

CUSTOM RESEARCH

Sales and Operations Planning

A JOURNEY THAT'S WORTH THE EFFORT

In the consumer goods (CG) industry, there has been a notable amount of focus on the Sales and Operations Planning (S&OP) process over the last five years. While it is certainly not a new process, the renewed interest is noteworthy because of the impressive benefits that have been attributed to it. According to AMR Research, companies with mature S&OP achieved a 2 percent to 5 percent improvement in revenue; a 20 percent increase in commercialization reliability; as well as a 15 percent to 20 percent reduction in inventory. These results designate S&OP process improvements as primary starting points for companies that desire to be more demand driven.

This month, CGT partners with Logility Inc. in order to take a look at S&OP in the CG industry. What we found is consistent with a process still undergoing change: A

wide range of responses with little consensus as to what the ultimate process should look like. However, while experts may claim to provide a text book definition of S&OP, companies may be better off determining the ideal implementation for their unique business situations.

Current Status

The good news is that the overwhelming majority (80 percent) of CG companies have a formal S&OP process in place. Ownership of the process differs with almost half falling under the auspices of supply chain as well as almost one third instituting a collaborative multi-disciplinarian team (see Figure 1). Interestingly, the supply chain is the process owner for almost all of the companies with more than \$5 billion in revenue. The other promising finding is that most companies

involve at least five organizations (see Figure 2) in the process, particularly sales, supply chain and marketing. More than three quarters also include finance, and that number may have increased recently due to the downed economy.

The plan itself is produced at several different levels. Almost one quarter plan volumes at some intermediate product grouping level. Sixteen percent plan financial numbers at the product family level as well as customer/SKU combination volumes in unit level, with fewer companies planning finance or volume levels for product families. However, 44 percent plan at all the levels mentioned. Once the plan is produced, 55 percent of our respondents communicate it to oper-



To read the research in its entirety, visit:
www.consumergoods.com

EXPERT PERSPECTIVE • KARIN BURSA, VICE PRESIDENT, MARKETING, LOGILITY INC.

ARE YOU READY TO THRIVE IN THE RECOVERY?

The simple truth is that most businesses — large and small — have been impacted by the slow economy. So, what's the difference between those that survive and those prepared to thrive? Perspective.

With today's volatile economy, you can't afford lost sales, excess inventory or constrained cash flow. Strategically-focused companies are investing in S&OP now and gaining a comprehensive perspective of their businesses that's preparing them for growth in the recovery.



S&OP is a vital process that helps companies better manage their businesses in any economic climate. When S&OP is done well, demand matches supply in a profitable operational plan and yields lower inventories, better customer service, higher revenues and improved margins. With a formalized S&OP strategy, Shaw Industries Inc., a manufacturer of floor coverings, achieved business process improvements that included increasing net margins by as much as 2 percent, improving fill rates

an additional 0.8 percent, and adding new market share opportunities with key customers.

Quite simply, S&OP helps your organization get and stay on the same page. It's a proven process that can effectively tie strategic goals to tactical activities and significantly improve decision making. With the right S&OP process and software you can:

- Increase demand planning accuracy/focus on critical customers/channels
- Reduce costs to maintain and improve profit margins against

less predictable revenues

- Leverage consumer-centric demand signals, like point of sale, to refine demand plans and prioritize demand-shaping opportunities
 - Evaluate multiple "what if" scenarios at each step of your S&OP process to understand trade-offs in service levels, inventory investments and profitability
 - Proactively monitor the S&OP plan effectiveness against cross-functional KPIs
- Is S&OP part of your team's strategy to thrive?

ations, and if there are near-term problems in the execution, there is a feedback mechanism back to the S&OP process.

Supporting technology is in place for some companies, but 48 percent still rely on spreadsheets. A smaller number (20 percent) leverage ERP systems, although most are the larger companies. Technology is pri-

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marily in place to support demand forecasting and collaboration (79 percent) or sales and market data collection (72 percent), but more than half also have applications for developing the constrained plan. Inputs vary, led by shipment history, demand history, sales targets and capacity constraints. Despite the attention paid to downstream data in the form of point of sale, it is only used by 41 percent.

Benefits

Respondents identified several qualitative benefits from S&OP initiatives (see Figure 3). The top response is better communication between departments, followed by improved forecast accuracy. Other benefits include improved order fill rate, fewer supply disruptions, improved planner productivity and reduced inventory. Ironically, 70 percent of respondents also use forecast accuracy to measure success and improvements due to S&OP processes and technologies. More than half also use complete order fill rate and inventory turns.

S&OP is not an easy process to implement, and most companies will tell you it's a lengthy journey, but the results are worth the effort. ❖

FIGURE 1
Who "owns" your S&OP process?

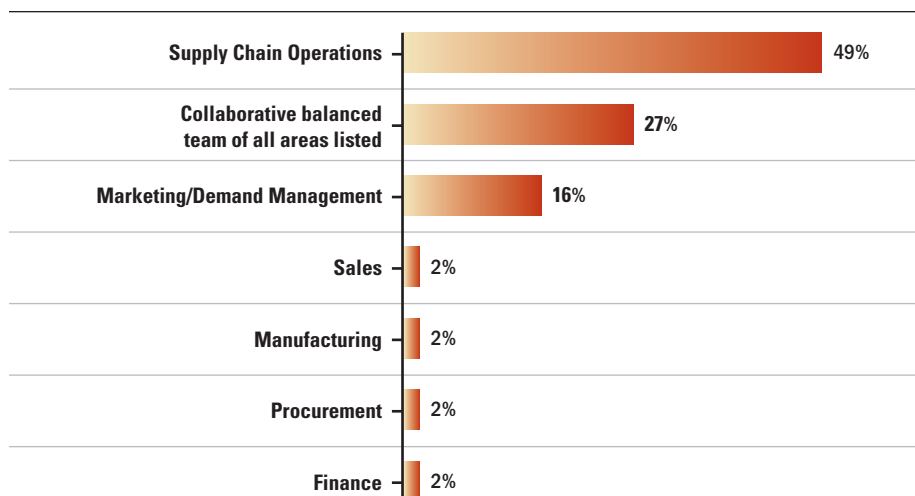


FIGURE 2
Which organizations/processes are involved in the S&OP process and attend meetings? Note: multiple responses permitted

