2011 SALES AND OPERATIONS PLANNING PRACTICES AND CHALLENGES

Perceptions and recommendations of top sales and operations planning professionals
EARLIER THIS YEAR, APICS and the Institute of Business Forecasting and Planning (IBF) set out to uncover what’s really going on with sales and operations planning (S&OP) in organizations. A survey was crafted to explore S&OP maturity, the level of agreement necessary to reach maturity in the S&OP process, and possible causes of difficulties in implementation. The survey asked participants to provide opinions on S&OP recommendations.

Nearly 15,000 randomly selected supply chain and operations management professionals were invited to participate in the survey. The survey results reflect an approximately 5 percent margin of error at a 95 percent confidence interval. Overall, two out of three participants practice S&OP at their current organizations and the findings were based on the responses of these professionals.

The majority of participants (46 percent) classify themselves as having overcome challenges to experience significant success. These S&OP users classify the core S&OP efforts as working, and are currently improving the process and evaluating ways to increase the value of those efforts.

While there are signs of overall S&OP success, 36 percent of respondents indicated they have stalled or are slowly moving forward with their S&OP efforts. These participants are seeing some benefit, but they know they can achieve more.

The specific findings show that S&OP remains a demanding process. Professionals who have experienced a smooth S&OP implementation and those whose S&OP efforts have not delivered desired results agree the following points are best practices for successful S&OP.

■ The ideal S&OP process must measure total future demand and revenue potential compared to the production plan. (A bottom-up forecast of both units and price compared to production plans are essential.) Analysis of demand and production plans is necessary to avoid the lure of “easy,” demand-only S&OP.

■ Alignment on the importance of the S&OP process must be established across departments to ensure stakeholders understand the relevance of aggregate numbers and the balance of supply and demand. S&OP needs to be viewed as invaluable and not as just another monthly meeting or spreadsheet.

■ The S&OP process demands clear goals, strategy, rewards, governance, forecasting, and association between planning and execution. If these are not achievable due to current organizational practice, S&OP will not advance effectively.

■ Preliminary meetings expose areas of risk and develop scenarios for adjustment. This preprocess provides solutions for management or can be used for consideration at a formal S&OP meeting.

■ S&OP reporting must have fair and reliable measurements, parameters, and audits. These must be consistent, meaningful, and timely for all stakeholders.

■ A well-respected S&OP champion maintains the S&OP process, anticipates and addresses concerns, and demonstrates the value of improving S&OP implementation.

■ S&OP relies on professionals’ “soft-skills,” such as communication that addresses expectations. Team and organizational conduct matter more than tools and systems.

■ Practice makes perfect. Those professionals that experience success in S&OP learn from unmet expectations and assumptions that did not work.

The survey shows that successful S&OP takes significant effort. While best practices have been identified, the survey results indicate that considerable innovation and process improvements are required to support and maintain successful S&OP.
SALES AND OPERATIONS PLANNING is defined by the APICS Dictionary, 13th edition, as “A process to develop tactical plans that provide management the ability to strategically direct its businesses to achieve competitive advantage on a continuous basis by integrating customer-focused marketing plans for new and existing products with the management of the supply chain ...”

APICS seeks to advance its educational mission and continue to serve APICS members. Therefore, volunteers and staff studied the elements of successful sales and operations planning (S&OP). APICS and the Institute of Business Forecasting and Planning (IBF) invited nearly 15,000 professionals to participate in a survey, which took place from March through April 2011.

RESPONDENT PROFILE

- Production and manufacturing is the primary activity of nearly three-fourths of the respondents’ organizations.
- The respondents are evenly represented in years of experience in operations management.
- More than half of the respondents have responsibilities in supply chain management and master planning. Only 8 percent have responsibilities in sales and 4 percent in marketing.
- 33 percent of respondents had no professional experience implementing S&OP in their organizations and were excluded from responding to questions related to the practice of S&OP.

Among respondents that do have S&OP implementation experience, 14 percent have been practicing for 15 or more years. It is interesting to note that S&OP professionals who described their companies as having a smooth implementation of S&OP tend to have more experience than other S&OP professionals (75 percent had six or more years of experience). S&OP professionals, who described a company’s S&OP efforts as not delivering what they wanted, tended to have less experience (78 percent had less than six years of experience).

The majority of respondents work at organizations that employ 250 or more employees. 18 percent of respondents work at organizations with 25,000 or more employees.

