

Sales and Operations Planning Maturity: What Does It Take to Get and Stay There?

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Companies with mature S&OP processes testify to the predictability and transparency it brings to a business. While neither the process nor this revelation is new, the fact is that two-thirds of businesses do not progress beyond the first two stages of Gartner's 4-stage maturity model. It's in the mature Stage 3 and 4 where S&OP derives real business value. This report highlights findings that Stage 3 or Stage 4 companies go well beyond traditional S&OP methodologies that define supply chain process used to balance demand and supply (Stage 2). To achieve Gartner's definition of Stage 3 or Stage 4 S&OP, these companies change not only the process and technology, but more importantly address ownership, culture, core beliefs and even the name of the process itself.

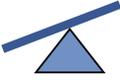
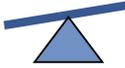
Key Findings

- Beyond Stage 2, traditional S&OP methodology is no longer sufficient and the process must be tailored to the specific needs of an organization.
- In most organizations there was a compelling business event that precipitated the change from the top, and gave clarity to the S&OP journey and vision.
- Once the S&OP process matures, it is no longer owned by supply chain but by business leaders.
- Momentum builds as business leaders derive value from the process and it becomes the primary forum for decision making.
- Where the term S&OP was tainted, organizations renamed and rebranded the process.

Recommendations

- Assess your level of S&OP maturity in order to build a road map to evolve through the stages.
- Have a clear, executive-led business motive and common business metrics that transcends functional area to break down silos, and that drives active participation and investment in the process.

Figure 1. S&OP Maturity Model

Strategy	Stage 1: Reacting	Stage 2: Anticipating	Stage 3: Collaborating	Stage 4: Orchestrating
Balance: S&OP				
Section 1: Goals	Development of an operational plan	Demand and supply matching	Profitability	Demand sensing, and conscious trade-offs for demand shaping to drive an optimized demand response
Section 2: Cross- Functional Alignment	Supply Chain driven process with a strong sales or operational bias leading to imbalance. Lack of clarity as to the goal of S&OP.	Supply Chain driven process for purposes of achieving optimum forecast and supply response to demand	Supply Chain becomes the S&OP orchestrator and business functions take ownership of input, output and results, looking at financial impact of decisions	Business ownership at multiple levels with strong participation from executives and finance. Collaboration extends beyond the enterprise to achieve end-to-end value.
Section 3: Process and Technology	Emerging process, inconsistent and marginally effective. Often more of a sales review meeting. Tools are mainly Excel and ERP.	Formal, structured process. One size fits all approach. Tools extend to include forecasting, SC planning and inventory optimization	Process tailored to business model and needs. Dialogue, and start of use of tools, around what-if analysis for demand shaping, financial reconciliation and cost to serve.	Process becomes balanced, dynamic and event-driven. Strong connection to strategic planning and execution. Tools also support risk-value trade-offs, price optimization and complex simulation.


Increase in Organizational Balance

Source: Gartner (October 2010)

- Identify coaches and provide tools to help sustain the process and manage change.
- Design the process to fit the nuances of the business. Consider a multitier approach to cater to different planning horizons and business models.
- Determine the right balance between process improvement and enabling technologies.

ANALYSIS

Background to the Research

In August 2009, we analyzed the results from a study of 182 manufacturers and retailers and found that 67% of companies were still in Stage 1 or Stage 2 of our sales and operations

planning (S&OP) maturity model (see Figure 1). This inability to mature occurs despite heavy investments made in continuous improvement, consulting and technology. Gartner analysts interaction with clients across manufacturing and retail industries validated these survey results. Using this information, we published “Conquering the Seven Deadly Challenges of Sales and Operations Planning” where we focused on the need for change management in order to move the process forward. But one specific question kept coming up: “How exactly do companies move beyond Stage 2, and how do they sustain a mature process?”

This question instigated the need for further research this year. Eighteen companies that we believed had achieved S&OP Stage 3 were identified and interviewed to help us answer this question. These companies are large manufacturers, where either all the organization or specific business units or regions had achieved Stage 3 or Stage 4 S&OP maturity. Their revenue ranged from

between \$2 billion and \$60 billion and came from the chemical, consumer products/food and beverage (CP/F&B), apparel, high tech, industrial and A&D industry sectors. It was obvious in speaking with these companies that they were able to clearly identify the maturity level of the various divisions or regions, and they could recite the associated benefits they achieved from S&OP, as well as tell us the characteristics and reasons why some parts of the business were ahead of others. The findings from these 18 interviews were fascinating, and together with insights gleaned from the August 2009 survey, form the basis of this report.

Stuck in Neutral in Stage 2

As the saying goes, “in order to understand where we are going, we must first understand where we are.” To address this issue, we use Gartner’s 4-stage S&OP maturity model to describe characteristics of a Stage 2 process.

A good Stage 2 process typically follows the traditional S&OP demand/supply balancing methodology based on volume. It is a strong foundation to support supply chain decisions. At this level of maturity, the organization has already addressed the need to have accurate, credible data in volume/units. In most cases, because the dialogue centers on volume, SKU capacity and lead times, S&OP ownership remains stuck in supply chain.

