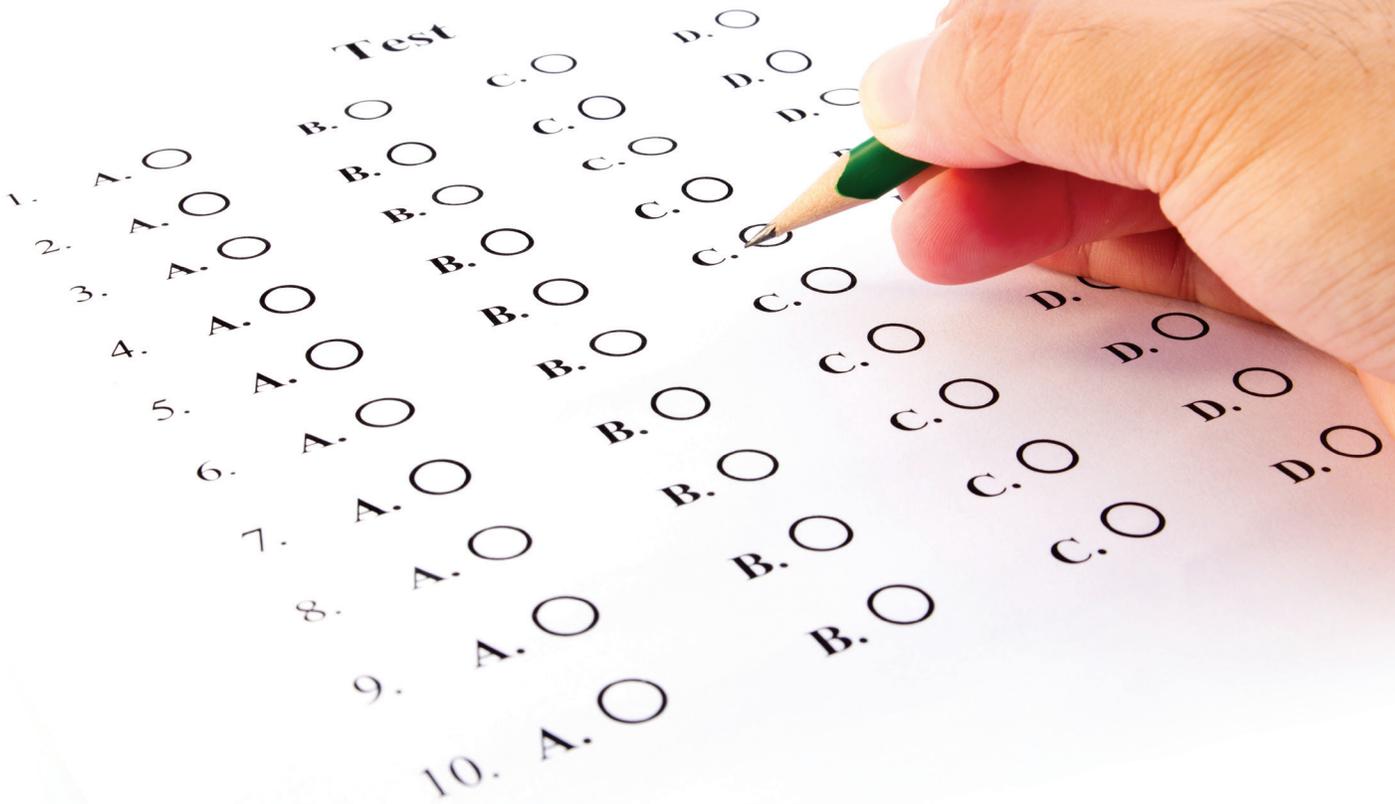


# How Good Is Your Sales and Operations Planning/ Integrated Business Planning Process?

*Take a Simple Test and Find Out*



**James Correll** – Oliver Wight Americas  
**George Palmatier** – Oliver Wight Americas

Inspiring  
Business  
Excellence

*We are often astounded at how many companies claim they have a **Sales and Operations Planning (S&OP)** process, or even the more advanced **Integrated Business Planning (IBP)** process, but are not getting the available bottom-line results from the process.*

Upon further investigation, we find that there is a planning process called either S&OP or IBP but, in practice, it doesn't measure up to the real meaning of Sales and Operations Planning or Integrated Business Planning.

