

## Executive S&OP: Overcoming the “Catch-22” of Implementation

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**PREVIEW:** *Bob and Joe ask why, in certain companies, S&OP has failed to catch on. They believe the main culprit to be the “catch-22” of change management: if top management is involved from the start, the changes required by S&OP implementation may cause organizational discomfort, but failing to involve top management undermines chances of the project’s success. You’re damned if you do, and damned if you don’t. The authors propose a four-step action plan to hit the problem head on and increase the odds of successful implementation.*

**A word about terminology:** *The common usage of the term “Sales & Operations Planning” has morphed – it’s broadened to include tools and techniques that operate at both the aggregate and the detailed levels of supply-chain management. In this piece, we’re talking about the executive component of Sales & Operations Planning that deals with aggregate or volume planning involving top management. We’ll use two terms interchangeably to refer to this executive component – S&OP and Executive S&OP.*

### INTRODUCTION

For over 20 years, S&OP has proven to be a transformational process resulting in enormous competitive advantage for companies that have successfully implemented it. These companies are large and small, public and private, with manufacturing and nonmanufacturing environments. Examples of its success have been chronicled in previous *Foresight* columns and in many other places.

Why, then, do so many companies choose not to pursue S&OP – or if they do, have their implementations fall short of this potential? It’s often because they fail to effectively deal with the “catch-22” of implementation, which is:

- If they **do** get top management involved from the start, they realize that success does not come from **doing better at what you do**, but from **doing things differently to be better**. “Doing things differently” translates into personal and/or organizational

discomfort and risk for those in charge – resulting in reluctance to implement.

- If they **don’t** get top management involved from the start, they don’t address the cultural or behavioral changes that are required.

Unaddressed, this dilemma results in one of three scenarios, none of which brings about a transformational success:

1. Top managers approve the project and then don’t fully immerse themselves in the change process, thus diminishing the prospect of total success; or
2. The project is started as a “grassroots” effort, without top management’s approval and/or participation; or
3. Top management does not approve the project, instead favoring other projects perceived as less risky.

### MORE PRECISELY – WHY TOP MANAGEMENT MUST BE INVOLVED

Most new processes that come along claim to need top management support, but Executive S&OP is different: it needs not only support, but commitment and, more importantly, hands-on participation. Executive S&OP requires that the president (CEO, managing director, or leader of the business unit) and his or her staff participate *hands on in the monthly process*. They don’t do it alone, of course, but they’re at the heart of the process: executive decision making. There are two specific reasons for their hands-on involvement:

**1. Stewardship** – The leader of the business is entrusted with the financial prosperity of the organization. Executive S&OP facilitates the maintenance and expansion of this financial responsibility as things relative to demand and supply change. Thus leadership must be hands on to deal with, and approve, those changes and their financial consequences.

**2. Leadership** – Executive S&OP is where top management set and maintain effective supply-chain strategy, policy, budgets, goals, and risks, measuring performance against them.

Successful users of Executive S&OP agree that the logic and basics of it are very simple and straightforward – a colleague once said, “The hard stuff is easy, but the soft stuff is hard.” This refers to the ABCs of implementation:

A - Management of Change (by people)

B – Process Improvement (with data integrity)

C – Technology (computer and software)

It’s not B or C that will trip you up, it’s A: changing people’s behavior at all levels resulting in an organizational culture change. In a previous *Foresight* article, “How S&OP Changes Corporate Culture” (Mello & Stahl, 2011), John Mello and Bob Stahl surveyed people at seven companies who were present before and after a successful S&OP implementation. Table 1 summarizes their observations regarding culture change.

This culture change that effective implementation of S&OP must accomplish cannot be done to full potential without top

## Key Points

The four key steps in overcoming the "catch-22" of S&OP implementation:

- **Executive Briefing** facilitated by a sure-footed individual with executive S&OP expertise
- **Live Pilot Demonstration** of one or two S&OP families of product
- **Expansion & Replication** to other S&OP families
- **Full Financial Integration** with operations

management’s immersion in the culture-change process. It can be said that the very substantive, measurable hard benefits are the direct result and consequence of the soft (or cultural) benefits. After the change has been effected, however, top management’s time commitment is minimal – about one to two hours a month.

In a recent interview in *Foresight* (Winter 2012), Phil Dolci, CEO of Jarden Branded Consumables and a highly successful Executive S&OP user, said:

*“We spent a lot of time gathering and validating data, which was time well spent...but that challenge was nothing compared to the people side of things. ...the most difficult part was driving . . . constructive conflict . . .”*

*“The measureable benefits are easy: service levels are up, and inventory is down. For example, the two largest businesses in my portfolio today each have service levels above 99.5% with inventory that is 20% less than three years ago.”*

**Table 1. Pre- and Post-S&OP Culture**

Pre-S&OP Culture	Post-S&OP Culture
<ul style="list-style-type: none"> <li>• Lack of involvement by top management</li> <li>• Acceptance of poor data</li> <li>• Silo mentalities that inhibit inter-departmental collaboration</li> <li>• Reactive versus proactive decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Inter-functional collaboration with open trust between departments</li> <li>• Data-driven decision making</li> <li>• Higher levels of cross-functional discipline and accountability</li> <li>• Proactive approaches to demand and supply issues</li> </ul>

*“I could argue, however, that the intangible benefits are just as valuable. We have much better teamwork because of the engagement and constructive conflicts that are natural components of S&OP. This approach has extended to almost every process and function within the business . . . Moreover, I feel much more in touch with the business without micromanaging it.”*

These results are simply not possible without the full participation of top management in the change process.

