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**SALES & OPERATIONAL PLANNING:
THE 10 ELEMENTS THAT MAKE
OR BREAK YOUR PROJECT'S SUCCESS**

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EXECUTIVE OVERVIEW

Sales & Operations Planning (S&OP) has become a popular decision-making process providing numerous, demonstrable benefits like:

- Increased profit margins
- Better inventory management
- More accurate sales forecasts
- Improved organizational transparency

At the outset of an S&OP project, executives balance supply and demand to create a singular production and revenue goal that aligns with the company's business and financial goals. As the plan moves from strategic ideation to tactical implementation, these numbers need to be held firm, and only change based on the rules agreed to at the outset of the S&OP project.

That's where the challenge comes in. As Mike Tyson says, "Everyone has a plan until they get punched in the mouth."

Companies must embrace a new discipline to achieve operational excellence, and not just react to unexpected changes in sales or production. You need to create total company commitment and confidence in the S&OP outcomes.

As a firm who has been helping companies embrace business transformation for years, we've put together this guide to help guide your S&OP project towards success.

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EXECUTIVE COMMITMENT TO AN S&OP CULTURE

In traditional organizations, each department head is responsible for achieving their own Key Performance Indicators (KPIs). A Sales Executive is usually celebrated and highly-compensated when the team crushes their goals. Never mind that manufacturing can't meet demands and customers are upset. From manufacturing's perspective, sales never should have been allowed to oversell capacity. There's plenty of blame and finger-pointing to go around.

Company executives must wholeheartedly embrace the S&OP philosophy, locking arms across departments, across the organization, to create a unified front. The organization wins or loses together. This team collectively makes decisions about how to adjust to changing marketing conditions or unexpected customer demands. They fight for the best interest of the company, and problem solve together. Once a decision is made, they all work toward that one goal.

2 THE RIGHT S&OP LEADERSHIP TRIO

Successful S&OP projects are typically led by a powerful product trio - the S&OP Champion, the Project Lead and an external S&OP Consultant.

S&OP CHAMPION

One executive must step up to own the S&OP project. The project champion must be someone within the organization who is well-respected and has authority.

This project champion must have deep knowledge of the business and industry; be sensitive to cross-departmental concerns; and have a strong S&OP background. The S&OP champion works in lockstep with the S&OP Project Leader (Process Owner), providing mentorship and guidance throughout the process.

S&OP PROJECT LEADER

The S&OP Project Leader is typically also a senior business leader within the organization. This person is responsible for the day-to-day management of S&OP project. The Project Leader:

- Chairs the monthly S&OP executive review meetings
- Participates in sales, production and financial planning meetings
- Creates consensus around the development and enforcement of S&OP business rules
- Manages ownership of key deliverables / maintaining the project plan
- Drives continuous improvement

S&OP EXTERNAL CONSULTANT

An outside S&OP consultant (like MCA Connect) can be an invaluable source of support because they can act as an impartial observer. The role of the external consultant is to:

- Help the team understand S&OP best practices
- Provide guidance to the leadership team
- Find common ground among stakeholders
- Recommend additional resources and solutions



3 MAKING THE S&OP PROJECT A PRIORITY

As mentioned earlier, an S&OP project requires total organizational alignment, a mindset of cooperation and collaboration toward shared goals. This is a major cultural shift for many organizations. Change doesn't come easily. Employees can become entrenched in their roles, and the way things were done, and question why changes are even needed, when things have run just fine for years. Strong change management practices can help employees understand and embrace the changes.

Additionally, achieving operational excellence requires a significant amount of work! Coordinating demand plans, sales forecasts, production plans, financial plans, etc. to create one master S&OP plan and master production schedule is not a simple task. You'll need plenty of time for back-and-forth discussions and to run what-if scenarios until you achieve consensus.

And the project is never done... S&OP becomes your company's new method of operations.

The S&OP project must be a top priority. Executives and employees must have time allocated to incorporate project tasks into their job roles. While there's never a perfect time to take on a major project, you definitely don't want to start an S&OP project when you have scattered focus.

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ROLE-BASED REPORTING

The top goal of S&OP is to have the entire organization unified in purpose and direction. But different departments need to see source information presented in ways that support their role, usually different than what's needed by the originating department.

For example, sales may only want to see monthly revenues per product line or per account. But for master planning, production and procurement need the sales data broken down into weekly buckets, and work with units at the item level per production site.

Finance then wants to see how the sales will be invoiced to build out their cash flow productions. They also want to see production raw materials costed regionally and aggregated into quarterly buckets by product family.

The final view presented to the executive team may be entirely void of product or unit level detail, with regional and total company plans rolled-up and summarized, with the capability to drill down where required.

Part of the S&OP setup process is gathering what information each department requires, and how often that information needs to be updated.

5 BRAVELY NOT GAMING THE NUMBERS



In world-class organizations, the Master Production Schedule (MPS) is the operational heartbeat of the organization. All the work that goes into the S&OP process is designed to create a stable and achievable MPS. What-if scenarios and upside/downside planning are part of the S&OP strategic planning process.

