



# Re-examining Sales & Operations Planning/Integrated Business Planning success Introduction

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## Introduction

Sales & Operations Planning, and its evolution, Integrated Business Planning (IBP), is now the management process of choice in many leading organisations. It has proven to be a significant value driver, and the results, when done right, speak for themselves. A lot more than simply a process to improve planning, it also often underpins and supports significant business transformation or redesign programs.

The principles that underscore Sales and Operations Planning have been around for decades and the enhancement and evolution into Integrated Business Planning is now well established. The technical models in industry are relatively consistent, and in most instances an adaptation of the Oliver Wight best practice model, which is summarised below.



*Fig. 1 The Integrated Business Planning Model*

What is also certain is that some of the most capable and visionary Supply Chain practitioners are often driving these processes. Working hard to integrate various departments, and to structure and conduct value-adding reviews, they are consistently looking to implement best practice and make it work for their companies.

So then why is it the case that in so many businesses, even the most passionate advocates will sometimes say “it is not working as well as we would like”, or “it does not feel right”? Why, despite its legacy and its history, and the enormous support for the process amongst Supply Chain practitioners, are so many businesses still asking the question “Is S&OP / IBP really working?”.

In this white paper, we will explore some specific issues and concerns that could be an obstacle in your journey to S&OP / IBP success. However, the intention is not to look for the answer in the design or process itself, but in how we think about it. Given our experience, there are a few consistent challenges with how the process is interpreted, which, if we think differently about it, will change not only the perception of the process, but ultimately how it can be managed for success and change.

## S&OP vs IBP

In their recent white paper, “Don’t Fall for Fake News – A buyer’s guide to Integrated Business Planning”, Anne Marie Kilkenny and Stuart Harman once again show the clear difference between traditional Supply Chain focused S&OP and modern Integrated Business Planning.

Modern Integrated Business Planning is a cross-business process, integrating all functions with a common goal to deliver the business strategy, in the face of a changing environment. It is demand led, and fully integrated with finance. The checklist below is a good practical test of this ambition.

- Owned by the business leader
- Process through which business strategy is deployed
- Financial integration throughout
- Customer focused & demand driven
- Sales & Marketing own the Demand Plan
- Continuously re-aligning functional plans in reaction to internal and external changes
- Gaps to committed plans identified early
- Gap closing actions owned at the lowest practicable level
- Risks and opportunities identified and actions to mitigate/take advantage identified and executed
- Scenario planning generating “Plan B” to deal with alternate outcomes

*Fig 2: Integrated Business Planning Checklist*

However, this distinction relates mainly to design and scope. And while it is important that these design elements are in place to ensure a successful process, our experience has shown that there is often more to a successful implementation than getting the design right.

Therefore, below is a number of common issues, or paradigms, we often encounter. They are all important considerations when looking at your S&OP/IBP process, and will hopefully help in understanding why your process often feels inefficient or ineffective.

### The Decision Mismatch

It is by now a common theme: “we cannot get the leadership involved in the process”. It is no coincidence that what challenges many organisations is the inability to get the senior executives around the S&OP table, and help with the decisions.

Traditional S&OP in many businesses is Supply Chain led, and focused around resolving the tension between demand requirements and supply issues. The view is that through formal engagements the plan can be balanced, and trade-off decisions made, which in turn allow the Supply Chain to execute with purpose within the framework of a common outcome. This might include decisions on inventory, capacity, or market constraints.

However, it is here where the misalignment happens. Because ultimately any decision to balance supply and demand, especially in an environment when there are gaps between what sales want and what supply can give, whether it be volume, service or cost, requires a decision that is effectively in the hands, or meant to be in the hands, of the senior leadership team.

Constraining customers, driving short-term sales growth, or formulating an offer to suit a changing environment, especially in the context of financial pressure from shareholders, and bonus-seeking leadership teams, cannot be down-sourced. These are critical strategic choices that require trusted data, strong logic, and ideally modelling of scenarios and options.

Many S&OP processes fail to get going, because they simply have not got the authority in the eyes of the business to make the big decisions required to balance the plan, or close performance gaps. An effective S&OP process will always need executive decision making, and if this is not readily available, then frustration, or dilution of impact, will ensue.

### Leadership must Resolve Tension

Linked to the above is the common misunderstanding that a good S&OP/IBP process protects leadership from making difficult decisions. In fact, the role of IBP is to bring tensions to the fore, and confront leadership with specific gaps and issues that require their attention. But this must be in the right context and with the right level of information and trust.

Here we are not talking about day to day fire-fighting. Businesses that have fire-fighting based S&OP processes are simply trying to optimise inefficiency. But “the hamster cannot get out of the wheel by running faster”. We need to remember that continuous short-term crisis is usually symptomatic of a mismatch between the business model we planned, and the reality in execution.

What a well-developed IBP process should deliver is a clear, consistent articulation between the expectations or ambition of the business, and the latest expected reality. And it should show any specific gaps. This includes volume, revenue and profit, but also activity and capability, whether it be production or organisational. And often also the fundamental mismatch between the ambition for performance, including profitability, and the ability of the current plan and process to deliver this.