Demand planners have progressed beyond just statistical forecasting, and elicit sales and marketing involvement to provide their customer and market intelligence as input to the demand plan. Commercial teams and planners in late Stage 2 have figured out the right approach to statistical forecasting techniques, what manual touches add value and how to measure the impact of these changes as the forecast is reviewed through multiple stages. Some have even started measuring forecast value add (FVA) percentage to monitor the additional value of these touches.

Translation of demand into supply plans tends to be a bit clunky at this stage, but pre-S&OP meetings involving the right people and a lot of manual effort manage to get this task completed. Constraints such as assets, materials and resources are taken into consideration and discussed as they relate to meeting the volume plan. A strong Stage 2 process has formal governance and good discipline.

One of the issues in Stage 2 is the planning horizon around which dialogue and decisions should be centered. Too often the discussion does not progress beyond the short-term planning horizon (0 to 3 months). Another issue companies face is linking S&OP to execution. Decisions and assumptions made in the S&OP meetings do not make their way down to the lower level processes.

What Does a Collaborative Stage 3 S&OP Process Look Like?

In Stage 3, the S&OP process focuses on a midterm planning horizon, typically 3 to 24 months (this can differ by industry). The goal is to maximize market opportunity, profitability and customer satisfaction while minimizing risk. But this is a fairly typical S&OP definition, and it does not really describe the characteristics of a mature process. While most organizations use a textbook style S&OP process to get to Stage 2, Stage 3 organizations found that the traditional process only served to form the foundation of a more tailored process to come.

The Stage 3 process is specifically designed and personalized to map to the specific business or regional needs, planning horizons and, in some cases, even different value chains. The traditional approach is adapted where needed, sometimes resulting in multiple levels of processes. It’s apparent that the one-size-fits-all process does not promote companies to Stage 3. The process needs to be global — where there are shared or overlapping resources — but local where agility of the process needs to be maintained. In some cases, the operational process focused on the short term remained at the local level, while the global process was aggregated and addressed a midterm planning horizon. No commonality of S&OP design stood out in the companies we interviewed, other than layering the process to fit the matrix structure and the scope businesses need to deal with. The process was clearly designed around the level at which good business decisions needed to be made. This is key, because once the process moves to Stage 3 it is no longer a supply chain process, but rather an aligned business planning process.

It became clear from our discussions that in Stage 3, S&OP is *the* forum for decision making, and business leaders embrace the meetings and actively participate. The process grows beyond supply chain and encompasses alignment of the functions and line-of-business ownership. It is used to translate opportunities in the form of go-to-market strategies and solutions into actionable and profitable responses. Even without “what-if” technology enablement, meetings have active dialogue on closing demand gaps, “what-if” scenarios, risks and ranges. The key point is that this activity and decision making occurs at a senior level. This happens because stakeholders participate and the focus has shifted from units to revenue, profit and the customer — what the business cares about. As one European S&OP team explained “we realized our S&OP process was good when people defer to it as the forum for decision making. Business folks now value the process, the dialogue and opportunity to interact with peers and make good decisions.” Governance and disciplined process ensures accountability and decision rights are clear.

Being a core decision-making forum, the process must also be balanced and efficient. Exception-based analysis and dialogue speeds up the cycles and solves the scope/speed paradox, reducing the need for lengthy and laborious meetings.

At this level, leaders have institutionalized rapid and effective communication between stakeholders. For example, in a Stage 3 CP company, demand planners receive timely information on trade promotions and adjustments, and account teams understand the need for supply chain planners to have advanced notice about changes within their accounts to increase on-shelf availability. In the case of a manufacturer of complex high-mix equipment, it was about the sales teams realizing that simply sharing quarterly revenue numbers was of little help to supply chain and manufacturing’s effort to deliver a profitable response. The key learning was that advanced notice to the mix was just as important as closing the aggregate deal. Planners collaborating more closely with account teams and key customers helped close this gap.

Stage 3 requires more frequent collaboration, both internally and with major trading partners, than in earlier stages to improve long-term demand insights and short-term demand sensing capabilities. This gives the source, make and deliver components of the business time to move from reacting to customer orders

to determining the best and most profitable way of filling orders. The use of technologies supporting trade promotion management (TPM), vendor-managed inventory (VMI), collaborative planning forecasting and replenishment (CPFR), supplier portals and other visibility tools help to support this collaboration effort.

Achieving S&OP Stage 3 Maturity

Our research has determined a set of quantitative and qualitative changes that enable the movement from Stage 2 into Stages 3 and 4 of S&OP maturity. The quantitative changes revolve around process or system-driven initiatives that need to be in place as enablers of maturity. The qualitative changes address the critical aspects of change management, culture, outlook and fundamental beliefs that are needed to create a “pull” force of change within the organization, facilitating faster S&OP maturity.

Quantitative Changes

Translating the Numbers

One of the most challenging aspects of S&OP is the ability to satisfy the informational needs of different business functions (finance, sales, marketing, supply chain) based on input from multiple sets of numbers and forecasts. At Gartner, we refer to this ability as Translation. Building capabilities to translate numbers is a core requirement to move from Stage 2 to Stage 3. Translation can be complex and is required in multiple areas (see Figure 2).

Initially, translation capability is heavily dependent upon building the right market-driven hierarchies to manage demand, and then being able to adaptively translate this into supply planning models based on supply-side hierarchies (see Figure 3). Companies that have achieved Stage 3 are able to do this translation, easily, but volume translation is only the start.

