



## What is S&OP

Sales and operations planning (S&OP), sometimes known as aggregate planning, is a process where executive level management regularly meets and reviews projections for demand, supply, and the resulting financial impact Murray (2018). Basically S&OP is a senior management decision-making process that ensures that the tactical plans in all business functions are aligned and support the business plan.

### Benefits of Sales and Operations Planning

- Companies can better optimize resources, which reduce waste and increases efficiency.
- In turn, this newfound efficiency enables companies to maximize their profitability continuously.
- Improved inventory and backlog management allows for timelier customer service.
- As companies stagnate, S&OP can fuel resurgence by finding ways to adjust to changing internal or external conditions.
- It provides important visibility into the critical interactions between Sales, Marketing, Production and Finance. Under S&OP, manufacturing's job is to hit the schedule, eliminating the battle over "ownership" of finished goods inventory.
- Allows you to shape demand, if demand planners are aware of likely sales, production capacity and inventory, they can figure out to increase profit margins for particular products.
- One of the benefits of S&OP is being able to run the business to one set of numbers, whereby Sales and Marketing, Production and Finance all agree on anticipated sales and the company's ability meet those sales. This inevitability requires collaboration. Top management should lead the cultural change to make that happen as this can only come from the top.
- Without a Sales and Operation plan, the expectation is that somehow the job will get done, and in fact, it does get done, but at a price. That price is organizational slack: excess inventory, poor customer service, excess capacity, long lead times, panicked operations, and poor response to new opportunities. Detailed decisions will be made by clerical level personnel with no guiding policy except "get it out as best we can". The annual budget cycle won't be tied in with the detailed plans and will be inconsistent and out of date before it's one month old. An effective S&OP process removes all of these problems (demand-planning.com).

## Challenges with S&OP

1. Lack of documentation.
2. Lack of executive ownership.
3. Accurate Forecasting
4. Effective Planning
5. Focused people
6. Planning for execution
7. Complexity

### Lack of documentation

How do you learn from your mistakes? You have to capture all the institutional knowledge and assumptions that go into your plans. Provide a mechanism to capture this information from every participant, and make it easy for them to contribute. For example, if you collaborate as a group using social media automatically captures those chats and the context and embeds it into the plan assumptions so you can understand the context of decisions or changes six months later. Remember, those who don't learn from history are doomed to repeat it.

You've seen the evidence; S&OP can provide great results, but if you don't execute the process correctly, you will struggle to achieve success. Avoid these mistakes and you'll arm your company with an excellent GPS system to help guide you to your goals (Danny Smith).

### Accurate Forecasting

Forecasting is one of the most important aspects of Sales Operations planning (S&OP). It requires input from finance, sales, marketing, business planning, even the supply chain. The impact of inaccurate revenue, margin, or variable compensation payment forecasts can be catastrophic, sometimes even to the point of materially affecting the organization's bottom line. Accurate sales forecasting and variable compensation accruals absolutely require timely and accurate data. Organizations that struggle to cope with the challenge of establishing a reliable forecasting process put themselves at a great risk when it comes to setting accurate sales goals for the next plan year. As a best practice, the total forecast of an organization should tie out with the goals for the sales force such that you can be sure the sales force is rewarded only when the company meets its goals.

## Effective Planning

Much like forecasting, a good plan effectiveness process happens over the course of the year with the most up to date data available. A regular rhythm for plan health assessment throughout the year sets the stage for improving the effectiveness of next year's incentive plans and quotas. A proper plan and quota analysis rhythm enables Sales Ops to do the in-depth modelling and sensitivity analysis necessary for a robust plan design and fair and equitable quotas.

## Planning for Execution

Successful S&OP requires a well-defined rhythm of activities throughout the year as well as accurate forecasting and insight into plan effectiveness and quota accuracy. All of this must be built on a foundation of accurate, timely, and complete data. And great planning must be followed by excellent execution. In order to properly execute this planning rhythm, a well-designed Sales Ops should have people with skills, experience, and time to focus on strategic work as well as the best-in-breed tools and technology to facilitate the process. Having these pieces in place will enable Sales Ops to plan ahead and set the sales force up to succeed and adapt as strategies change.

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## Practices with deploying S&OP

Creating and documenting the S&OP process is relatively straightforward but process descriptions tend to be very detailed, and I found that there was often a desire to deploy the detailed process across all business units and regions as rapidly as possible. This leads to excessive expectation and at the same time overstretched both the deployment and business-as-usual teams engaged in the process. This, in turn, meant that initial expectations were at risk of not being fulfilled and at a time when engagement and sustainability was still fragile.

The learning here is that the process does not need to be perfect and all-encompassing from day 1. The chances of success can be greatly improved by:

Identifying key business areas in which to start deployment (and these could be specific brands, a business unit or a geography) and focusing attention and quick wins only on these Focusing on specific aspects of the overall S&OP process to address first (e.g. starting with the demand forecasting and review process) Demand Planning (2018).

Neil James suggests that, most S&OP deployment programs readily recognize the importance of senior leader engagement. However, engaging and working with senior leaders is often not well targeted to achieve an impactful and sustained contribution from them. Furthermore, these individuals may not recognize the support they need to lead and sponsor the process effectively. My experience was that, as a program team, we initially invested time in 1:1 meetings with senior stakeholders to explain the overall flow of the S&OP process, its benefits and the key inputs required from them in the monthly cycle (e.g. sign off of a demand forecast). James went on to say, these leaders frequently did not have the personal experience to support the process in the same way they would in their own functional area. This was especially true for commercial leaders who had not been involved in S&OP before.

For further information on this topic, contact us on [info@pruune.com](mailto:info@pruune.com) or check out our website [www.pruune.com](http://www.pruune.com).