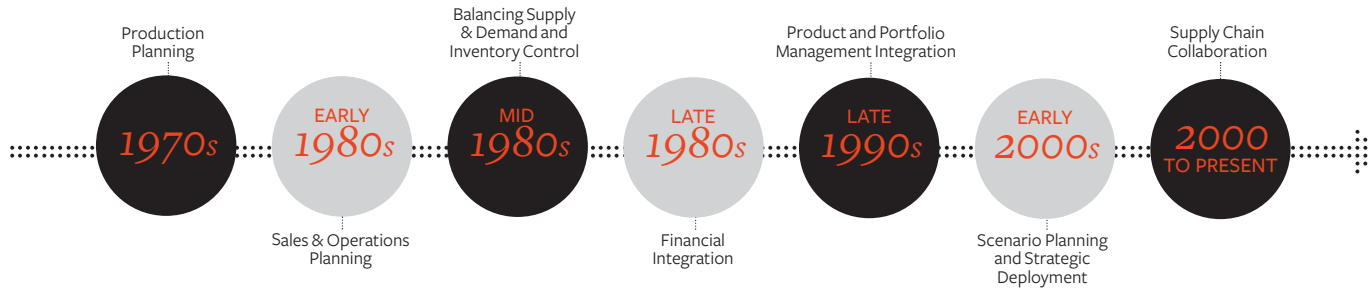




# ◆ EFFECTIVE BUSINESS PLANNING

NEW WAYS OF THINKING RESULT IN BETTER PLANNING.

For nearly three decades, companies have relied on sales and operations planning (S&OP) in their effort to improve business performance. What originally started as basic production planning in the 1970s evolved into S&OP in the 1980s. During that period, companies developed aggregate planning processes to align supply, demand and resources such as capacity and inventory. By the mid-1990s, S&OP further evolved to include product and portfolio management and financial projections.



GRAPH DATA: © Oliver Wight International

**With the beginning of the 21st century,** many companies recognized the value of integrating all company plans into a single executive process to manage the business. S&OP continued evolving to encompass alignment with business strategy and inclusion of other strategic functions in a company, such as information technology, human resources and other areas requiring significant investment in order to accomplish these strategies.

**INTEGRATED BUSINESS PLANNING**

The evolution of S&OP well beyond its original demand/supply balancing roots has led to a current best practice known as Integrated Business Planning (IBP). This holistic process involves planning across the enterprise to integrate all of a company’s resources, thereby linking strategic, operational and financial goals. It has three principle components:

1. It is a process led by senior management that evaluates and revises time-phased projections for demand, supply, product and portfolio changes, strategic projects and the resulting financial plans.
2. It is a decision-making process that realigns the tactical plans for all business functions in all geographies to support the business goals and targets.
3. It is a vehicle used to reach consensus on a single operating plan to which executives hold themselves accountable and allocates the critical resources necessary to satisfy customers in a profitable way.

Through IBP, companies can experience the benefits of S&OP across a broader spectrum and have a better process and forum

to focus on managing risks and more quickly leveraging opportunities in the most optimal manner for both the business enterprise and customers. That’s good news for companies that have recognized the value of IBP and have implemented an effective executive led process.

For other companies, the bad news is that their S&OP processes have too narrow of a focus. This means they have not realized the financial and operational value that their competitors are achieving by evolving to an IBP level of maturity.

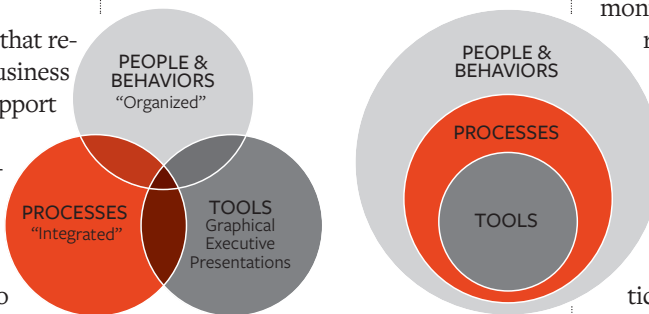
**PEOPLE, PROCESS AND TOOLS**

Effective IBP requires three primary elements to be working in concert: people, processes, and tools.

**People** – For the process to operate effectively, some key principles and best practices need to be in place:

- > Establishing a disciplined, regular, and routine process governed by a process calendar, sometimes called the “rhythm

People, Processes and Tools — Success Requires All Three Working Together



What Our Clients Tell Us of the business” or cadence.  
 > Demonstrating leadership participa-

tion and ownership of the process, including devoting the necessary time and allocating adequate resources.  
 > Operating the process with open and honest communications.

What is important for the leadership team to recognize is that S&OP/IBP requires effective communication based on the current reality of the business environment. Management is expected to either execute the consensus plan or communicate why the plan cannot be met. With the metrics available on the state of the business, as well as the updating of the latest assumptions and plan projections, there is no justifiable reason for keeping the executive team in the dark about the latest projections. One of the arguments in favor of this integrated process is its ability to greatly reduce uncertainty and to have the ability to take timely action to close gaps in a cost-effective manner.

**Processes** – It is important that S&OP/IBP is the one primary process used by the leadership team to align, integrate and synchronize the plans for the business every month. This gives leaders a regular and routine forum to ensure that decisions are made and accountabilities assigned for leveraging opportunities and addressing issues.

