

Title: S&OP: The Common Mistakes
What are some of the pitfalls in managing a successful S&OP?

Oliver Wight introduced S&OP back in the 80's and it caused nothing less than a massive shake up in the supply chain/logistics industry.

Company executives suddenly became aware of logistics as means to significantly improve the bottom line if they were willing to invest in trained professionals and new technology. This resulted in tremendous recognition and the rise in prominence of supply chain/logistics profession.

In the 20 – 30 years since, S&OP has delivered value but has often been constrained and limited as an operational function. In recent times there have been added complexities layered on to the supply chain such as globalization, technological advances and increased market volatility.

It is therefore worth taking a fresh look at the S&OP and how to avoid the pitfalls when implementing and managing this very important management function.

1. Making sure that all relevant stakeholders understand S&OP.

S&OP processes are most effective when owned by the Profit Centre and Loss Managers as this role has the clearest objectivity and insight as to the connection between commercial and operational objectives. However, according to Supply Chain Insights LLC Supply Chain Planning Benchmarking (Feb – May 2015) only 48% of P&L owners actually understand the basics of the S&OP process. In addition, it has been argued that an S&OP cannot be successful unless it is sponsored and given full support by a senior executive. This same survey found that only 65% of functional vice presidents and 65% of Chief Supply Chain Officers understood the basic S&OP function with the bulk of the burden for running this process belonging to the direct supervisors of whom 90% showed a good proficiency. Clearly, this points to an urgent need for training of these key stakeholders if S&OP is to ever reach beyond a basic operational tool and meet its full strategic effectiveness. Training increases understanding and therefore the meaningful engagement by senior management with the lead on effect

being an increase in executive ownership.

2. Cross-cultural engagement.

Research around S&OP failures right after the global downturn showed that a third of the respondents did not have Sales engaged in the S&OP process. Almost half did not have Operations or Finance engaged. Lack of a way to translate between different functional views of information tended to leave one or more participants out of the process. Sales would input revenues by account, Operations would need demand in units by product, and Finance wanted to see net margin. To really make S&OP work, you need to have the same information, but expose it to each stakeholder in the form they need and understand.

3. “Keep it simple” principle.

Thanks to technology, there are a plethora of data and metrics sources that companies can draw on these days when analyzing their S&OP. The negative side to this can be that there is a habit of being paralysed and bogged down in the detail. Better to pin point the big key metrics and make sure these are transparent and accurate for everyone and that there are systems and processes that capture all the information that relate to decisions around those key metrics.

4. Building in Flexibility

In recent years, there has been a trend towards planning towards “one number”. This refers to an organisation working together off the same play book, working off the one set of plans, and in other words, working to the ‘one number’. However, if there is too rigid a focus on numbers it becomes impossible to reconcile any changes if things do not go to plan. The ability to react quickly to external forces such as a downturn in the marketplace or an unexpected success in the launch of a new product can be the critical difference that determines a company’s success or even their survival.

In conclusion, S&OP is not a static tool or policy that supports a single function of the business. It would be more accurate instead to describe S&OP as a far reaching management tool that constantly needs to be refreshed and revised, based on the changing needs of customers, technology and the marketplace. Cross-functional leaders can use it to refine their understanding of business activity, which in turn can be used to support internal company strategy and the direction of the business in the marketplace at large.