Financial Integration and Reconciliation

Absolutely critical to moving beyond Stage 2 demand and supply matching is the active participation of finance in the S&OP process. Here we see extensive use of translation to turn unit/volume projections into revenue plans. For some in Stage 3, this forms the basis of the annual operating plans, with continued use on a monthly or quarterly basis to ensure the plan is maintained. This integration and reconciliation gives a revenue view versus the traditional volume/unit plans. This view effectively captures the attention of commercial, finance and leadership teams, as the financial impact of the plans and subsequent decisions become clear.

In Stage 3, due to profit implications, the capability to predict mix, whether it be SKU, product line or configuration mix, becomes more important than just total volume. Sales participation is essential in this process for the planning horizon where they can add value. In environments where the sales-force forecasts based on deals in currency values, companies continually wrestle with the

Figure 2. S&OP Governance in Stage 3 and 4

	Definition
Sponsor	Senior business leaders, in some companies the CEO
Coordinator	Most commonly Supply Chain, occasionally Customer Service
Owner	Line-of-business functions, sometimes joint ownership of key S&OP components
KPI focus	Demand risk, customer service, profit, cash, market share
Performance focus	Ability to translate opportunities and demand into actionable and profitable response from make, source and deliver functions, understanding the trade-offs and financial impact, conscious choice on decisions
Output focus	<ul style="list-style-type: none"> •3-18/24 month planning horizon •Consensus plans (demand, supply, inventory, product portfolio, mix, revenue) •Demand shaping to close gaps to budget and profit targets •Scenario analysis to understand financial impact of forecast risk, demand shaping, supply constraints, other risks •Investment decisions – inventory, assets, other resources •S&OP demand plan becomes the AOP, and starting point for strategic planning •Plan and related assumptions communicated to relevant stakeholders •Connection to execution through aligned planning processes and shared output

Source: Gartner (October 2010)

problem of the sales force hitting revenue targets, but the company missing other financial metrics, like profit, due to unpredicted changes in mix.

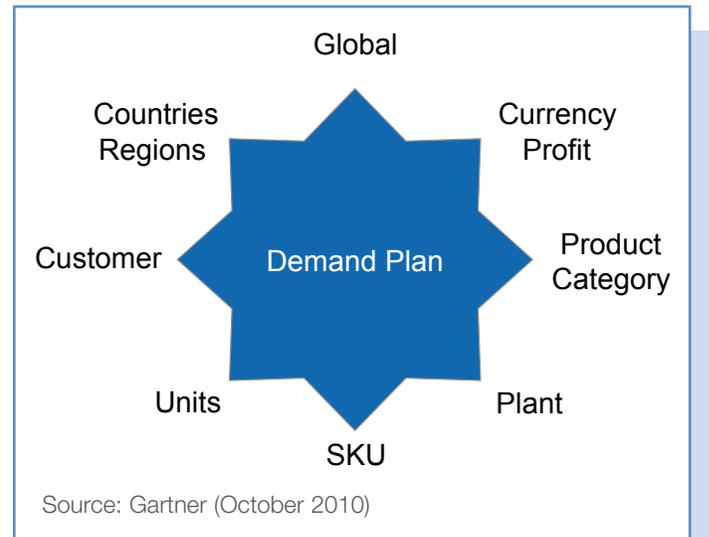
In one company, the S&OP process has become so tightly integrated in the financial planning process that they are almost indistinguishable. Here's what the process looks like:

- Development of the financial plan (steps a to f have roles in the S&OP process).
 - (a) Demand plan is created and agreed upon during the normal monthly demand- consensus process (along with trade promotion, pricing, etc.). This becomes the basis for annual operating plan (AOP)/financial budgeting and strategic planning.
 - (b) Supply plan is calculated, including finished goods (FG) inventory levels, production plans and raw/work-in-progress (WIP) inventory levels.
 - (c) Constraints are worked through the S&OP process.
 - (d) Resulting volume is run through manufacturing plants/supply channels to develop costing.
 - (e) Inventory plans are finalized for use in cash flow calculations.
 - (f) Inventory volume is planned through the distribution channels to develop costing.
 - (g) Selling, general and administrative (SG&A) budgets are finalized.
 - (h) Finance rolls up the numbers to calculate a profit number (if it is undesirable, changes are made in steps a to g).

This integration not only enables the organization to have a discussion on a monthly basis around the risk-reward trade-offs of supply and demand, but also enables discussion of profit impact and visibility into whether the company is tracking to its financial plan. Steps d and f were typically performed on a quarterly basis instead of monthly due to the amount of time it took to complete the process.

The goal of a Stage 3/4 S&OP process is to achieve company goals. This is typically “profitability,” but in some cases market share may dominate, e.g., where a business is pushing to grow in a particular market or region. The term “profitability” is widely used, but with unclear definition, hence it deserves further analysis. Our research highlighted that in Stage 3 where “profit” is introduced into the S&OP discussion, it is generally calculated at a gross-profit level (the difference between sales price and the cost of goods sold). This is because of the ease at which costs can be tied directly to product categories and items. Therefore, the vast majority of companies that include profit in their S&OP discussion are talking

Figure 3. Demand Translation Requirements



about gross profit. Even in markets where driving revenue growth and market share were of utmost importance, keeping continuous attention on delivering a profitable response was still highly valued. The main point and greatest value of discussing profit within S&OP is to guide management in making trade-offs and directional decisions.

