

8 Levers for S&OP Performance

nexview 



Our objectives are to

- Provide a framework for key items to consider when implementing S&OP or revitalizing an existing process
- Share some best practices
- Provide some tips and traps

Nexview Consulting draws from established methodologies and many experiences to help clients achieve alignment and improve performance and results

Services

- Sales & Operations Planning/Integrated Business Planning and Supply Chain consulting
 - Implement or revitalize existing processes
 - Information System evaluation, selection, and implementation
 - Organizational design & change
 - Customer & product profitability management
 - Change management
- Training & Coaching

Differentiators

- Boutique firm specializing in S&OP
- Recently adapted the S&OP process to upstream oil & gas and actively developing this market
- Holistic approach – emphasize performance improvement, results management, behavior change, leadership development
- Low overhead model accommodates mid-market firms as well as larger firms through a global network of highly-experienced consultants



We are led by three Principals and supported by a strong peer network of experienced consultants

Eric J. Tinker, Mng Principal

- 20 years in management consulting leading complex change in the US and internationally
 - Projects have delivered over \$500MM in benefits
 - Client experience ranges from start-ups to leadership of large, complex, multi-geography business transformation for global corporations
- Prior leadership roles at Deloitte Consulting, Celerant Consulting, Plan4Demand, Hughes Aircraft
- Qualifications
 - MBA – University of Southern California -Finance & Entrepreneurship
 - MS – Mechanical Engineering, California State University - Northridge
 - BS – Aerospace Engineering, Syracuse University
 - Certified Public Accountant



Jonathan Gilbert, Principal

- 25 years improving service reducing cost, and improving efficiency
 - Versatile leader across the supply chain with differentiating expertise S&OP and logistics
 - Industry background in energy, chemicals, retail, manufacturing, and distribution
- Prior consulting roles at MTG, Corven, Denali Group
- Industry leadership and VP level roles in supply chain at BOC gasses and NuCO2
- Qualifications
 - MBA – Stern School of Business, New York University
 - BS – Krannert School of Business at Purdue University



Roy Zerner, Principal

- 28 years as a consulting and industry supply chain leader
 - Projects have delivered over \$1.1B in benefits
 - Industry background in consumer products, high-tech, chemicals, and industrials
 - Strategic and tactical expertise throughout the supply chain
- Prior leadership roles at Ernst & Young/CapGemini, Accenture
- Industry leadership and Director level roles in supply chain Del Monte, H.J. Heinz, and Allied-Signal
- Qualifications
 - Ph.D. Candidate - UCLA
 - MBA – Indiana University
 - BS – Chemical Engineering, Virginia Tech



Our peer network model enables us to assemble the right senior level consulting team.

Supply Chain improvements have been dramatic in the last 20 years and are now a competitive advantage



Product Development

- Product portfolio & lifecycle management
- Cycle time
- Product profitability analysis
- Launch and SCM integration



Customer and Demand Management

- Drives investment and all downstream activity
- Financial planning integration
- Macro factors
- Segmentation & service levels
- Profitability by customer
- Statistical forecasting
- Sales force input
- CPFR
- Promotions optimization



S&OP is the overarching leadership and integrating process

- The management decision process
- Operationalize the business strategy
- Integrated plan of record
- Financial planning integration
- Platform for performance management and continuous improvement



Supply Management

- Plant networks
- Regional vs. focused plants
- Outsourcing vs. capital investment
- On-shore vs. off-shore
- Make-to-order vs. Make-to-stock
- Inventory strategies
- Delayed differentiation
- Lean and kanban



Procurement

- Total cost/value focus
- Strategic sourcing
- Global vs. regional
- Joint cost reduction
- Transactional integration

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Distribution & Logistics

- Channel inventory strategy, practices, and visibility
- Cost vs. lead time optimization
- 3PLs
- Preferred carrier programs
- Transactional integration
- RFID



High performing supply chain team

- Center of Excellence (COE)
- SCM breadth with functional depth
- Shared across BUs
- Independent view
- Consistent best practices
- Growth path to executive management
- Process vs. people dependent



IT Enablement

- Data availability and integrity
- Transactional and planning integration, internal and external
- Visibility and reporting
- Analytics
- Scenario modeling

