

Sales and Operations Planning - The Basics

Choosing the optimal strategy for your business

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What is Sales and Operations Planning?

Each year, the imbalance between supply and demand costs companies billions of dollars in out-of-stocks, excess inventory and excessive discounting. Promotions, new product introductions, packaging changes and changing demand patterns can all wreak havoc on the demand and supply planning process.

But companies that use Sales and Operations Planning (S&OP) are gaining the visibility and agility to improve product management and promotional planning, minimize unnecessary buildups of inventory and better predict revenue.

For example, a leading food producer implemented an enterprise-wide S&OP process as part of an overall supply chain improvement project and saved over \$20 Million per year.

Another client, a consumer electronics company, was able to reduce their inventory 17% by implementing S&OP and improving their visibility into fluctuations in demand and supply.

S&OP is effective because it develops a well coordinated operating plan in support of your customer demand, your business plan and your strategy. It gives a complete picture of forecasted demand, supply capacity and corresponding financial information.

S&OP is a vehicle for communication that puts the vision, strategy, financial and tactical plans of a business into one unified operating plan in order to optimize the allocation of critical resources: people, capacity, materials, time and money.

Can S&OP Help You?

To assess the value of S&OP for your company, consider these typical problems that are addressed by the S&OP process:

Benefits of the S&OP Process

1. Greater visibility of demand and supply across the company
2. Improved Product Lifecycle Management process
3. Better promotional planning
4. Improved inventory management
5. More predictable revenue management
6. More accurate budget forecasting

- Organizational structures where each department or business unit operates and plans for inputs independently of one another, often out of alignment with the corporate strategy.
- Master plans, production plans and production schedules change continuously. Sales and operations blame each other for problems.
- Financial plans are inaccurate resulting in high variances between budget and actual results.

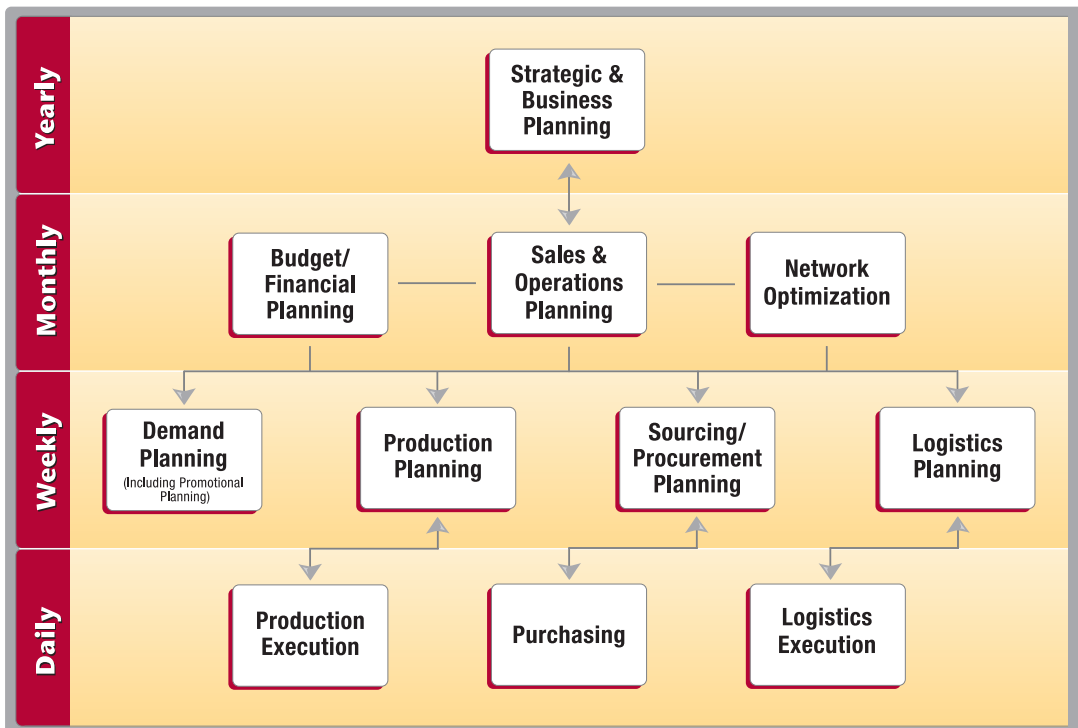
- Revenue goals are consistently not met. Low service levels or high cost of servicing customers along with low inventory turns are prevalent.
- Capacity utilization, forecast accuracy, obsolete inventory, product-to-market time and transportation costs are not understood and/or measured, and corrective action plans are not developed.

- New products regularly miss their launch dates.
- Product phase-outs are costly and generally involve inventory excess or shortage issues. Poorly performing product lines are not reviewed and discussed, promoting SKU proliferation.
- Promotional campaigns and activities cause major swings in inventory and service levels resulting in higher operational costs than budgeted.

How Does S&OP Differ from Traditional Planning?