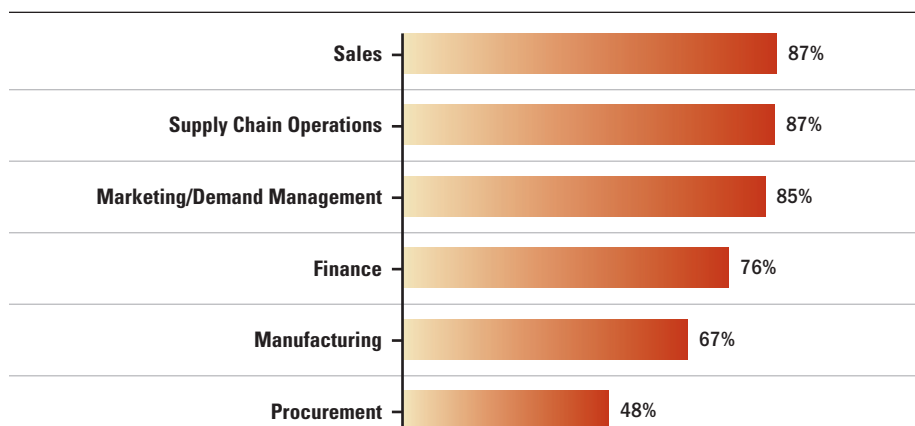
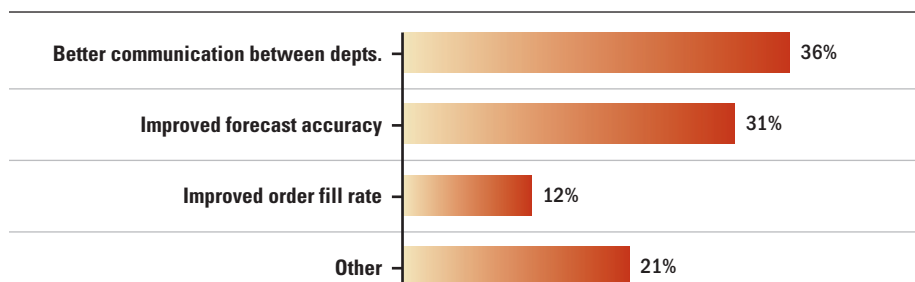


FIGURE 3
The top qualitative improvements that have occurred due to S&OP.





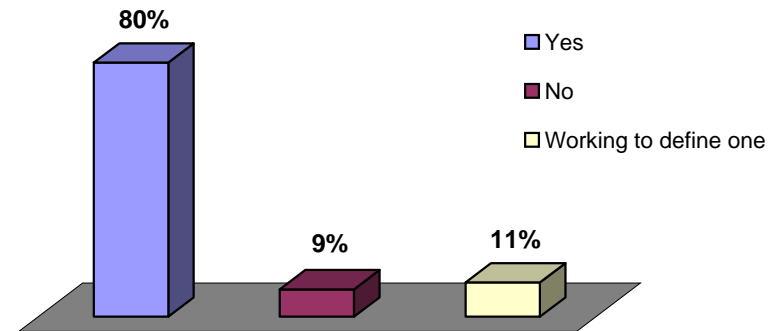
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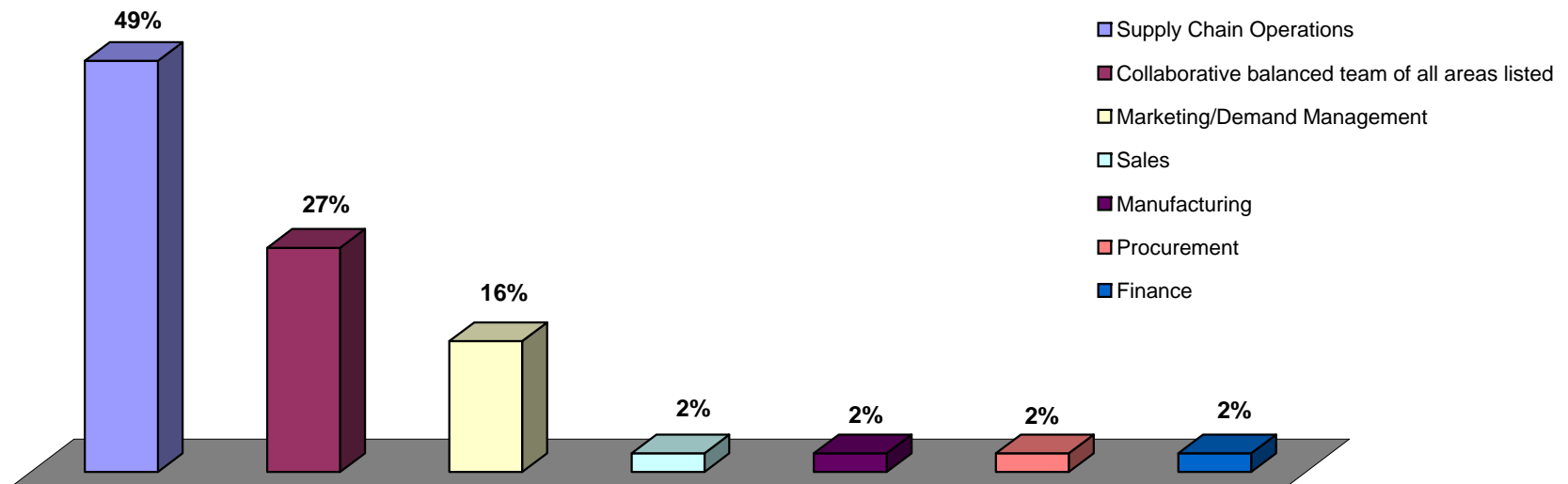
1. Do you have a formal S&OP process in place?