Stage 2 S&OP typically does not venture into the profit discussion, but rather concentrates on getting demand and supply volume right first. Once the process matures and profitability becomes the focal point in the meetings, the profit discussion must be at the level in the business where decisions need to be made. Using time horizon as an example, in the short-term plan, they are discussing the profitability of filling specific customer orders. In the long-term horizon, the discussion moves to the profitability of a region or business unit. Another major factor is the availability of data. To calculate beyond gross profit requires a large amount of cost data that would need to be dynamically adjusted through the S&OP process. Few companies have managed to efficiently collect and manage the data required to calculate cost-to-serve or do dynamic profit calculations beyond gross profit, without making major assumptions for cost categories beyond cost of goods sold (COGS), and using traditional cost accounting methods for allocations and absorption of costs.

Emerging capabilities and those necessary to move beyond Stage 3 are “total cost to serve,” or as one company calls it “profitable to serve.” In these organizations, they are shifting their discussion of “profit” to mean operating profit or earnings before interest and taxes (EBIT). For example, in a CP company, customer-level planning takes into account pricing tiers and trade promotions. Going to this level, however, requires the inclusion of all selling, general and administrative (SG&A) and customer-specific costs, which are more difficult to determine than an appropriate item-level allocation.

Exactly what can be measured when talking about profitability truly depends on the level of decision making required, available data and maturity level of the organization.

Proper Alignment of Planning Horizons and Decision-Making Responsibility

To enable the correct level of discussion, planning horizons are clearly defined and adhered to within Stage 3 meetings. To avoid the temptation of slipping into discussion of short-term execution issues (0 to 3 months), many of the companies interviewed implement a layered S&OP process for different planning horizons. In one meeting, the planning horizon catered to the short-term execution and operational issues occurring within the next three months, while a second process was implemented that covered mid- to long-term planning issues (3 to 24 months). They consider both to be part of “S&OP,” highlighting the need for a cross-functional process at the operational level, as well as more forward looking that focuses on alignment, profitability and making the right trade-offs.

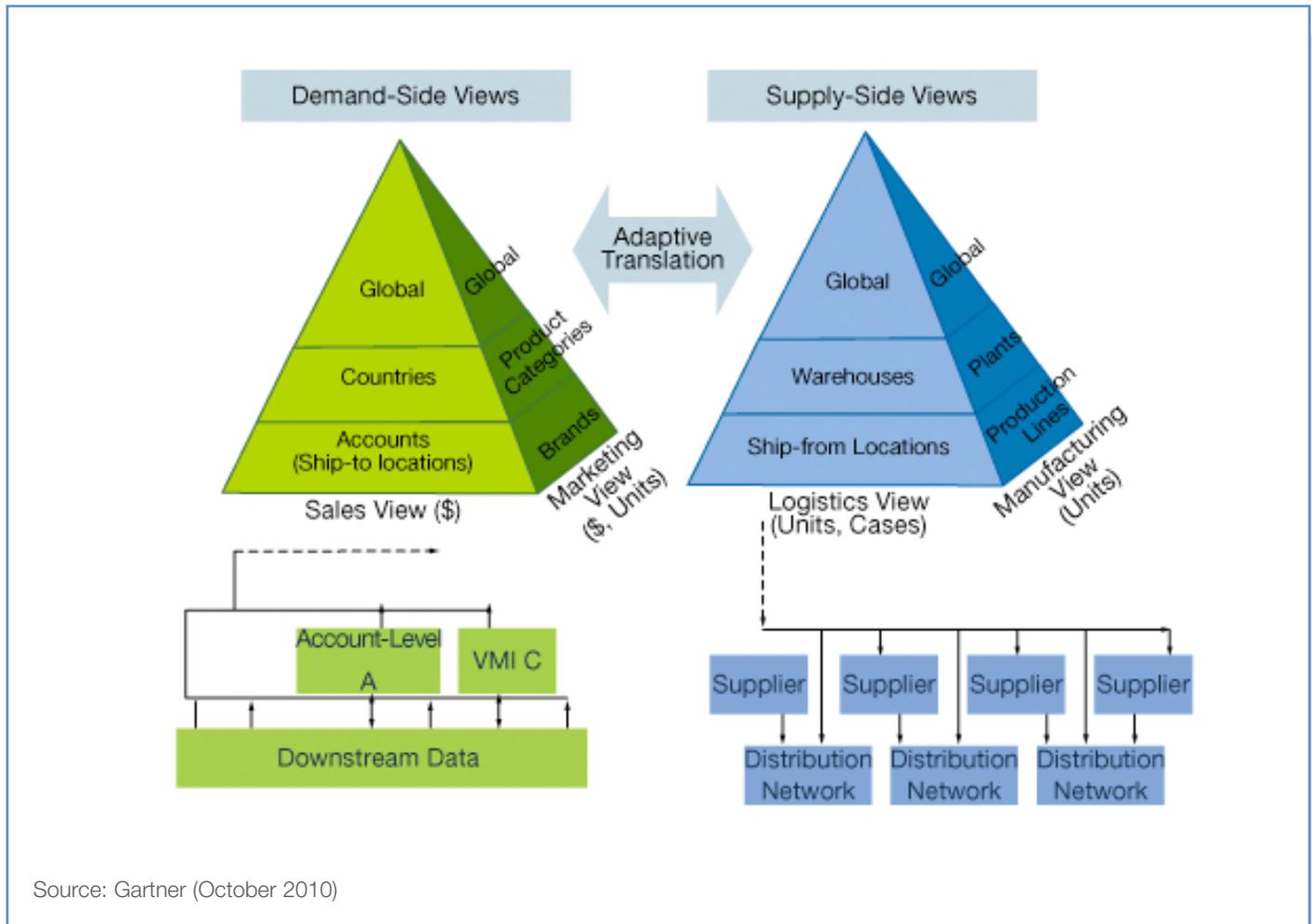
Structurally, these meetings look very similar and follow the traditional format of S&OP. In many cases, they were orchestrated by the same individual — the S&OP leader. The main difference was the frequency, level of discussion and the decision makers. The short-term meetings often occurred more frequently, weekly versus monthly, and discussions tended to be around units rather

