Sales and Operations Planning Insights

S&OP Insights by Business Analytics Executive
(and former CFO), Jim Collins
Today's world is data-rich but insights-poor. There's too much data, and most of it is disconnected. Find out how your financial plans and operations can get better connected with insights from Business Analytics executive and former CFO Jim Collins. It's time your sales and operations planning (S&OP) can be integrated for better, more accurate decision-making. Read on for S&OP leadership from an expert, and see how you can achieve improved, data-driven and insight-rich results for your organization.
Ask yourself: do you face these challenges?

Do I have enough inventory to cover my customer demand?

How do I evaluate the impact of this new product on my sales forecast?

Which manufacturing plant is the best to handle this new demand?

Is my sales forecast achievable from a manufacturing standpoint?

Is this business profitable?

What would be the impact of a currency rate change?

If these apply to you, then you might need to improve your....
Sales and operations planning

Sales and operations planning (S&OP) is the key integrated process that the supply chain organization can leverage to achieve visibility and transformation across the entire organization and throughout the value chain.

“*I learned to better execute sales and operations planning to connect my business functions and increase accuracy by following Jim Collins’ advice!*”
Key performance management drivers

But how do you attain a successful S&OP process? S&OP is driven by the following:

- **Visibility**
  Flooded with more information than ever, supply chain executives still struggle to “see” and act on the right information.

- **Customer Advocacy**
  Despite calls to be more "demand driven," many companies still need to be better connected to their customers.

- **Cost Containment**
  Rapid, constant change is rocking this traditional area of strength and oustripping supply chain executives’ ability to adapt.

- **Globalization**
  Contrary to popular belief, globalization has proven to be more about revenue growth than cost savings.

- **Risk**
  CFOs are not the only senior executives urgently concerned about risk; risk management ranks remarkably high on the supply chain agenda as well.
Analytics for better S&OP

Actionable insights are delivered through the power of analytics, a critical component of the S&OP process.

- **Better Outcomes**
  - Businesses are looking to drive revenue growth and keep expenses in line to ensure strong margins. Public sector organizations are also trying to control expenses while offering important services that benefit their constituencies.

- **Smarter Decisions**
  - Informed, smarter decisions are key to better outcomes. Organizations need to ensure consistency across the broad spectrum of decision making, from operational through to strategic decisions.

- **Actionable Insights**
  - Actionable insights drive smarter decision making. These insights are sweet spots of information that enable smarter decision-making at all levels of the organization.

- **Relevant Information**
  - The foundation to uncovering insights which improve decision-making and deliver better outcomes is trust in the data. The organization must have confidence that the information is accurate and organized to easily uncover these insights.

In order to be successful with analytics and get one consistent view, first you’ll need to ensure every business function is in sync.
S&OP involves every department

S&OP involves active engagement of EVERY functional department in an organization.

Processes like headcount planning in HR, campaign analysis in marketing, or revenue forecasting in sales, can contribute DIRECTLY to revenue and cost takeout, which drives bottom line profitability.

Everyone in the organization needs to EFFECTIVELY PLAN how they allocate their resources – whether it is people, marketing dollars, or production capacity. Finance needs to link all that information to get a clear view of the organization’s performance. Collectively, everyone is preparing the organization for what is to come. They are creating A FUTURE-READY ENTERPRISE.
Applying analytics across the organization

Leaders need to make decisions and successfully act upon these decisions to create a future-ready enterprise. Leaders in all functions and industries should ask themselves:

WHAT SHOULD WE BE DOING?
WHY SHOULD WE BE DOING IT?
HOW ARE WE DOING?
HOW CAN WE IMPROVE PERFORMANCE?

Finding the answers to these questions can drive financial and operational performance to the next level of success for your business.
Good decisions are integrated decisions

Now that you know successful S&OP happens with the interlock of every department, how can you be sure that your plans are linked and not disconnected? Coordinated decisions lead to coordinated execution and greater business performance.

Strategic S&OP is all about integrated decision-making, understanding inter-related tradeoffs, and driving toward bottom-line metrics with cause/effect accountability. This is a very difficult challenge in many organizations because of roadblocks in areas like communication and translation of terms (for instance, converting units to dollars, or SKU’s and plants to brands and channels, etc.). As a result, most decision sets or plans are not integrated with decision sets from other functional areas, leading to suboptimal performance and poor execution. A set of decisions that is aligned across business functions means that execution can be meaningfully measured by function in a way that reflects that function’s contribution to the whole.