Formal process	%
Yes	80%
No	9%
Working to define one	11%



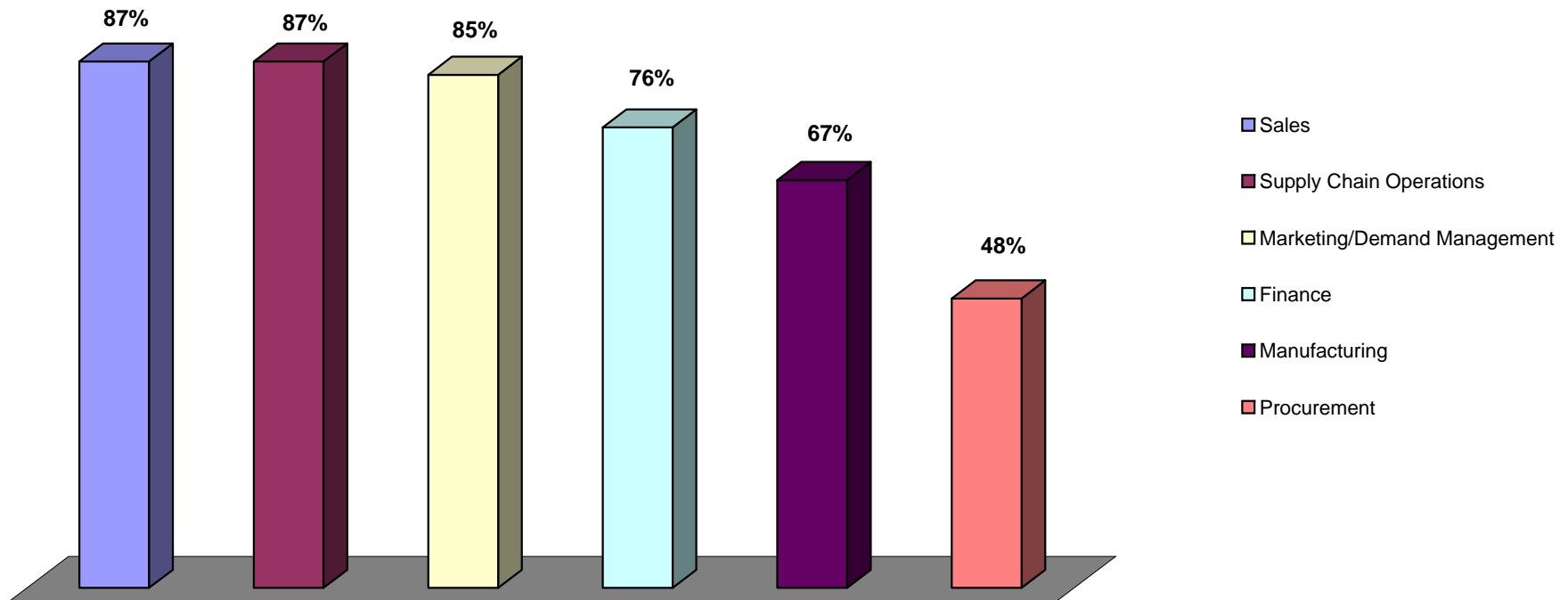
2. Who "owns" your S&OP process?

Owns process	%
Supply Chain Operations	49%
Collaborative balanced team of all areas listed	27%
Marketing/Demand Management	16%
Sales	2%
Manufacturing	2%
Procurement	2%
Finance	2%



3. Which organizations/processes are involved in the S&OP process and attend meetings? (multiple responses permitted)

Involvement	%
Sales	87%
Supply Chain Operations	87%
Marketing/Demand Management	85%
Finance	76%
Manufacturing	67%
Procurement	48%