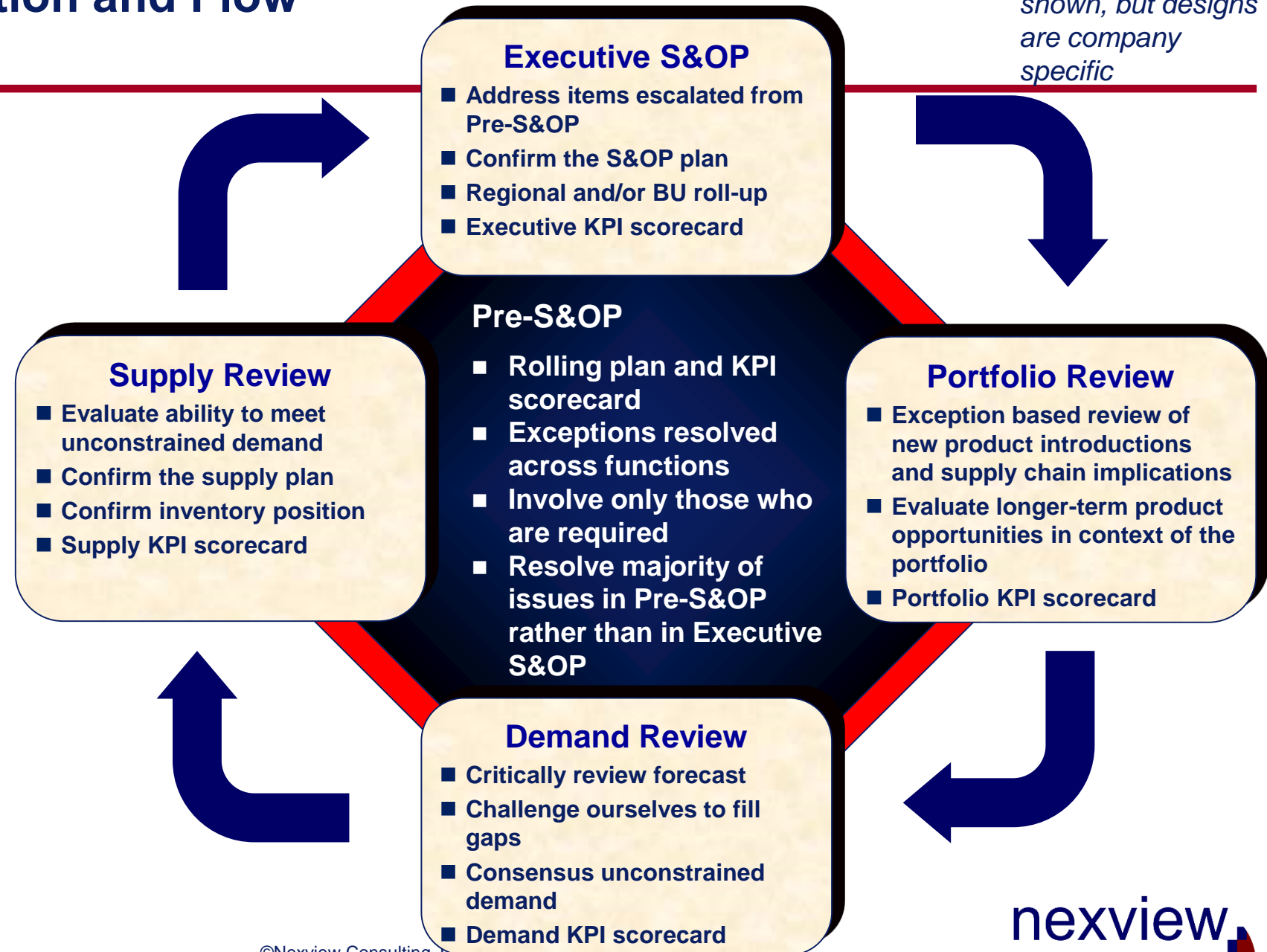
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Nexview's S&OP Definition and Flow