Does your company really have an S&OP or IBP process, or is it a process in name only? Want to know where your company stands compared to a best practice S&OP or IBP process?

Take this simple test, and see how your company measures up to best practice criteria.



## THE S&OP/IBP TEST

Rate yourself from 0 to 5, as follows:

- 5 is the highest rating and means that your company consistently achieves the criteria.
- 3 means that your company strives to achieve the criteria, but there is need for improvement.
- 1 means that your company is attempting to put the standard in place.
- 0 means not doing.

RATING	CRITERIA	EXPLANATION
	<b>1) Senior Management owns the process.</b>	This means that the highest person in the organization is the owner of the management process, including the monthly Management Business Review (MBR), and owns the decisions, direction, and approvals that are provided through the MBR.
	<b>2) S&amp;OP/IBP is a monthly process.</b>	Is the process – and all of its steps – conducted every month, culminating with a Management Business Review? Are the reviews, as part of the process, scheduled one year in advance?
	<b>3) The planning horizon is at least 24 months rolling.</b>	Is the focus on the entire planning horizon with appropriate information provided across the full horizon?
	<b>4) The focus of each review, as part of the S&amp;OP/IBP process, is beyond three months.</b>	Is at least 80% of each review spent discussing months 4 and beyond in the planning horizon?
	<b>5) Assumptions, risks, and opportunities are documented and reviewed in each review step.</b>	Is a clear picture provided, in which assumptions, risks, and opportunities are understood, before giving direction and making decisions?
	<b>6) The Management Business Review is a direction-setting and decision-making meeting.</b>	As part of the preparation for the MBR, are the issues, what-if and contingency scenarios, and decision recommendations documented? Are decisions made in a timely manner?
	<b>7) Scenarios are provided when issues emerge.</b>	Are multiple, well-thought-out options presented so that alternatives can be considered and the upsides and downsides considered?
	<b>8) Rough-cut capacity/capability planning is used to project internal and external capacity or capability constraints.</b>	Are projections of capacity or capability constraints used to validate that plans are achievable and to take actions to ensure that future capacity or capability will exist to support the plans?
	<b>9) An integration tool, or software, supports the process.</b>	Is a tool or software used to provide integrated operational and financial information? Does the tool have the ability to provide quick answers to basic questions?
	<b>10) The executive team receives answers to the questions before they ask the questions.</b>	Are management team members and contributors to the process prepared for questions that arise from the senior management and leadership team?

**TOTAL SCORE:**

## WHAT DOES YOUR SCORE MEAN?

Based on more than 35 years of experience and the results of numerous independent surveys, here's what your score means:

SCORE	IMPACT
<b>45-50</b>	Very good. Your company should be realizing financial, operational, and customer service benefits from the S&OP/IBP process.
<b>40-44</b>	Good, but your company is missing opportunities for financial and operational improvement. You may be working less than optimally to serve your customers.
<b>40 and below</b>	Much improvement is needed. Significant money is being left on the table impacting both the top line and bottom line.