than revenue/profit. Heads of business attended the midterm monthly meeting. We also found different planning horizons and stakeholders for different parts of the business. There needs to be absolute clarity of the horizon and assurance that they do not overlap, thus introducing undue “noise” at multiple levels (see Figure 4).

Not only were companies creating process layers around the time horizon, but also around decision-making responsibility. We saw companies redesign the planning organization to recognize the need to manage global orchestration while promoting local execution. This meant creating and managing alignment between the role of the global and local planners.

An example of a truly collaborative and layered S&OP process is how Lowe’s Home Improvement and Whirlpool Corporation work together. Because Whirlpool appliances make up such a high percentage of Lowe’s sales, they have a series of joint meetings in their monthly cycle, specifically for the Lowe’s/Whirlpool partnership. These meetings are layered to cater for the various planning horizons, with an intense focus on cadence and discipline:

Figure 4. Demand-Supply Translation Hierarchies



- Operational planning using CPFR in the 0-to 3-month horizon, through weekly meetings. For Lowe's this is about store execution and logistics planning. For Whirlpool, it is about manufacturing and logistics synchronization. Metrics include on-time fill rate and mean absolute percentage error (MAPE), and the people involved are forecasting teams.
- Merchandise and operations planning monthly meeting, looking at the 3-to 6-month time period. This is at the midmanagement level. Sales owns the forecast and the discussion centers on sell through, pricing and promotions and root cause drivers. This is similar to the Whirlpool category review meeting, but specifically tailored to the Lowe's account.
- Strategic account planning focused on the 6-to 12-month horizon between senior business partners from both sides. Here joint-business objectives drive joint-strategic planning.
- C-level discussions twice a year, looking out two years

What are the benefits, and how do they know the process is successful? People show up and sales managers start to take control of the meetings. Market share is improving, and product is available in the stores. Both sides are aligned around promotional activities. Simply put, "Whirlpool is building what Lowe's is selling."

Many companies that remain trapped in Stages 1 and 2 have underestimated the need to have layered and tailored S&OP processes and how this impacts the need to redesign their planning organization.

Simplified Metrics – Measuring Success

How do you measure the success of S&OP? How do you know the process is effective and improving? Ultimately, it is the business results that prove the value, but along the way there are indicators to help you gauge progress. A strong trend we saw in organizations that achieved Stage 3 maturity was that they were data driven, held people accountable for decisions and results and took the emotion and politics out of the discussions by alignment around a common goal.

Figure 5. Processes Aligned to Planning Horizons

	Sell	Deliver	Make	Source
Strategic/Long-Term Planning (2 to 5 years)	Strategic Planning and Forecasting Network Optimization, Strategic Risk Evaluation			
Tactical/Midterm Planning (3 to 24 months)	Sales and Operations Planning			
	Demand Planning	Supply Planning Inventory Configuration		Supplier Mgt. Contract Mgt.
Operational/Short-Term Planning (1 week to 12 weeks)	Operational Planning/Order Fulfillment			
	Vendor Managed Inventory (VMI)	Distribution Req. Planning (DRP) Inventory Policy Transportation Mgt	Factory Scheduling	Material Req. Planning (MRP) Sourcing
Execution (order duration to shipment)	Order to Cash	Logistics Execution	Manufacturing Execution Systems (MES)	Procure to Pay

Note: planning horizons differ by industry depending on product lifecycle and asset investments

Source: Gartner (October 2010)

These companies focused on a simplified, reduced set of metrics. They took a step back, found those “true north” metrics which are measured at the C-level and define the overall business goals, then cascaded them down through the organization to drive alignment of functions around a common goal. There is visibility and transparency of KPIs, targets and results across the company, based on a core set of standard metrics, typically including revenue, profit, forecast accuracy, customer service, working capital and costs and, more recently, a forecast value-add metric. At this level of maturity, the discussion has moved from what supply chain cares about to what business owners care about. This means you have or are building the capabilities to measure detailed return on assets (ROA) or economic value added (EVA), cost to serve, cash and forecast accuracy and value add.