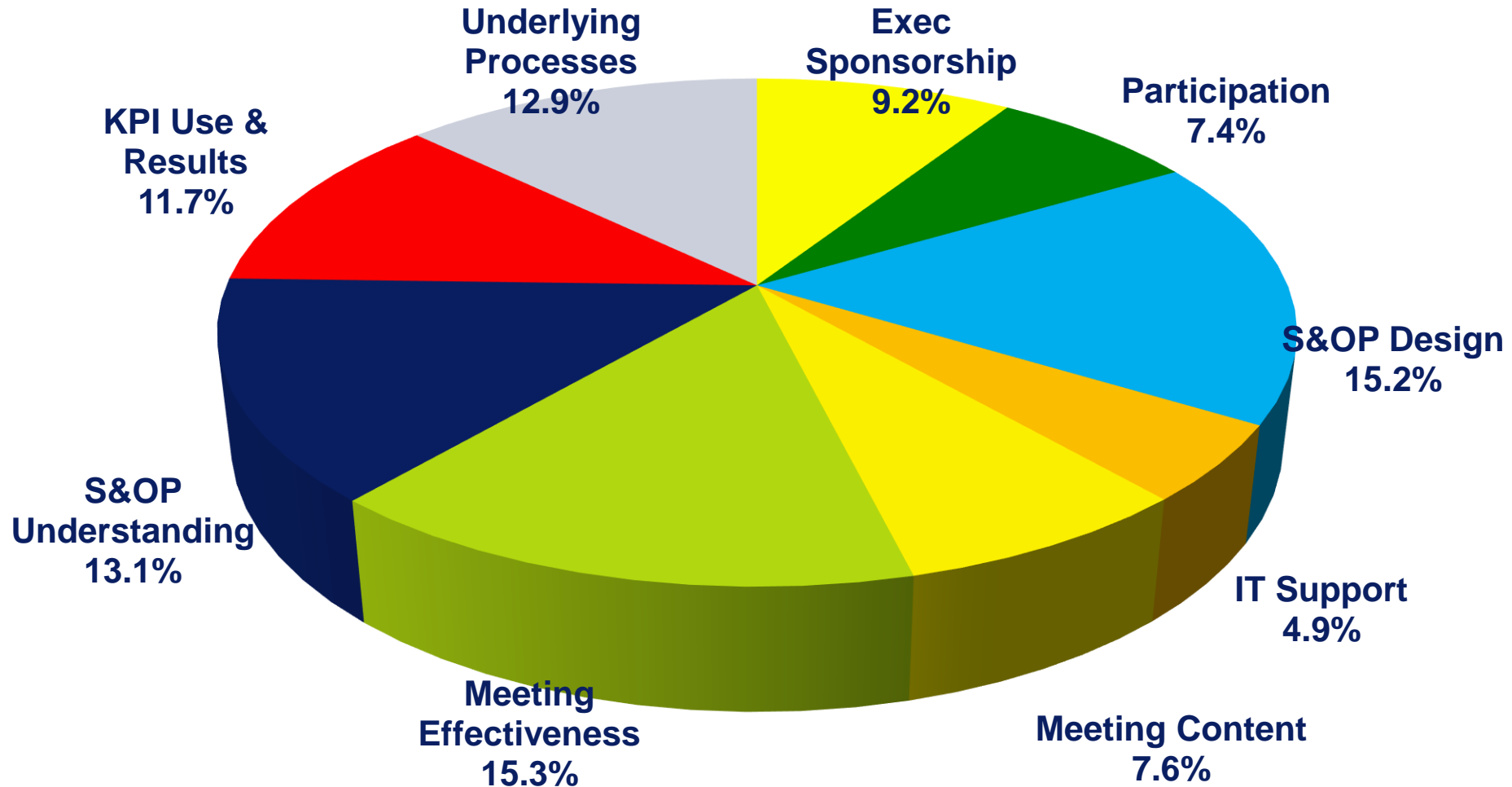
By S&OP, we are referring to the management-level cross-functional planning and decision making process.

S&OP is the vehicle for communication, performance management, and decision making related to integrating financial, demand, and supply planning to meet company objectives.