But these gaps are not good enough on their own. They require action and focus. When sitting through a series of reviews, it is amazing to see how consistently a leadership simply agree to restate their plans, without any thinking of what they are going to do to achieve this. There is simply a belief that if it is in the plan, we will deliver it.

And this is where the challenge comes in. We must use the process in anger to address our gaps and concerns. And this in turns requires honesty about the reality of our current position, and a comfort to talk about the plans, or lack there-of, to close the gap to strategy.

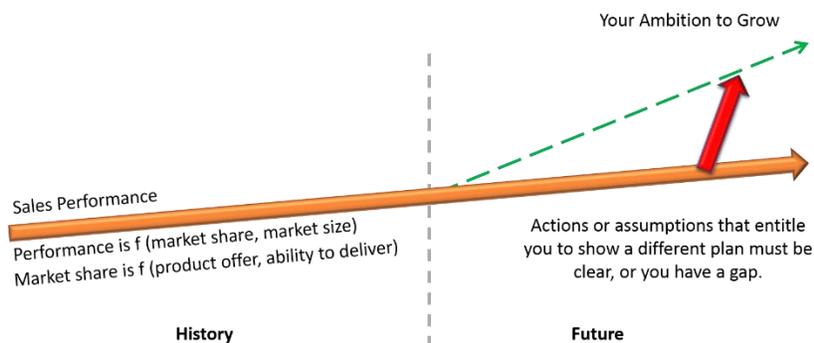
This requires a different level of leadership maturity, both in terms of showing the information, and accepting that the picture might not be what we want to see.

## The Right to Change the Plan

As we work with businesses on Demand Planning, we often talk about the right to change the plan, or the entitlement for growth. It is no secret that many businesses have high ambitions to grow, and that they often reflect this in their budgets or annual plans. It is also no secret that these processes often produce generic targets, without formal assumption driven logic, with the expectation that focused executives will drive the outcome.

We have all sat in business reviews where an enormous amount of time has been spent explaining the variance to a budget nobody believes in the first place. And often our S&OP/IBP processes suffer the same frustration. We are simply not allowed to show that we are going to “miss budget” so we change our numbers to suit the relevant expectations, instead of openly discussing the gaps and challenges.

The below diagram simplistically shows that we should articulate very clearly in our process what we are doing differently to drive change. Simplified, our current and historic position in the market is a function of our market share and the market size. And our market share is a function of our product/brand equity (do people want it?), and our ability to execute (can our customers find it at the right price/quality when they need it?).



So, when we look at a business that shows a major change in the future, we often challenge them to:

- Explain what will change – market share or market size
- And if this will change, how will they drive this change?

If you cannot clearly articulate what will be different in the future than today, then you cannot, from an IBP perspective, take entitlement for the growth. You need to show it as a gap. This in turn will drive the action or realisation needed to change course or focus.

Unfortunately, there is often a misperception amongst executives that this provides their teams with a “get out of jail free” card. They are nervous that once it can be shown that the plans are unrealistic, the business will accept a lower target or performance, and they are therefore nervous that S&OP / IBP is a process “to provide good excuses”. This is poor logic, because the opposite is true. Once the urgency of the gap is understood, action will surely follow. And the sooner we know, the sooner we start addressing the issue.

## The Focus on Accuracy

There has been a lot of talk recently around the accuracy of the Demand Plan, or the lack there-of, when trying to use this as the driver for Supply Planning. Some practitioners even argue that the chance of getting the plan right or relevant is too risky when using a formal Demand Planning process, and we should rather use a structured supply algorithm to plan inventory and capacity. Through this, the obsession with driving forecast accuracy as a metric for process success is questioned.

While this statement and the argument around this could cover an entire white paper in itself, we want to go back to an important piece of logic that often is forgotten when we try our best to prove that Sales and Operations Planning adds value. ***It is not possible to predict the future with accuracy.***

It is only through action that we deliver a result, and that action must be planned as a response to our environment and the expected amount with which it will change. The first and key purpose of Integrated Business Planning is to ensure that the business has a balanced business model to respond to its environment in terms of both the relative volatility, and the specific way it plans to exploit this volatility to earn revenue. This is the conversation we should have.

Modelling an effective planning response in the short term is not the core purpose of Integrated Business Planning, nor is the process simply there to provide the supply chain with good information to plan the business. What the supply chain needs, at the cumulative lead time (typically 12 weeks) is a business model that is in balance – both in terms of rules and expectations, and that any short-term fluctuations will be managed either through clever planning (inside the buffer) or a structured exception-managed Master Scheduling review. The relative volatility of this plan will be part of the supply chain response, and cannot be planned out of it.

When we over focus on accuracy in the long-term, there is a dangerous unintended consequence. We create the impression with our Sales and Marketing teams that they must be right, and because they know they will be wrong, they simply divest from the process.