An electronic equipment company established four “true north” metrics at the company level. These were then translated into a hierarchy of end-to-end metrics, with cross-functional ownership at the global operations (supply chain with a broad span of control) level. This cascaded further into hierarchies for the various functions, such as planning, manufacturing and procurement, etc. This helped drive the right decisions at the operational level and ensure alignment to company goals.

Traditionally, looked at as an evil (necessary or not), the role of inventory changes in Stage 3 S&OP companies. It tends to become a strategic tool to buffer demand volatility or supply risk. There is joint ownership of inventory decisions, often through a cross-functional inventory council or steering committee.

To measure success and improvements, business units and/or regions are benchmarked against each other. To do this, a set of metrics with common definition and accurate data are needed, but also the understanding of how different supply chains behave based on their channel, product and supply characteristics. We no longer hear “we need to be efficient, agile and flexible” because Stage 3 companies realize you cannot be all three, at least not in the same supply chain. They have done the segmentation necessary to get to this level of differentiated supply response.

Last, but most important, success can be measured by alignment of people and the shift from making decisions offline or outside the S&OP meeting, to recognition that S&OP is *the* critical decision-making forum in the business. When this happens, you know you have the cultural foundation for Stage 3 sustainability.

Qualitative Changes

The following represents the changes that lead to an effective S&OP process, but are more subjective than the topics presented up to this point.

Transfer of Ownership — What Instigated the Change?

Absolutely essential to getting to the next level in S&OP is the transfer of ownership. Even in organizations where executive management participates, Stage 1 and 2 S&OP tends to be owned by supply chain, most often supply chain middle management. In Stages 3 and 4, our research highlighted not only active participation, but actual ownership of the process by senior business leadership. Supply chain still facilitates the process and executes on many of the decisions, but senior leadership uses the process for decision making. At this level, clearly the lines of

business, not supply chain, owns the S&OP decisions and results.

While we would like to say that this change of ownership occurred because of a sense of enlightenment, the unfortunate reality is that it is most often a compelling event or financial crisis that caused senior leadership to recognize the need for a better cross-functional planning process, owned by the business leaders and not just supply chain. For a pharmaceutical company, a blockbuster drug was soon to be threatened by a generic equivalent. For a consumer electronics leader, revenue for a major product line almost halved year-over-year.

In some cases it was pure frustration on the part of business leaders that the current planning process was “out of whack” — there was poor internal collaboration and communication, and they were unable to move the needle on critical KPIs. Despite all this chaos, they already had a S&OP process in place, and had invested heavily in forecasting technology, BI tools, data integration, education and more. One VP of supply chain stated “I just could not continue to sit in front of the CFO each month and admit I did not know what was going on in my business.”

Whichever it was that instigated change, a renewed focus on a newly designed S&OP process was frequently a leadership “mandate,” definitely more than just the commonly-used phrase “executive sponsorship,” which is necessary even in Stage 2. This top-down approach automatically creates the common goal and vision around which S&OP stakeholders rally. Lack of this common goal is one of the key barriers.

Although we refer to it as ownership in this section, the word “ownership” seems inadequate in Stage 3. It is more than just owning the process. There are actually three levels to consider:

- **Sponsorship** — Top-down commitment and support for the process, with the right executives actively participating.
- **Ownership** — Business functions own their parts. Depending on the S&OP design, it may be sales and marketing, or the GM of a division or VP of a region, that owns the demand plan, closely aligned with the planning team.
- **Coordinator** — The S&OP VP or director, who in Stage 2 owned S&OP, now owns nothing but has a critical role in orchestrating, or coordinating the process. This role is still a process coach and facilitator (sometimes called orchestrator), but is not accountable for any decisions coming out of the process.

Transparency

While conducting this research, the word “transparency” was frequently used to describe a mature process. In Stage 1 and 2, differing degrees of gaming still occur within demand/supply projections to make metrics “look good.” What came through strongly in the research was the word transparency as a core requirement. Stage 3 requires a culture, led by senior management, which embraces transparency of what is really going on in the business, with the intent to collaborate and fix problems. Only then can the organization get to the root cause to drive a culture of prevention, rather than fire fighting. As one S&OP leader said

“S&OP is a contact sport. Our executive meetings are not pretty. We may all come out bruised and hurt, but we go after problems and next month it is better. And we only get 12 shots at it a year, so we have to confront the ugly truth at every opportunity.” The company must have the culture from the top down to share the numbers, the brutal, ugly facts and the financial impact of decisions both vertically and horizontally through the organization.

Because the financial impact of decisions and gaps is more clearly understood, a comfort level should develop in meetings to enable openness and sharing. People no longer game their metrics to look good, but bring forward the truth in a culture that rewards prevention and transparency, rather than fire fighting and fudging the numbers. Transparency is directly related to an open and honest company culture and aligned incentive programs.

There is transparency of the planning process and input and output across the company. Alignment and process capabilities enable fast communication, and the midterm S&OP planning process is aligned to the operational level through evolution of rapid planning capabilities, sharing assumptions and decisions and supported through event- and exception-based alerts.