4. Please rate the importance of the following drivers to your company for improving your S&OP process.

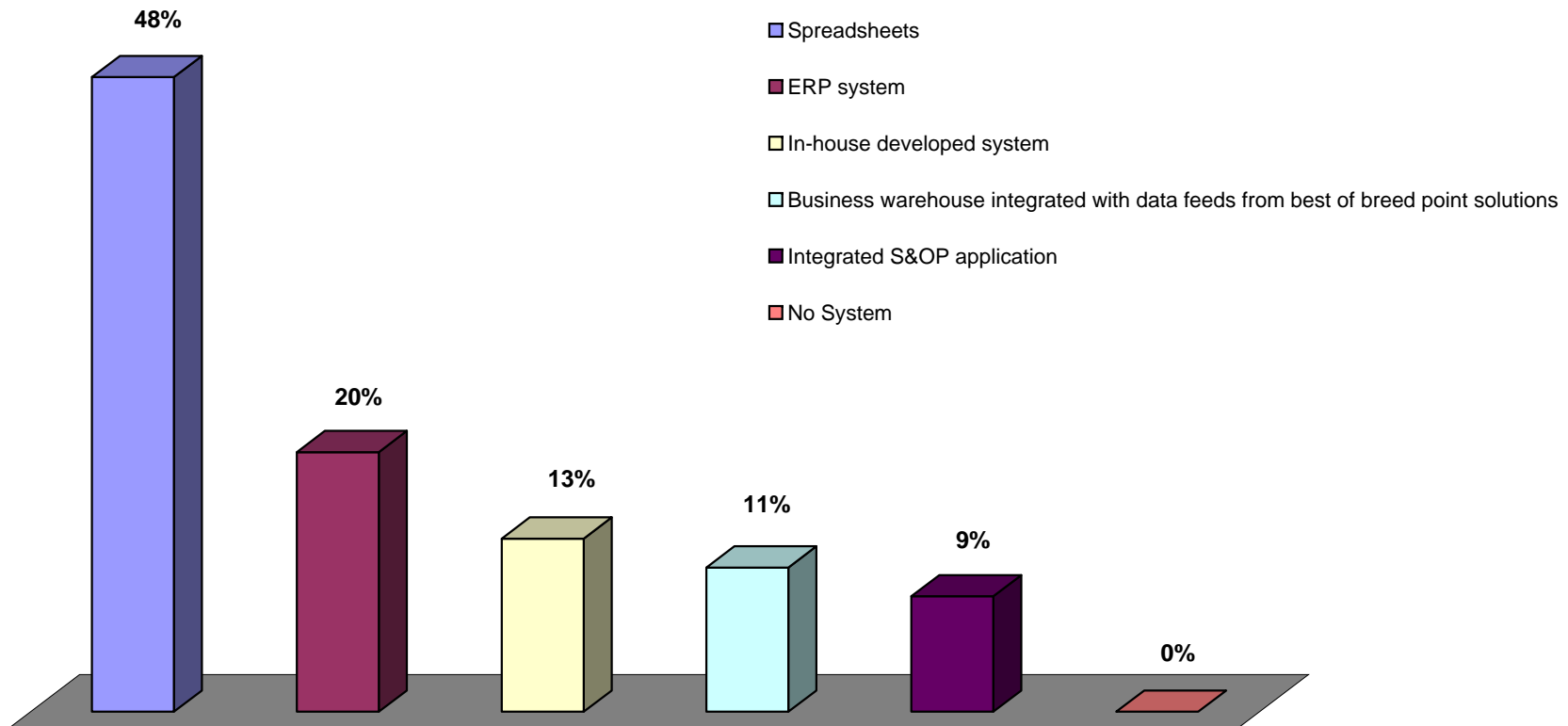
Drivers	Not concerned	Somewhat concerned	Concerned	Majorly concerned	Key driver
Shrinking % Profit Margins	9%	20%	32%	27%	9%
Slowdown in business growth	5%	11%	36%	25%	20%
Complexity caused by growth in new products/services	16%	11%	32%	18%	20%
Rising customer order fill rate expectations	5%	30%	32%	16%	16%
Extended and uncertain lead-times due to global supply sourcing	11%	39%	16%	16%	16%
Complexity due to increase in choices for sourcing because of international manufacturing facilities	45%	32%	11%	7%	2%
Increasing transportation and logistics costs	11%	25%	36%	16%	9%
Rising variable costs (energy, RM costs, etc.)	11%	25%	32%	20%	11%
Better return on net assets (RONA) while maintaining or improving customer service	2%	14%	30%	23%	27%
Other	5%	0%	5%	7%	9%

5. Please choose the inputs to drive your S&OP process:

Inputs	Current Inputs	Ideal Inputs
Point of sales data	41%	48%
Demand History	85%	37%
Shipment History	87%	17%
Sales targets	83%	28%
Promotion targets	41%	46%
Causal events	50%	37%
Syndicated data for industry sales	37%	30%
Material constraints	48%	39%
Capacity constraints	70%	37%
Safety stock targets	70%	24%
Transportation constraints	30%	35%
Costs	50%	30%

