

## Executive S&OP: Managing to Achieve Consensus

Robert A. Stahl



**PREVIEW.** Bob Stahl continues his series of columns on Executive S&OP with his framework for managing the final two steps of the five-step S&OP process, the Pre-Meeting and the Executive Meeting. Visit his earlier columns in *Foresight* for case studies of the demand-planning and supply-planning steps.

### INTRODUCTION

The executive component to Sales & Operations Planning, known as Executive S&OP, is one of the most important business practices to evolve over the last 30 years. Properly implemented, it will transform the way a company operates, thereby raising the potential benefits it is able to achieve.

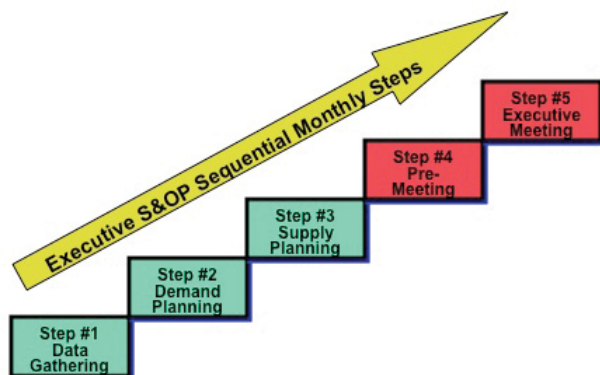
Because the structure and logic of Executive S&OP is really quite simple, many companies have been misled to believe that it is easy to implement and use effectively. Nothing could

be further from the truth. Executive S&OP is much more than a spreadsheet or a bunch of numbers. As a well-defined and disciplined monthly process, it can change the culture and climate in which a company operates. The very substantial *hard benefits* are a direct result and consequence of the *soft benefits* of culture and climate changes.

Figure 1 shows the five steps that define the Executive S&OP process.

In previous *Foresight* columns, I have presented case studies about the first three steps. In this column, I will provide a picture of how the final two steps--the Pre-Meeting and the Executive Meeting--should work. Understanding this difference between the way the process should work and the way it often does can generate an “aha moment” and motivate an organization to change. There is no formula for how to make that change happen because the route to change differs across organizations and managerial styles.

Figure 1.



### THE PREPARATORY STEPS

Steps 1-3 are in part preparation for the final two steps. In these first procedures, complete

collaboration is not required, but in the last two steps, effective and full cross-functional collaboration is essential.

### **Data Gathering (Step #1)**

I've yet to find one company that did not have all the data in hand required for authentic Executive S&OP. On the contrary, there is usually too much data thrust onto management, and data overload impedes crisp decision-making. The information extracted from the data warehouse should be organized in simple and meaningful ways, so that variances from demand and supply plans can be identified. This is typically done on integrated spreadsheets, and graphical displays are created to convey that understanding to others.

In his 2007 *Foresight* article "S&OP, Forecasting, and the Knowledge-Creating Company," John Mello writes that "S&OP offers a framework for companies to institutionalize organizational knowledge . . . [by creating] a two-way [data] flow . . ." This is the S&OP step where such institutionalization takes place.

Once the data-gathering activity becomes a well-defined and disciplined practice, required month-end activities become routine:

- Updating files/spreadsheets
- Identifying and highlighting variances outside of "normal" variability
- Updating inputs to statistical forecasting models
- Disseminating this data/information to appropriate people

The appropriate people are those line management folks in Sales, Marketing, and Operations who are performing demand planning (Step #2) and supply planning (Step #3). It is their responsibility to see that the data received have validity and then to prepare the data for decision-making.

### **Demand Planning (Step #2)**

Having possession of new month-end data, demand planners should update their fore-

## **Key Points**

- The first three steps of S&OP – data gathering, demand planning, and supply planning – are in part preparation for the final two steps: the Pre-Meeting and the Executive Meeting. In both, full cross-functional collaboration is an essential component.
- Throughout the entire S&OP process, and specifically in the final two meetings, participants should have their say and their opportunity to express disagreement. Given an opportunity to influence final decisions, they are more likely to support the decision made—even if it's not the one they would have preferred.
- In a traditional environment, important issues are often missing from the meeting agenda. That's because they are perceived as big and ugly – much like a moose. Done properly, Executive S&OP will force "the moose" onto the table. This enables the organization to learn to accept differences of opinion as a natural and logical part of the decision-making process, avoiding the practice of shooting the messenger.

casts, which requires reconciliation of the Marketing View, the Customer View, and the Historical View of future demand. Reconciliation is the major purpose of the Demand Agreement Meeting (the DAM meeting, perhaps). This can be a difficult meeting to run, seeking, as it must, to bring divergent views into sharper focus and achieve consensus on the demand forecast. "Successful companies," wrote Tom Ross (2005), ". . . establish a collaborative forecasting process for integrating statistical and judgmental forecasts." This step is all about establishing a *collaborative demand forecast*, which is checked against the *last call* to the Annual Business Plan, and then passed to the Supply Planning folks.

### Supply Planning (Step #3)

Supply Planning has operations responsibility – manufacturing, procurement, logistics, warehousing, outsourcing, and more. Supply plans are updated after taking into account inventory and/or backlog goals and the collaborative forecast from demand planning.

The feasibility of the new supply plans is tested through *rough-cut resource models*, the details of which I discuss in detail in my Spring 2010 *Foresight* column (Stahl, 2010). As a result of this procedure, there may be (a) an increase or decrease in staffing and capital equipment, (b) an effort to outsource additional volume or recover some currently outsourced volume, and (c) some constraining of demand by being selective about customers.