In an effort to increase transparency beyond the traditional internal boundaries of S&OP, organizations are reaching out to key customers and suppliers. Procurement is being included in the process, especially in supply-constrained environments or where there is a complex supply network with high-risk potential. Motorola calls it “Supplier S&OP.” Within this environment, demand planners collaborate directly with procurement and key suppliers, or third-party manufacturers. This enhances the company-to-company relationship, gives better demand visibility to the supplier and supply visibility to the OEM and reduces the latency of getting suppliers information.

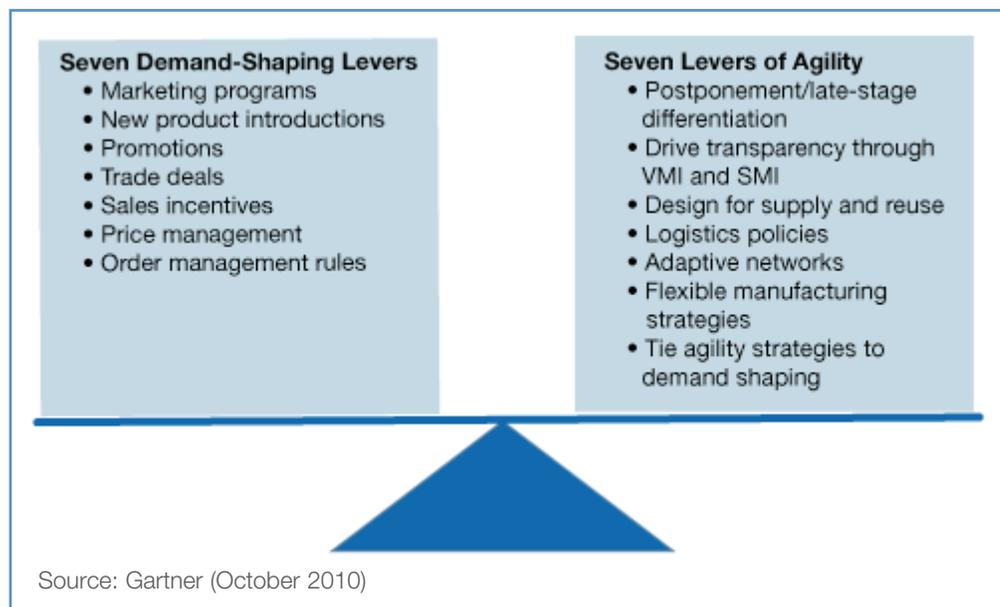
The Evolution of Managing Demand

Within the first two stages of S&OP, demand is looked at as something that “happens to” the organization. In later stage S&OP, especially Stage 4, companies view demand as something they create and shape. However, excessive demand shaping can throw a business out of balance. The more companies shape demand, the more they need to build the capabilities to manage potentially increased demand volatility (see Figure 6).

Early stage S&OP focuses on sales forecast accuracy. In Stage 3 S&OP, we identified the evolution to continuously improving the capabilities to predict demand, with clarity as to what demand signals are of value in the various planning horizons. These were the common themes across industries and business models where there can be vast differences in demand management best practices. In Stage 3, there is clear recognition from the commercial teams of the importance of demand planning. They involve their salespeople, being more disciplined in keeping the pipeline up to date at the mix level. Marketing and product management also becomes critical to predict midterm demand.

Managing demand takes on an outside-in approach. Some call it market-based forecasting, with focus on what the customer cares about. Companies analyze sell-through data, identify market shifts and capture other indicators to predict buying patterns. Demand insights from multiple sources are critical, whether from trade promotion tools, customer input or government stimulus plans, etc. While Stage 3 companies have insight to these demand sources and use the data in discussions about the future, the advanced capability to pull all this data into a common plan and model out scenarios is desired, but still a work in progress. This will get you to Stage 4.

Figure 6. Seven Levers of Agility



Granularity of forecasting differed across companies we spoke to, mainly driven by industry nuances. In some cases, it was raised up a level to the product family and focused on market-based macroeconomic indicators. In other cases, they built out very detailed forecasts by SKU/customer. What was common is a focus on the right forecasting techniques, data integrity, the right planning hierarchies, ongoing attention to improve the demand signals and managing bias and FVA.

What we also noticed was that no matter the level of forecast detail, when looking out 12 to 24 months, the focus shifted to simplification, major trends and the importance of cross-functional dialogue, and not to get caught up in becoming too over-analytical with the numbers.

Change of Focus — What's in a Name?

Although the term sales and operations planning is used generically, 40% of the companies interviewed no longer call their process S&OP. Why? Over time, the term S&OP had collected poor connotations or was considered to be purely a supply chain process. Many times, S&OP had been given the stigma of a process with too many meetings of little value and too focused on current quarter. In Stage 3, S&OP must be considered a broad, cross-functional, business- planning process looking out 12 to 24 months.

In the cases where the original S&OP process was too short term and operationally focused, a new process was implemented, often with a new name. We always get asked “What do they call it?” Some make a subtle shift from S&OP to sales and inventory operations planning (SIOP) or executive sales and operations planning (eS&OP), while others embrace terms like integrated business management (iBm), or <insert company name> business planning. Some have very specific names, with no apparent link to the term S&OP or business planning, but it worked for them.