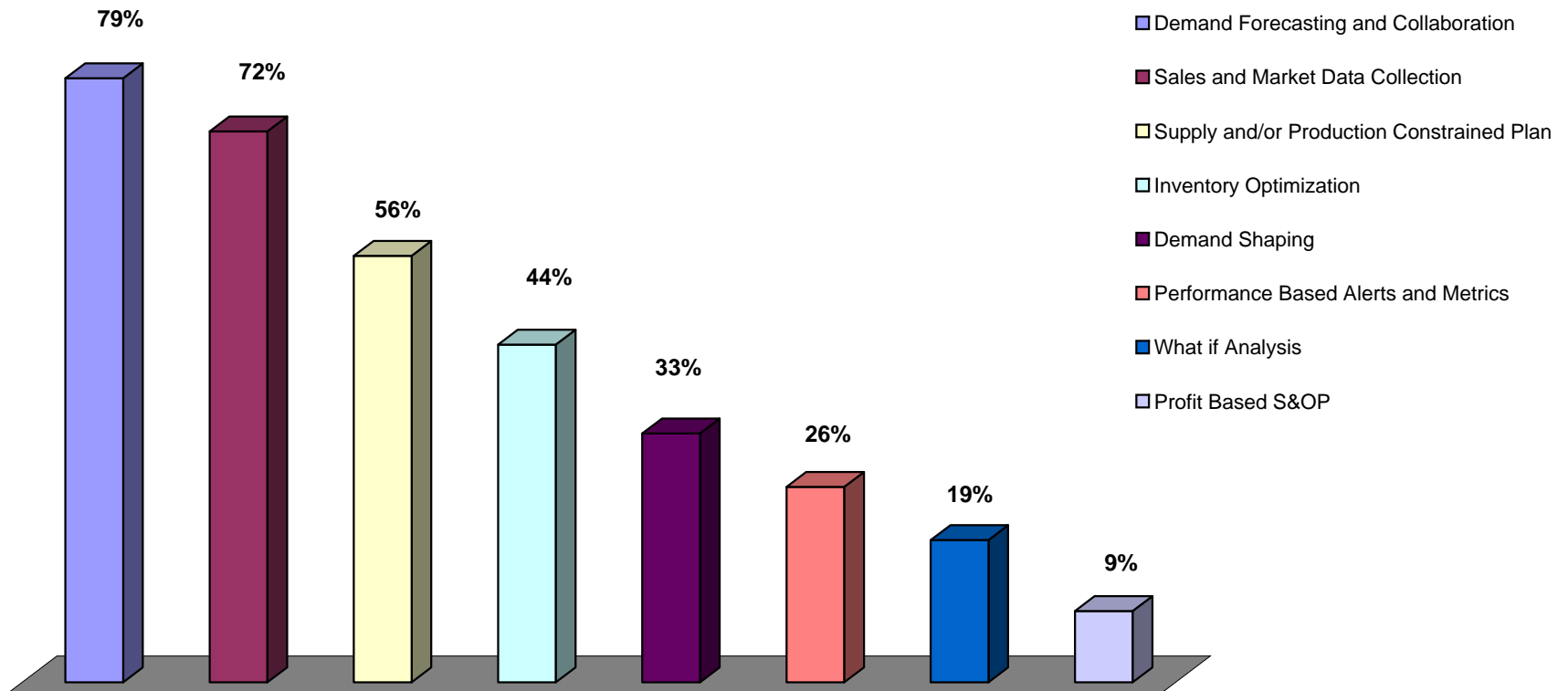
6. Which of the following best describes your company's current S&OP Technology Architecture?

Current S&OP Architecture	%
Spreadsheets	48%
ERP system	20%
In-house developed system	13%
Business warehouse integrated with data feeds from best of breed point solutions	11%
Integrated S&OP application	9%
No System	0%



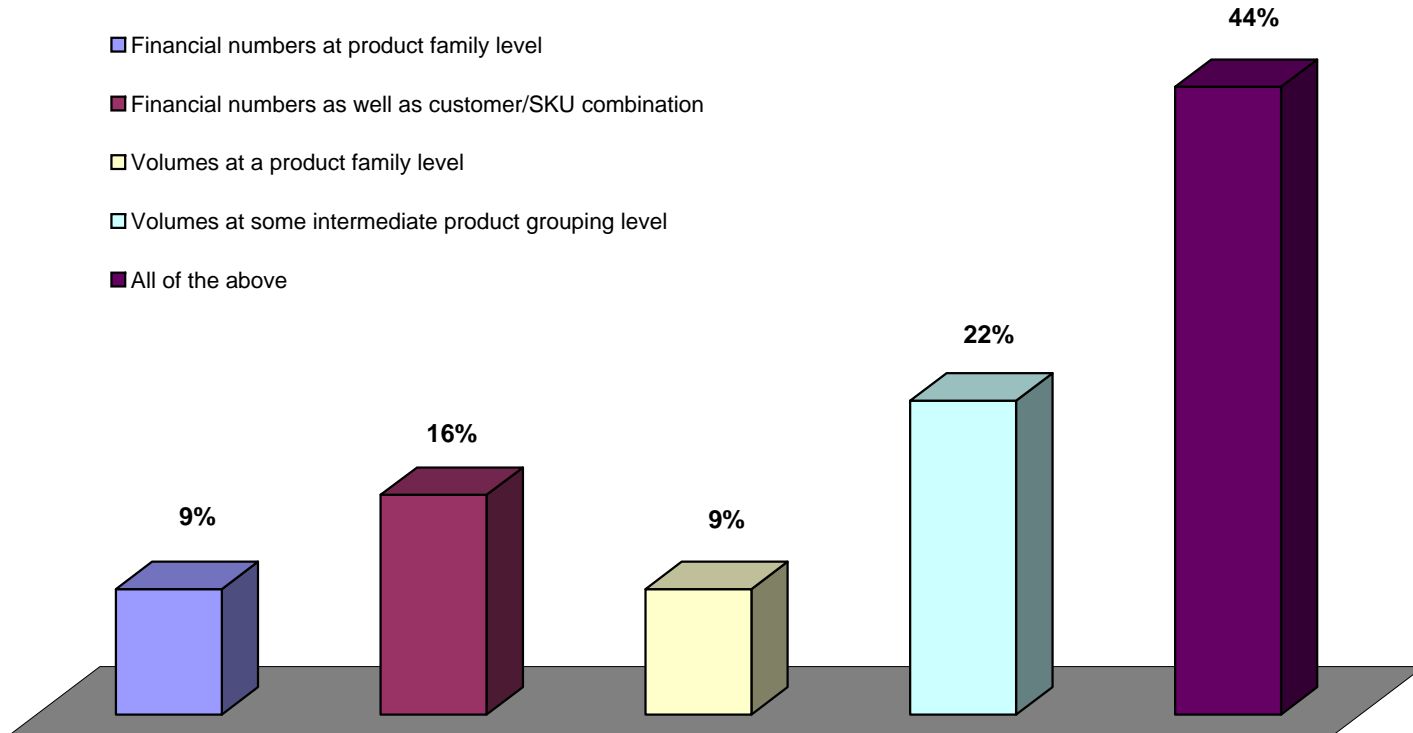
**7. Please select the areas where you have supporting technology as part of your S&OP technology architecture.
(Multiple responses permitted)**