Typical components shown, but designs are company specific



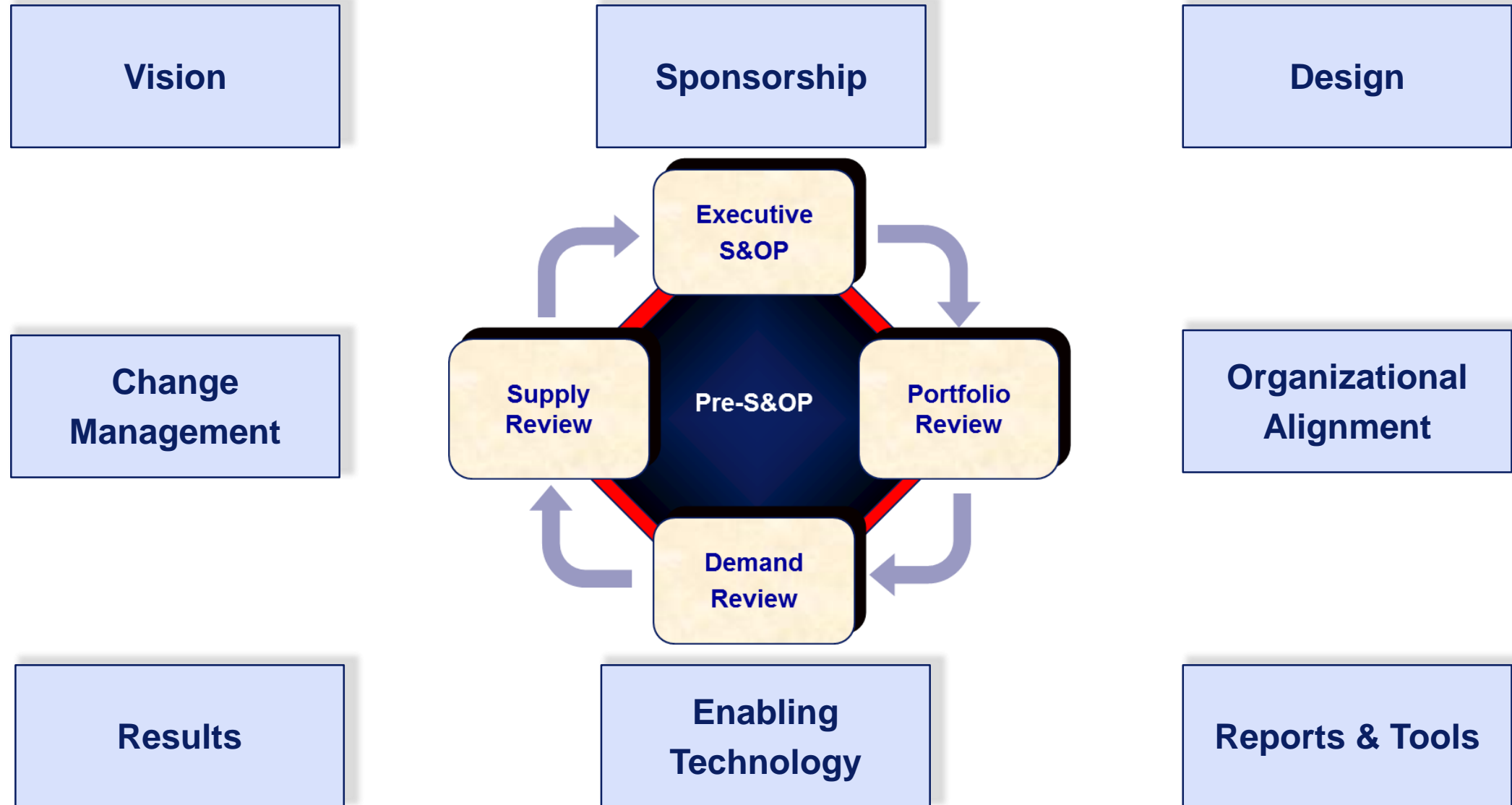
Meeting effectiveness, the S&OP design, and understanding are reported to be major challenges



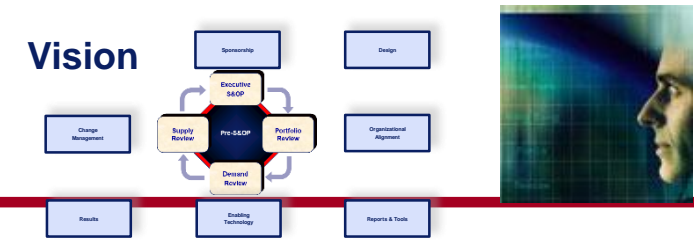
Source: Nexview survey, 2014

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Our experience shows there are 8 key levers to focus on for S&OP success

