

OMP.

E-BOOK

Making S&OP work in the real world: Cases from the field



Table of contents

Introduction	3
1 Why textbook S&OP doesn't always work in the real world	4
1.1 S&OP is about decision-making	4
1.2 Textbook S&OP overlooks organizational complexity	5
2 Demand-oriented vs. supply-oriented businesses	6
2.1 Demand-oriented businesses	6
2.2 Supply-oriented businesses	7
2.3 More complex organizations are the norm	8
3 No two companies are alike: three cases	9
3.1 The drinks company	9
3.2 The tire component company	11
3.3 The construction materials company	12
4 Handling multiple time horizons and cycles	13
5 Organizational change, yes or no? Lessons from the field	14
6 Conclusion	15
About the author	16
About OMP	17

Introduction

Many companies still struggle with sales and operations planning (S&OP) and are unable to unleash the potential to improve decision making and create a more robust and resilient supply chain. They often conclude that S&OP, however elegant the theory is, doesn't really seem to work for their company. Why is that?

In this OMP e-book, we outline the organizational hurdles that S&OP can come up against when it is implemented in a real business situation. We discuss real-world cases and outline a strategy and a multi-level approach to deploying organization-proof S&OP.

1

Why textbook S&OP doesn't always work in the real world

Despite its promise, textbook S&OP doesn't always work in real-world business contexts which can present a range of company-specific challenges. We look first at general S&OP theory, and then focus on the reasons why this schema often falls short in real-world situations. But before that, a spoiler: it all has to do with overlooking the inherent organizational complexity of the businesses.

1.1 S&OP is about decision-making

S&OP is generally presented as a **decision-making process involving a monthly cycle** of five distinct and sequential reviews and meetings:

1. **Product review:** what's in our product portfolio for the coming months?
2. **Demand review:** what's demand going to be in the coming months?
3. **Supply review:** what can we distribute, produce, and purchase in the coming months?
4. **Scenario planning:** what are the possible scenarios if we want to meet demand, while taking into account supply constraints?
5. **Management business review** (MBR, sometimes known as the executive S&OP meeting): which scenario are we going to implement?



This is, in effect, a **seductive collaborative schema** aiming to bring distinct organizational units such as sales, procurement, production, and distribution closer together, aligning them to benefit the whole company. And it looks pretty straightforward, at least on paper: the process can be run at a single organizational S&OP level, for example by a centralized team sitting in company headquarters.

However, the schema above is only theory. Modern global companies need to shape it to their own reality.

1.2 Textbook S&OP overlooks organizational complexity

So far so good, but it's seldom as simple as that. In real life, **multiple parts of the organization** will be involved at every stage, and they **may have differing, opposing, or complementary views and interests**. Production may be scattered across multiple sites, each with its own targets, limitations, and business challenges. Subcontractors could be involved, complicating supply decisions. The sales organization might include separate units serving different market segments with the same products. Multiple framework agreements at different levels of the organization could create conflicting interests when making purchasing decisions. And so on.

As a result, every review in the schema described above could become an intricate collaborative process in itself. And these subprocesses are barely covered by textbook S&OP, which makes no clear reference to actual decision makers. What's more, the problem is unknown or barely understood by most S&OP consultants.

The point is that **the subprocesses need to be shaped properly**, taking into account market dynamics and the related organizational intricacies. Effectively, the review processes need to be finetuned to the type of organization and the market the company is serving. The major focus should be on the actual decision makers and on **the organizational levels that are best placed to provide the necessary information**.

Time is a crucial parameter here. If a company has a monthly S&OP cycle with less than a week between receiving the validated demand forecast and needing to deliver a validated set of supply scenarios for the management business review, there's very little time to confer with stakeholders. The decision-making process would then be like taking the freeway. But if it's essential that all stakeholders are aligned, the cycle should be shaped accordingly, more like a roundabout where multiple loops must be negotiated before deciding which way to go.



S&OP can be a straightforward process much like a highway or it can require multiple negotiations like taking loops on a roundabout.

Before coming to real-world cases, we'll examine two archetypal forms of organization in the next chapter.

2

Demand-oriented vs. supply-oriented businesses

First, we discuss the contrast between two broad categories of companies: demand-oriented businesses vs. supply-oriented companies. Note that many companies exhibit traits of both types of businesses, but this broad categorization helps to clarify some of the attention points when implementing S&OP.

2.1 Demand-oriented businesses

Demand-oriented businesses are primarily focused on the market. The prime example would be a fast-moving consumer goods company, perhaps in the cosmetics, body care, or food sectors. Some life sciences companies are also primarily oriented towards demand, and it's mainly a business-to-consumer (B2C) affair.

