

Sales & Operations Planning

Sales and Operations Planning is an essential business tool. It integrates functions across businesses, improving Customer Service whilst reducing inventory and costs.

The S&OP Process

The S&OP process is a fully integrated planning process that controls the principle business drivers and allows all functions to contribute to major tactical and strategic decisions. At its heart lies a Board level meeting at which all the operational issues in the business are understood and where action plans are ratified. It is highly focussed, concentrating on top-level issues, business KPIs and long-term strategic issues. Short-term issues should only be raised when they impact the business heavily enough, and then they will be brought to the table with recommended solutions.

Sales and Operations Planning addresses the balance between Demand, Stock and Capacity by aligning the forecast with supply. It aims to hold minimum inventory whilst supporting excellent customer service. It aims to drive the emphasis from Stock and Cost to Forecast and Plan.

Process Benefits

There are significant benefits to be found from a robust S&OP process: it generates ownership of the operational plan at Board Level; it introduces formal processes for cross-functional planning; it develops processes that learn from experience, improving future plans; it helps understanding of the true effect of customer activity; it performs an essential role in the planning and management of a business; it reduces carry-over and improves delivery; it reduces stock levels; it integrates commercial, manufacturing and logistic processes; it provides an agreed set of numbers with which all functions can operate.

Forecasting

The forecasting process forms the foundations of the S&OP process. Thereafter, recommended inventory levels can be set, and the appropriate replenishment or production plan written.

Life Cycle management and seasonality will form part of the base demand in the forecast, but promotions and market activity must also be accounted for. Effective event and promotion management is vital to the forecast input. Within the iterative S&OP process, events can be used to adjust the forecast should it breach capacity limits, or if it does not reach business aspirations. These iterations can be used to control the business. When doing so, events should be superimposed on the base forecast, and then extracted for future forecasts. Event data should be kept as part of the ongoing learning process.

In a manufacturing environment, monthly updates of the forecast will be used as inputs to the Production Plan, covering both manpower and line capacity, and the Master Production Schedule. It will then cascade into the Materials Requirements Plan and the Factored Product Schedule. Thereafter, it will be used to drive the Profit and Cash Forecasts.

In a distribution or retail environment, the forecast will be used to drive the replenishment plan, setting inventory at all nodes in the supply chain. It can also be used in the Profit and Cash Forecasts.

The annual forecast will be used as input into the Budgeting Process and into long-term capacity, material and stock planning. It will be used to determine direct material costs in manufacturing and direct labour costs across operations. It can also be used to determine purchasing costs and long term stock planning.

Optimum Inventory

Setting and maintaining optimum inventory levels is crucial, in any business. Getting this right is good for cash, profit and customer.

Optimum inventory will change with time, adjusting with seasonality, life cycle and forecast demand. Accounting for all of these is essential when planning stock. Not to do so will open a business to the risks of stock outs, poor customer service, increased obsolescence and slow moving stock.

It is exactly these risks that the S&OP process aims to eliminate by balancing demand with capacity, and accommodating variability of demand by its stocking policies.

S&OP Outputs

The outputs from the S&OP Process will be a ratified Sales & Operations Plan including the following: P&L; Sales Forecast; Supply Plan; Event Log; Long term capacity plans; Allocation rules and priorities; Action Plan.

Ownership and accountability for all S&OP processes is vital. Each should be measured rigorously. The monthly cycle demands discipline, as failing to reach one deadline causes a domino effect down the line. Each process will have a time frame for completion and output to the following process. As the S&OP should be used to look forward and not back, it should be timed in the last week of the month, fitting in with the management cycle and monthly Board meetings.

Measures will be vital in planning future actions and giving direction for improvement

in the overall process. Forecast accuracy, inventory balance, stock accuracy and customer service measures are all essential.

Measures should be carefully defined, as they will drive the direction of the business. Weak measures do not address the problems within the measured process at the appropriate level. For example, a forecast measure by total volume and does not address mix issues, and customer service to promise does not measure performance to committed lead-time or to customer request. Weakness of measurement promotes cynicism and does not encourage improvement.

Summary

An effective Sales and Operations Planning process is essential to the tactical and strategic planning of any company. It is not an addition to the normal workload of the functions involved, but part of everyday business.

There are significant benefits to be found from effective Sales and Operations Planning. The most important include:

- Improved Customer Service
- Reduced Lead Times
- Reduced Inventory
- Reduced Costs

There is much concrete evidence that S&OP processes generate results in these areas. However, implementation requires commitment from the very top of the business.



If you are interested in finding out more about Reflex Planning Software, and how it can help drive improvement inside your business, please get in touch.

Reflex Planning Solutions Ltd, Burston House, Burston, Staffordshire ST18 0D

T: +44 (0) 1889 508075

F: +44 889 508076

Email: info@ReflexPlanning.com