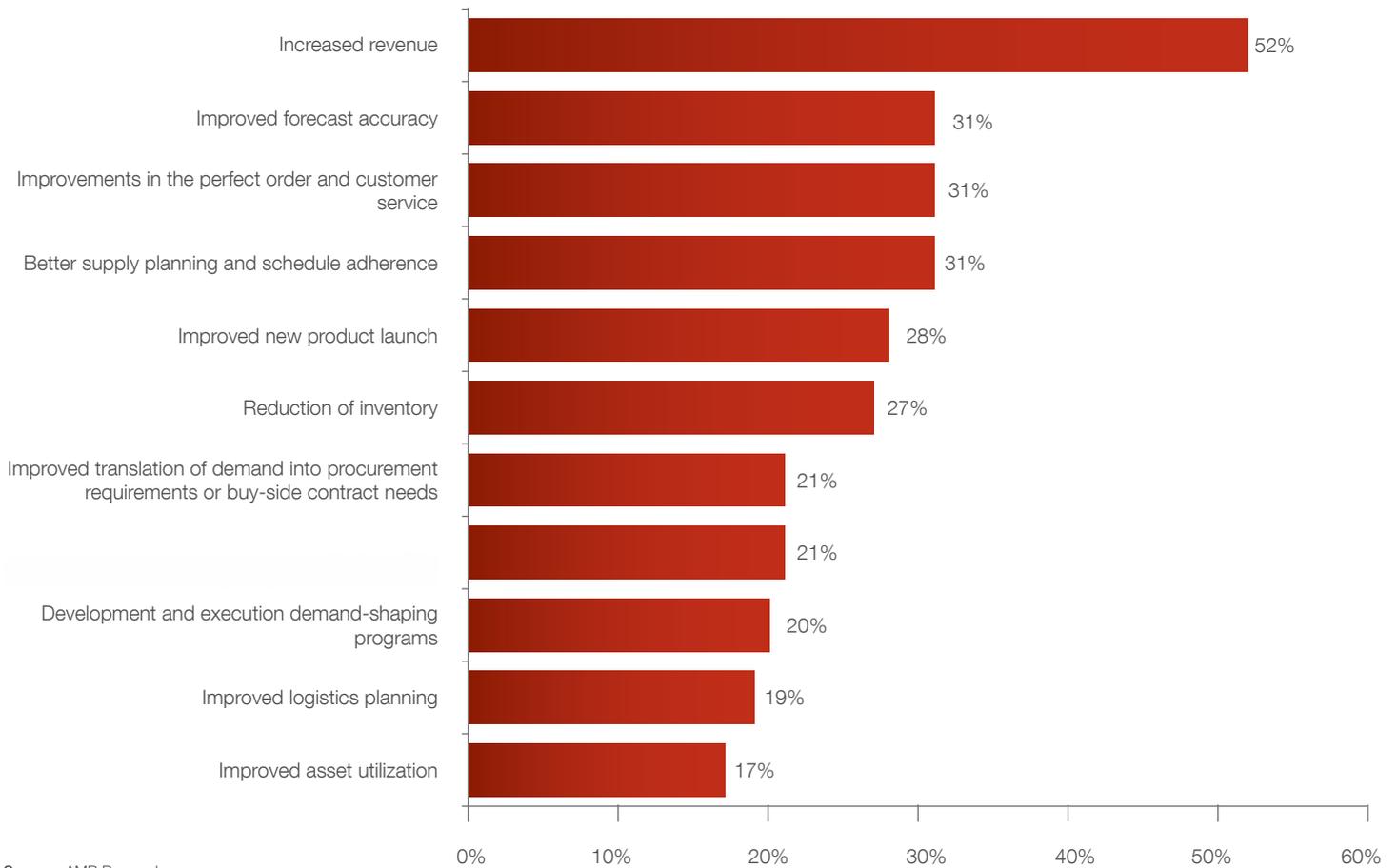
*“ According to surveys, more than 50 percent of companies that implement S&OP/IBP indicate that a key benefit is increased sales revenue. ”*

## BENEFITS OF EXCELLENT S&OP/IBP

Virtually all companies with the discipline to implement an S&OP/IBP process that is driven by the leadership team achieve significant benefits to the business. Leadership teams report improved communications and transparency of plans, issues, risks, and opportunities. They also report better ability to anticipate and respond to change.

As a result, these companies experience improved operational and financial results. Of particular interest is that most leadership teams implement S&OP/IBP with the objective of improving operational performance. In reality, that is not the only type of improvement that is common. According to surveys, more than 50 percent of companies that implement S&OP/IBP indicate that a key benefit is increased sales revenue. (See Figures 1-3)