## **HOW TO ADDRESS THIS CATCH-22**

Getting top management to be willing to entertain a discussion about an authentic Executive S&OP implementation is, in itself, not easy. Here’s why:

1. The organization may already be attaching the term “S&OP” to a meeting or series of meetings that take place at lower levels and do not tie to financials, strategy, and policy, creating the illusion that “we’re already doing that.”
2. Top management may not have a clear understanding of the transformational benefits that can be achieved.
3. The cross-functional, multilevel process could be incorrectly perceived as adding complexity with an increased risk of business disruption.
4. There exists a misconception that Executive S&OP is systems-dependent, and it will have to wait until after an upgrade or implementation of an ERP system with all the bells and whistles.

Faced with these impediments, folks might be tempted to proceed with a grassroots effort, as mentioned above, to initiate Executive S&OP from the bottom up. We call this the “build it and they will come” approach. This approach has a very low probability of success because (a) it does not address the cultural issues of the organization, and (b) the solution will not be owned by the leadership folks. This approach might make you “better,” but it will not make you “best” – it

won’t become “the way top management runs the place.”

Initiating a path toward implementing a transformational success with S&OP involves four steps:

**1. Executive Briefing.** This is an informational business meeting, facilitated by a sure-footed individual with Executive S&OP expertise. This can be someone from within the company – perhaps from a sister division – who has successful Executive S&OP experience, or it could be an outsider with a strong track record of achieving sound implementations. The desired outcome of this session is a commitment to a Live Parallel Pilot. The Executive Briefing brings about a *semi-informed* commitment: the top management group has some knowledge of Executive S&OP, but they haven’t experienced it – yet.

**2. Live Parallel Pilot.** This is a limited, low-risk step that takes a small number of people no more than 90 days to complete, culminating in a Live Pilot Demonstration of one or two S&OP families of product. This means actually doing Executive S&OP – the five-step process – for those families. It extracts data from the existing database, using spreadsheet software for display and analysis, so as to not incur any incremental software cost or delays.

Low risk and speed are essential. The Live Parallel Pilot is intended to demonstrate the benefits of Executive S&OP to the president and his or her staff; its goal is to obtain an *informed* commitment to go to the next step – full cut-over. This becomes a practical and low-risk path because they now know how Executive S&OP works and can see how it can benefit the company. One president, at the conclusion of the Live Parallel Pilot said, “I now have a ‘line of sight’; I can see this will benefit us a whole lot.”

**3. Expansion & Replication.** Following the Live Parallel Pilot, most executive teams feel enthused about the process and

are eager to proceed to Expansion and Replication. This brings the remaining families into Executive S&OP and typically takes between two and four months as several families are added each month. Depending on some circumstances, it may take a bit longer.

**4. Full Financial Integration.** This involves bringing the financial view into the integrated process, once all families are cut over. This step includes the generation of P&L and Balance Sheets with the S&OP operating data dealing with demand, supply, inventory, and backlog. It also provides for simulation, scenario analysis, and the measuring of risk alternatives.

### GETTING STARTED

If you are not an executive yourself, this path typically starts by identifying and gaining the leadership of what we call an *executive champion*. Depending on the circumstances, this person could be the president or someone who reports directly to the president, and has strong influence by virtue of his/her position. He or she would be a kindred spirit with regard to Executive S&OP, having enthusiasm about the potential benefits and a willingness to put some “skin in the game.” It is an added bonus if this person is also an authentically experienced S&OP veteran.

This person addresses the initial obstacles to allow the low-risk path toward implementation to be discussed at an Executive Briefing (described above). During implementation, this same person fulfills the following duties:

- Keeps executive attention focused on the initiative
- Removes impediments as they arise
- Acquires needed resources
- Supports folks doing the “heavy lifting,” designing the improved process.

### CONCLUSION

For those who choose to do so, the implementation of S&OP offers improvements and benefits second to none. Don't be fooled,

however, by the simplicity of the logic – that's the easy part. Changing the culture and behavior is what's tough. That's why top management needs to participate in the effort from the get-go.

Therein lies the catch-22 – when top management understands that success means **doing things differently**, they become uncomfortable and see risk. If that risk is not mitigated with a low-cost, low-risk, high-impact, quick-results effort, they will typically avoid the effort. If properly approached as described here, S&OP can put a company on a path to transformational improvements and benefits.

### REFERENCES

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