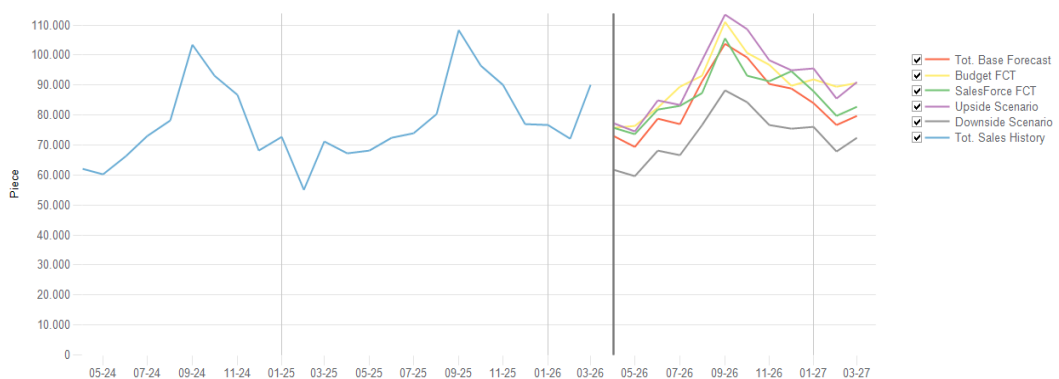
Executives of such companies will emphasize the importance of **impeccable service levels** (as much as 99%) because, if items are unavailable in store, revenues and profits go down. Indeed, multiple competitors might offer similar products in these markets, which means that customers can easily turn to the competition if they can't buy their usual brand.

Some of these demand-oriented companies create a lot of value by **shaping demand** on multiple levels, for example through promotional campaigns and product phase-ins and phase-outs. This market intelligence can be orchestrated on a local, regional, or global scale.

This form of demand planning complicates the demand review stage in the S&OP schema introduced in Chapter 1, meaning that the question of what demand is going to be like in the coming months will have to be answered on multiple levels. For example:

- Local salespeople are best placed to provide forecasts relating to particular types of customers and products.
- Marketing organizations can more appropriately consolidate demand and coordinate promotions in their own markets.
- Aligning demand with global strategic objectives and prioritizing certain markets or regions is best achieved at global or corporate level.
- Statistical forecasts can be generated by centralized teams, but could also be useful at local or regional levels.

While the examples above apply to any company in theory, they are especially important for demand-oriented companies because these businesses usually have more complex, multi-leveled demand organizations and, as a result, will typically need to shape their S&OP process with **several steps of demand validation**.



Different versions of the forecast are consolidated during the demand validation.

Conversely, the supply side of B2C companies is generally somewhat less complicated than the demand side. In many B2C companies, though certainly not all, **supply can be organized more flexibly**, switching between suppliers and activating alternative production plants and distribution centers (DCs) where necessary. If this is the case, there is little need for elaborate supply scenarios, meaning that the supply validation process can be more straightforward.

2.2 Supply-oriented businesses

Supply-oriented businesses are primarily concerned with operational efficiency. Such companies are common in the metals industry and in some areas of the chemical industry. They are mainly business-to-business (B2B), a significant part of their business is make-to-order, and the supply apparatus is subject to a whole lot of complex constraints.

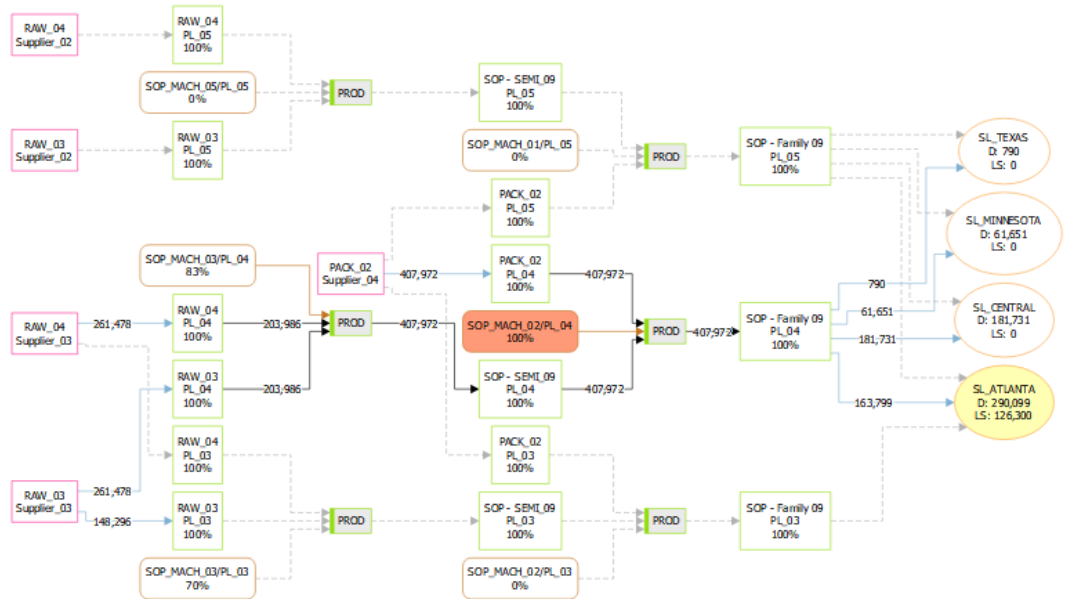
Company executives emphasize **cost effectiveness and cost absorption** as well as **product quality and reliability** in these businesses and, while service is important, levels of around 90% are considered satisfactory.