Internal alignment, however is just one contributing factor for successful S&OP. Read on to understand what external challenges influence S&OP in a market with ever-changing demand.
Adapting your supply chain

Companies must adapt their supply chain in the face of global economic challenges and changing customer demand. They face these changing variables:

- Increased customer empowerment and demand volatility
- Political instability and economic uncertainty
- Limited visibility to real-time production metrics
- Drive for “green” and sustainable products
- Supply chain disruptions and sudden price fluctuations
- Shorter product life cycles
Create a dynamic supply chain

To face these challenges head on, create a more dynamic supply chain via an S&OP process that links customer demand, production capacity and materials plans with financial plans.

Each plan raises questions like:

- What is the impact on the income statement, balance sheet and cash flow projections?
- Do we have enough capacity and inventory to meet customer demand?
- Does the demand forecast reflect next quarter’s new product launch?
S&OP challenges in the supply chain

There are a number of key challenges that are common with organizations, even with those who already have an S&OP solution.

**Challenges**
- Demand, supply and financial stakeholders and plans are disconnected
- Inadequate analytics and not enough time to create optimal plans
- Over-reliance on spreadsheets and manual processes
- Difficulty integrating disparate data sources into a single view
- Large variances between forecast and actuals

**Direction**
- Real-time links between demand, supply, and financial plans with one consensus plan
- Integrated descriptive and predictive analytics and enough time to test out different scenarios
- Flexible business modeling with a multi-user analytics solution
- Integrate financial and operational data sources
- Infusing predictive and optimization analysis to minimize variances

What does one consensus plan with linked financial and operational plans look like? Read on to delve further.
Link your plans for a healthier supply chain

To cope with increasing volatility, uncertainty and risk it’s no longer sufficient simply to roll-up the budget numbers once a year, or the forecast numbers on a quarterly or monthly basis. Instead, with the help of analytics, organizations can put information and insight into the hands of the people closest to the business to make resource allocation decisions quickly and intelligently.

For instance, marketing needs to adjust promotional investments to address shifts in the way customers search for information and buy. Sales needs to capture the latest sales projections at the point closest to the customer, create revised sales plans, and feed this into revised P/L projections. Cost center managers need to make workforce decisions – someone leaves the group, new hires are added, and compensation plans are adjusted. And all these resource allocation decisions need to be aligned with corporate objectives and linked to market events.

Analytics solutions, with the help of data science teams for optimization, can access internal and external data and apply predictive analytics to gain insights into factors that impact business drivers, and then express those drivers in operational tactics linked to financial plans. This creates agility to cope with rapidly changing business conditions.

See next page for a detailed diagram of linked financial and operational plans.
Link financial and operational plans

Financial Plans

Operational Plans

Sales & Marketing
- Sales forecasting
- Sales win/loss
- Promotions planning
- Applying data:
  - Weather data, social media data, econometric data, IoT data

HR
- Workforce planning
- Attrition rate
- Employee performance analysis

IT
- IT portfolio planning
- ROI/TCO analysis
- Shared services planning

Operations
- Demand planning
- Stock outs
- Throughput analysis
- Applying predictive analytics

Drivers

Strategic Planning → Target Setting → Operational Planning → Financial Planning → Reporting → Forecasting

Link
Analytics journey to AI

Once your financial and operational plans are linked, find the value of your data by accelerating your journey to AI. Adopt a mature analytics strategy with descriptive, predictive, and prescriptive analytics with the ultimate goal of infusing cognitive analytics into your organization.

Example Roadmap for Planning Forecasting & Analytics:

1. Rolling Forecasting Process Improvement Pilot
2. Enterprise-wide Fiscal Year Annual Operating Plan and Forecasting Process
3. Demand Planning, Sales Forecasting, Predictive Analytics
   - Commercial, Ops, Financial Planning and Analysis collaboration, Max value creation, Sales Forecasts, Supply Chain, S&OP effectiveness, Inventory velocity acceleration, Acquisition ERP migration avoidance, DSO improvement
4. Cognitive/Advanced Optimization
   - Commercial, Ops, Financial Planning and Analysis collaboration, Supply Chain Optimization, Customer Churn, Predictive/sales force productivity, Strategic pricing, Value creating M&A, Commercial applications
How do you go about solving for your S&OP woes like imbalances in resource allocation, disconnected plans, and inaccurate forecasts based on limited visibility of data across business functions? With a combination of financial planning, predictive, and prescriptive solutions you can improve forecasting accuracy, achieve better operational efficiency, and boost revenue.

- Get IBM Planning Analytics for improved decision quality, with one view into KPIs, plans, gaps, root causes, and interactive scenarios.
- Add IBM SPSS Modeler to your tool set to drive highly accurate forecasts using over 40 out-of-the-box machine learning models.
- Complete the trifecta with IBM ILOG CPLEX Optimization Studio for easy translation of business problems to models for better outcomes.

Learn more about demand forecasting and resource allocation.
Want more?

Learn how business leaders can work together with data science teams for more accurate forecasts and constraint-based planning with your free smartpaper:

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