Overall, steps 1-3 should ensure that demand and supply are managed as a set of connected activities and the results made ready for executive review and action.



### THE MANAGEMENT MEETINGS

Two meetings constitute the final *decision-making* part of the Executive S&OP process:

- The Pre-Meeting (Step #4)
- The Executive Meeting (Step #5)

In these final two steps, leadership makes decisions and institutes the changes in culture and climate that are required for

greater achievement. The change in culture and climate needs to be a clear objective from the get-go.

Each meeting is geared to making collaborative decisions. Keep in mind, however, that running a business is *not* a democracy. If consensus cannot be achieved, leadership has the responsibility and authority to make clear decisions. Every participant should feel obliged to disagree with views expressed when appropriate. Given an opportunity to influence final decisions, participants are more likely to support whatever final decision is reached.

### Pre-Meeting (Step #4)

In attendance at the Pre-Meeting are normally middle managers across the range of disciplines – demand, supply, procurement, finance, new product, logistics – many of whom were involved in the demand- and supply-planning steps. The facilitator of this meeting is usually the S&OP process owner or the supply-chain manager.

Because the primary objective of this meeting is to provide a broad cross section of the organization with the opportunity to influence decisions, the size of this meeting can be imposing. Segmentation into smaller groups can help utilize the time more efficiently.

The desired outcomes:

- Where there is consensus, make final decisions that are within the framework of the existing policies, budgets, and risk levels.
- When actions are required that are outside the existing policies, prepare a single set of recommendations to executive management.
- Where agreement cannot be reached, develop alternative scenarios showing various actions and consequences to resolve a given problem.
- Update the financial view of the business.
- Set the agenda for the Executive Meeting.

### Executive Meeting (Step #5)

This is the culminating event of the monthly Executive S&OP process. Attendees include

the CEO (GM, Managing Director, etc.) and most of his/her direct reporters. An additional person from each department may be there as well to support the leader of that discipline. Based on the agenda for a given meeting, ad hoc participants may also be invited to attend. The administrator of this meeting is usually the person who facilitated the Pre-Meeting, but the owner of the meeting is the CEO.

Within the framework of the agenda recommended by the Pre-Meeting, the objective of this session is to:

- review general business performance to goals – financial, customer service, etc.;
- review the major decisions made at the Pre-Meeting;
- review consensus recommendations where they fall outside existing policies, strategies, current business plans and budgets, and approved risk levels;
- decide among alternative actions where consensus could not previously be reached; and
- decide whether or not to change the *current call* to the Annual Business Plan.



### **PUTTING THE MOOSE ON THE TABLE**

In many companies, there are very important issues that never seem to make the agenda of executive meetings. That's because these issues are perceived as big and ugly – much like a moose. Even though the moose is

lurking in the room, no one talks about it.

Changing this company attitude is what I call “getting the moose on the table.” I believe that success in using Executive S&OP comes not only from the proper application of its tools, techniques, and processes, but in large measure from the *behavior* of people with the willingness to get tough issues out in the open.

Executive S&OP should force the moose onto the table. Doing so is particularly challenging in organizations that are *conflict averse*. Such companies will need to learn:

- to accept differences of opinion as a natural and logical part of the decision-making process;
- to avoid the practice of “shooting the messenger” – aversion to conflict is usually the path people take who know that if they raise a problem they will be linked to causing the problem – and
- to strive for consensus, being aware that consensus is not the same as unanimity.

**I believe that success in using Executive S&OP comes not only from the proper application of its tools, techniques, and processes, but in large measure from the *behavior* of people with the willingness to get tough issues out in the open.**

Absent conflict resolution, decisions are often avoided. This in itself is a decision – do nothing, sweep the problem under the rug, and maintain the status quo. On other occasions, uninformed decisions are made by those in the organization who are not in complete possession of the facts, and uninformed decisions are poor decisions.

In both executive-level meetings, the intention is to put the unfettered truth on the table, and to do this sooner rather than later, so that there's still time to take proactive actions. Because brutal honesty is encouraged without repercussions to participants, these meetings can take on a very serious tone.

Nevertheless, we find a number of common attributes in companies that do Executive S&OP well:

- Even though tough decisions are at hand, the atmosphere tends to be informal, comfortable, and relaxed.
- Disagreement, although discomfoting, does not bring on *negative energy*. People have learned how to disagree without being disagreeable, and how to stay focused on solving the problems.
- Attendance is not a problem because everyone understands that the meetings are critical to the formation of policy, strategy, plan and financial performance, and risk.
- By blurring departmental boundaries, every unit comes to see the business through the eyes of others, and realizes that this is a team sport.
- All are willing to accept final decisions, because everyone had an opportunity to influence the outcome.



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- Once this culture and climate is achieved, the organization is as concerned with maintaining the quality of the process as it is with the outcome.
- There is a routine, end-of-meeting evaluation of the process and, periodically, a self-audit designed to improve the procedure.

Hard benefits usually come in quantum leaps, far surpassing expectations. They do not, however, come directly, but are the result and consequence of the soft benefits that cannot be so easily quantified. In companies using Executive S&OP successfully, these *soft* benefits are seen on the faces of the people doing the work, and felt in the tone of discussions that take place.

### RESEARCH STUDY TO FOLLOW

Earlier this year, John Mello and I began collaboration on research into the culture and climate change that occurs when a company has effectively implemented Executive S&OP. The project is based on interviews with key personnel in seven companies. We will be sharing our findings with you in *Foresight* during 2011. Keep your eye out for them.

### REFERENCES

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