Supporting technology areas	%
Demand Forecasting and Collaboration	79%
Sales and Market Data Collection	72%
Supply and/or Production Constrained Plan	56%
Inventory Optimization	44%
Demand Shaping	33%
Performance Based Alerts and Metrics	26%
What if Analysis	19%
Profit Based S&OP	9%



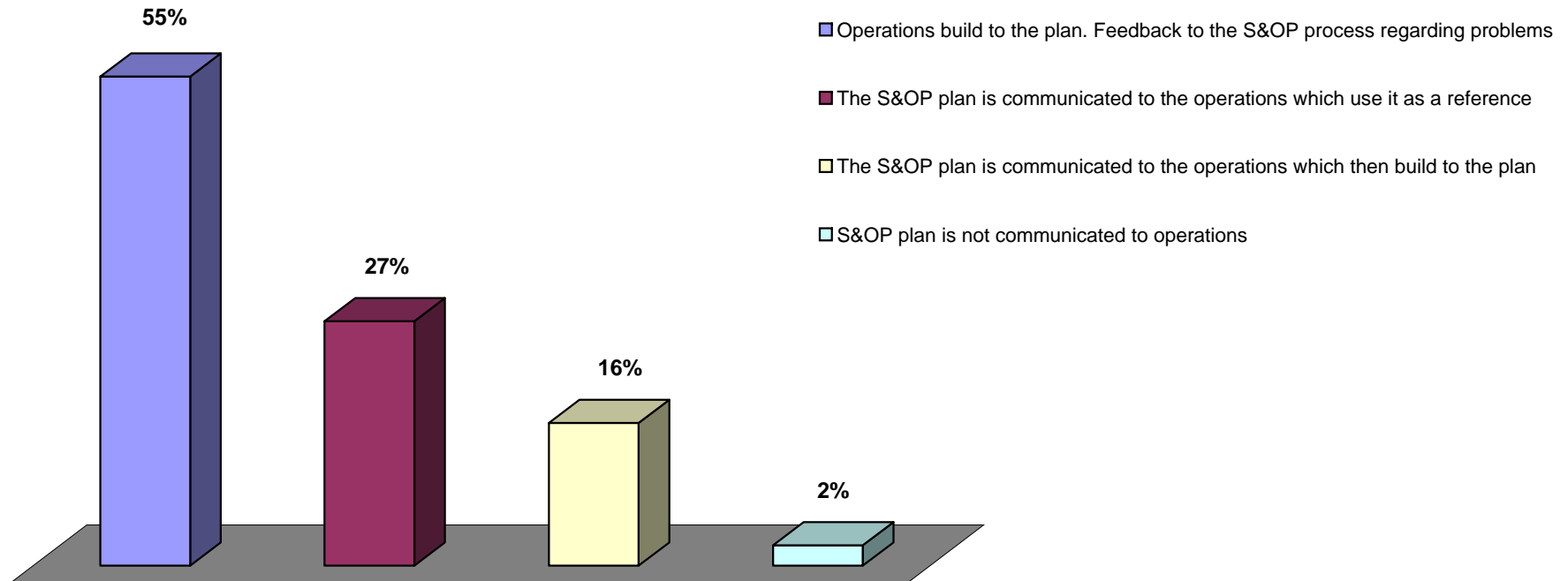
8. At what level is the S&OP plan produced in your organization?

Level	%
Financial numbers at product family level	9%
Financial numbers at product family level as well as customer/SKU combination volumes in unit level	16%
Volumes at a product family level	9%
Volumes at some intermediate product grouping level (more granular than the product family but not at the individual SKU level)	22%
All of the above	44%



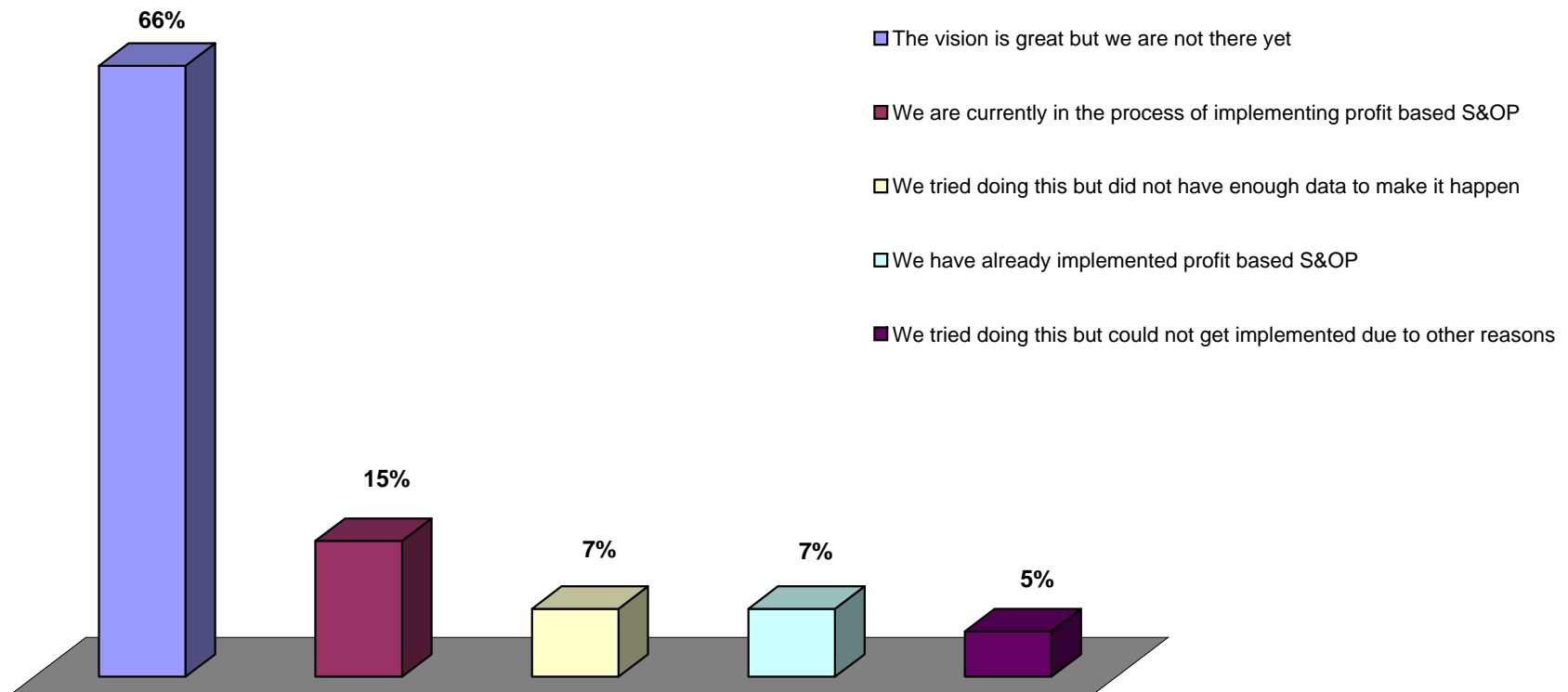
9. Which of the following describes the execution of the supply plan within your organization?