These markets are not driven by sales promotions and product lifecycles, because the concepts don't make much sense in a context of heavily constrained supply chains where customers are not inclined to turn to other suppliers for any other reason than quality or reliability. As a result, there is **less need for elaborate demand scenarios**. The demand validation process can then be quite straightforward.

The supply organizations of such B2B businesses, however, are much less flexible. **In multi-plant companies, supply needs to be validated on multiple levels**, in line with the following examples:

- Plant operators have the best insight into their own productivity, capacities, and usage rates;
- Regional supply organizations are best placed to assess whether all customers within a region can be served by local DCs and plants, and can also activate alternative sources of supply where needed;
- Global or regional supply organizations are better placed to negotiate with big global suppliers, though the closer the supply organization is to local suppliers, the more agile it can be in working with them;
- Overarching global or corporate levels are in the best position to coordinate cost-optimal interregional flows.

While these examples could apply to any company in theory, they are especially valid for supply-oriented companies because of their generally more complex, multi-leveled supply organizations, where plants are less interchangeable, and raw material suppliers are not switched easily. This means **supply validation will involve several steps**.

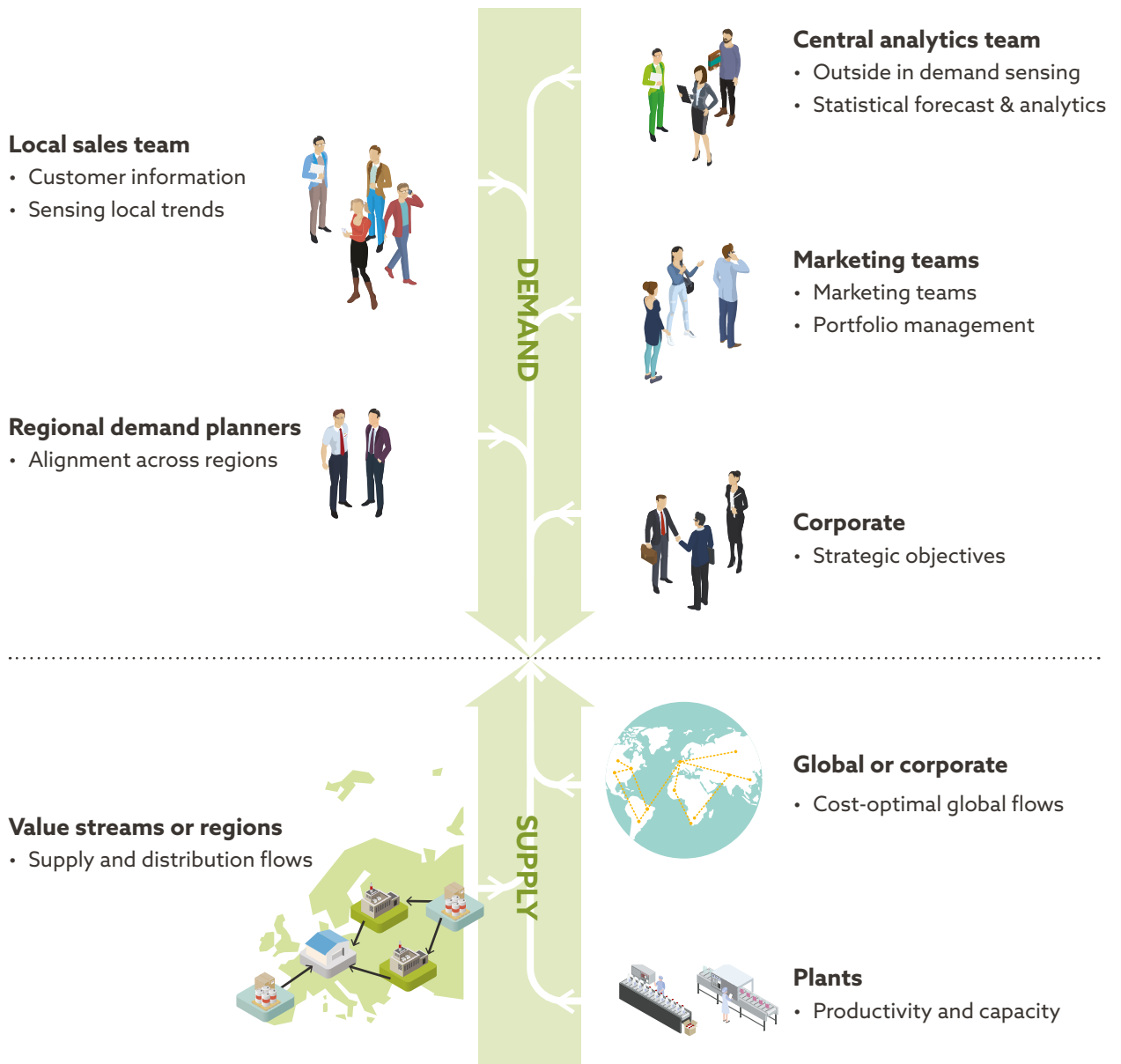


Supply needs to be validated on different levels - from local capacity per plant to managing global flows like in the above network diagram.

2.3 More complex organizations are the norm

The fundamental organizational differences between demand-oriented and supply-oriented businesses are already an indication that S&OP implementation must be tailored to the type of organization. But, as noted earlier, many companies have the hallmarks of both types of businesses. And the reality is even more complex, since **a combination of supply- and demand-related complexity** is, in fact, the norm. The visual below summarizes how this can arise in any business.

