
- 5 Executive Business Review.**
 Once consensus is achieved, executives break any ties and give their approvals.

Use S&OP to strategically drive your business.

The five critical review steps and interactions in an S&OP process



The Gap Between S&OP Opportunity and Reality

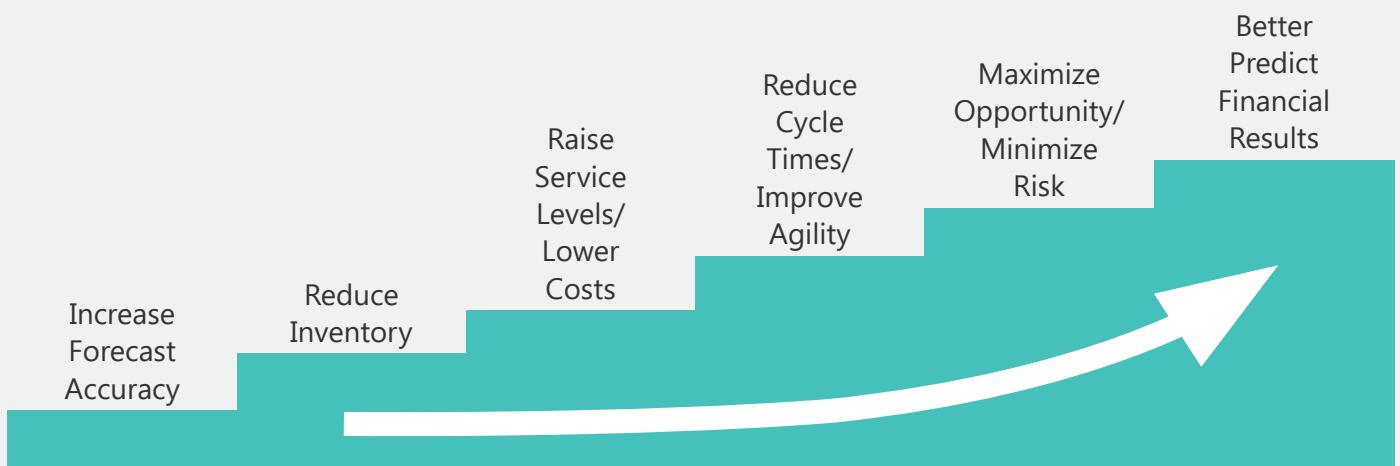
Executives want to implement an S&OP process because the benefits are tangible. Best-in-class companies report consistent, repeatable performance after implementing S&OP processes, and predictability is allimportant. Research published by Gartner and Aberdeen, along with other industry researchers, quantify the benefits:

- 2–5% revenue improvement (which alone, justifies any project)
- 10–15% improvement in working capital (which impacts inventory, payables receivables, and the ability to convert cash to run the business)
- 15–20% better forecast accuracy (It is crucial to have a valid forecast driving the demand plan. Demand plan inaccuracies cascade through the supply chain and cost money each step of the way.)
- 10–50% increase in on-time deliveries (which drives customer satisfaction and brand loyalty)
- 20% improvement in new product introduction fill rates, also known as time-to-value for new products

S&OP benefits are real and provide powerful incentives for all supply chain stakeholders to commit themselves to removing obstacles and achieving competitive success.

In reality, there are gaps between what is possible and a company's typical S&OP process. Two-thirds of companies that have implemented S&OP do not have a fully mature process in place. Many report that they are just "going through the motions," lack executive support, struggle with end-to-end coordination of their supply chains and continue to operate in functional silos.

The value outcomes of an S&OP process



Challenges & Barriers

Here is a short list of issues that derail S&OP processes and prevent companies from realizing their potential S&OP success.

1 **Lack of executive involvement.**

Executives must internalize the S&OP process and own it. Best-in-class S&OP processes have full executive support and active engagement that starts at the top.



To Do: Socialize the 'why' and 'how' of S&OP. Clearly communicate the value of S&OP and educate the entire team—especially executives. Dedicate a resource and empower the role to become a change agent that pushes S&OP forward in the organization. The S&OP outcome should be communicated in both volumetric and financial terms that matter to executives.

