



LEAN S&OP (SALES & OPERATIONS PLANNING)

S&OP IS GAINING ATTENTION AMONG ORGANIZATIONS EAGER TO IMPLEMENT POWERFUL TACTICAL MANAGEMENT PROCESSES TO HELP THEM SUCCEED WHILE NAVIGATING A RAPIDLY CHANGING BUSINESS LANDSCAPE.

Short for Sales and Operations Planning, S&OP is an integrated business management process that aligns all facets of an organization to their key market goals, synchronizing them and allowing the organization to react with agility to changes in the market. Through S&OP, the executive/leadership team achieves continuous focus and alignment among all functions of the organization, increasing flexibility and responsiveness.

- S&OP enables organizations to agree on and plan for annual monthly sales or goals, and create the operations and distribution channels to meet those goals.
- S&OP works by bringing sales, marketing, operations and finance teams together to agree on a final plan governing all aspects of operations. A well-executed
- S&OP process integrates key aspects of Lean management solutions to achieve full top-to-bottom integration through every level of the organization.

The theory of good S&OP is well known but is often not effectively implemented, with many companies incorporating some elements of the process but not fully integrating them to optimize the performance of the organization as a whole. When practiced well, Lean S&OP combines the Lean principle of waste reduction with S&OP's cross-functional decision-making process to help businesses navigate through the volatility in the business cycle. Through this integrated business management process, the executive/leadership team can implement improvements that will lead to sustained alignment and optimization.

According to a survey in the Chief Supply Chain Officer Report, more than 80 percent of respondents in consumer packaged goods, technology, and chemical industries, and over 70 percent of respondents in industrial, healthcare, pharmaceuticals, distribution and retail, are either very concerned or somewhat concerned about responsiveness to demand volatility. Through S&OP, they can improve their ability to react to demand volatility, ultimately maximizing market share and profitability in competitive markets.

“When organizations do not have effective S&OP, the result can be seen in chaotic operations and low agility to cope with changing market requirements,” says James Ryan, Principal at Four Principles. “We see companies without S&OP unable to meet the challenges of today’s rapid-fire business environment.”

An effective S&OP system creates and sustains a demand-driven response across the supply chain, taking into account internal and external resources and the capabilities of trading and manufacturing partners. Given the fact that modern supply chains are continually extending, outsourcing, and incorporating multiple partners, this aspect of S&OP is increasingly critical. In addition, tighter integration between the supply chain and sales, marketing, and product development leads to more successful product launches.

The functional capabilities and mechanics of the S&OP process have improved exponentially in recent years. With today’s advanced technologies and algorithms, planners have access to more data points than ever before. This means that forecasts have become more detailed and frequent, but with incomplete S&OP implementation they have not necessarily become more accurate.

With S&OP, cross-functional teams pool knowledge and experience to maximize the opportunities and mitigate risk. This helps the organization move away from responding reactively to forecasts and instead more accurately and creatively analyze data and draw conclusions about risks and opportunities for the future, an approach known as the outside-in mindset. According to a recent report by Gartner, as supply-chain planning matures, this outside-in mindset will be a key component in enterprise success. In fact, forecast accuracy is the primary measure of effectiveness of an S&OP process.

However, the implementation of a successful Lean S&OP process requires knowledge of best practices and roll-out experience and is best done with professional guidance. A recent report by the American Production and Inventory Control Society (APICS) surveyed close to 15,000 supply chain and operations management professionals and found that two out of three participants reported using S&OP at their current organizations. However, just 46 percent reported having significant success and 36 percent indicated they have stalled or that progress is slow.

All respondents who use S&OP said they see some benefits from the process and know they can do more, and are currently evaluating ways to increase the value of those efforts. Four Principles assists organizations in building effective S&OP practices according to Lean principles to avoid such pitfalls. According to the APICS report, the first half year of S&OP is a critical period, and organizations that demonstrate leadership commitment during this “golden six months,” are more likely to succeed.

ORGANIZATIONS USE LEAN S&OP TO DOMINATE MARKETS

The results of successful S&OP implementation include higher gross margins, increased working capital, higher profits, and growth in market share. By more profitably meeting revenue projections, companies also prevent negative attention from shareholders and the media. An effective S&OP process provides an operation with real agility, allowing it to swiftly capitalize on new opportunities and make corrections when needed.