- **On the demand side**, multiple marketing and sales teams need to collaborate with regional demand planners, the central analytics team, and the corporate organization to establish a demand plan aligned to the company's strategic goals; and
- **On the supply side**, production plants and regional supply organizations need to collaborate with the corporate organization to cost-optimize supply aligned with the company's intended level of service.



In the next chapter, we discuss three cases involving companies in different sectors to illustrate how this organizational complexity presents in the real world.

3

No two companies are alike: three cases

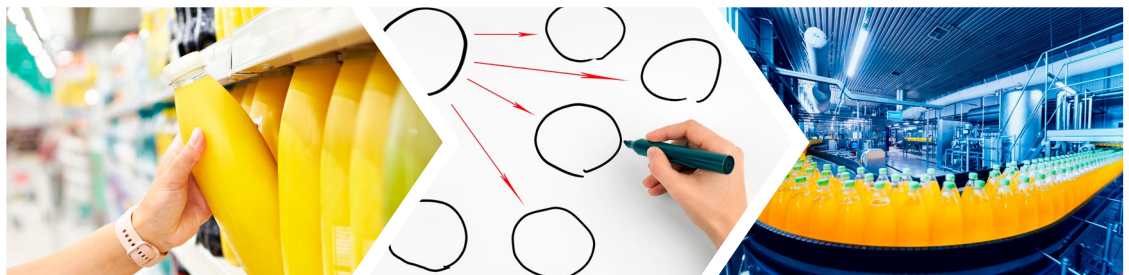


3.1 The drinks company

This case discusses a drinks company operating in the highly competitive, fast-moving consumer goods market. It's a strongly market-driven business, with regional sales offices put in charge of profit and loss. In this context, the regional sales offices tended to simply push their demand forecasts towards the shared production apparatus, with little or no coordination or alignment. This placed a lot of **strain on the supply organization leading to a significant risk of it not being able to deliver**, even as the CEO would insist that good service was the company's top priority.

The company addressed the issue by introducing a **product category approach**, aligning demand per product group across multiple markets, in addition to segmentation by regional market. Most importantly, this approach was firmly **anchored in the business** by creating an organizational unit for every product category, each with decision-making powers.

Demand reviews now begin with **statistical forecasts at product category level**, taking workload away from the regional sales organizations and making the creation of statistical forecasts standard across markets. This is followed by **collaborative forecasting** involving the regions, leading to **consolidated demand plans**, first at product category level and then globally. This arrangement valorizes the real strength of the regional sales organizations, which is to provide accurate sales and forecast information.



