InSIGHTS

BY LARRY LAPIDE

S&OP: The Linchpin Planning Process

Sales & Operations Planning provides the key connection between strategic planning and operational execution. It's a critical factor in how well a company achieves its business objectives.

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I once advised an MIT graduate student who was conducting research comparing the Sales and Operations Planning (S&OP) processes across manufacturing industries. One day he came into my office, a little confused after interviewing a consulting firm that told him they consider strategic planning as part of their S&OP consulting services.

This perspective differed from my view that S&OP is a medium-term, tactical planning process, whereas strategic planning is a long-term planning process. Having been a consultant, I perhaps too glibly posited that this firm was including strategic planning in S&OP implementations to make the consulting projects bigger deals. In any case, whenever I discuss S&OP, I refer to this anecdote in pointing out the differences between the planning processes.

Recently, an ex-consultant countered that sometimes it is not them who add strategic planning requirements to a consulting engagement. Rather, clients sometimes add a strategic planning component to their request-for-proposal (RFP). So the consultant includes strategic planning in their proposal, often knowing it might jeopardize a successful S&OP implementation. They recognize that a heavy concentration on strategic planning will drain time and resources away from the S&OP implementation. So invariably, most consultants will downplay the strategic planning aspects of the engagement and concentrate on doing the myriad things needed to implement an S&OP process.

One other observation about the relationship between strategic planning and S&OP bears mentioning. I'm familiar with one S&OP process team that is asked to review strategic plans; thus, they feel that their job includes strategic planning. Their perspective can be risky, too, because it often draws too much attention on long-term factors that are immaterial to consider during a medium-term S&OP process.

Levels of Planning

In examining S&OP's proper positioning in planning, let's look at the three business planning levels and how they interplay. We start with a definition. According to wikipedia.org: "A plan should be a realistic view of the expectations. Depending upon the activities, a plan can be long range, intermediate range, or short range. It is the framework within which it [i.e., the plan] must operate."

Consistent with this definition, the three levels of planning are: Strategic (long-term), tactical (medium-term), and operational (short-term). We go into more detail into each of the three levels below. But to conceptually grasp the differences consider the planning of a family vacation that involves several days' driving distance from home.

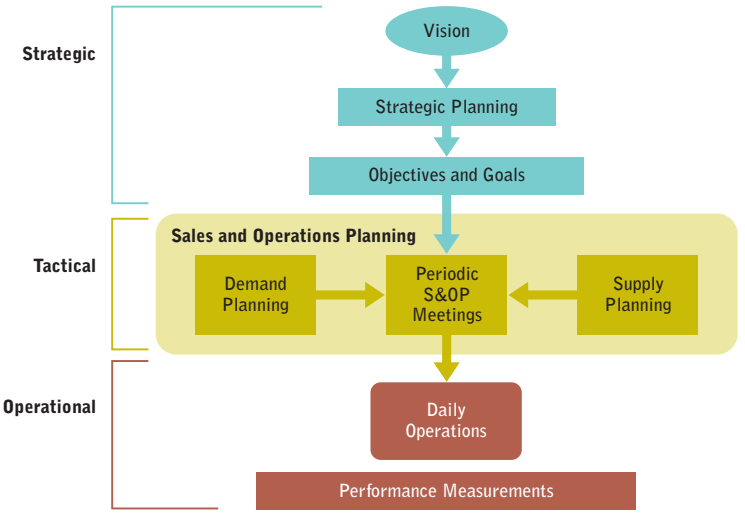
Strategic planning addresses such issues as how to enjoy ourselves during the vacation, what roads to drive, and where to stay and eat. Responses to these issues set the strategic plan or "blueprint" for the vacation. Tactical planning deals with updating the vacation plan based on whether the trip is going according to the blueprint. Plans might change, for example, because of travel delays. Lastly, the operational planning, which is done daily, covers the actions to be followed each day.

Two major differences among planning

levels include: (1) the "horizon," or how far out in time the planning extends and (2) the "time buckets," or granulations in time. Strategic plans have long planning horizons, are developed at aggregated levels, and change on an ad-hoc basis. Tactical plans have medium-term planning horizons, are more detailed, and are changed routinely. Operational plans have short planning horizons, are the most detailed, and are changed most frequently.

EXHIBIT 1

S&OP's Position in the Planning Processes



Source: Peng Kuan Tan, "Demand Management: A Cross-Industry Analysis of Supply-Demand Planning," MIT Master of Engineering In Logistics Thesis, June 2006

S&OP Connects Strategy and Operations

Exhibit 1, which was developed by the graduate student I mentioned in the opening anecdote, depicts how and where S&OP fits among the planning processes. As the graphic shows, S&OP is a routine tactical planning process in which supply and demand (i.e., marketing and sales) plans are synchronized or matched. The S&OP process is guided by output from strategic planning and, in turn, drives daily operations. This makes S&OP the "linchpin" planning process, connecting strategy to execution. Obviously, this is a critical planning process for any business. The accuracy of S&OP plans invariably determines how well a company achieves its strategic operational goals and objectives.

Drilling down into each planning level we find that:

• ***Strategic Planning*** looks out over a long planning horizon with time-buckets in years. It involves the development of a roadmap to the future and typically has a planning horizon of from three to five years (or longer in capital-intensive industries). Strategic planning differs from other planning processes because business environments change significantly in the long-run. Macro factors alter a competitive landscape as well as a company's markets, products, channels, and supply base. Demand forecasting has minimal use in strategic planning as the plan is developed based on a company's "vision" of itself in the future and is driven by future scenarios of the business environment. For example, a company's competitive vision might be to be the lowest-cost provider in the industry (such as Walmart strives to be), the most innovative (Apple, for instance), or be the highest-quality provider (a Sony objective). As part of the strategic planning process, companies develop roadmaps of the goals and objectives to be achieved over time. Performance measurements and targets are set against these objectives to gauge progress against these goals.

• ***Sales and Operations Planning*** (S&OP) is a routine tactical planning process that typically looks out over a six-month to two-year horizon, using time-buckets in months and weeks. The outputs are sets of demand plans that delineate the selling, marketing, and new product launch activities over the horizon. Also, a set of supply plans are developed that delineate activities to source, supply, and manufacture goods as well as inventory them. S&OP plans are driven by demand forecasts. As shown in Exhibit 1, the matching of the demand and supply plans should be driven by the strategic goals and objectives. S&OP performance measures assess whether these goals are being met and provide feedback to the strategic planning process, helping to evaluate whether things are progressing as planned.

• ***Operational Planning*** typically has a one to two-week or a single-day horizon with time-buckets of days or hours, respectively. Operational planning is driven by the S&OP demand-supply plans. Outputs of the process include the schedules for various sales, marketing, and supply chain activities. For example, they might include a daily production schedule for a plant, a one-week transportation schedule for order deliveries, and a two-week schedule of customers to be called on by sales reps.

While the planning levels are unique with respect to horizons and time buckets, they need to be integrated as prescribed above to ensure that operations align to strategy. Each should be treated distinctly because each (in its own right) is important to sustaining performance. Any attempt to do two of them together within a single integrated process—such as strategic planning with S&OP—dilutes the efforts and effectiveness of both planning processes, and puts achieving strategic goals and objectives at risk!