**Tools** – Industry’s adoption of S&OP and its recognition of the need to further evolve into IBP have led to development of more sophisticated technological tools to facilitate the transition. When technology enables the development of credible qualitative and quantitative information on demand, supply, prices and costs, it enables more

IMPROVEMENT

focus on the analysis of the information, including development of scenarios.

Since S&OP/IBP is an aggregate-level planning process, the tool set required to support it is less demanding than for the detailed item-level planning that occurs in day-to-day, week-to-week operating systems. There is, however, a caveat: the IBP process will not be fully effective unless it is connected to the detailed planning and execution systems. Again, technology offers a solution; business software providers now have product offerings at the detail level for demand planning, collaborative planning, supply planning, customer order management, financial analysis and project management, all with associated integration capabilities. Available S&OP/IBP technology now includes a way to manage qualitative information, such as assumptions, risks and opportunities, as well as the development and comparison of multiple scenarios.

### THE PROGRESSION STAGES

There are four stages of progression to S&OP/IBP – all of which represent a natural progression to a fully-capable and best-practice process.

> *Stage One: Improved Communications* – At this first stage, data is incomplete requiring verification and other issues are unresolved as yet, but a calendar and cadence have been established.

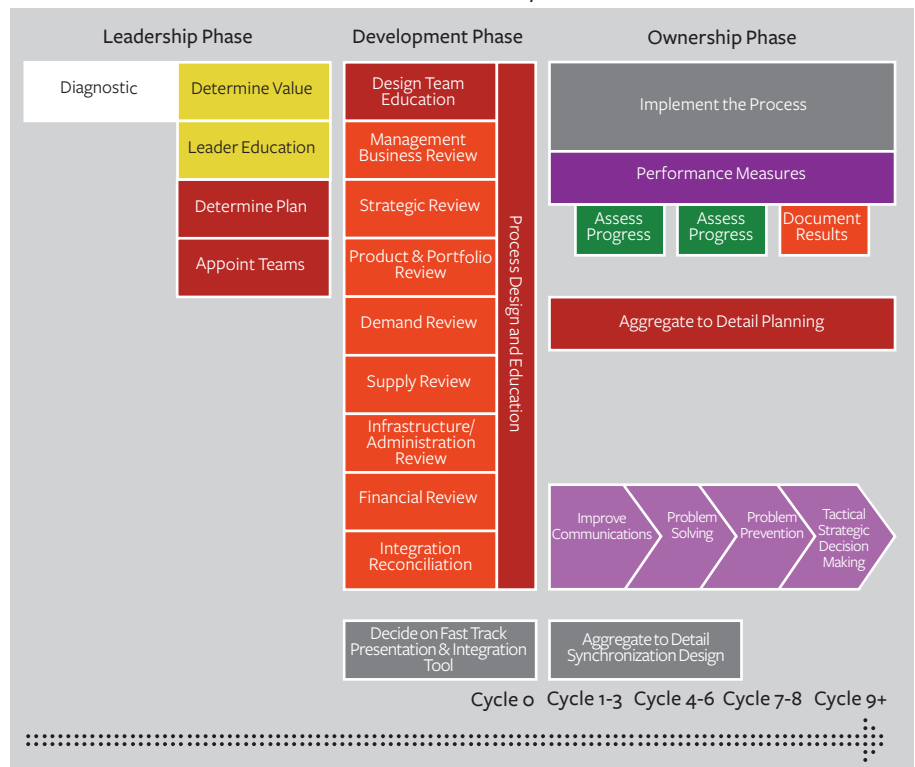
> *Stage Two: Problem Solving* – There are still problems in the process, but data for decision making is more trustworthy and problems are more visible and actively addressed.

> *Stage Three: Problem Prevention* – Near term problems have been addressed allowing the management team to focus its attention further ahead into the future planning horizons.

> *Stage Four: Strategic and Tactical Decision Making* – Mature process has solidly implemented problem solving and prevention. The management team closes gaps between reality of the situation and its alignment with business goals.

Those companies that have implemented S&OP only to the Stage Two level will still have a process to help effectively oper-

## Fast Track Proven Path for S&OP/IBP



ate the business, but they may not be in a position to gain a competitive advantage. In fact, they may be vulnerable to losing competitive advantage when IBP becomes a standard practice in their industry.

### MAKE THE TRANSITION

The best starting point is to get an independent assessment or diagnostic of the current process using the industry best practice model as a frame of reference. The diagnostic can be performed in a matter of days by experienced S&OP/IBP experts. A proper diagnostic includes reviewing the aggregate planning management process and its connection to the detail planning and execution processes currently in place. Results of this assessment can provide the framework for the next move to establishing a more fully-integrated planning process. That will require a combination of people exhibiting the appropriate supporting behaviors, a process that is regular and routine, and tools with the ability to process aggregate plans and connect to

detailed plans, facts, and assumptions.

Properly implemented, the process provides both leadership and management with regular and routine visibility and transparency of past and projected performance. Key performance indicators and metrics are an integral part of the IBP process.

The most current and best view of the business, both quantitative and qualitative, offers leadership and management the opportunity to make the best decisions at the optimal time helping to ensure favorable and profitable results. The companies that do S&OP/IBP well can expect significantly greater benefits than those that only operate with an antiquated basic demand, supply, and inventory balancing approach. **mt**

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