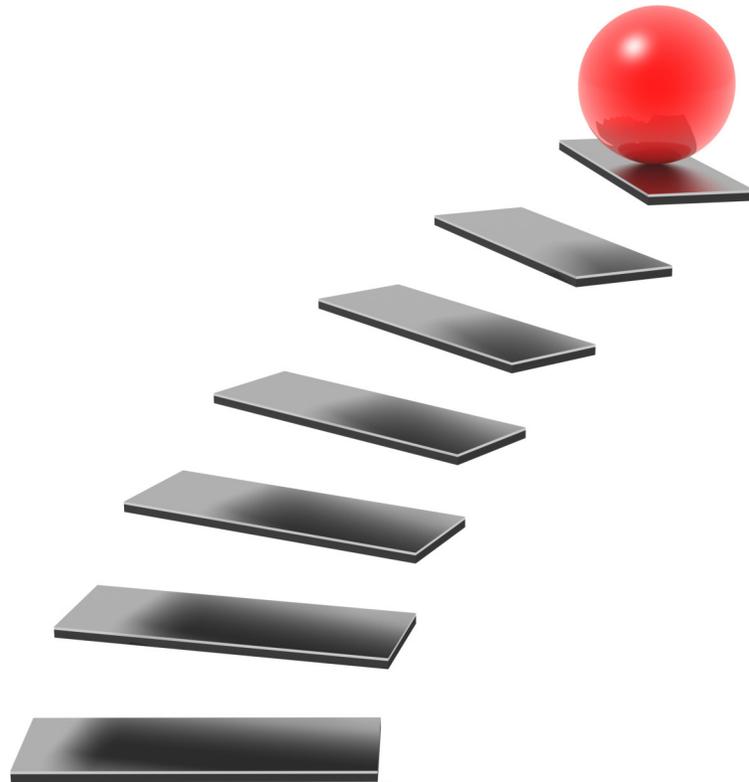
**Figure 1** Percent of Companies Surveyed Reporting Improvements in the Following Areas:



**Figure 2** Range of Improvements Cited by Companies

	IMPROVEMENT %		IMPROVEMENT %
Revenue Growth	10-31%	Inventory Value	33-37%
Gross Margin	25-29%	Inventory Reduction	18-46%
Demand Plan Accuracy	18-43%	Safety Stock Reduction	11-45%
On-Time Delivery In Full	10-50%	Working Capital	25-30%
Order Fill Rate	29-34%	Asset Utilization	32-49%
Perfect Order	22-30%	Increased Productivity	30-45%
Customer Satisfaction	29-39%	Return on Assets	24-30%
Inventory Turns	24-28%		

Source: AMR, Aberdeen, Ventana, and Oliver Wight



**Figure 3** Improvement Cited by 40 Oliver Wight Clients

	<b>IMPROVEMENT %</b>
Increased Forecast Accuracy	<b>18-25%</b>
Increased Sales Revenue	<b>10-15%</b>
Increased On-Time Delivery	<b>10-50%</b>
Inventory Reduction	<b>18-46%</b>
Safety Stock Reduction	<b>11-45%</b>
Increased Productivity	<b>30-45%</b>





### WHAT MAKES THESE BENEFITS POSSIBLE?

In our experience, what makes the benefits shown above possible is the “magic” that comes from alignment and synchronization of all functional plans. When plans are not regularly and routinely aligned and realigned, the result is poor operational performance in many functional areas.

The “magic” with S&OP/IBP is that regular, routine realignment and synchronization of all functional plans bring simultaneous improvement in the functional areas.

### CASE FOR CHANGE

Is your company's S&OP/IBP process missing opportunities for business improvement or leaving significant money on the table? The leader of one of the world's largest logistic organizations has stated, “We are doing a great job with our IBP implementation, but we haven't accomplished anything until we can ‘show the money’.” Improvements to top-line and bottom-line results should be the expected outcome of your S&OP/IBP process.

Oliver Wight created the S&OP process and coined the term in 1978 in the book *Orchestrating Success, Sales & Operations Planning* by Walt Goddard and Dick Ling. Since that time, we have improved on the process to make it more powerful in driving ever-increasing business improvements and results.

Most of our clients are able to score 45 or higher on the S&OP/IBP test shown in this paper. They also are able to demonstrate business improvements and financial results. Using the Oliver Wight implementation methodology, our clients implement or re-implement S&OP/IBP at a record pace. Can we help your company?

## ONE EXECUTIVE'S VIEW OF S&OP/IBP

By Torkel Rhenman, Chief Executive Officer, Lhoist Group

Excerpted from the book, *The Transition from Sales and Operations Planning to Integrated Business Planning*.

While I was an executive of a business at DuPont in the early 1990s, Oliver Wight Americas was engaged to assess our Sales and Operations Planning process. I looked forward to the assessment because I believed our process was very good.