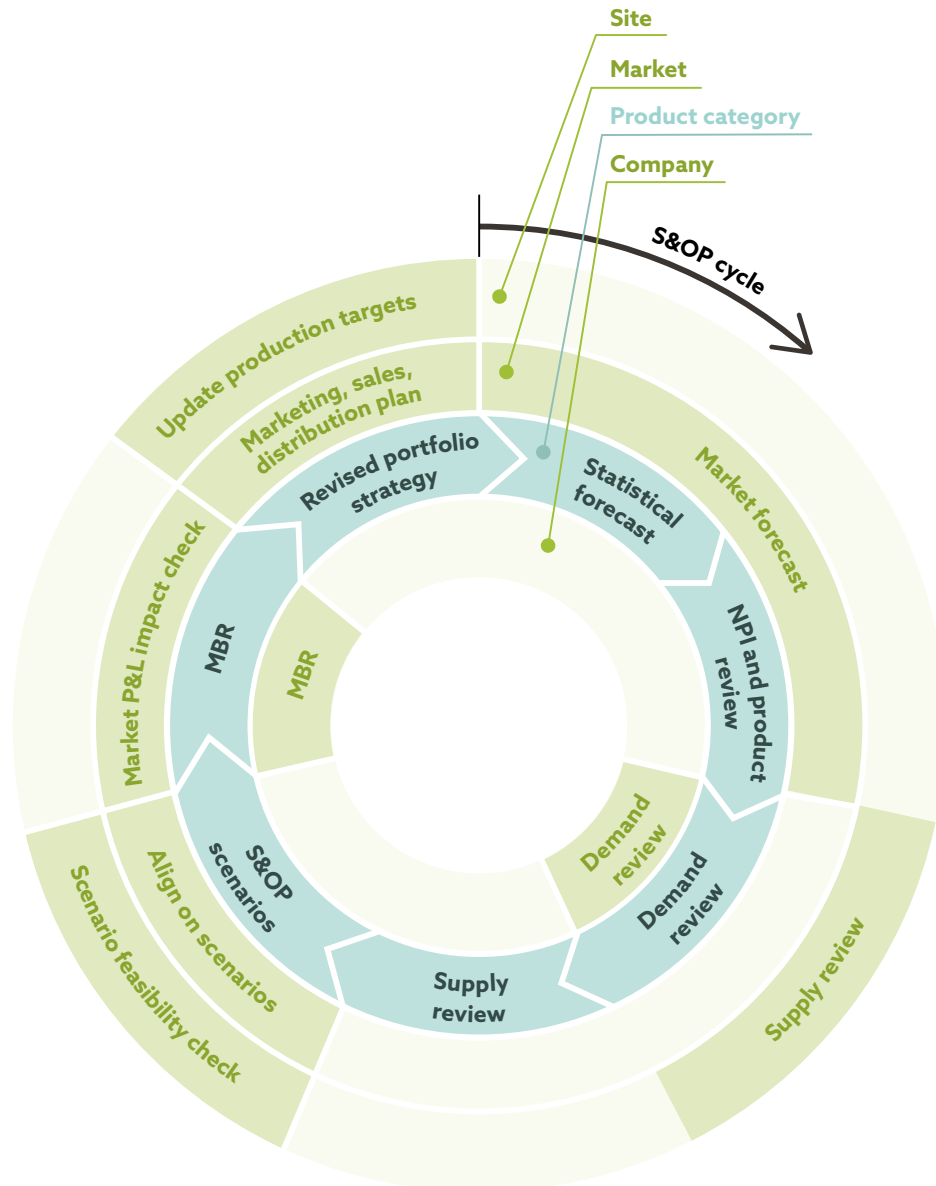
The forecasts of the different markets need to be aligned on product category level. The resulting consolidated forecast then serves as input for the shared production units.

Supply reviews are initiated at the production sites, as was previously the case, but the **decision-making responsibility has been taken away from the regions and transferred to the product category level**. As a result, the demand and supply reviews are now much more complementary and reality-based, leading to more reliable scenarios and, ultimately, a better balance of supply and demand for the whole company.

The product category level is in the lead here, as shown in the diagram below. The arrows shown at that level indicate the start and end of processes such as demand review and supply review. There is of course a close interaction between the different levels. For example, the statistical forecast is generated on product category level, but is then used as input for the market forecasts (by the markets).

Similarly, the supply review on site level (defining available capacities and short-term production campaigns) needs to be done first, and then the results can be consolidated in the supply review on product category level.

The process steps on company level don't necessarily occur in each monthly cycle, but could for example take place only during the quarterly S&OP exercise needed to make the next 24-months plan.



The revised organization brings the following **business benefits**:

- Production requirements adjusted to a coordinated demand signal.
- Better internal service levels.
- Better optimized production processes.



3.2 The tire component company

The situation is completely different at this vehicle tire component producer.

Demand was formerly allocated to regions and plants based on historical quotas. The company served its global market through a multitude of regional production sites with similar manufacturing capabilities but with relatively high autonomy backed by local business cultures. This inevitably resulted in local imbalances between supply and demand, which were resolved by emergency shipments between sites as needed, incurring **strain on the organization**, and adding to overheads and carbon emissions.

