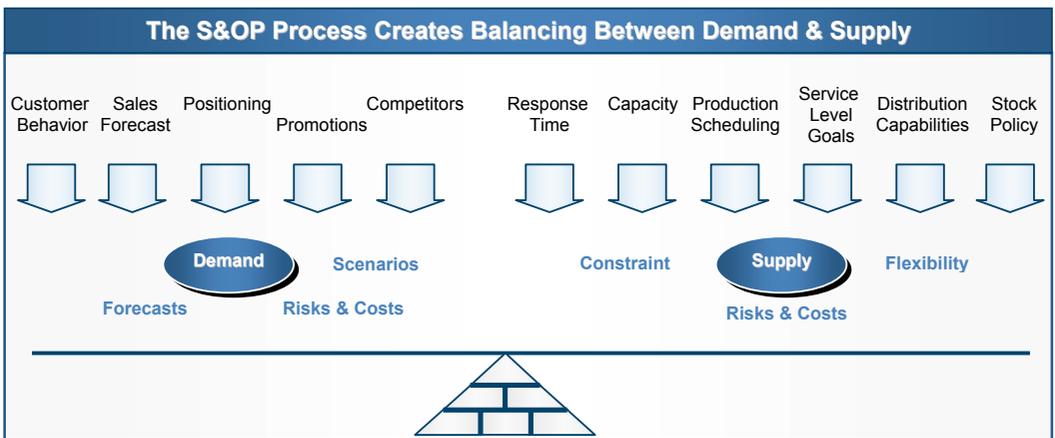


S&OP – A Bridge

Troubled Water

During the current financial climate, companies must cut costs to survive.

S&OP process can be the solution



During the current financial climate, characterized by a drop in demand and increased uncertainty, companies must cut costs to survive and emerge stronger. One of the key areas that can be improved is the planning and coordination between sales and operations divisions. The risks and costs involved in making wrong decisions are higher than ever, and better planning is required. The S&OP (Sales and Operation Planning) process is defined as a collection of organizational processes whose goal is to achieve maximum

profits for the organization through coordination between sales and operations divisions. In a 2006 survey conducted by international research company Aberdeen (The Sales and Operations Planning Benchmark Report, Aberdeen Group) of 200 companies in a variety of fields around the world, 70 percent of them said they were improving their S&OP processes. The survey found a correlation between implementation of S&OP practices and the organization's business and operational performance.

The most prominent characteristic of leading companies (best in their class) is the transition from "tactical" practices, which usually suffice with meetings to coordinate sales and operations, to "holistic" practices, which look at the organization's bigger picture and work according to a bigger picture of demands. This bigger picture is especially important today, when organizations are becoming more global and the span of control is becoming wider. The holistic approach refers to a person or a company as a "whole"; it requires a broader

over

By Zohar Yami, Golan Meltser and Rotem Greener

look at all internal and external factors (emotional, physical, social, economical, environmental, etc.).

Four foundations

The basis for success in an S&OP process is built on four foundations:

1. Management commitment

The key success factor is the commitment of senior management to the process. Many companies have failed because they did not receive management's support and

acknowledgement for the importance of the process. A primary tool for achieving commitment and ensuring the success of the process is appointing someone to supervise the process, a senior manager who receives direct responsibility and authority for implementing the S&OP process. This person is usually from the supply chain, but this is not a requirement.

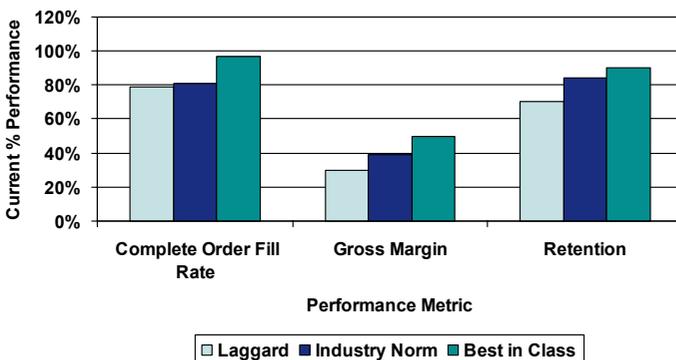
2. Creating a uniform and agreed database

(one number). Without agreement on numbers, there can

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S&OP Practices are a Prime Determinant of Business Performance



be no orderly discussion of meeting demands.

Rani Sagiv, Nestle Israel's vice president for overseeing its supply chain, which manages 2,500 products for thousands of customers, calls the process Consensus Demand Planning. "Agreeing on basic numbers is the key to an effective process," he says. "Before creating such a process in collaboration with global Nestle, we wasted a lot of time and energy agreeing on the right numbers."

But achieving agreement on the numbers is not enough: to deal with changes in demand, optimistic and pessimistic scenarios must be anticipated.