Execution of supply plan	%
The S&OP plan is communicated to the operations which build to the plan. If there are near term problems in the execution, then there is feedback to the S&OP process regarding the problem	55%
The S&OP plan is communicated to the operations which use it as a reference	27%
The S&OP plan is communicated to the operations which then build to the plan	16%
S&OP plan is not communicated to operations	2%



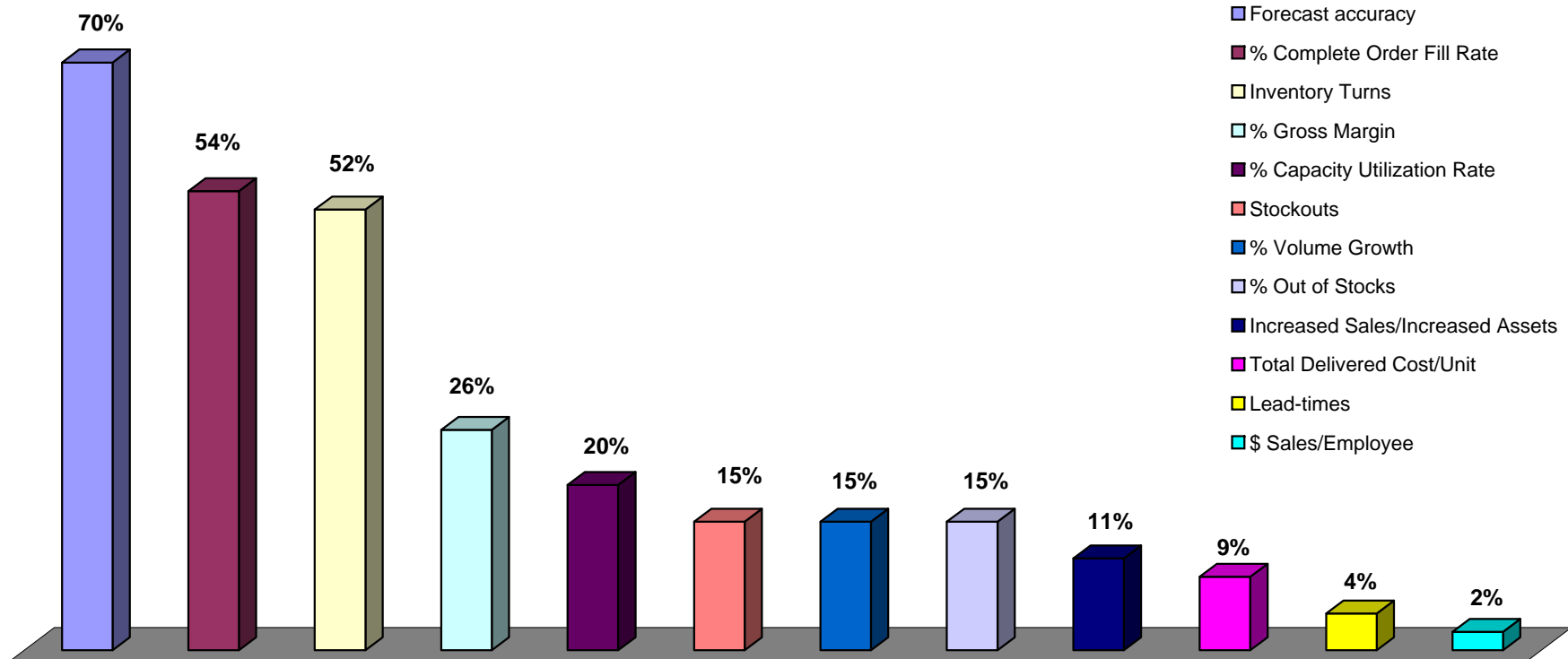
10. Which of the following describes the usage of profit based S&OP in your organization?

Use of profit based S&OP	%
The vision is great but we are not there yet	66%
We are currently in the process of implementing profit based S&OP	15%
We tried doing this but did not have enough data to make it happen	7%
We have already implemented profit based S&OP	7%
We tried doing this but could not get implemented due to other reasons	5%



11. Which of the following metrics will your company use to measure improvement due to implementation of your S&OP processes and technologies?