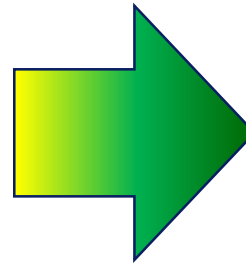


First, define your Vision for S&OP



Key Questions to Ask

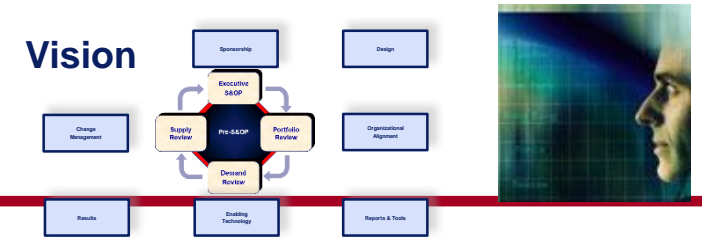
- How did you/should you define S&OP?
 - What it is and what it is not
- What should it accomplish, how will it help the business?
- What results will be impacted by S&OP?
- What should happen by when? (e.g. roll-out, process standardization, technology support, business results)



Next Steps

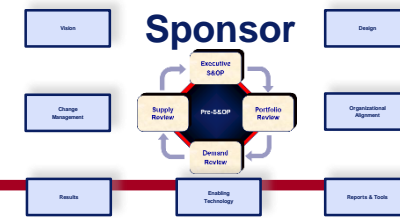
- “Core Team” agrees on the particulars
- Sponsor approves
- Document a vision summary and communication package
- Review it with stakeholders
- Communicate it frequently in various settings

We recommend a set of bullet points to convey a thorough, but concise message



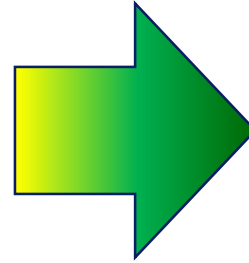
- We understand that S&OP is the aggregate and coordinated planning layer above the detailed supply chain planning processes; we'll identify several gaps in the underlying processes, but won't address all of them as part of this project.
- All business units will participate in S&OP.
- We agree to use a consistent process and set of tools.
- We have a viable and sustainable way to aggregate data at the product family level and can produce a rolling 18 month plan.
- The S&OP process will be the key input into the budgeting process.
- S&OP will help us stabilize roles and define accountabilities.
- We will reduce forecast error by 20%, reduce inventory by 15%, and improve on-time-in-full by 8% through S&OP.

S&OP needs an executive sponsor to be the true decision making process in the company



Role of the Sponsor

- Communicates the vision
- Ensures executive attention, participation, and messaging
- Ensure resources are allocated for S&OP
- Coaches peers, as well as upward and downward in the organization
- Coordinates regionally and/or globally



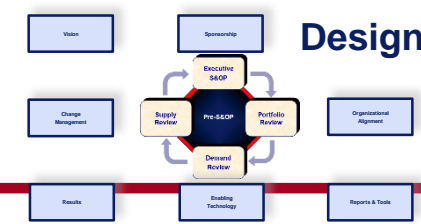
Who Should Be The Sponsor?

- CEO/GM?
- VP Supply Chain?
- COO/VP Operations?
- CFO?
- VP Sales and/or Marketing?
- CIO?
- Other?

The Sponsor can be any executive that has cross-functional expertise and influence.

Design – Overall Design Guidelines

- Adjust “Best Practices” to fit your business with the meetings in the S&OP flow
- Look for consistency across business units, but don’t force it where it doesn’t make sense
- Clearly define and document each participant’s role
- Be realistic about your ability to provide the infrastructure to support your design
- Awkward design structure/unclear component sponsor may point to a need to review the org structure

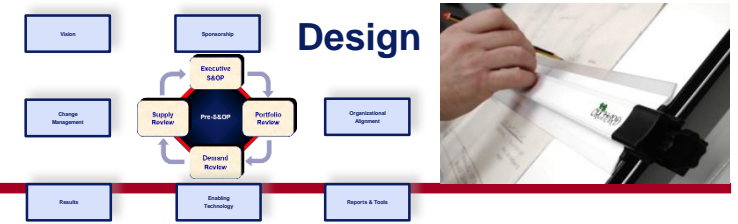


The S&OP design should align with, or help align these 3 legs



- Number and type of each S&OP component meeting
 - Align with org structure (e.g. P&L responsibility/financial reporting structure)
 - Align with asset structure
 - IT infrastructure to roll-up reporting
- Number of parallel S&OP processes
 - Division and/or company level (regional vs. global)

The scope of your design may involve regional and global considerations



Commercial & Product Elements

- Align design to how you face the market (e.g. sales organization, how products serve markets)