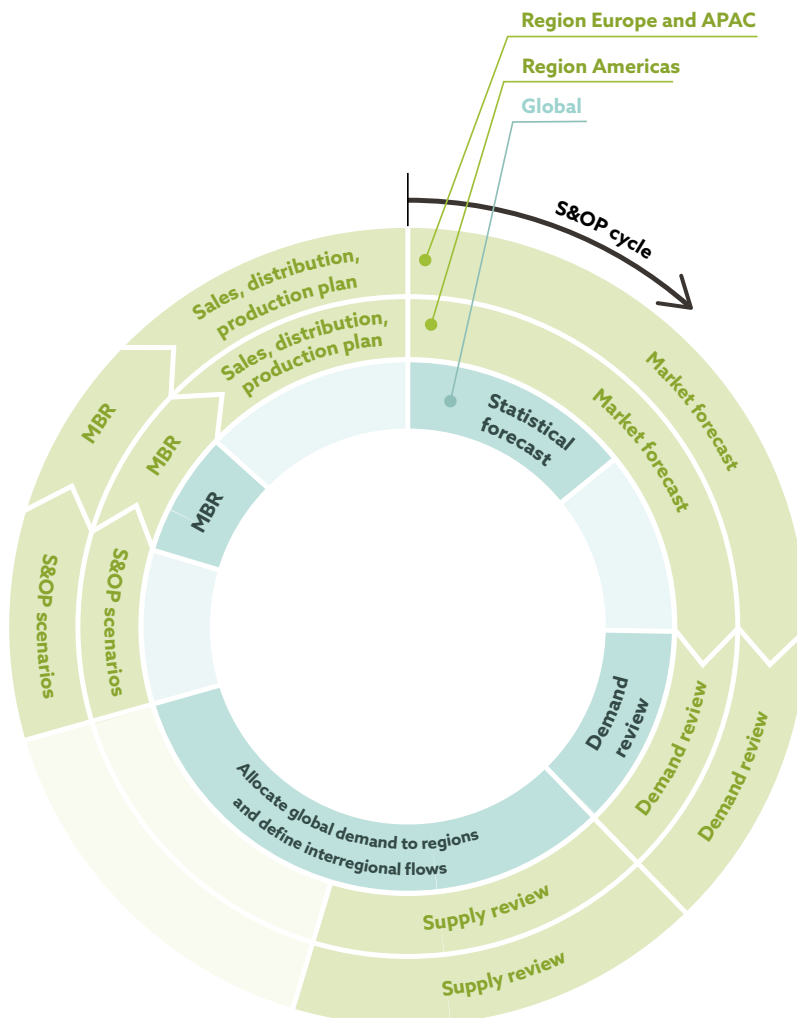
To solve this, the company introduced **an organization-wide S&OP process** where the regions communicate the outcome of their local market forecasts to the global level. Subsequently, product volumes are allocated to the regions based on a global inventory plan, resulting in interregional flows being limited to fixed volumes. The regions use this input to develop multiple local supply scenarios and eventually select the supply plan that aligns best with company strategy.

The schema below represents the S&OP process implemented at the tire component producer.

Demand is allocated on a global level before it is finetuned on a regional level, leading to better decision-making for the whole company.

The revised organization brings the following **business benefits**:

- Planned and coordinated cross-regional product flows.
- Marked decrease in last-minute shipments.
- Significantly lower total costs.





3.3 The construction materials company

The power of its manufacturing sites is even stronger at this major European producer of construction components. The company operates a dozen clusters of plants across Europe, **each having strong localized authority with an internalized profit-and-loss focus**. As with the tire component manufacturer, problems arise because of imbalances in demand and supply, but these clusters are even further away from each other psychologically and organizationally.

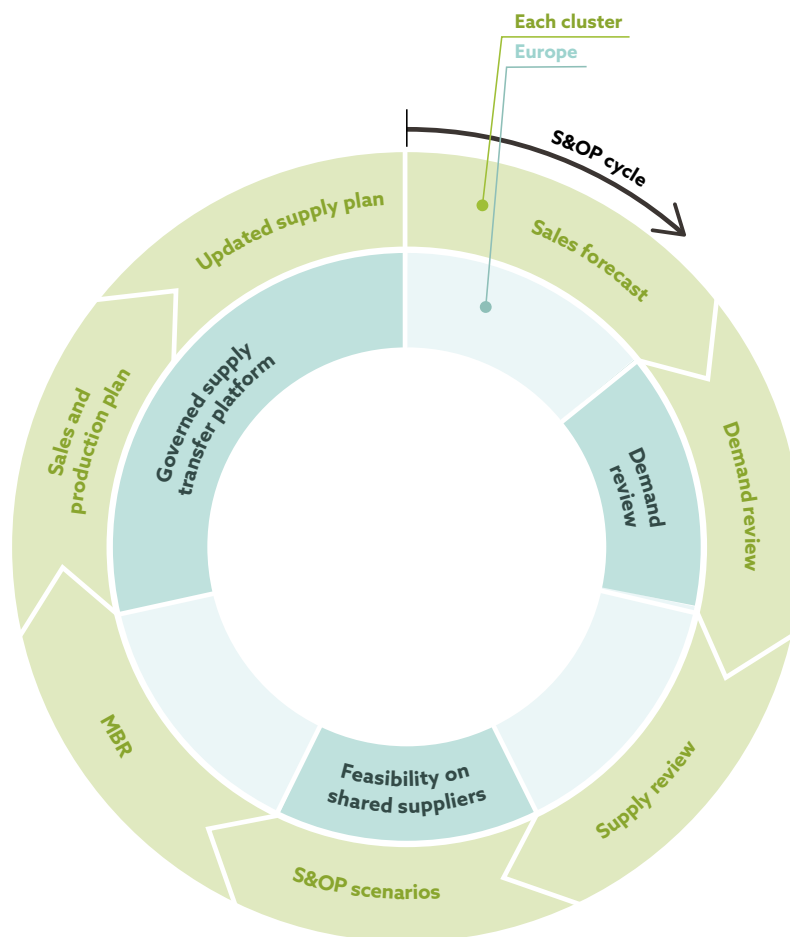
Any attempt to put in place a **centralized authority** that would develop a top-down supply consensus at European level **is destined to fail due to internal opposition**. Each cluster therefore runs its own S&OP process up to the selection of the most appropriate supply scenario. Only limited cross-cluster collaboration for the exchange of semi-finished goods is needed at this stage.

