

## S&OP Principles: The Foundation for Success

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**PREVIEW** *Bob Stahl and Tom Wallace have written the book – indeed, many of them – on successfully implementing Sales and Operations Planning in businesses. Here they summarize key takeaways, offering organizations a checklist on the elements of proper implementation and the tactics for overcoming pushback from organizational inertia.*

**A Word about Terminology:** *The common usage of the term “Sales & Operations Planning” has broadened to include tools and techniques that operate at both the aggregate and the detailed levels of supply-chain management. In this piece, when we use “S&OP” we’re talking about the **executive** component of Sales & Operations Planning, which deals with aggregate or volume planning involving top management.*

### INTRODUCTION

S&OP continues to be one of the most prolific targets on the corner-office radar screen. That’s because it’s one of the most performance-enhancing activities an organization can undertake.

While S&OP is fundamentally a simple process, it is not easy to implement correctly. “Simple” and “easy” are very different when it comes to application, and being simple is far from easy. This column will present 10 simple principles that form the foundation for success with S&OP. We will explain why they are important, how they get complicated by their application, and how companies have effectively applied them.

### THE 10 PRINCIPLES

**1. Executive S&OP requires the hands-on participation of executive management, up to and including the leader of the business (president, CEO, COO, general manager, managing director, etc.).**

**WHY:** Because S&OP needs to occur at that level in the organization where responsibility for the bottom line of the business resides, where demand and supply come together, and where issues of strategy, policy, and risk are addressed.

**PUSHBACK:** “The president says he (or she) is just too busy and can’t afford the time.”

**IN PERSPECTIVE:** The president’s involvement in S&OP is almost never more than two hours per month, and that occurs in the executive meeting, the culminating event in the five-step S&OP process. Companies doing S&OP correctly find that their executive meeting lasts 1-2 hours, regardless of the company’s size.

### WORDS FROM THE REAL WORLD:

Years ago, before Internet meeting capabilities, getting the executive group together was a major problem due to travel schedules. Today, people on opposite sides of the globe can effectively and conveniently attend meetings through the power of the Internet. One group VP/general manager that we’ve worked with said, “The monthly executive meeting is the most highly leveraged use of my time of all the things I do each month.” If the meeting is properly designed and the leader of the business has this mind-set, attendance and participation usually do not become a problem.

**2. Executive S&OP is a decision-making process that balances demand and supply at the aggregate level, aligns operational planning with financial planning, links strategic planning with day-to-day sales and operational activities, and sets the tactical direction of the business.**

**WHY:** These are all highly important elements for running a business well. As such, S&OP fills major voids that have existed since the beginning of recorded business history.

**PUSHBACK:** “We already have meetings that address those things.”

## **S&OP PRINCIPLES**

1. Executive S&OP requires the hands-on participation of executive management, up to and including the leader of the business (president, CEO, COO, general manager, managing director, etc.).
2. Executive S&OP is a decision-making process that balances demand and supply at the aggregate level, aligns operational planning with financial planning, links strategic planning with day-to-day sales and operational activities, and sets the tactical direction of the business.
3. The Executive S&OP planning cycle is monthly, with provisions for mid-period revisions when major changes occur.
4. Executive S&OP is an aggregate planning tool. It focuses on aggregate volumes and only rarely looks at issues of mix (individual products, stock keeping units, customer orders).
5. The volume plans authorized in Executive S&OP direct the plans and schedules for mix. Therefore, tight alignment between volume plans and mix plans is essential in the near term (inside the Planning Time Fence).
6. Executive S&OP must function in multiple units of measure – to support demand, supply, finance, logistics, and so forth. There must be tight alignment between the operating plans and the financial plans through appropriate unit-of-measure conversions into currency.
7. Executive S&OP is cross-functional and collaborative. It involves, at a minimum, Sales/Marketing, Operations/Supply Chain, Product Development, Finance, and General Management.
8. Executive S&OP by its nature will trigger disagreement between various parts of the business, and thus an organization must learn how to openly welcome and resolve these differences.
9. S&OP puts a spotlight on accountability. The sales plans and operations plans in Executive S&OP represent commitments by Sales/Marketing and by Operations/Supply Chain, respectively, to achieve those plans.
10. Product groupings (families) in Executive S&OP should be based on how the marketplace views the company's products. Other processes exist within S&OP to convert those market-facing families into meaningful groupings for Operations and Supply Chain.