Supply Elements

- Align design to how supply assets and planning processes support demand (e.g. Single asset supports single market/region -> separate supply review at asset level; Multiple assets support single market -> multiple asset participation in supply review)

Pre S&OP & Executive S&OP

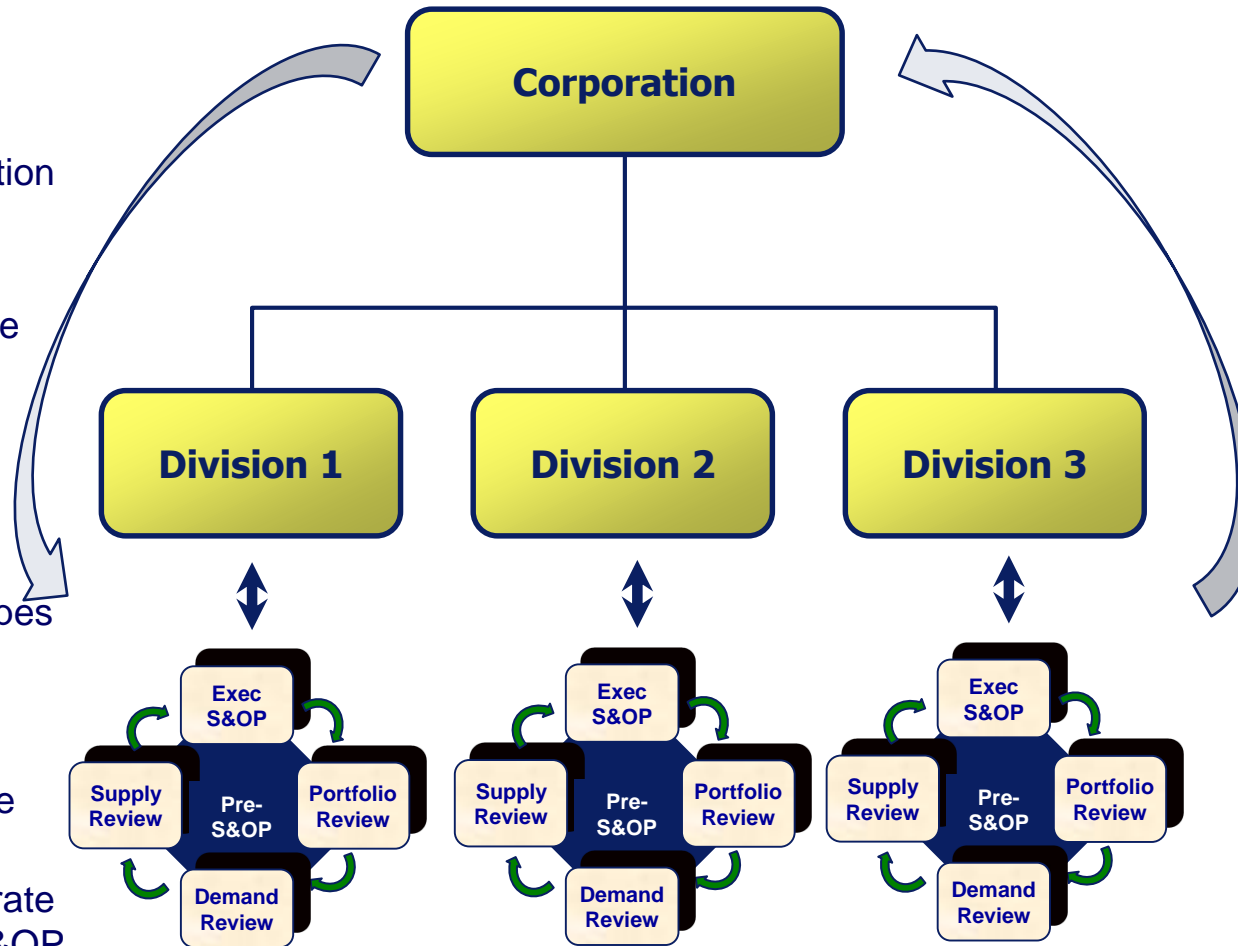
- Align design financial reporting structure
- Align design to how cross-functional decisions are made
- Align design to how cross-business units decisions are made

Corporate Priorities

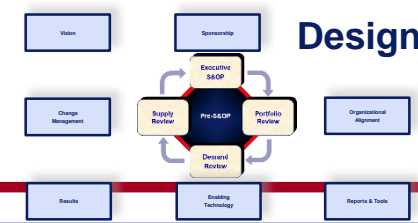
- Enterprise level priorities
- Financial consolidation
- Cross asset capital allocation
- Allocation of centralized functional personnel
- Roll-up of key performance indicators and plans

Division Priorities

- Division and BU scope
- Accommodate different types of supply chains, markets, strategies, etc.
- Prepares the GM to participate at the corporate level
- Do we have parallel separate processes or are some S&OP components shared?

