

SALES & OPERATIONS PLANNING (S&OP) SURVEY REVIEW



The current global chemical industry landscape is one of volatility and risk due to continued instability in employment, financial markets, natural disasters and energy. As an industry, we are also faced with slow growth in mature markets, demand shifts in emerging markets, industry consolidation, increased regulatory compliance (REACH) and asset-utilization decisions. All of these elements contribute to the complexity and challenges associated with Sales and Operations Planning (S&OP) performance in the chemical industry.

Over the past 10 years, SCMchem attendees have asked what SCMchem and its partners could provide beyond the annual event. The response back from attendees has been consistent over the years: benchmarking data.

In partnership with Worldwide Business Research (WBR), the event organizer for SCMchem, Hitachi Consulting surveyed your peers in the chemical industry benchmarking key issues, initiatives, and technologies regarding S&OP.

Participants took a 17-question S&OP Survey which focused on areas such as S&OP Maturity, S&OP Ownership & Decision Making, S&OP Organizational Structure, Barriers to S&OP Success, S&OP Performance Management and S&OP Technology Tool Adoption.

Survey respondents were from chemical companies that ranged from less than \$1 billion in sales, to large, global industry leaders with sales in excess of \$20 billion. Participating companies included DuPont, EMD Chemicals, Tata Chemicals, W.R. Grace, Sika, Milliken, International Flavors & Fragrances, Nova Chemicals, Merck, Akzo Nobel, Rhodia, Momentive, SABIC, Syngenta, PPG, Huntsman, Honeywell and more. Survey respondents ranged from Managers to VPs of Supply Chain, Operations and Finance.

We would like to thank all participants for providing their perspectives on Sales & Operations Planning in the chemical industry.

 Hitachi Consulting

 SCMchem

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SURVEY SUMMARY - C-LEVEL EXECUTIVE SPONSORSHIP

Executive Sponsorship = S&OP Maturity

When the organization has Executive Sponsorship in place, more than 70% of the time they operate at a Mature or Expert Level. Executive Sponsorship was identified as the #3 barrier to S&OP success.

Hitachi Consulting's position is that Executive Sponsorship/Leadership is a prerequisite for a successful S&OP program. The CEO/COO must set the vision for the organization to embrace Sales & Operations planning as standard operating procedure.

CROSS-FUNCTIONAL TEAMS

Cross-Functional S&OP Teams = S&OP Maturity

When the organization has Cross-Functional Teams in place, more than 60% of the time they operate at a Mature or Expert Level. In organizations where one group does all the S&OP work, 60% are at Novice or Infancy level.

Hitachi Consulting's position is that the S&OP process that is optimized for performance is defined by collaboration. Inputs and outputs from Finance, Supply Chain, Manufacturing/Operations, Sales, Marketing, R&D are all critical to the success of the S&OP process. Active participation is not optional, it must be mandatory. The Sales & Operations Planning process relies upon internal collaboration. It should also extend to suppliers and customers in order to properly balance the demand with the supply capability in order to meet the business and market requirements.

S&OP PROCESS & DECISION-MAKING

In companies with sales in excess of \$1 billion, managing the S&OP process and making S&OP decisions are concentrated with the VPs of Supply Chain and Operations. Business Unit Leaders and General Managers at less of a concentration own S&OP decisions.

Hitachi Consulting's opinion is that the CEO/COO should assign the responsibilities for S&OP decisions to business executives such as a Business Unit Leader or General Manager with full profit & loss (P&L) responsibilities. The business and financial decisions made as part of S&OP will have both short- and long-term impact on the organization, therefore executives with P&L responsibility should be responsible for S&OP decisions.

S&OP Process Activities



Discipline is required to build a world-class S&OP governing process and organization. S&OP is not an ad hoc process; it requires consistency, discipline and stamina. We support the Oliver Wight five-step S&OP process, however, we have replaced the 'Pre-S&OP Meeting' with 'Response Review' as it more accurately reflects the activities of the meeting.

EFFECTIVE S&OP TOOLS – S&OP BARRIER #1

Companies who rated themselves in the Novice or Infancy maturity levels were more likely to rate effective S&OP tools as a barrier to S&OP success. Companies with Mature or Expert processes generally rated themselves as Mature or Sophisticated in the use of S&OP Tools.

Companies Immature in S&OP tools typically have a planning horizon of only six months.

Companies that state the S&OP process takes the entire month are usually Novice in their S&OP process, find effective S&OP tools as a barrier and are Immature in the use of S&OP tools.

87% of companies that have implemented or are considering implementing Integrated Business Planning are either Maturing, Mature or Sophisticated in their usage of S&OP tools.

Hitachi Consulting’s opinion is that if your organization is still using Excel for S&OP planning, as many are, you are now close to a generation behind in the deployment of S&OP technology and the business processes associated with world-class S&OP.

If you are interested in leveraging better S&OP tools, a mature cross-functional team and S&OP process are still needed to gain the true benefits. A solid foundation is critical.

KEY PERFORMANCE INDICATORS (KPIs)

The majority of respondents use 1-10 KPIs to manage the S&OP process. We find this surprising.

Hitachi Consulting’s opinion is that S&OP should be incorporated as a key strategy of the organization with the appropriate strategic Key Performance Indicators (KPIs) set as a part of strategic corporate objectives. S&OP team KPIs must be tied directly to management compensation.

Our opinion is that for an immature S&OP team and process, it is appropriate to be measured against a maximum of 5-10 KPIs. The number of KPIs determined to optimize the success of the S&OP process is dependent on business complexity. The mature S&OP organizations from the survey are only measuring the S&OP performance at a level we consider minimum. For mature organizations, we recommend more than 10 KPIs.

For mature organizations, a balanced alignment of KPIs relating to income statement, balance sheet and capital utilization such as RONA will provide an integrated view of performance across the business operations.

There are many cause and effect relationships within S&OP KPIs. Each KPI has a primary owner with defined dependencies. When aligning KPIs with compensations, the dependencies must be identified, recognized and incorporated.

Hitachi Consulting has developed a list of more than 30 KPIs to manage the S&OP process.

For a more complete review of the survey results, please come by SCMchem **Booth #13** and ask for the full report.

Integrated Business Planning Pyramid



Integrated Business Planning (IBP) refers to the technologies, applications and processes of connecting the planning function across the enterprise to improve organizational alignment and financial performance. IBP accurately represents a holistic model of the company in order to link strategic and operational planning with financial planning.

By deploying a single model across the enterprise and leveraging the organization’s information assets, corporate executives, business unit heads and planning managers use IBP to evaluate plans and activities based on the true economic impact of each consideration.

OUR CHEMICALS SOLUTIONS INCLUDE:

- Sales & Operations Planning
- Performance Management Framework
- Executive Visibility Analytics
- Chemicals Industry Framework for SAP
- SAP S&OP: Rapid Deployment Solution
- Enterprise Content Management
- Price and Margin Management
- Transportation Management
- Railcar Management
- Sustainability
- EH&S Assessments

ABOUT HITACHI CONSULTING

As the global business and IT consulting company of Hitachi, Ltd., Hitachi Consulting is committed to helping clients bring their business visions to life through industry-led services and solutions. The company is uniquely positioned with the agility and client-focused approach of a boutique firm combined with the stability and innovation that comes from the Hitachi heritage.

Hitachi, Ltd. (NYSE: HIT / TSE: 6501), headquartered in Tokyo, Japan, is a leading global electronics company with more than 100 years of innovation. As a world leader, the company is committed to creating richer lives and a better society by providing products and services with a new level of value and potential based on the latest advances in technology, especially knowledge and information technology.

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