**IN PERSPECTIVE:** S&OP is an intensely collaborative, cross-functional process. With S&OP, decisions are not made in a vacuum from meeting to meeting, but rather occur within an organic, integrated process culminating in the executive meeting. It is important that S&OP does not become an additional set of meetings, but rather integrates and replaces some preexisting meetings.

**WORDS FROM THE REAL WORLD:**

Roger Lindgren, president of steel manufacturer V&M Star, once said, “We now have our entire management team talking every month about what might happen 6, 12, 18 months out into the future and validating or modifying our plans. Why didn’t we always do it this way?” Roger came upon S&OP very late in his career but became a true advocate.

**3. The Executive S&OP planning cycle is monthly, with provisions for mid-period revisions when major changes occur.**

**WHY:** A monthly planning cycle matches the rhythm of the business, in that each month the books are closed and the P&L statements and balance sheets are generated.

**PUSHBACK:** “Each quarter we take a look at how we’re doing compared to the business plan. That’s often enough.”

**IN PERSPECTIVE:** Almost all businesses are too fast paced to allow for quarterly planning; updating operational plans must occur more frequently than that. We’ve only seen one business in the last four decades that might get by with quarterly planning, and they made submarines.

**WORDS FROM THE REAL WORLD:** One company embraced the tenets of *lean* before they considered S&OP. Once they got up the learning curve with S&OP, they found that the five-step cycle very much complemented the mind-set of lean – it emphasized a *monthly rhythm* or drumbeat by which executive planning was accomplished, much like the lean disciplines. For this and a number of other reasons, they found that S&OP and lean worked best when they work together – both to a rhythm.

**4. Executive S&OP is an aggregate planning tool. It focuses on aggregate volumes and only rarely looks at issues of mix (individual products, stockkeeping units, customer orders).**

**WHY:** Executive management rarely has the time or the desire to deal with large amounts of detail, nor should it be necessary.

**PUSHBACK:** “Nuts. The devil is in the details.”

**IN PERSPECTIVE:** The volume plans must be valid; this enables the people on the firing line to cope much better with the inevitable mix dislocations that will occur.

**WORDS FROM THE REAL WORLD:**

S&OP proactively sets the conditions for success so that the routine things can be done routinely. Keep in mind that all problems show up in the *mix space* (detail, short term), even if they could have been avoided earlier. This creates the perception that all of the solutions are in the detail. For example, if the volume of orders is greater than the ability to supply, no amount of work in the short-term detailed mix space will help put 10 pounds in a 5-pound bag. Taking orders and shipping product to customers is one of those routine things that need to be done routinely. S&OP makes that possible.

**5. The volume plans authorized in Executive S&OP direct the plans and schedules for mix. Therefore, tight alignment between volume plans and mix plans is essential in the near term (inside the Planning Time Fence)**

**WHY:** Without a strong linkage between S&OP and the downstream schedules, S&OP will operate in a vacuum. It will have little or no effect on the real world.

**PUSHBACK:** “In our system, creating a linkage like that is virtually impossible.”

**IN PERSPECTIVE:** The roles of the (item-level) forecasters and master schedulers are expanded to maintain parity between the aggregate of their plans and those in S&OP, as authorized by top management. If a company’s ERP system won’t support that, this

linkage can almost always be easily obtained via spreadsheets.

