



Keep Sales and Operations Planning Simple

Research shows that best-performing companies create aggregate plans and review them monthly

by Colin Snow | 1/17/2007 | Article ID: V07-05 | Article Type: VentanaView | © 2007 Ventana Research

Summary

Analyst firms, consultants and software providers often describe sales and operations planning (S&OP) in complex terms. But Ventana Research has found that high-performing companies all practice S&OP with the same simplicity: They create summaries and aggregate plans, and executives review them in meetings that occur each month. This executive S&OP meeting not only reviews demand and supply trade-off scenarios but also tracks the progress of strategic initiatives, assigns action items and reviews S&OP process performance.

View

S&OP is drawing attention in the press these days, but analyst firms, consultants and software providers continue to confuse the market by describing it as difficult, using terms like “continuous S&OP” and “real-time S&OP.” These terms only complicate what should be a straightforward monthly planning process. In fact, sales and operations planning is a set of planning and decision-making processes that not only balance product supply and demand but also link business goals with operational and financial plans. The objective of S&OP is to enable executive decision-makers to reach consensus on a single operating plan that allocates critical resources to reach corporate performance targets.

At its heart, S&OP is an aggregated planning process. In a recent research study entitled “Sales and Operations Planning,” Ventana Research found that companies reporting the largest gains in revenue, margins, inventory turns and customer satisfaction all plan the same way. In general, they practice S&OP at the strategic level – that is to say, not as a tactical, day-to-day or week-to-week planning activity. Rather, it is an aggregated planning activity that includes all lines of business or brands and all factories or regional operational facilities, across product lines. The top-performing companies reported that they all follow these steps each month:

1. New product introduction planning
2. Consensus demand planning
3. Supply and manufacturing planning
4. Formal demand, supply and capacity reviews
5. Financial plan reconciliation
6. Formal executive S&OP meetings.

Our study found the critical success factor for S&OP is the formal executive meeting. In the top-performing companies, these meetings review demand and supply trade-off scenarios, track the progress of strategic initiatives, include balanced scorecards or performance reviews, assign action items and set follow-up assessments.

Our study also found that even simple improvements, such as having plan-vs.-actual reports as part of the top-level S&OP reporting package, can improve performance. Only about half of companies (53 percent) currently have plan-vs.-actual reports, but 90 percent of those that reported the largest gains in gross margins use them.

We also found that companies that create plans on a monthly basis perform better than those that create plans once a quarter or once a year. Those that create plans that set horizons of 18 months or longer achieve larger gains than those with shorter horizons such as 12 months or six months.

Assessment

Ventana Research recommends that companies mature their S&OP process. To do this, use S&OP to align operations with long-term corporate strategic objectives. Conduct regular, formal executive review meetings that look at actual-vs.-forecast targets and review demand and supply scenarios. Set plans to cover 18 months. Include in them all lines of business or brands and all factories or regional operational facilities, across product lines. We also recommend that you evaluate the effectiveness of the overall S&OP process itself. Key measurements for this include meeting preparedness, attendance, action plan follow-up, efficiency of review meetings and S&OP process improvements. Commitment to these steps should put you in the same class as the top performers and increase your likelihood of success.

About Ventana Research

Ventana Research is the leading Performance Management research and advisory services firm. By providing expert insight and detailed guidance, Ventana Research helps clients operate their companies more efficiently and effectively. These business improvements are delivered through a top-down approach that connects people, process, information and technology. What makes Ventana Research different from other analyst firms is a focus on Performance Management for finance, operations and IT. This focus, plus research as a foundation and reach into a community of over two million corporate executives through extensive media partnerships, allows Ventana Research to deliver a high-value, low-risk method for achieving optimal business performance. Learn how Ventana Research workshops, assessments and advisory services can impact your bottom line, visit www.ventanaresearch.com.

Ventana Research Corporate Headquarters

1900 S. Norfolk Street, Suite 280
San Mateo, CA 94403

info@ventanaresearch.com
(650) 931-0880

Ventana Research Europe

2nd floor, Berkeley Square House
Berkeley Square, W1J 6BD London

europe@ventanaresearch.com
Phone: +44 (0) 20 7887 6012