### **Table of Contents**

| List of Figures                 | xi    |
|---------------------------------|-------|
| Dedication                      | xiii  |
| Acknowledgments                 | XV    |
| Preface: A Terminology Issue    | xvii  |
| Foreword                        | xix   |
| What's New in the Third Edition | xxiii |
| How to Use This Book            | XXV   |

#### Part One — Sales & Operations Planning: Its Role, Benefits, and Structure

| Prologue to Part One: | What's New   | 3  |
|-----------------------|--|----|
| Chapter 1             | Introduction to Executive S&OP                           | 5  |
|                       | What is Sales & Operations Planning?                     | 5  |
|                       | The Terminology Shift                                    | 8  |
|                       | What Are the Benefits?                                   | 9  |
|                       | Why Is Top Management Necessary?                         | 11 |
|                       | How Does Executive S&OP Connect the Pieces?              | 12 |
|                       | Report from the Field: The Procter & Gamble Company      | 13 |
|                       | How Much Does Executive S&OP Cost?                       | 14 |
| Chapter 2             | Where Does Executive S&OP Fit?                           | 15 |
|                       | How Does Executive S&OP Interact with ERP?               | 15 |
|                       | How Does Executive S&OP Support Supply Chain Management? | 15 |
|                       | How Does Executive S&OP Support Lean Manufacturing?      | 17 |
| Chapter 3             | The Structure and Logic of Executive S&OP                | 21 |
|                       | Bad Day at Acme Widget                                   | 21 |

|           | What's Wrong with This Picture?                  | 23 |
|-----------|--|----|
|           | A Better Way to Look at It                       | 24 |
|           | The Make-to-Stock View                           | 25 |
|           | Graphs versus Spreadsheets                       | 27 |
|           | The Make-to-Order View                           | 27 |
|           | The Finish-to-Order View (Postponement)          | 29 |
|           | The View for Seasonal Products                   | 32 |
|           | New Product Introduction                         | 34 |
|           | Report from the Field: Eli Lilly                 | 36 |
|           | Operations Plan Choices: Level, Chase, or Hybrid | 37 |
| Chapter 4 | Inputs to Executive S&OP                         | 39 |
|           | Demand Input: Sales Forecasting                  | 39 |
|           | Supply Input: Resource Planning                  | 47 |
|           | Demand/Supply Strategies                         | 49 |
| Chapter 5 | The Monthly Executive S&OP Process               | 53 |
|           | Step 1 — Data Gathering                          | 55 |
|           | Step 2 — The Demand Planning Phase               | 55 |
|           | Step 3 — The Supply Planning Phase               | 59 |
|           | Step 4 — The Pre-Meeting                         | 60 |
|           | Step 5 — The Executive Meeting                   | 62 |
|           | The Roles of Finance and New Product Development | 65 |

#### Part Two — Implementing the Live Pilot

| Prologue to Part Two: | A Better Way                                      | 69 |
|-----------------------|---|----|
| Chapter 6             | The Executive S&OP Implementation Path            | 71 |
|                       | Report from the Field: Oil Patch Industries, Inc. | 73 |
| Chapter 7             | Executive Briefing and Go/No-Go Decision #1       | 75 |
|                       | The Executive S&OP Expert                         | 75 |
|                       | Executive Briefing — Making the Business Case     | 78 |
|                       | Go/No-Go Decision #1                              | 78 |
| Chapter 8             | Assignment of Responsibilities 81                 |    |