PERCEPTIONS OF S&OP IMPLEMENTATION

Respondents who do not have experience implementing or practicing S&OP at their current organizations indicated that if they were required to serve in an S&OP implementation role, they foresee the following challenges:

- 71% Ensuring that senior management leadership shares S&OP goals and objectives among all stakeholders
- 57% Lack of data and communication among sales and operations management groups
- 54% Lack of useful tool or platform to integrate sales and operations management data

Given that these challenges are perceived by individuals who have no experience with S&OP, these are significant areas to overcome.
Respondents who did have experience implementing S&OP indicated that the following statements best represent their opinions

- S&OP skill and experience are essential to my career. This is the future of operations and sales in most organizations in the industry (65 percent)
- S&OP skill and experience are not essential, but would be nice to have. I expect my organization will eventually increase its S&OP practices (28 percent)
- I doubt S&OP skill will be valuable to my career. S&OP skill experience will not help me where I work now (7 percent)

**WHO’S WHO IN CONSENSUS FORECASTING**

The majority (71 percent) of those with S&OP experience also indicated they have consensus forecasting in place. Respondents were asked to note which departments participated in the process.

Of those practicing consensus forecasting, 65 percent indicated that everyone in the meetings has an equal voice. 35 percent noted that not everyone in the meetings has an equal voice.

**PLAN FOR DEMAND**

In most organizations (78 percent), demand planning does interface with S&OP processes. Only 5 percent of respondents indicated demand planning is a separate function from S&OP; however, 17 percent of respondents noted that demand planning, sometimes, is a part of S&OP processes, depending on circumstances.
S&OP MATURITY LEVEL
The maturity level of S&OP varies among organizations. Respondents were asked to choose the statement that best describes the organization they work at.

- **We have overcome challenges and are seeing significant success. Our core S&OP efforts are working. We are improving the process and evaluating ways we can increase the value of our effort.** 46%
- **We have stalled or are proceeding very slowly. We are seeing some benefit but know we can achieve more.** 36%
- **We had a smooth implementation of S&OP and follow best practices. We avoided many of the challenges others experienced in implementing S&OP.** 8%
- **We plan to start again, learning from challenges from our past efforts. Our past S&OP efforts did not deliver what we wanted.** 8%
- **We have no plans to implement S&OP at this time.** 2%

CHALLENGES IN S&OP IMPLEMENTATION AND PRACTICE

COMMON CHALLENGES
Challenges persist along the S&OP implementation path. Respondents were asked to note the most common challenges.

- Lack of strategic coordination among departments 58%
- Insufficient interaction and involvement (silos) among groups 58%
- Lack of common vision or purpose 51%
- Lack of commitment from top management 49%
- Lack of technology and belief in existing software or systems 42%
- Inadequate communication and soft skills 37%
- Insufficient training or skill in data analysis 33%
CHALLENGES WITH GOALS AND STRATEGIES
Survey respondents found the following areas difficult when practicing or implementing S&OP.

- Strategic goals not supported with defined business imperatives (59%)
- Tactical and strategic choices that hinder effective S&OP (54%)
- Inadequate strategic and master planning (53%)
- Inconsistent budget and resource allocation (44%)

TRADE-OFFS
Responders also indicated areas where finding the right level or balance was difficult while implementing S&OP.

- Formal and informal expectations and responsibilities of participants (68%)
- Volume and accuracy of forecasts and research (58%)
- Level of alignment of tactical practices to strategy (51%)
- Amount of teamwork (48%)
- Degree of responsiveness (46%)
- Amount of flexibility (44%)
- Level of customer service (23%)
- Control of cost (17%)
- Other (3%)
ORIENTATION CHALLENGES
Respondents indicated that the following are difficult when practicing or implementing S&OP.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Shared focus on clear objectives</td>
<td>58%</td>
</tr>
<tr>
<td>Shared understanding of dependencies and how they affect results and reported data</td>
<td>48%</td>
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<tr>
<td>Common understanding of market and competitive drivers</td>
<td>43%</td>
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<tr>
<td>Data models or tools</td>
<td>42%</td>
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<tr>
<td>Management responsibilities</td>
<td>42%</td>
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<tr>
<td>Amount of flexibility</td>
<td>39%</td>
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<tr>
<td>Value chain analysis addressing risk and balancing cycles</td>
<td>37%</td>
</tr>
<tr>
<td>Objective, outside-in indicators, and measurements</td>
<td>34%</td>
</tr>
<tr>
<td>Employees reward systems</td>
<td>18%</td>
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</tbody>
</table>