George Palmatier of Oliver Wight took me aside after reviewing our process. In a very provocative and candid way, he pointed out what I was missing as the business leader by not having all functions aligned to one plan and by not being able to see gaps in the performance of the business.

George convinced me that my view of Sales and Operations Planning was too narrow. We viewed S&OP as mostly a near-term process for balancing demand and supply. George emphasized that our business needed a process for integrating all functions and ensuring that all plans were aligned and tied to strategy.



As a business leader, here's what I found so compelling about Integrated Business Planning:

- It is so logical, and it truly integrates the financial plan, the financial forecast outlook, sales and marketing plans, and operations plans.
- It links tactical plans to the execution of strategy and provides the means to continually challenge the strategy, rather than continuing to rely on an old and irrelevant strategy as market conditions change.
- It gives management teams greater confidence in making the decision to change plans as market and economic conditions change – because the planning numbers and projections are updated and vetted every month.
- It is an effective leadership process whether the business is mature, a startup, or a turnaround.

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*“ By the time I came to the company, I had three Integrated Business Planning implementations under my belt and could not imagine running a business without the IBP process. ”*

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DuPont ended up requiring that all of its businesses implement what was named DuPont Integrated Business Management (DIBM), DuPont's name for Integrated Business Planning. The only other mandatory process at DuPont is Six Sigma. That's how important DIBM was to the health of DuPont.

In my final leadership position at DuPont, I served as the chief executive for a turnaround business. By the time I came to the company, I had three Integrated Business Planning implementations under my belt and could not imagine running a business without the IBP process.

I used Integrated Business Planning to bring the entire executive team together to focus on delivering the turnaround. Here's what we accomplished over the course of four years:

- Reduced working capital by 30 percent.
- Improved forecast accuracy at the item and ship-to level from 50 percent to 70 percent.
- Increased company pretax operating income by five times.
- Improved the growth rate of this specialty chemical business from 3 to 4 percent per year to more than 10 percent per year.
- Increased the accuracy of our financial plan from being highly inaccurate (+100 percent) to being highly predictable (+15 percent).
- Set financial and operational performance records for multiple years.

In implementing Integrated Business Planning, I became a better business leader. Most business leaders like to experiment and develop their own processes, which they strive to continually perfect. With Integrated Business Planning, the process has already been perfected. Instead of experimenting, I was able to use IBP to more efficiently tie together strategy and execution and drive improved business performance.





### ABOUT THE AUTHORS

**Jim Correll**, a principal with Oliver Wight Americas since 1984, served eight years as chairman of Oliver Wight Americas and co-chairman of Oliver Wight International. As a consultant, he has assisted more than 20 companies attain Class A performance. These companies include numerous Caterpillar divisions, Imperial Tobacco, General Dynamics Land Systems, Martin Marietta Astronautics, Boeing Portland, and Tektronix, Inc. At Tektronix, he served as the Class A implementation manager. In that capacity, he developed a new organizational structure, implemented new software, and designed and delivered an effective educational training program for both the new software and the behavior changes required to obtain bottom-line results. Jim has an extensive background in instructing public and private courses. In addition to several articles and white papers, Jim co-authored two books: *Gaining Control: Managing Capacity and Priorities, Third Edition*, and the newest Oliver Wight publication, *Achieving Class A Business Excellence – An Executive's Perspective*.



**George Palmatier**, Oliver Wight principal, has assisted many companies that make everything from soup to satellites in implementing integrated management processes. He is recognized as an expert on Sales & Operations Planning, Integrated Business Planning and demand management as well as ERP, Integrated Supply Chain Management, and Integrated Product Development (IPD). George works with clients to formalize and integrate their strategic plans into an integrated business management process, Integrated Business Planning. With twenty years of experience in sales, marketing, strategic planning, and general management, George has a thorough knowledge of how to achieve sustained results improving business performance. During his 11 years as vice-president of sales and marketing at Bently Nevada Corporation (now part of General Electric), George was responsible for bringing the sales and marketing departments into an integrated business management process. Bently Nevada was one of the pioneers in developing and implementing Sales & Operations Planning using it in a truly integrated management process. George has authored or co-authored four books: *The Transition from Sales and Operations Planning to Integrated Business Planning*, *The Marketing Edge*, *Enterprise Sales and Operations Planning*, and *Demand Management Best Practices*.



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