Executive Champion/Sponsor 81

|            | The Design Team (Core Team, Project Team)                | 82  |
|------------|--|-----|
|            | Design Team Leader                                       | 82  |
|            | Spreadsheet Developer                                    | 83  |
|            | Support from the Executive S&OP Expert                   | 84  |
|            | Report from the Field: The Homac Corporation             | 85  |
| Chapter 9  | Kickoff Education and Planning                           | 87  |
|            | First Half-Day   | 88  |
|            | Second Half-Day  | 88  |
|            | Third Half-Day   | 89  |
| Chapter 10 | Development of the Project Schedule                      | 91  |
|            | The Live Pilot — Month-by-Month                          | 92  |
|            | The Implementation Schedule Outline                      | 93  |
| Chapter 11 | Product Families, Subfamilies, and Resources             | 95  |
|            | Product Families — How Many?                             | 95  |
|            | Product Families — How to Select Them                    | 96  |
|            | Making Use of Subfamilies                                | 97  |
|            | Report from the Field: ImagePoint                        | 98  |
|            | Unit of Measure  | 99  |
|            | Selecting the Pilot Family                               | 99  |
| Chapter 12 | Data Requirements, Sources, and Displays                 | 103 |
|            | Data Requirements  | 103 |
|            | Data Definitions and Sources                             | 105 |
|            | Spreadsheets and Graphs                                  | 106 |
| Chapter 13 | The Demand Planning Process                              | 113 |
|            | Report from the Field: Whirlpool Corporation             | 114 |
|            | Demand Planning for Make-to-Stock and Finish-to-Order    | 116 |
|            | Demand Planning for Make-to-Order                        | 120 |
| Chapter 14 | The Supply Planning Process                              | 123 |
|            | Review Supply Performance to Plan                        | 123 |
|            | Validate/Modify Simplifying Assumptions                  | 124 |
|            | Adjust Operations Plan to Meet Inventory/Backlog Targets | 125 |

|            | Run Resource Requirements Planning and Readjust Operations<br>Plan Where Needed and Practical | 126 |
|------------|---|-----|
|            | Develop Alternative Scenarios for Resource Problems Needing<br>Review at the Pre-Meeting      | 130 |
| Chapter 15 | Pilot Preparation and Execution   | 133 |
|            | Report from the Field: Worldwide Support Group  | 138 |

# Part Three — Expansion and Full Financial Integration

| Prologue to Part Three: Low Risk and Low Cost |   | 143 |
|---|---|-----|
| Chapter 16                                    | Add All Families onto Executive S&OP  | 145 |
|   | Add Complete Supply Planning  | 146 |
|   | Add Initial Financial Planning  | 146 |
|   | Add New Product Planning  | 148 |
|   | Tie the Detail to the Summary   | 148 |
|   | Appoint the Executive S&OP Process Owner  | 149 |
|   | Develop the Executive S&OP Policy   | 149 |
| Chapter 17                                    | Continuous Improvement  | 153 |
|   | Internal Improvement — Critique of the Executive Meeting  | 153 |
|   | Internal Improvement — The Executive S&OP Checklist   | 153 |
|   | External Improvement  | 154 |
| Chapter 18                                    | Full Financial Integration  | 157 |
|   | Pro Forma P & L and Balance Sheet   | 158 |
|   | Managing with S&OP-generated Financial Information  | 159 |
| Chapter 19                                    | Executive S&OP in Complex Environments  | 163 |
|   | Multi-Site, Multi-Business Executive S&OP   | 163 |
|   | Multiple Sales and Marketing Units  | 164 |
|   | Multiple Plants   | 164 |
|   | Combination Families: Make-to-Stock/Make-to-Order,<br>Make-to-Stock/Finish-to-Order, Make-to-Order/ |     |
|   | Finish-to-Order   | 165 |
|   | Combination Families: Manufactured and Outsourced   | 166 |
|   | Field Inventories   | 166 |

| S&OP for Nonphysical Products           | 166 |
|---|-----|
| Global Executive S&OP                   | 167 |
| Executive S&OP in a Very Large Business | 169 |

### Part Four — Getting It Right and Making It Better

| Prologue to Part Four: | Beyond Implementation                             | 173 |
|------------------------|---|-----|
| Chapter 20             | Fixing a Broken Executive S&OP Process            | 175 |
| Chapter 21             | Risk Management and Executive S&OP                | 179 |
|                        | Demand Disruptions                                | 180 |
|                        | The "Mini" S&OP Cycle                             | 181 |
|                        | Supply Disruptions                                | 182 |
|                        | Risk Anticipation                                 | 183 |
|                        | Report from the Field: OTC Consumer Products      | 183 |
|                        | Good Day at Acme Widget                           | 184 |
|                        | Conclusion  | 185 |
| Chapter 22             | The Future of Executive S&OP                      | 187 |
|                        | Report from the Field: The Kangaroo National Bank | 188 |
|                        | The Top Management War Room                       | 189 |
|                        | The Running Delta and the Red Zone                | 190 |
|                        | Audit Trail of Decisions Made                     | 191 |