2 **Lack of cross-functional alignment.**

There is a misalignment in the reward structure. The stakeholders who understand the value of S&OP must address the measurements and rewards which should feed the broader operational key performance indicators (inventory turns, forecast accuracy, customer service and revenue).



To Do: Adapt the measurement structure to promote cross-functional collaboration.

3 **No quick fixes.**

Implementing an S&OP process and seeing it to full maturity takes time—there are no quick fixes or short cuts. Each organization's business processes are unique and so is the S&OP process required to balance supply and demand with financial strategies. Research shows the S&OP journey to reach mid-level maturity takes three to five years, on average. The target is full maturity.



To Do: Develop and embrace a long-term S&OP strategy that will help muscle past sticking points and reach a mature, best-in-class process that will serve normal cadence-based planning cycles as well as unexpected distribution resolution.

4 **Over reliance on spreadsheets..**

The majority of companies rely on spreadsheets as their primary S&OP technology. Spreadsheets will not deliver long-term, repeatable S&OP success, and research shows that spreadsheets are error prone.



To Do: Eliminate the reliance on tools like spreadsheets that are error-prone and undermine the cross-functional integration of processes and data.

5 **Lack of a technology roadmap.**

Companies that achieve best-in-class S&OP success are more likely to use solutions designed to support an interactive S&OP process that can help evaluate multiple business scenarios.



To Do: Establish a technology roadmap that matches the maturity phases of the S&OP journey and includes a plan to implement an S&OP technology platform specifically designed to facilitate and support S&OP process goals both now and into the future. Be sure to include analysis in both volumetric and financial measures.

6 **Inability to execute.**

If a plan does not translate into how to produce/source or sell a product, it is not usable. Demand and supply plan convergence requires an integrated technology platform that lets everyone work from the same playbook while addressing planning challenges. Leveraging a feasible S&OP plan will boost confidence and participation.



To Do: Rather than creating high-level aggregate plans, create playbooks that translate the plan at the detailed execution level.

What Best-in-Class Companies Get Right

Here's a ten-item checklist of best practices that set best-in-class S&OP companies apart:

1 **Best-in-class demand planning process.**

The demand plan drives the business up and down the planning hierarchy.



Key: Segment demand by customer, channel and region to gain insight. Use best-in-class demand planning technology. Develop greater organizational demand planning expertise

2 **Technology roadmap.**

An integrated supply chain planning solution powers the S&OP process and provides the foundation for it to reach full maturity. A feasible plan is a solid foundation for S&OP.



Key: Use technology to span the whole journey. Automate and collaborate using an S&OP solution suited to meet company-specific requirements. Make sure you close the loop between S&OP and supply chain planning plans.

3 **Supply performance tracking.**

What gets measured gets improved. It is critical to measure supply performance as a percentage of what gets achieved to understand the gap and to provide information on how to close that gap.



Key: Be honest and rigorousness, both internally and with suppliers.

Use this checklist to shape internal discussions and recommendations on how to level-up your S&OP process

4 Multi-echelon Inventory Optimization (MEIO).

Supply and inventory are the levers of a balanced response to demand. MEIO determines the optimal form, location and quantity across the entire manufacturing and distribution network to support the best S&OP plan.



Key: Apply an end-to-end MEIO strategy to align strategic and tactical goals across the supply chain.

5 End-to-end delivery lead-time measurement.

An understanding of total lead-time to deliver an order lays the foundation for powerful “what-if” scenario tradeoffs based on realistic supply constraints.



Key: Measure across the entire supply chain, not just finished goods delivery, to support cross-functional performance and align goals.

6 Inclusion of sales and marketing teams.

These teams have unique forward-looking market knowledge that is valuable to the overall S&OP process. Sales is highly accountable for a revenue number—so help them identify the product families needed to satisfy customer demand. Marketing has insight on promotions and new product launches are critical factors as well.



Key: Leverage these teams’ insights to increase the accuracy of the consensus demand plan.

7 S&OP measurement and auditing.

Again, what gets measured gets improved. Auditing the S&OP plan against actuals improves the ability to make adjustments within the planning cycle. Keep it simple but impactful.