**WORDS FROM THE REAL WORLD:** Each month there are two reconciliations that are required by S&OP: demand and supply. If the sum of the item-level forecast inside the Planning Time Fence (PTF) does not reconcile favorably with the volume forecast within a reasonable tolerance, resolution must be taken. Likewise, if the sum of the item-level supply replenishment schedules inside the PTF do not reconcile, action must be taken. Both of these require simple arithmetic and, if necessary, human-intensive actions. Not to do so is a disconnect that must be avoided. This is not a technological challenge.

**6. Executive S&OP must function in multiple units of measure – demand, supply, finance, logistics, and so forth. There must be tight alignment between the operating plans and the financial plans through appropriate unit-of-measure conversions into currency.**

**WHY:** This is necessary in order to manage the business internally with one and only one set of numbers.

**PUSHBACK:** “We can’t run the business with only one set of numbers. Our policy is to under-promise and over-deliver, so the numbers that go to Corporate and Wall Street each quarter are different from those we operate to.”

**IN PERSPECTIVE:** Please note the word *internally* a few lines up. This means internally within the company. What you tell the corporate office or the Street is a different matter.

**WORDS FROM THE REAL WORLD:** Getting everyone on the same page is one of the things that S&OP accomplishes, thereby aligning energy toward common goals. With regard to financial plans, Adam Szczepanski, past CFO of V&M Star, put it this way: “The financial plan in Executive S&OP is ‘the plan’ . . . the *basis* for the [rolling] business plan.” Notice the word “basis” in Adam’s statement above. Having one set of numbers internally that everyone has contributed to with

no hedges allows the CEO/CFO to hedge however they’d like to satisfy corporate or Wall Street rule of – “plus anything minus nothing.” If everyone hedges along the way, no one knows what the real plan is, causing confusion and second-guessing throughout – not good.

**7. Executive S&OP is cross-functional and collaborative. It involves, at a minimum, Sales/Marketing, Operations/Supply Chain, Product Development, Finance, and General Management.**

**WHY:** One of S&OP’s key roles is to help people raise potential problems and conflicts in a proactive manner before they become crises. Nearly all business problems are most effectively solved cross-functionally, not in a silo.

**PUSHBACK:** “Many of our department heads have been here a long time; they’re not about to change.”

**IN PERSPECTIVE:** Making S&OP work in a company is largely a matter of managing change. It’s not in the data; it’s not in the software; it’s not in the process charts – it’s in the people.

**WORDS FROM THE REAL WORLD:** An organization chart has the black lines running north and south. Most good decisions, however, are made cross-functionally – east and west. We’ve heard this called “managing the white space.” S&OP defines the cross-functional, collaborative relationships so this white space can be managed; to do so will very often require a change in the corporate culture. Because of this, Lora Cecere, a researcher in the supply-chain space, finds that success with S&OP is dependent on three things: 60% behavior change, 30% process definition and improvement, and 10% technology.

**8. Executive S&OP by its nature will trigger disagreement between various parts of the business, and thus an organization must learn how to openly welcome and resolve these differences.**

**WHY:** Left unresolved, conflicts – for example, between the commercial side of

the business and the operational side – can become serious and destroy teamwork and collaboration.

**PUSHBACK:** “In our company, we try to get along with each other and not to argue.”

**IN PERSPECTIVE:** Sweeping conflict under the rug can be counterproductive. A much better approach is to learn how to address conflicts and to resolve them constructively and harmoniously. This is one aspect of the change-management task that confronts companies implementing S&OP.

**WORDS FROM THE REAL WORLD:**

Disagreement has two parts: the issue and the emotion behind the issue. Lasting conflict resolution must deal with both parts of the disagreement. Phil Dolci, a consumer goods CEO, said, “I could argue that the intangible benefits are just as valuable [as the hard benefits]. 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...” (For more on this subject, see Stahl and Levine, “Executive S&OP and the Cycle of Resolution,” in the Summer 2011 issue of *Foresight*.)