Downstream, in S&OP implementation, temptation can creep in to artificially inflate demand numbers, which then creates excess inventory, which squeezes profit margins, and subverts the whole process. Organizations cannot allow numbers manipulation to incur. Changes must be made at the executive level, following the agreed upon rules.

Sticking to the plan builds confidence and maintains process integrity.

6 ENFORCING THE RULES

Many executives have strong personalities, some that may be difficult to manage. A critical strategy for maintaining control is to consistently enforce the S&OP rules – without exception.

That means, first and foremost, that the S&OP team must establish and agree to clear ground rules, especially around thresholds that will disrupt the MPS or require mid-cycle plan changes. The team will need to consider what happens when the organization experiences:

- Significant errors
- Large changes in demand
- Major supply disruptions

These events will impact operations and must be managed.

From an S&OP perspective, the key decision is when the organization will: 1) update the impacted plans immediately, during the current cycle; or 2) capture, update and address these events in the next S&OP cycle.

Non-scheduled changes to the MSP should be rare. You'll want the threshold to be high enough that cycle disruptions don't happen routinely. Every time it happens, process discipline erodes and the organization drifts back toward the chaos that S&OP is intended to prevent.

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SIMPLIFYING COMPLEXITY AND DETAIL



A common temptation is to over-engineer the S&OP process. Too many details quickly turn into overwhelm. Three tips to simplify your plan are to:

1. Pick the most significant 8-12 KPI's that are aligned to the organizational core competencies and consistently track them.
2. Make organizational performance transparent so everyone understands their contribution and can take the proper corrective action to improve when required.
3. Use fewer words, and more visuals. A simple RED-YELLOW-GREEN rating is a simple way to communicate status.

Challenge any plan element that is either overly complex or unnecessarily detailed. Handle non-standard "one-off" business conditions separately. Your goal is for stakeholders to be able to clearly see the big picture and take appropriate action. Details can be managed at a lower level.



DOCUMENT WHY AND HOW

Create a perpetually evolving S&OP playbook that captures:

- Your current organizational environment and situation
- Your desired future state
- The KPIs that will guide your decisions
- Current business conditions (competition, economy)
- S&OP decisions and underlying assumptions
- S&OP business rules / processes and underlying assumptions

The S&OP project team makes the best decisions they can with the information they have at that moment in time. As important as it is to document your decisions, it's equally important to capture your reasoning process. Down the road, stakeholders can look back and understand the context and rationale for decisions. As those conditions change, new decisions can be made.

Over time, you'll want to learn from previous cycle mistakes in order to not repeat them. To continually improve, you'll want to create a mechanism to capture the institutional knowledge and assumptions from every participating stakeholder.

The business rules that will ultimately be included in the playbook will guide the ERP configuration, process standardization, and rules of engagement. The rules ensure consistency in plan development and standardize how business trade-offs and conflicting objectives are resolved.

Share the assumptions and business rules openly, so stakeholders can understand the context of decisions or rationale for decisions when revisited several cycles later. Highlight any changes to business rules to inform the organization and to measure the anticipated improvements and prepare for unanticipated negative impacts.

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USE RANGES, NOT ONE NUMBER

A basic S&OP objective is to collaborate and agree upon a one number plan. Every person in the organization aligns toward the achievement of that sales and production goal.

While that goal is worthwhile, business is fluid and conditions change along the way. The goal of S&OP is not to hold stubbornly and steadfastly to that number, but instead to create a steady, stable production environment, while mitigating risk and evaluating new opportunities.

To derive optimal value from the S&OP decision-making process, the team needs to consider a range of outcomes from worst case to best case. The one number plan is simply the most likely outcome. That's why S&OP isn't a one-and-done plan. Regularly recurring meetings infuse new perspectives and real-life information, which the team uses to adjust the S&OP plan and Master Production Schedule. This is how S&OP can truly be used to drive operational excellence.

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CONTINUAL IMPROVEMENT

One criticism of S&OP is that after a few cycles, when you are always working toward the 'one number' the results become a self-fulfilling prophecy. The discipline and routine of S&OP should liberate your organization, not hinder growth by enforcing adherence to stringent process constraints.

Capture those unconstrained demands, upside demands, and new business opportunities in each cycle. Use the power of S&OP as the catalyst to identify and communicate these potential opportunities. Strategize with stakeholders on how to capitalize on these opportunities in future cycles.



SUMMARY

The S&OP process has immense, tangible benefits by creating discipline around operational excellence. The challenge of implementing S&OP are that many organizations:

- Have never ran an S&OP project.
- Operate in silos by business function.
- Don't know how to manage without excessive inventory buffers
- Struggle to find the optimal balance between conflicting goals.

An experienced consulting team like MCA Connect can accelerate your S&OP initiative by reducing internal friction, supporting the cultural shift required for a successful S&OP implementation.

At MCA Connect, we follow a process of assessment to determine S&OP readiness, provide best practices education, assist the client in establishing the required process ownership, mentor the S&OP process creation/refinement and operating rhythm including assumptions package, work alongside change management to break down internal barriers, and remain engaged through the first completed S&OP cycle.

If you'd like to learn more, please reach out!

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