Key: Run a tight S&OP process. Eliminate spreadsheets. Automate collection of data from systems and partners, sharing of data and gathering data back from collaborators. Can you summarize your plan metrics on one page?

8 Customer inclusion.

Getting closer to the end customer, whether directly or through a proxy, decreases latency in the demand signal and makes the demand plan more accurate.



Key: Incorporate point-of-sale data and create a collaboration portal to proactively identify early warnings of market shifts.

9 Model multiple scenarios.

A 100% level of service or fill rate is not always possible. Understand the tradeoffs of service and investment requirements.



Key: Understand the service level ramifications of the S&OP plan. Use varied service levels as a way to balance supply and demand while meeting overall customer service requirements. Remember that not all products require the same service goals.

10 Unconstrained and constrained supply scenarios.

Unconstrained scenarios are aspirational (opportunities) and quantify the upside.



Key: Use constrained scenarios to see the resource gaps that limit the ability to take advantage of opportunities, quantify the investments needed to take advantage of opportunities, and make better decisions in the executive S&OP meeting.

Case Studies

Here are three examples of how companies in multiple industries have used Logility to establish best-in-class S&OP processes.

Red Wing Shoe Company specializes in work and outdoor products that can stand up to conditions around the world, from Middle East oil fields to Midwest cornfields. The company goes to market via a retail network, dealer channels and directly owned stores.

Challenge

Red Wing needed a better forecast to more efficiently position inventory, improve the S&OP process and collaborate with its suppliers more effectively.

Results

- Cut S&OP process time by more than 50%
- Reduced inventory by 27%
- Increased visibility and improved forecast accuracy by 30%
- Decreased lead times by 30%
- Built a collaborative environment with trust in the statistical forecast and the S&OP process
- Increased fill rates by 8-10%

Red Wing Shoe invested in its people, process and technology, including APICS certification and Logility.

Continental Mills produces dry bakery mixes and snack brands that are sold through retail, food service and club store channels throughout the United States.

Challenge

Continental Mills needed to gain supply chain visibility, improve resource efficiency, and evolve its S&OP process.

Results

- Reduced inventory obsolescence from \$1M/year to almost nothing
- Improved inventory turns by 20%
- Increased resource efficiency in the forecasting process
- Reduced forecast error by close to 50%
- Achieved a record service level of 99.48%
- Improved data accuracy and visibility throughout the business

After evaluating a number of S&OP solution providers, Continental Mills selected Logility to automate and empower its S&OP process.

Conclusion

Sales and Operations Planning, the decision process used to match demand to supply and align supply chain plans to business strategy, consistently ranks as one of the top three priorities for management teams. Unfortunately, frustrating gaps exist between what is possible and the typical S&OP process in place today. The good news is that companies can push past these challenges simply by embracing and adopting key aspects of best-in-class organizations' mind-set, commitment, and priorities.

Here are two steps to take right now:

- 1 Review the challenge/barrier list in this paper and take an honest look at your S&OP process and supporting technology. Ask what needs to be addressed to help your company move up the S&OP maturity curve.**
- 2 Study the best practices checklist in this paper and use it as a springboard to develop a confident and comprehensive action plan for excellence. Every one of these ten items is worth consideration on how to transform your company into an S&OP powerhouse.**

Best-in-class S&OP success is a very viable long-term course for every supply chain team. One key is to adopt the attitudes, practices and specialized resources best-in-class companies have found so rewarding. Start developing your plan now and take your next step forward with confidence.



About Logility

Logility's Digital Supply Chain Platform delivers prescriptive demand, inventory, and supply plans – giving executives the confidence and control to increase margins and service levels. Designed for speed and agility, Logility's cloud-based platform provides an innovative blend of artificial intelligence (AI) and predictive analytics to deliver integrated planning and operations across the end-to-end supply chain. Our engineered approach drives team alignment for over 800 customers in 80 countries with prioritized outcomes that assure demonstrable value. Logility is a wholly-owned subsidiary of American Software, Inc. (NASDAQ: AMSWA). Learn more at logility.com.

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