For each of those scenarios, a collection of responses should be prepared, including backup plans that shorten the response time. These scenarios also include addressing the product's lifecycle.

This process allows a more holistic vision of the change in the KPIs (Key Performance Indicators) and their effect on the entire supply chain. In many cases, there is the tendency to waste a great deal of time gathering information, when most of the information is not critical to the decision-making process. The company should focus only on information that can be used to make decisions (turning

information into knowledge). The 80:20 rule is especially important when analyzing demands.

The use of designated information systems should be implemented. There are a number of such systems on the market, the leading ones being Oracle's Demantra and SAP's APO. This type of system interfaces with the existing ERP system and provides a bigger picture of all functions and eliminates the need for Excel tables that usually create a cumbersome and non-standardized process. There are also designated systems for optimizing links in the supply chain. For instance,



there are systems that perform optimization of raw material and product inventory based on the required service level (such as ToolsGroup DPM). These systems are based on statistical analysis of historical data combined with forecast data; they enable a quicker and more precise decision-making process, eventually leading to reduced inventories throughout the entire supply chain. The Dixon Company, a seller of computer equipment (over 64,000 SKUs), implemented this type of system and achieved a significant reduction in inventory while maintaining the required service level.

“In two weeks we were able to reduce stock breaks in stores by 50% and by 35% in the central warehouse,” said Alejandro Esposito, a Dixon Group systems manager).

3. KPIs

As with every process, KPIs are the key tool; they allow us to examine performance and measure success over time.

The key customary KPIs are:

a. Demand Planning Accuracy (DPA). This measures the level of forecast accuracy. The calculation is based on measuring the absolute percentage of deviation weighted on the product level between forecasts and actual sales. Measurement of absolute deviation determines that a situation of sales beyond forecast is also undesirable over time.

Companies implementing high levels of S&OP processes usually reach an accuracy percentage of 85% over time. “The very fact that the sales division is measured by parameters that affect the entire supply chain created a balance in management meetings. Suddenly, everyone realized it was not only the operations division that was affecting the flexibility and stability of the chain,” said a supply chain deputy manager for a Romanian consumer goods company.

b. Master Scheduling Accuracy (MSA). This measures the correspondence between the manufacturing plans and actual manufacturing. The calculation is based on measuring the percentage of absolute deviation weighted on the product level between the manufacturing amount planned and the actual amount manufactured. This parameter is an indicator of the extent of changes to the manufacturing plan throughout the week and month.

c. Out of Stock. This measures the percentage of products that were (at a certain point in time or on a periodic average) under the predefined level. During the S&OP process, minimum required levels of inventory should be determined by weighting historical data, storage and logistic constraints, and the required level of service for the customer and product.

d. Order Fill Rate. This is the percentage of orders supplied

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	S&OP at a basic level	S&OP at a medium level	S&OP at high level (best practice)
Control and Planning	Emphasis on quality of forecast	Emphasis on meeting tactical work plans	Emphasis on meeting overall strategic plan for satisfying demands
Information systems	Simple Excel analyses	What-if scenarios	Information is included in the company's chief information system, usually by supportive designated interface
Organizational interfaces	Interfaces between specific divisions	Cross-organizational interface	Interfaces with customers and suppliers throughout the process
Range of plan	Weekly/monthly	Monthly/quarterly	Quarterly/yearly
Leader of process	Middle management	Senior Executive	Senior Executive

in full and on time. This is a strict parameter that assumes that any order that was not completely filled, even if supplied on time (or vice versa), compromises the level of service.

For each parameter, a quantitative goal should be defined at the beginning of the process. The goal will usually be based on the baseline plus a certain percentage of improvement; it is updated as needed. The calculation method should create maximum transparency between the various functions.

"The actual measurement, even before making any changes to the process, led to an improvement of 10% to 15%," said the supply chain deputy manager for a Romanian consumer goods company.

4. Management Routine

The S&OP process must be based on a series of forums

and meetings at regular intervals and with predefined agendas. Creating designated processes increases the commitment to the process.

Predefining the agenda allows for short and purposeful meetings. Endless discussions that go on into the night do not contribute to the employees' motivation to implement the process. S&OP meetings with a predefined agenda can be very short and purposeful, which increases the efficiency of the decision-making process.

"Our management routine enables better control of the process implementation," says Rani Sagiv, "and is an efficient tool for communicating the improvement in the business results achieved throughout the process."

The S&OP process is a collection of reality-driven processes, without which companies would have a hard

time growing over time while maintaining their operational flexibility for changes in the business environment.

In these times of uncertainty, we cannot suffice with the correlation between supply and demand and with using the tools that we have used so far. Implementing S&OP processes can build the necessary infrastructure for the company to exit the crisis quickly and create a significant competitive advantage with minimum exploitation of resources. Proper implementation of the method and adhering to a number of simple principles can sometimes constitute the difference between survival and failure, which is crucially important today.

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