



S&OP – A New Approach to the Single Enterprise View

S&OP integrates fragmented plans to improve operational performance

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Summary

Departmental specialization has led analysts to create multiple plans that offer differing assumptions and perspectives and, because they are found in various spreadsheets, are difficult to integrate and reconcile. Companies looking to align strategic initiatives and to coordinate plans can use sales and operations planning (S&OP) to enable operational performance planning at both enterprise and departmental levels.

View

Most organizations use spreadsheets to create operational plans. When individual departments create them, each uses its own set of business assumptions and market perspectives. For example, sales may develop its revenue forecast based on the current pipeline; finance creates an operating plan based on current-year budgets; marketing creates product forecasts based on its demand-shaping activities; and manufacturing's basis is its supply outlook. Additionally, each offers a different perspective of the forecast. Sales revenue forecasts are by regions and customer. Marketing forecasts are in unit sales by product lines. Financial forecasts are in currency by internal organization. Manufacturing forecasts are in units by SKU and part number. Thus, it's hardly a surprise that corporate management and those who report to it have trouble in reconciling these different plans, assumptions and perspectives to produce a single view of the enterprise.

As this summary indicates, part of the problem lies with departmental fragmentation. Specialization of the respective functions within an organization has created independent islands. Each has separate planning processes, metrics and reporting that are not clearly and consistently linked to an overall organizational strategy and set of objectives. In fact, functional groups often turn out to have incompatible goals, which create conflict that results in strained relationships and unmet customer expectations. The result is operational ineffectiveness and a high incidence of problems: mistrust of plans built by others, unmanaged planning changes, flawed communications and a lack of consensus across functions about what to do when problems arise.

On a broader scale, many organizations have no integrated planning framework. Without a planning framework, they often experience these hindrances:

- difficulties reconciling functional views of the business
- limited understanding of the impact that one functional decision has on others
- delayed decision-making due to slow access to information
- unreliable forecasts to the financial and customer communities
- assumptions and insights that go unquestioned and are not updated and reviewed during budget creation
- no single financial view that shows top management all information and assumptions about revenue, margins and inventory.

Ventana Research contends that to be effective, the planning process must span the enterprise and cross functions. Yet it is not easy to integrate plans across sales pipelines, demand forecasts, revenue expectations and products. To assimilate all available external and internal information and plan with it is one of the most difficult challenges facing operational management. However, organizations can change existing supply chain-centric sales and operations planning (S&OP) and provide a framework within which to integrate and improve business planning. Senior executives will have to determine how to identify these management and process challenges and address them to leave behind myopic planning.

Because planning is the link between strategy and execution, improving S&OP processes will lead to enhanced organizational performance. This is a timely topic because the information technology (IT) to support enterprise-wide S&OP has improved in recent years. Product choices are expanding, and current vendor offerings present richly featured, mature solutions. The best products facilitate building a repeatable process for creating plans and provide ad-hoc, "what if" scenario planning; they will empower front-line decision-makers to respond immediately to events and measure the progress of their and other responses toward mid- and long-term performance objectives.

Assessment

Ventana Research believes that when S&OP is part of an overall performance management process, it is effective in aligning people and processes and tying operations to objectives. We also believe that when S&OP is done right and deployed using the right technology it will synchronize the activities and resources of individual departments and enable them to respond to changing customer and market demand. But before you adopt any new technology, evaluate your current supply chain, financial and BI systems to see how they might be more broadly applicable. If you do invest in one or more new systems, ensure that you deploy both system and processes in ways that can be used across different levels of management and by all supporting analysts. Make sure you invest in applications that support both a single enterprise view and departmental views as needed. Above all, do not propagate approaches that increase the opportunity for errors of the kind that are so commonly found in individual spreadsheet-based planning tools.

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