The company did **standardize regional S&OP processes**, meaning that clusters now have better trust in each other's plans, which is a major step forward. But the closest they got to working collaboratively was introducing an internal 'marketplace' of supply volumes, governed by a new central team following completion of the regional S&OP cycles. In this marketplace, clusters agree to send or receive extra supply volumes of selected product categories. Local supply plans are operationalized after completion of the cross-European plan.

The schema below represents the S&OP process flow implemented at the construction materials producer. It indicates that clusters run their own demand and supply reviews, but they do so in a company-wide standardized context.

The revised organization brings the following **business benefits**:

- Flows of semi-finished goods between clusters are better planned and coordinated.
- Each plant can reduce its requirements for raw material safety stock and semi-finished goods work-in-process.
- There are significantly lower total costs.



4

Handling multiple time horizons and cycles

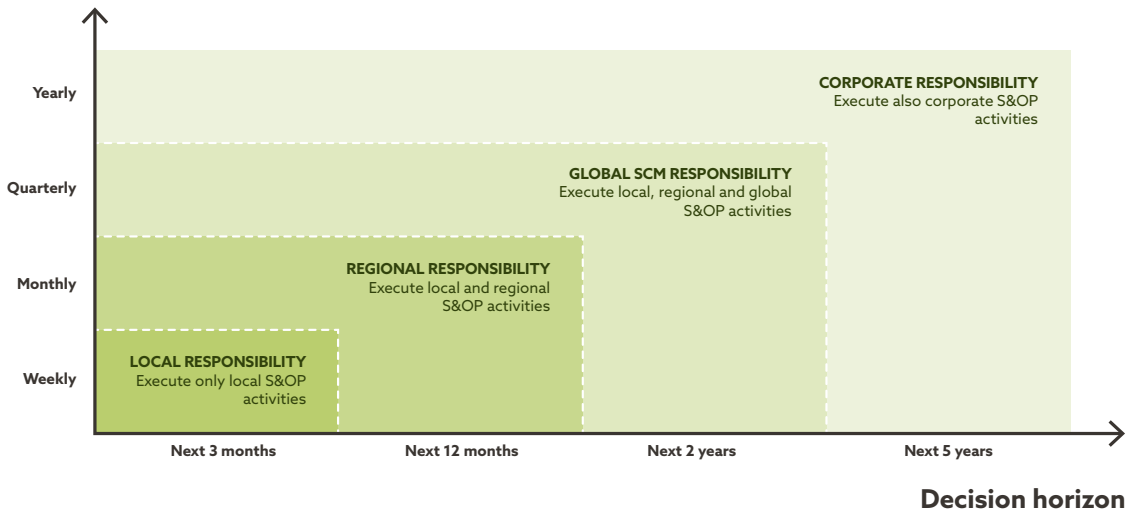
The examples above illustrate that every company is unique, and that the **S&OP process should be carefully tailored to the situation**. There are many factors at play, including the size of the company, cultural sensitivities, the existing distribution of decision-making power, and the specifics of the products and markets.

Two variables are of particular significance when implementing S&OP within an organization: the time horizons under consideration and the frequency at which the S&OP cycles are to be implemented.

Multiple time horizons—Responsibilities over different time horizons may be spread across various organizational levels. For example, the responsibility for devising long-term supply scenarios of 24 months or so could reside at corporate level while 6-month short-term scenarios could fall under the responsibility of regional offices or organizations. The S&OP process flow needs to be aligned with this.

Multiple cycles—The full S&OP program may be a compound of multiple cycles with different frequencies. For example, there could be a monthly cycle dealing with the 6-month time horizon, and a bi-annual cycle dealing with a 24-month horizon. Each type of cycle has its particular must-do steps, and it is important that they be clearly defined. In our example, global consolidation would be a mandatory step in the bi-annual cycle but not in the monthly cycle.

