

EMPEROR'S NEW CLOTHES: HONEST LOOK AT SALES AND OPERATIONS PLANNING (S&OP)?

Executive Summary: Every professional intuitively knows that S&OP / IBP are struggling to show the results they signed up for 30 years ago when the process first emerged. It may not be that the process is broke but rather it is stuck for many organizations trying to keep up with the new business environment of today.

By rethinking the people, process, technology, and mindset you can transform a business process that may keep up with the business landscape of tomorrow. In this article, we will take an honest look at Sales and Operations Planning (S&OP/IBP) as well as the evolution to an evaluated business process, Business Efficiency Planning (BEP), to help focus an organization and achieve measurable results.



Almost three decades ago Sales and Operational Planning (S&OP) became the innovation in manufacturing and supply chain. When S&OP came about in 1987 as a concept, we did not yet have the internet much less the "internet of things." Printouts at the time were from dot matrix printers, and we could not even conceive of 3D printing. It's amazing we could even have S&OP meetings with the initial release of PowerPoint three years later in 1990.

We now have had thirty years to improve on it, tweak it, and make it flawless. There are thousands of articles written now on this subject, and millions of dollars of consultant fees spent every year to implement new S&OP launches and to perfect the ones that are already in place. There are experts in this trade and almost a whole field developed around this practice and people making their livelihood from the concept.

Truth be told, despite all of this most companies are falling short in their efforts to derive full value from their S&OP process and very few "get it right." Worse yet, with so much invested and so many professionals expounding its benefits, few are willing to admit that: The Emperor may not have any clothes, and the process is not producing the results it was touted to do.

Is the S&OP Process Improvement an Illusion?

What we see now may be an illusion of progress masked by new terms and executives believing what they want to believe. There is a phenomenon with anything that the more people speak about something, the more you perceive you know about it (trust me, it works great in politics as well). I believe we are at that point where the terms S&OP or Integrated Business Planning (IBP) have been commoditized in nature. Everyone throws out

the terms and spins it with few knowing much about it or if it does what it says.

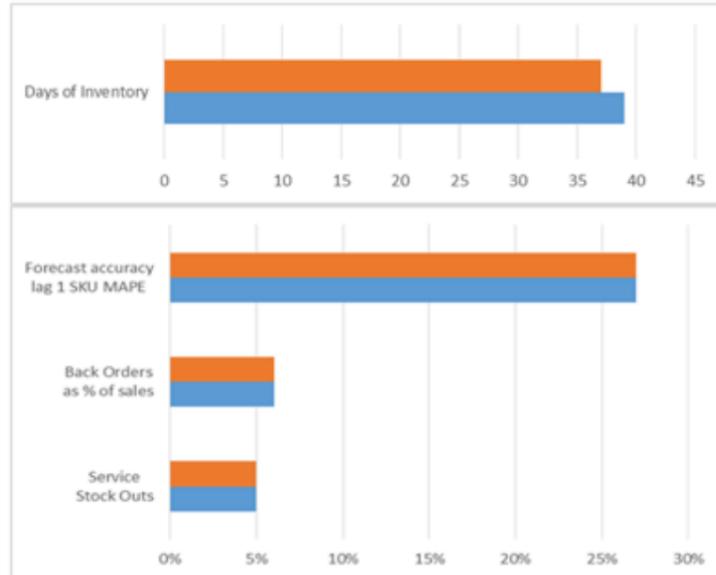
What we do know, repeated research shows over two-thirds are not gaining business value from their process. Despite the thrones of research on this topic of how to develop a mature process, despite the millions of dollars being spent - the Gartner five step maturity roadmap reveals that 68% of organizations are identified at 2.6 or lower - barely coping with balancing demand and supply. The truth is settling in that the vast majority of companies despite exhausting efforts cannot demonstrate measurable improvements in their company's performance and have not progressed to the utopia they were told they would find.

Possibly the most incriminating report came from the Institute of Business Forecasting (IBF) Global survey (2014). In this study, Dr. Chaman Jain researched 664 North American companies looking at common key performance indicators and comparing them between the 71% of the companies who said they had an established S&OP and the total pool of all companies researched. When looking at days of inventory surprisingly there were not only non-improvements, but the 471 companies with an S&OP process did worse (39 Days of Inventory with S&OP compared to 37 Days of Inventory all companies).

But I'm sure the forecasting process improved, and they could get better inputs - forecast accuracy at lag 1 measure Mean Absolute Percentage Error (MAPE) 27% with compared to 27% all companies. But what matters is the customer right? Unfortunately, even though inventory was slightly higher the companies had the right stock in the right place - measuring back orders as a percent of sales and looking at service stock outs with or without S&OP presented no measurable change as well.

N=664 Source: IBF Global survey data of north America (2014)

	Days of Inventory
With S&OP (n=471)	39
All Companies (n=664)	37
	Forecast accuracy lag 1 SKU MAPE
With S&OP (n=471)	27%
All Companies (n=664)	27%
	Back Orders as % of sales
With S&OP (n=471)	6%
All Companies (n=664)	6%
	Service Stock Outs
With S&OP (n=471)	5%
All Companies (n=664)	5%



The Typical S&OP Problem: When all fails – Blame the Patient

So, what is the response from the experts and vast amounts of articles being composed about the apparent failings of traditional S&OP? The consistent theme from consultants and even from the larger research-oriented firms is to blame the patient. That, of course, the Emperor has clothes you just are unable to see them because you have not implemented it right, don't have executive support, not aligned to strategy, or there is no clarity of your goal.