According to Hans van Alebeek, Executive Vice President Global Operations & Technology at Nike, “Companies that invest ahead of the curve in the right infrastructure, capabilities and technologies will be in a position to win in 2020 and beyond.” At Nike, S&OP has enabled the company to develop a complex global supply chain focused on growth, agility and sustainability that has become “part of the company DNA,” as Alebeek puts it. S&OP and Demand-Driven Sales or DDS have enabled the company to “deliver the right product in the right place at the right time, while in addition enabling the right experience.”

An additional benefit is better estimation of personnel and employment needs leading to better talent management. Stronger scenario and probability-modeling capabilities can be incorporated to increase resiliency and improve decision-making.

At pharmaceutical giant Eli Lilly, S&OP has greatly strengthened the company’s product development pipeline, helping the company launch 10 new products in three years, which is five times the industry average. Thanks to its S&OP processes, Eli Lilly has maintained customer service satisfaction rating of close to 98 percent while reducing inventory by \$500 million despite a rapidly growing portfolio of new drugs and other products. The company used S&OP as a strategic planning tool when making decisions about what to do when product patents expire, including whether to outsource them to third-party suppliers.

S&OP is a key component for any enterprise looking to streamline and enhance Route-to-Market (RTM), the pipeline of goods from supplier to consumer and the corresponding flow of payments from consumer to supplier. To cope with the complexities of today's marketplace, it's essential to have a multi-channel RTM that identifies the ideal customer then presents the customer with the right products, distributing them in a timely fashion through the best point of sale. More specifically, Lean S&OP reduces the chance of stock outages or, conversely, being stuck with outdated or obsolete inventory, while improving fill rates and customer service metrics.

One such success story is Coca-Cola Midi (CCM), a regional manufacturing division of Coca-Cola that produces soft drink concentrates and juice beverage bases for markets in Europe, Asia, and Africa, managing 79,000 tons of product representing hundreds of millions of sales dollars. CCM leaders consider S&OP as essential for planning, manufacturing, and coordination of their complex and extensive supply chain, helping streamline the flow of product from their many suppliers and manufacturing partners to the numerous canning and bottling locations that use their product. S&OP facilitates communications across the company and among suppliers, partners, and customers resulting in continuous improvements to customer service and inventory management, reduction of obsolete products, and reduced freight costs.

A recent report by Gartner notes that as supply chain environments evolve, companies must assess the best type of planning environment for operational needs and the ideal mix of planning capabilities necessary to support that environment.

Four Principles helps organizations assess what type and level of planning and decision-making they are looking to support now and in the future. Some enterprises may be more focused on short-term response planning while others are more interested in longer-term configuration planning.

Traditional forecasting techniques do not provide sufficient detail and insight to allow for full optimization at all levels. Traditional forecasting methods are also too reactive and backward-looking for today's markets, which require companies to keep up with rapid changes in supply chain and customer demand. Only through S&OP's sum-of-detail forecasting and optimization can companies maximize market share and revenues.

Four Principles works with clients to develop an integrated business management process to integrate Lean S&OP into all aspects of an enterprise. S&OP is not a one-size-fits-all solution; each company determines its own S&OP needs and sets the meetings, forums and intervals that will take place to develop and follow up on that plan.

“We find that S&OP is required at almost every organization that we work with,” says Ahmed Fahmy, Senior Manager at Four Principles. *“More mature multinational companies know that S&OP in helping with forecasting, planning and alignment and now smaller companies are discovering the importance of S&OP as well. Demand is increasing around the region for consultation and leadership training around Lean S&OP.”*

As supply chain environments evolve, companies must assess the best type of planning environment for operational needs and the ideal mix of planning capabilities necessary to support that environment. For example, one company may need more foundational tools to support planning visibility and decision alignment, while another may need more sophisticated differentiation capabilities to provide higher-quality analytics.

“At Four Principles, we have the capability to help organizations determine which types of technology are required now and, in the future,” says Ernest Nedic, Director, Kaizen Lab at Four Principles.

Thorough and continual follow-through is an important aspect of S&OP, as organizational planning must shift in response to various factors such as growth of the organization, market size, and customer needs. Four Principles’ Lean S&OP toolkit is designed to grow and change with the business environment. *“Lean S&OP gets right at the heart of operations because it’s where disparate functional areas come together and team members achieve consensus,”* says Nedic. *“When you do this right, you fully optimize company operations.”*



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