Cadence/frequency



The chart above summarizes how multiple time horizons and cycles might look in theory. Field experience, however, leads us to believe that they should be pragmatically tailored to fit the situation.

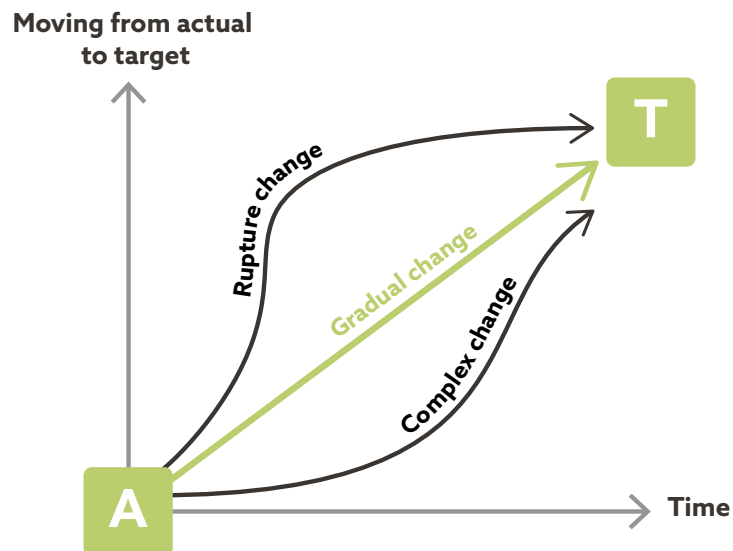
5

Organizational change, yes or no? Lessons from the field

Another important consideration should be whether it is actually necessary to change the existing organization. Should the S&OP process be tailored to the existing organization? Or should S&OP be seen as an opportunity to change the organization for the better?

Here are some of the critical factors to be considered when attempting organizational change:

- **Who owns profit and loss (P/L)** in the organization? If the sales organizations are responsible for their own P/L, then it is risky to move the complete range of S&OP responsibilities to an overarching level, because that would probably lead to internal struggles.
- **Is there a clear common vision of supply chain strategy**, defined and supported by executive management? How transparent and mature are the processes? And what is the level of trust within the organization?
- **Is management stable, or is it subject to frequent change?** A change management program requires that management be stable over the foreseeable future.
- **What is the company culture?** Some companies are more centralized, others are decentralized. In some circumstances, imposed change can meet huge resistance, both globally and locally. It is important to have a clear view on this prior to launching a change program.
- **Is there a significant overlap in production capabilities of the different plants or regional organizations?** Company-wide governance will be more successful if most plants produce more or less the same products, compared to a situation with multiple highly specialized plants.



The change path is different for every organization.

6

Conclusion

The collaborative S&OP schema will only be successful if it is tailored to the organization in question. Our three examples demonstrate how each company is different, requiring that the S&OP process and subprocesses be adjusted accordingly.

There are many factors at play, including the size of the company, cultural sensitivities, the existing distribution of decision-making powers, the specifics of the products and markets, and the time horizons and decision cycles to be considered.

Here are the key attention points:

- First, the organization should be assessed to evaluate whether it is ready for the kind of collaborative effort that S&OP demands.
- Decision-making responsibilities must be assigned realistically. Who is currently responsible for what, and how will that evolve in the future? S&OP ownership should not always be centralized, allowing specific tasks to be under local ownership where appropriate.
- Change management is extremely important, especially if there is a history of unsuccessful S&OP implementation attempts.
- A proven S&OP template should be taken as a starting point, but tailored to the specific organization.

An S&OP process carefully tailored to the organization brings the following business benefits:

- Better forecast accuracy and alignment with strategic objectives because of collaborative involvement at every organizational level.
- Lower total costs because the overall supply network is better optimized.
- Better long-term service levels with less working capital resulting from the collaborative approach breaking down organizational silos.
- IT investment and maintenance costs are reduced where the S&OP processes and setup are standardized across the organization.

About the author



Steven Depue

With a background in management consulting and technology implementations, Steven delivers strategic and operational planning advice and tailored solutions to meet the supply chain challenges faced by customers worldwide.



About OMP

OMP helps companies facing complex planning challenges to excel, grow and thrive by offering the best digitized supply chain planning solution on the market. Hundreds of customers in a wide range of industries — consumer goods, life sciences, chemicals, metals, paper and packaging — benefit from using OMP's unique Unison Planning™ concept. Acclaimed for more than a decade by Gartner for its vision and execution, OMP has been building strategic partnerships with its customers since 1985.

Respected for its commitment to achieving the very best outcomes for customers, the company invests in a sustained R&D effort to create its visionary road map for the future, in partnership with key stakeholders.

Also want to master your supply chain from end to end?
[Contact us](#)



Antwerp - Atlanta - Barcelona -
Cologne - Mumbai - Paris -
Rotterdam - São Paulo - Shanghai

info@omp.com
omp.com