While I admit, these may all be true symptoms; the knee-jerk reaction is if there is a problem with your S&OP to blame the patient. The logic here is you have a cure that you claim is 100% successful but only works 30% of the time and when the majority of the time it doesn't work it is the patient's fault for not digesting the medicine the right way. With almost every research qualitative and quantitative showing two-thirds to three-fourth of companies with S&OP still struggling after thirty years of continuous improvements at what point do we look objectively at the process

as part of the problem. Let me be the first to say that the Emperor may not be naked but I'm not sure those clothes fit everyone and he may need to put more on.

Understanding the Larger S&OP Problem

The potential larger problem: If S&OP and the millions of dollars and thousands of articles did the minimal to keep up with business needs today a more appropriate question may be not if it added value but will it be able to keep up with what is coming. It is no doubt whether we change or not that everything else will continue to evolve around us, including business. All the challenges we face today will be amplified in the future, and we will surely have new people with newer skill sets, new technology and capabilities, and ideally new processes.

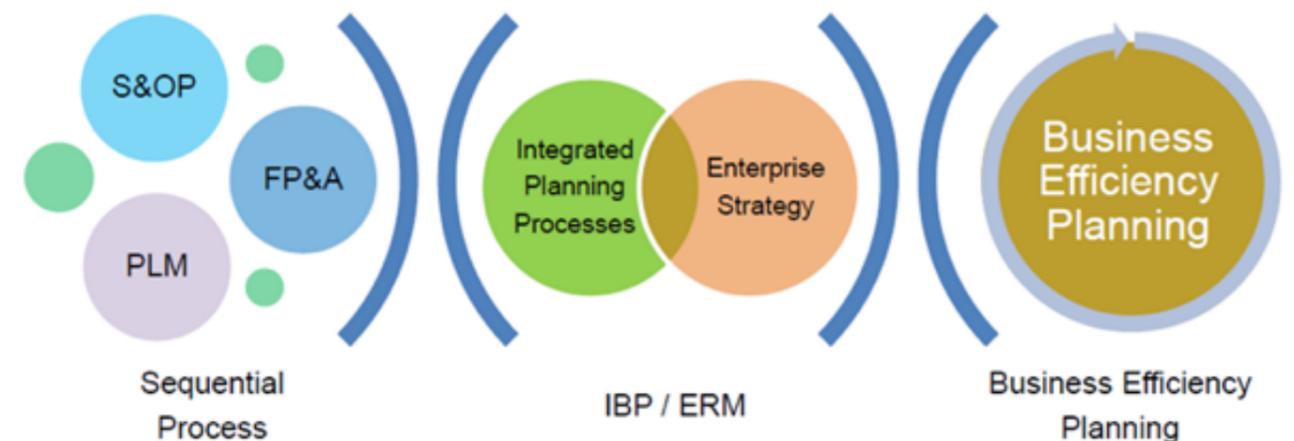
Cycles will get shorter, big data will be bigger, and collaboration and value may take on a whole new meaning in the enterprises of the future. Although many companies are recognizing the need to become more responsive and flexible, most S&OP processes are not designed to cope well with ambiguity. The

leaders in the future will be the ones that can more efficiently see, interpret, and act. This is what executives will be looking for, a better way of insights into their business and information that helps enable them to make better and faster decisions. If S&OP is having difficulty keeping up with business today, how can it keep pace with the business of tomorrow?

The limitations of the S&OP process and the changing business landscape necessitate a broader approach to the planning process. Planning can no longer remain within the realm of Supply Chain alone to have a meaningful impact on the business. The S&OP function should be elevated into a central business planning & execution framework called Business Efficiency Planning (BEP). This framework will help executives deliver a better way of making better decisions on a faster timeline.

The path to BEP begins with well-established foundational processes such as S&OP, PLM & FP&A.

BEP is part of a continuum of natural progression towards deeper integration across disparate business functions to facilitate deeper alignment and maximize business value.



Establishing a BEP will require a change in skill set, a change of practice, a change in tool set, a change in mindset.

Rethink People: The core BEP team should be comprised of people with strong analytics capability and people with business savvy & influence. This creates synergies between the business team members to ask the right questions and analytics team members to find the right answers. Talent is scarce, so organizations should recruit from across the organization and nurture potential candidates.

Rethink Process: Organizations should establish a centralized fully integrated forecasting, business planning, and analytics function to support decision making and a repeatable process to create value, manage risk and coordinate enterprise wide decision making.

Rethink Technology: Organizations should invest in a technology landscape that includes core applications with embedded capability, open-source analytics engines and self-service tools to consolidate data and provide prescriptive and predictive analytics for all business functions.

This may include: customer analytics, consumer insights and/or geospatial analytics in addition to traditional forecasting and supply planning capability.

While BEP is an evolutionary process, the first step is simple and any company has at their disposal. Organizations can get quick wins by aligning supply chain with product and finance, building relationships and improving participation and alignment between FP&A and S&OP processes. Developing a strong forecasting team and core data & analytics function to serve each function's needs and acquiring leadership buy-in to define a roadmap that integrates the foundational processes with the overall business strategy will establish the roadmap to Business Efficiency Planning. Future leaders are the ones who efficiently foresee, interpret and act.

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Eric is a predictive analytics and business planning innovator, author, and speaker. He is the Director of Thought Leadership at The Institute of Business Forecasting (IBF), as well as the Director of Demand Planning at Escalade Sports. In 2016, he received the Excellence in Business Forecasting & Planning award from The IBF. He is a Certified Professional Forecaster (CPF) with over 20 years' experience.

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