Metrics	%
Forecast accuracy	70%
% Complete Order Fill Rate	54%
Inventory Turns	52%
% Gross Margin	26%
% Capacity Utilization Rate	20%
Stockouts	15%
% Volume Growth	15%
% Out of Stocks	15%
Increased Sales/Increased Assets	11%
Total Delivered Cost/Unit	9%
Lead-times	4%
\$ Sales/Employee	2%



12. What are the top 3 qualitative improvements that have occurred due to S&OP?

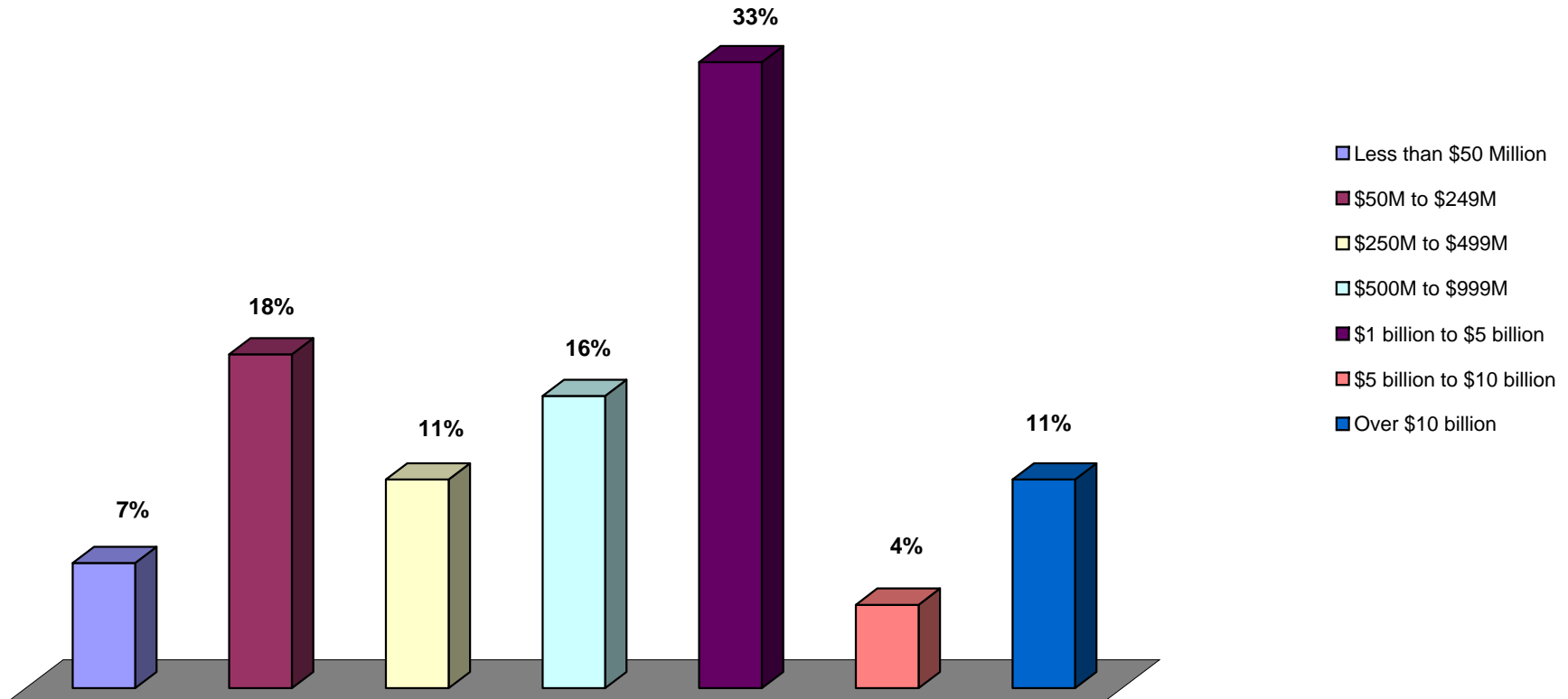
Improvements	#1	#2	#3
Reduced lead-times	0%	5%	2%
Reduced stockouts	5%	9%	10%
Improved forecast accuracy	31%	11%	5%
Improved planner productivity	5%	7%	7%
Improved gross margin	2%	0%	12%
Improved customer retention	0%	0%	0%
Improved order fill rate	12%	15%	10%
Fewer supply disruptions	5%	22%	10%
Reduced inventory	5%	15%	17%
Better communication between depts	36%	7%	19%

13. What are the top 3 barriers to realizing value due to technology enablement of S&OP?

Barriers	#1	#2	#3
Applications are not integrated to each other	38%	7%	7%
Applications are too complicated to implement and maintain	10%	10%	0%
Users are more comfortable with spreadsheets	14%	14%	5%
Too expensive to implement and maintain	2%	7%	7%
Data gets outdated very fast	7%	10%	5%
Too difficult to run the S&OP application more	7%	5%	14%
Difficult to do what if analysis	10%	26%	17%
Inadequate reporting capabilities	12%	14%	26%

14. What is your company's annual revenue?

Annual Revenue	%
Less than \$50 Million	7%
\$50M to \$249M	18%
\$250M to \$499M	11%
\$500M to \$999M	16%
\$1 billion to \$5 billion	33%
\$5 billion to \$10 billion	4%
Over \$10 billion	11%



15. In which category does your company primarily compete?

Category	%
Consumer packaged goods	37%
Food/Beverage	17%
Footwear and Apparel	11%
Consumer durable goods	11%
Health and Beauty Aides	7%
Consumer electronics	4%
Distribution / Wholesale	4%
Paper/lumber/timber	4%
Medical devices	2%
Other	2%