#### Appendixes

| А | List of Tasks Involved in Implementating Executive S&OP       | 193 |
|---|---|-----|
| В | Using Control Charts for Executive S&OP                       | 197 |
|   | Constructing a Control Chart                                  | 197 |
|   | Using Control Charts  | 199 |
|   | Validating the Assumptions                                    | 200 |
| С | Software for Executive S&OP                                   | 201 |
|   | Software Selection Criteria                                   | 202 |
|   | A Bit of Advice   | 203 |
| D | The Difference between Production Planning and Executive S&OP | 205 |
| Е | Highly Variable Supply  | 209 |
| F | The Executive S&OP Effectiveness Checklist                    | 211 |
| G | Waterfall Chart   | 215 |
| Η | Glossary  | 217 |
|   | Index   | 225 |

# List of Figures

| Figure | Content   | Page |
|--------|---|------|
| 2-1    | Balancing the Supply Chain                                      | 16   |
| 2-2    | Lean Manufacturing and Executive S&OP                           | 17   |
| 3-1    | Simplified S&OP Spreadsheet, Make-to-Stock                      | 26   |
| 3-2    | Simplified S&OP Spreadsheet, Make-to-Order                      | 28   |
| 3-2a   | Simplified S&OP Spreadsheet, Make-to-Order with Strategy Change | 30   |
| 3-3    | Simplified S&OP Spreadsheet, Finish-to-Order                    | 32   |
| 3-4    | Simplified S&OP Spreadsheet, Make-to-Stock, Seasonal Product    | 33   |
| 4-1    | The Forecasting Pyramid   | 40   |
| 4-2    | Planning Time Fence   | 42   |
| 4-3    | Forecasting: Inputs, Process, Outputs                           | 44   |
| 4-4    | Aligned Resources versus Nonaligned Resources                   | 48   |
| 4-5    | Examples of Demand/Supply Strategies                            | 50   |
| 5-1    | The Monthly Executive S&OP Process                              | 54   |
| 5-2    | Involvement of Finance and Product Development                  | 66   |
| 6-1    | Overview Implementation Path                                    | 72   |
| 7-1    | Overview Implementation Path                                    | 75   |
| 8-1    | Implementation Path, Assignment of Responsibilities             | 81   |
| 10-1   | Sample List of Tasks  | 93   |
| 12-1   | S&OP Spreadsheet, Make-to-Stock                                 | 107  |
| 12-2   | S&OP Spreadsheet, Make-to-Order                                 | 110  |
| 13-1   | The Demand Planning Phase: Make-to-Stock, Finish-to-Order       | 116  |
| 13-2   | The Backlog Curve   | 121  |

| 14-1  | The Supply Planning Phase  | 124 |
|-------|--|-----|
| 14-2  | Control Chart  | 125 |
| 14-3  | Bill of Resources  | 126 |
| 14-4  | Resource Requirements Plan (One Month)                                     | 127 |
| 16-1  | Dollarized S&OP Spreadsheet  | 147 |
| 19-1  | Global Executive S&OP  | 168 |
| 19-2  | Executive S&OP in a Very Large Business                                    | 170 |
| 21-1  | Supply Chain Disruptions   | 180 |
| B-1   | Control Chart — Actual Sales Variability                                   | 198 |
| B-2   | Control Chart — Unit Selling Price for Family A                            | 199 |
| D-1   | The Production Planning Method — Forerunner of Sales & Operations Planning | 206 |
| D-2   | The Sales & Operations Planning Method                                     | 207 |
| E-1   | The Six-Step Process for Highly Variable Supply                            | 209 |
| G-1   | Waterfall Chart  | 215 |
| G-2   | Waterfall Graph  | 216 |
| CG-1  | S&OP Graph, Make-to-Stock  | *   |
| CG-2  | S&OP Graph, Make-to-Order  | *   |
| CG-3  | S&OP Graph, Finish-to-Order  | *   |
| CG-4  | S&OP Graph, Make-to-Stock (with Seasonality)                               | *   |
| CG-5  | Resource Requirements Plan: Subassembly                                    | *   |
| CG-6a | 2007 Fiscal Year Projection  | *   |
| CG-6b | 2007–2008 Fiscal Year Projections  | *   |

\* Attached to Inside Back Cover