SENIOR MANAGEMENT CHALLENGES
In terms of senior management involvement and leadership, respondents indicated the following areas of difficulty when practicing or implementing S&OP.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountability</td>
<td>58%</td>
</tr>
<tr>
<td>Despite challenges, maintaining a desire for, or belief in the worth of S&amp;OP benefits</td>
<td>54%</td>
</tr>
<tr>
<td>Persistence</td>
<td>45%</td>
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<tr>
<td>Measurement or analysis of meaningful indicators</td>
<td>42%</td>
</tr>
<tr>
<td>Diligence</td>
<td>36%</td>
</tr>
<tr>
<td>Agility</td>
<td>19%</td>
</tr>
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BUSINESS RISK CHALLENGES

In terms of real (and perceived) business risk, respondents consider the following to be challenges when implementing S&OP.

OPINION ON COMMON S&OP PRACTICES

The survey gathered opinions on recommendations offered to improve S&OP practice. Respondents were asked three questions for each recommendation: the level of agreement, the importance of S&OP for advancing maturity, and the practicality of implementation. Recommendations that received high scores in all three areas are worthy of special consideration.

RECOMMENDATION

Develop alignment and the importance of the S&OP process across departments to ensure stakeholders understand the relevance of aggregate numbers, the actual balancing of supply and demand, and view S&OP as essential and not just another monthly meeting or another spreadsheet.

<table>
<thead>
<tr>
<th>Low confidence in forecasts</th>
<th>71.2%</th>
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<tbody>
<tr>
<td>Lack of sufficient data in sales and production operations</td>
<td>44.8%</td>
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<tr>
<td>Unrealistic demands of sales teams</td>
<td>44.0%</td>
</tr>
<tr>
<td>Real or perceived lack of time in lead time planning</td>
<td>34.8%</td>
</tr>
<tr>
<td>Low confidence in new product or service introductions</td>
<td>31.6%</td>
</tr>
<tr>
<td>Inadequate marketplace or competitive analysis</td>
<td>31.6%</td>
</tr>
<tr>
<td>Unrealistic demands of production teams</td>
<td>30.8%</td>
</tr>
<tr>
<td>Poor levels of supply chain support from low cost regions</td>
<td>22.0%</td>
</tr>
<tr>
<td>Inadequate cost analysis (such as landed costs)</td>
<td>21.2%</td>
</tr>
<tr>
<td>Unrealistic expectations of product customization or custom requirements</td>
<td>17.6%</td>
</tr>
<tr>
<td>All other responses</td>
<td>11.5%</td>
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</tbody>
</table>
**RECOMMENDATION**
The pre-S&OP process helps expose areas of risk, and helps develop scenarios for adjustment. This process should provide recommended solutions to top management at the final S&OP meeting. To do this, participants must (1) regularly develop, discuss, and integrate demand and supply data and their meanings with peer stakeholders, and (2) ensure key topics are thought through and understood by everyone. Even if full consensus is lacking, constraints, forecasts, inventory levels, service levels, and current implementation of plans will be common knowledge.

**Level of agreement**
- Agree: 92 percent
- Disagree: 3 percent
- Not sure: 5 percent

**Importance for advancing maturity**
- Not important: 2 percent
- Somewhat important: 12 percent
- Important: 38 percent
- Very important: 48 percent

**Current Practicality**
- Practical/easy: 8 percent
- Practical with moderate effort: 56 percent
- Practical only with significant effort: 28 percent
- Generally not practical/too difficult: 8 percent

**RECOMMENDATION**
Senior management is responsible for shared goals and must address “it’s not my job,” finger-pointing, lack of involvement, risk aversion, and “this doesn’t work” perspectives among S&OP stakeholders.

**Level of agreement**
- Agree: 92 percent
- Disagree: 5 percent
- Not Sure: 3 percent

**Importance for advancing maturity**
- Not important: 2 percent
- Somewhat important: 8 percent
- Important: 24 percent
- Very important: 66 percent

**Current Practicality**
- Practical/easy: 21 percent
- Practical with moderate effort: 42 percent
- Practically only with significant effort: 32 percent
- Generally not practical/too difficult: 5 percent
RECOMMENDATION
Ensure a well-respected S&OP champion maintains the S&OP process, anticipates and addresses concerns, and demonstrates the value of improving S&OP implementation.