Sales and Operations Planning supports the traditional planning process, but differs in two ways. First, it reviews planning activities at a higher level, on a monthly and yearly basis, rather than the tactical daily or weekly planning in the traditional process. This is critical as it allows a company to proactively identify and manage upcoming issues like overstock situations, fixed capacity constraints, regional velocity of demand and financial reserve accruals. Secondly, senior management is heavily involved in S&OP with the goal of driving consensus on a single operating plan across business functions.

The following illustration provides a high level view of the integrated planning process.



An Overview of the S&OP Cycle

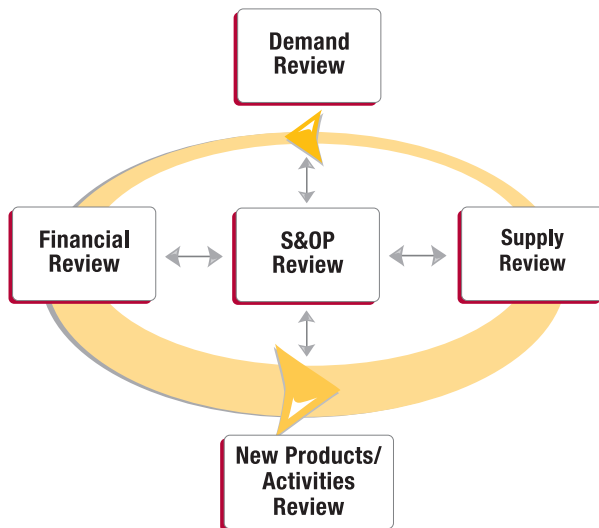
A typical model of the Sales and Operations Planning process is pictured below. The S&OP process begins by developing a demand plan for a rolling time period of 12-24 months (depending on the needs of the company). Next, a corresponding supply plan is created for the same time period. The demand and supply plans are then used to create the operating plan.

Demand Review Process

The ultimate goal of the demand plan is to gain consensus on what will be sold and what revenue will be produced for each product line each month. The intent is to continuously improve forecast accuracy. At a meeting of all the stakeholders – sales, marketing, finance, product development and supply chain – participants discuss factors that influence demand (new or deleted products, competitors or market conditions) and agree on a single demand plan that is then passed to the supply team.

Supply Review Process

The supply team is typically comprised of people from purchasing, inventory management, production, warehousing and logistics. Their goal is to:



- Develop a proactive approach to resolving imbalances in capacity and resources
- Identify capacity constraints and alternatives
- Develop a procurement plan
- Improve plan adherence
- Evaluate capacity utilization (forecasted and past performance)
- Maximize resource utilization (capacity, storage, transportation, people, materials)

The supply team creates a supply plan that includes a rough-cut capacity plan, a procurement plan, and accompanying costs. This information is used as the primary input to the Sales and Operations Planning Meeting.

Sales and Operations Planning Meeting

Next, a Sales and Operations Planning meeting is held to discuss and resolve any imbalances between supply and demand. Participants in this meeting include senior leadership representing finance, sales, marketing, purchasing, operations, planning, logistics and other operational and sales management, as needed.

In the meeting, the demand and supply plans, financial plans, strategic business goals and unresolved issues from previous meetings are all reviewed and resolved.

Sample of Information Examined in an S&OP Meeting

1. Forecasted demand and corresponding revenue
2. Production plan and cost of sale projections
3. Inventory positions/levels
4. Financial budget versus actual comparison (P&L, balance sheet and cash flow)
5. Raw material purchase projections
6. Forecasted capacity utilization compared to past performance
7. Forecasted labor utilization compared to past performance

Where imbalances exist, participants discuss alternatives and options. The group sets strategic direction on capacity, raw material availability and new business opportunities, and comes to a consensus on the Sales and Operations Plan.

All decisions resulting from the meeting are published as a single authorized plan which becomes the operating plan for each function within the company.

Tips for a Successful Implementation

Here are some of the lessons we have learned from our work helping clients implement successful Sales and Operations Planning processes.

- #1 - Develop a formal structure to support Sales and Operations Planning. Include specific schedules and participants. Make sure that it is backed by executive leadership.
- #2 - Identify Key Performance Indicators (KPIs) prior to beginning and monitor them monthly to identify areas for improvement.
- #3 - Have an attitude of continuous improvement. You will not have 100 percent accuracy at the beginning of the project. The Sales and Operations Planning process will continuously change and improve to suit the needs of the company.
- #4 - Deploy and stabilize the Demand Planning process prior to the Supply Planning process. Don't attempt the two simultaneously.
- #5 - Hold regular meetings with your executive sponsors to discuss process improvements and direction.
- #6 - Recognize the difference between productive and non-productive meetings. The Sales and Operations Planning process is a decision making tool – don't confuse having meetings with making progress.

Summary

It is more important than ever to streamline your processes to gain competitive advantage. Companies that have effective Sales and Operations Planning processes are improving their visibility across their company and becoming more agile. They are able to improve product management, improve promotional planning, minimize unnecessary buildups of inventory and better predict revenue.

If you would like to learn more about how our clients are successfully implementing Sales and Operations Planning, we would enjoy the opportunity to talk with you further. Call us at 877.664.0010 or look for us at www.hitachiconsulting.com.

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