Good Integrated Business Planning gives Sales and Marketing the right to change their mind continuously as they learn more and more about the market and their customers, and refine their commercial plans in response to this. We should welcome changes to the plan, not show frustration, as long as the intentions are clear, based on sound business logic, and the effort to remove bias is sincere.

When you phone the fire brigade to tell them your house is on fire, they do not ask that you measure the height of the flames. At Oliver Wight we often say “roughly right, not exactly wrong”. And this implies that the importance of the information is what counts, not its specific accuracy.

## Continuous Improvement

It is ironic that we often walk into businesses that are doing a really good job with IBP and the first thing they tell us is that they don't think they are doing it right. And our memories are often short, we see the reality of our current world, forgetting how far we have come. There are many companies that have the components of well-functioning IBP processes in place, but through a combination of frustration and impossible standards convince themselves otherwise.

There is of course also the irrational view that if things are not perfect, they must be broken. But this is wrong, and just like everything else in life, your S&OP / IBP journey is exciting, dynamic and needs continuous work and improvement.

This continuous improvement is not limited to the process itself, but also talks to the business and its behaviour as well. The moment we stop looking for improvement is the moment we start going backwards.

And this is fundamental to how you need to see IBP. It is a process that is designed to drive improvement. Every review, every cycle, we would expect committed process leaders and executive owners to look for improvement. Sometimes it will be simply by challenging the “way we have always done it” and sometimes it will be in response to the environment. And here we need to focus on both the process itself, and the business areas that it manages.

It is no coincidence that often the biggest lesson we need to teach process leaders, sponsors and owners, is that they must ultimately take ownership of the improvements, and not be victims of the process. Seeing a business team frustrated with the current process, but not taking accountability for its quality, and instead blaming the design, project managers or the planning function shows a clear gap in understanding of the role of leadership in support of the process.

It is important to add to this that while good S&OP / IBP design has a clear model and logic, we should not be beholden to a theoretical construct that was designed at the start of a journey. At Oliver Wight we fundamentally believe that it is only continuous improvement that will drive continuous success.

Which leads to the point of success. Many implementations fail because they over focus on a perfect end state as the only definition of success, and key milestones and impacts are not celebrated along the way. If we do not celebrate the success of the process, and the decisions it facilitates, then how will we believe in our hearts it adds value?

## Enabling ERP

The final point has a bit of a different angle, and while relevant in the context of the balance of the issues raised here, focuses on modern ERP systems and their use.

IBP has its roots in S&OP, which in turn has its roots in MRP2, which goes back to the start of ERP systems and their business logic. It is important to remember that part of the DNA of S&OP/IBP is to enable/enhance ERP value, by building the link between the data, and the decision makers who need to respond to that data, while at the same time building the process driven capability that gives executives comfort that day to day execution is managed and controlled.

There are just too many S&OP and IBP implementations that are still being used to manage around or above the ERP system, because the business either does not have the appetite or resources to get their ERP processes working correctly. Multi-million-dollar systems do basic transactions, while S&OP / IBP is run off super-spreadsheets or stand-alone tools with separate sets of data, and a high dependence on critical individuals.

Challenge yourself and view your S&OP/IBP process as a system enabling journey. Not just in terms of the complex, sales brochure type templates and views we see from the IT vendors, but in terms of basics, such as reporting and transactional accuracy. Many IBP journeys simply fail under the burden of facilitation and reporting, because getting the relevant, trusted data in front of leadership requires so much work and preparation. Yet even at the basic level, most companies have tools that are well ahead of their process maturity.

## Conclusion

The future of planning will be very different from the past. More and more, modelling and optimization will become pervasive in our businesses and linked to this will be algorithms that can manage the complexity of our response much faster and more efficiently than we can. The ability to dynamically respond to short-term volatility will not be the domain of humans alone, and the fire-fighters and situational decision makers of many traditional businesses will feel the heat as the other members of their value chain make the transition to a more technology driven world.

In this vision for the future lies the core message on how to drive value for your Integrated Business Planning or Sales and Operations Planning process. We need to formalize our continued future understanding of our market place as it aligns to our strategy, compare this with our latest reality, and understand how our business model needs to change, or alternatively how we can sustain it more efficiently and effectively. It is about leading from the front and driving the right decisions for the future.

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**Monte Maritz** is a passionate advocate for Integrated Business Planning (IBP) and Sales & Operations Planning (S&OP). He is a partner at Oliver Wight EAME, the global thought leader for Business and Supply Chain Planning and Execution. He has worked with well-known and respected local, regional and global companies to deliver business transformation and process improvements. Monte has a passion for teaching and people development, and enjoys combining theory with practical experience, to show businesses how to improve their processes and behaviour. A strong strategy development background, coupled with his experience in integrating business processes, gives him a holistic perspective in assisting clients on their journey to business excellence. Monte regularly works with businesses in developing markets, and he has a strong understanding of the unique challenges of managing these volatile and changing environments.