As we conducted our research, one name stood out as the most innovative and impactful. For years, Danone struggled to transform its operational S&OP process into a key business management process, valued by the general managers and commercial teams. In 2007, the CEO created the burning platform for change, stating that poor service levels were costing the business sales during tough economic times. The project team recognized a major rebranding of S&OP was required. Previous efforts to call the process iBm and advanced S&OP had limited success. Introducing a four-stage framework aligned to “America’s Cup” sailing (from wreck, to amateur, to professional to champion), the process was renamed global planning system (GPS) to mirror the global positioning system used widely for satellite navigation. The name GPS was an immediate hit. As explained to the business, your GPS knows where you are, you tell it where you want to go and it plans the best route. But the real value of GPS is that it auto corrects when you go off track. What more could general managers want from a planning process to run the business? Quickly, this rebranding became a major factor in getting the process transformation out of neutral. GPS targets the strategic ambition of the business and pilots its key success factors, so moving from a

focus on supply chain metrics toward shared business decisions of the board. This business-piloting scope engages and commits all functions to GPS success. In Danone, GPS is valued by the general managers, owned by the board and lived by the organization. Increase in profit and service levels has validated this success story.

This new process looked out further and involved higher level business stakeholders and focused on higher level decisions, but was linked through metrics to the original process. This is how layered S&OP processes have evolved under the general S&OP banner in many companies. The name is irrelevant; it is about how the processes are designed to meet the business needs.

Sustaining Stage 3 Maturity

Building the Right Culture

A Stage 2 process needs constant support and focus on continuous improvement, but this focus changes with maturity. In Stage 2, supply chain is constantly pushing and encouraging participation from sales, marketing and other business leaders. The process can easily slip backward without this attention. Moving into and then through Stage 3 is a huge shift in mind-set. But once it gets rolling and the right business leaders see the value, it creates its own momentum and is no longer a supply chain push, but a line-of-business owner pull. The attention a mature Stage 3 process then requires is to embrace this active participation from business owners and work to make their lives easier through efficient workflow, fast and easy access to value-added information and automation where necessary.

Culturally, the move to openness, transparency and rewarding the right behavior requires ongoing change management. Identifying and developing process coaches and planning power users helps sustain the process and knowledge level of individuals in the businesses. These individuals reduce the reliance on a center of excellence (COE) or on consultants. Also, some have created a “steward” role to streamline the connection between local and global meetings. This person needs strong interpersonal skills, business acumen and an in-depth understanding of the numbers and the various local businesses in order to facilitate any reconciliation and realignment required. Identifying the right people for these roles and developing their skills was a major factor in some companies getting to Stage 3.

Use of a Center of Excellence (COE)

An S&OP COE is common, especially in larger organizations. The role of the COE is to help the businesses and regions continuously improve their S&OP process and, ultimately, business results.

Where COEs exist, we found they provide self-assessment tools, scorecards and workbooks to support the process and identify the need for improvement and assistance. But one thing was clear from the research: the COE does not push itself on a business that may clearly need help. The business has to want help and pull the COE resources in. COE resources are too scarce to put effort into a group that is culturally not ready to move forward.

A leading chemical company has HR resources, known as “human performance specialists,” in the COE. Where there are significant cultural and people issues in a business, and if the business recognizes the need to address these issues, these specialists are pulled in to assist.

Talent Management

The more strain companies put on their S&OP processes, the more they are realizing that they need to consider the human aspect of the process. S&OP can be very emotional and requires a special set of skills. Leaders in this area have discovered value in creating an environment to recruit and develop strong leadership, planning and analytical skills, and give these individuals a career path to retain them.

Organizations need to take stock in the individuals currently in place to make sure of the following:

- Roles and responsibilities are clearly defined.
- Skill sets match those roles and responsibilities.
- The current organizational structure is aligned to support the individuals and expected change.
- Proper mentors and executive coaches are in place to facilitate the S&OP journey.
- A realization exists that true change comes from the top.

All too often, companies create a revolving door of talented individuals by not understanding the amount of organizational change required to establish and mature an S&OP process, and in the end do not surround the individual(s) involved with the needed support to facilitate that change.

The Role of Technology

While technology alone will not be the key to maturing the S&OP process, it plays a critical role. To get from Stage 2 to Stage 3 requires good, clean, credible planning and metrics data and a “single version of the truth.” So there is a need for underlying technology and systems to support this. Typical Stage 2 tools are statistical forecasting, supply chain planning and inventory optimization. Foundational elements are data quality, master data management (MDM) and the necessary integration.

As the culture matures toward Stage 3 and there is more transparency and business owner participation, the process must be supported by the ability to make decisions faster through timely information, and more efficiently through exception and alert-based workflows. Typically, technology is required for this. In Stage 3, the dialogue shifts to what-if and scenario analysis, and to advance these capabilities and get into Stage 4 requires analytics and modeling tools. The term “rapid planning,” as well as the tools to support it, is emerging as a requirement to get through Stage 3.

Two companies we spoke to said that they focused on the process, not the technology, and now the lack of technology is holding them back from getting beyond early Stage 3. But what got them into Stage 3 was all about change management and the critical cultural shift.

Conclusion

S&OP maturity is a journey, and, as one VP of S&OP described it “a contact sport.” Done well, it becomes the primary decision-making forum for the business. Research shows the primary benefit of S&OP is increased revenue. This is not surprising; if you plan the right products and they are available, they will sell.