Level of agreement
Agree: 96 percent
Disagree: 2 percent
Not sure: 2 percent

Importance for advancing maturity
Not important: 1 percent
Somewhat important: 16 percent
Important: 36 percent
Very important: 47 percent

Current practicality
Practical/easy: 27 percent
Practical with moderate effort: 45 percent
Practical only with significant effort: 25 percent
Generally not practical/too difficult: 3 percent

RECOMMENDATION
Be persistent because practice makes perfect. Learn from broken expectations and assumptions that did not work. Ask the five whys, but stay on top of market changes and don’t get bogged down. Make sure the “&” in S&OP is well represented (neither sales nor operations planning alone). Realize that even if you are a long way from perfect, there are no shortcuts.

Level of agreement
Agree: 98 percent
Disagree: 1 percent
Not sure: 1 percent

Importance for advancing maturity
Not important: 2 percent
Somewhat important: 12 percent
Important: 36 percent
Very important: 50 percent

Current practicality
Practical/easy: 11 percent
Practical with moderate effort: 49 percent
Practical only with significant effort: 37 percent
Generally not practical/too difficult: 3 percent
IMPLEMENTING S&OP SUCCESSFULLY

APICS and IBF decided to further explore how the opinions of professionals who described their companies as having a smooth implementation of S&OP varied from those who described their companies as having to restart S&OP efforts.

■ Successful implementers of S&OP tend to have more experience than other S&OP professionals (75 percent had six or more years of experience). S&OP professionals who described the S&OP efforts as not delivering what they wanted tended to have less experience (78 percent had less than six years of S&OP experience).

■ The survey results show that companies of all sizes are implementing S&OP. Company size is not a predictor of S&OP success.

■ Companies that have experienced a smooth implementation of S&OP are more likely to use a consensus forecast process to support S&OP.

■ Companies that have experienced a smooth implementation of S&OP value participation and allow for an equal voice between sales, marketing, production, logistics, and finance in the consensus forecasting process; whereas, unsuccessful forecasts are dominated by sales.

■ The majority of survey participants (46 percent) classify themselves as having overcome challenges to experience significant success. Their core S&OP efforts are working and they are improving the process and evaluating ways to increase the value of the effort.

■ Other participants (36 percent) indicated they have stalled or are proceeding slowly. They are seeing some benefit but know they can achieve more.

■ Only 7.8 percent reported they had a smooth implementation of S&OP and followed best practices. They have avoided many of the challenges others experienced in implementing S&OP.

■ Companies (68 percent) with past S&OP efforts that did not deliver the anticipated results identify lack of commitment from top management as the main challenge to successful implementation of S&OP. For companies that have experienced a smooth implementation of S&OP, management support is not as big of a challenge, but silo issues remain serious. Management commitment is a big driver of success.

■ Professionals who describe companies they work for as having a smooth implementation of S&OP are not experiencing the same level of challenge at developing seamless business planning and tactical execution as companies that are restarting S&OP efforts.

QUESTIONS FOR DISCUSSION

Moving forward, whether your company is at the beginning of the S&OP implementation journey or already experiencing success, you might consider the following questions for discussion:

■ How do your organization’s S&OP practices compare to the survey results?

■ Is an understanding of S&OP important to your career goals?

■ How can you improve your knowledge and use it to overcome S&OP practice pitfalls?
ABOUT APICS

APICS is the leading professional association for supply chain and operations management and the premier provider of research, education and certification programs that elevate supply chain excellence, innovation and resilience. APICS Certified in Production and Inventory Management (CPIM), APICS Certified Supply Chain Professional (CSCP) and APICS Supply Chain Operations Reference Professional (SCOR-P) designations set the industry standard. With over 41,000 members and more than 250 international partners, APICS is transforming the way people do business, drive growth and reach global customers.

To learn more about APICS, visit apics.org.

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ABOUT IBF

The Institute of Business Forecasting & Planning – IBF is a membership organization recognized worldwide as the premier full-service provider of demand planning, forecasting, S&OP education, benchmarking research, training, certification, world-class conferences, and advisory services. For almost three decades, the IBF has been helping businesses improve their forecasting and planning performance in an effort to enhance growth and improve their bottom line. It has been said that no other organization on the globe has as much depth in its educational content for Demand Planning & Forecasting as IBF.

Having some of the world’s most well known global companies as its members, the IBF is constantly finding and disseminating better ways to manage demand, improve supply chain efficiency, and increase organizational performance. By becoming an IBF member, you can ensure that you stay current with proven best practices, link with global professionals facing similar challenges, ascend in your career, and bring your organization to world-class levels in performance. The IBF is a pioneer in developing a Demand Planning & Forecasting certification program that can help boost your credentials, as well as, give management greater confidence in its people. The IBF is known for two levels of certification: Certified Professional Forecaster (CPF®) and Advanced Certified Professional Forecaster (ACPF®).


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