Companies that succeed with S&OP derive positive, not negative, energy from disagreement. They know how to disagree without being disagreeable, recognizing that the best decision making comes from reconciling different points of view.

**9. S&OP puts a spotlight on accountability. The sales plans and operations plans in Executive S&OP represent commitments by Sales/Marketing and by Operations/Supply Chain, respectively, to achieve those plans.**

**WHY:** One of the fundamentals in management is that organizations developing the plans should be accountable for their execution. That certainly applies to S&OP.

**PUSHBACK:** “Our corporate culture has been described as ‘touchy-feely.’ Accountability issues tend to be deemphasized.”

**IN PERSPECTIVE:** S&OP puts a spotlight on accountability. An integral part of the executive meeting in S&OP is a review of actual performance relative to plan: for sales, production, inventories, and customer order backlogs. This means that once per month the leader of the business (CEO, COO, president, managing director, general manager) should be looking at data on performance to plan and, where appropriate, asking the tough questions.

**WORDS FROM THE REAL WORLD:** It has been said that inventory and customer service cannot be managed in and of themselves, but rather are the direct result and consequence of properly managing demand and supply as a matched set. In other words, you can’t hold individual people accountable for inventory and/or customer service ... but if demand and supply are planned to be in balance to your liking, inventory and customer service will be attained through proper execution to plan. This is why the same people that put the plans together for demand and supply must be held accountable for their execution. This higher, more “crisp” level of accountability sometimes represents yet another culture change for an organization.

**10. Product groupings (families) in Executive S&OP should be based on how the marketplace views the company’s products. Other processes exist within S&OP to convert those market-facing families into meaningful groupings for Operations and Supply Chain.**

**WHY:** This enables correlation with leading market indicators, expanding the future view beyond statistical models or customer inputs.

**PUSHBACK:** “We can’t do that. Our families must be manufacturing oriented, because our production people need to know what they’re going to make.”

**IN PERSPECTIVE:** Where supply resources do not align directly with the market-facing families, a conversion process should be employed to “translate” the market-

facing demand plans into requirements for resources. The process known as *resource requirements planning* (or *rough-cut requirements planning*) does this very nicely.

#### WORDS FROM THE REAL WORLD:

Sales/Marketing and Operations see the world through different lenses. This is what we call the “family feud” (See Stahl and Kerber, “Resolving a Family Feud,” in the Spring 2010 issue of *Foresight*). Solving this problem is fundamental to S&OP success and results in cross-functional communication that makes S&OP work. Brad McCollum of Jarden Branded Consumables put it this way: “The sales and marketing forecast is now driving actions on the supply (inside and outside) and financial ends of the business, running alternative scenarios, and anticipating problems before they happen. While the hard benefits are clearly present and on the increase, the soft benefits of moving the energy of employees into alignment are what make things really click.”



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## CONCLUSIONS

Since its beginnings over 30 years ago, S&OP has grown substantially in capabilities. Today, we see it supporting:

- Organizations doing business globally, not only selling but also producing around the world;
- Businesses that don’t produce physical product, such as engineering organizations, distributors, retailers, companies outsourcing all their manufacturing, and so forth;
- The creation of totally new businesses within an organization already using Executive S&OP for its established businesses; and
- Company A’s acquisition of Company B, with S&OP serving as the glue that helps to join the two organizations together. (Wallace, 2011)

Yes, S&OP has come a long way since its birth. But its fundamentals – the 10 principles we just reviewed – have remained the same. These principles form the core of what enables a highly effective S&OP process to generate substantial benefits. People in roles such as Executive S&OP Champion, S&OP Process Owner, and S&OP Project Team/Design Team Leader may want to keep these principles very visible, possibly hanging on the walls of their offices.

Build your S&OP processes around these principles, keeping them in the front of your mind as you implement and operate S&OP. By doing this, your company’s odds for success will be very high indeed.

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