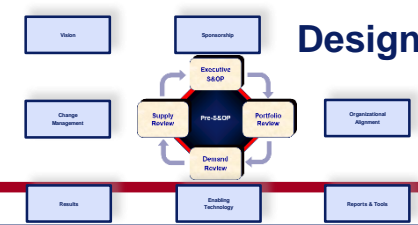


Design – Summary Checklist



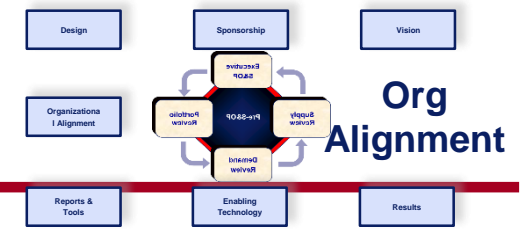
Item	Design Points	Dependencies
Overall Parameters	<ul style="list-style-type: none"> ■ Planning time horizon ■ Frequency of the process/planning interval (e.g. monthly or quarterly) ■ Time fence (frozen period) ■ Business drivers that interact with one another (i.e. what goes on reports) ■ What level in the planning hierarchy is appropriate for reporting, planning, and discussion? 	<ul style="list-style-type: none"> ■ Adequate for financial planning ■ Covers longest lead time items ■ Period that schedules won't change ■ How often do items come-up in the business that affect interfacing functions or next level down planning? ■ How often should this process change next level down planning outside of the time fence? ■ Discussion level should provide a view appropriate for intermediate planning
S&OP Components	<ul style="list-style-type: none"> ■ Component meetings of the S&OP flow ■ The component meetings typically are the capstone to an underlying sub-process confirming the plan associated with that sub-process ■ How many of each component ■ How the components integrate with shorter term tactical meetings and the executive meeting structure 	<ul style="list-style-type: none"> ■ Which functions need to have a “pre meeting” to prep themselves for a cross-functional meeting? ■ Which underlying sub-processes need a plan confirming meeting? ■ Components need to align with the organization, financial reporting structure, and data structure

Design – Summary Checklist (cont'd)



Item	Design Points	Dependencies
Schedule	<ul style="list-style-type: none"> ■ Sequence of the S&OP components ■ Time required between the component meetings 	<ul style="list-style-type: none"> ■ How does / should sub-process information flow between functions? ■ When are last month's financials available? ■ Are there constraints fitting the executive meeting with executive meeting structure? ■ How much time is required at the sub-process level between meetings? ■ How much time is required to prepare reporting for each meeting?
For Each Component	<ul style="list-style-type: none"> ■ Report format and planning drivers to show ■ Sponsor - Sr. Leader accountable for scope being addressed in each component meeting ■ Facilitator ■ Participants ■ Inputs ■ Outputs ■ Typical agenda 	<ul style="list-style-type: none"> ■ Operating and financial accountability for the scope of the meeting, senior decision maker ■ Next level down leader who facilitates the preparation and meeting

Each component S&OP meeting has 3 main parts



KPI Review of Recent Performance
(30% of meeting, backward looking)

Discussion and Decision Making on Key Issues (40% of meeting, 3-24 mo forward looking)

New Product Developmt	Sales	Marketing
Finance	Operations	Supply Chain

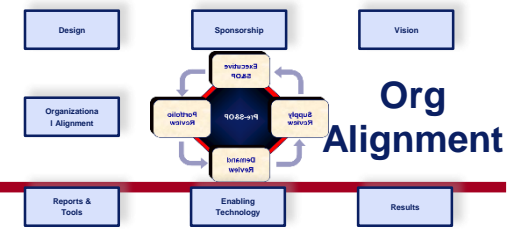
Possible examples include:

- Demand not meeting plan
- Supply constraints & allocation
- Product family level decisions
- Capital investment decisions

Confirm Plans/Make Adjustments
(30% of meeting forward looking)

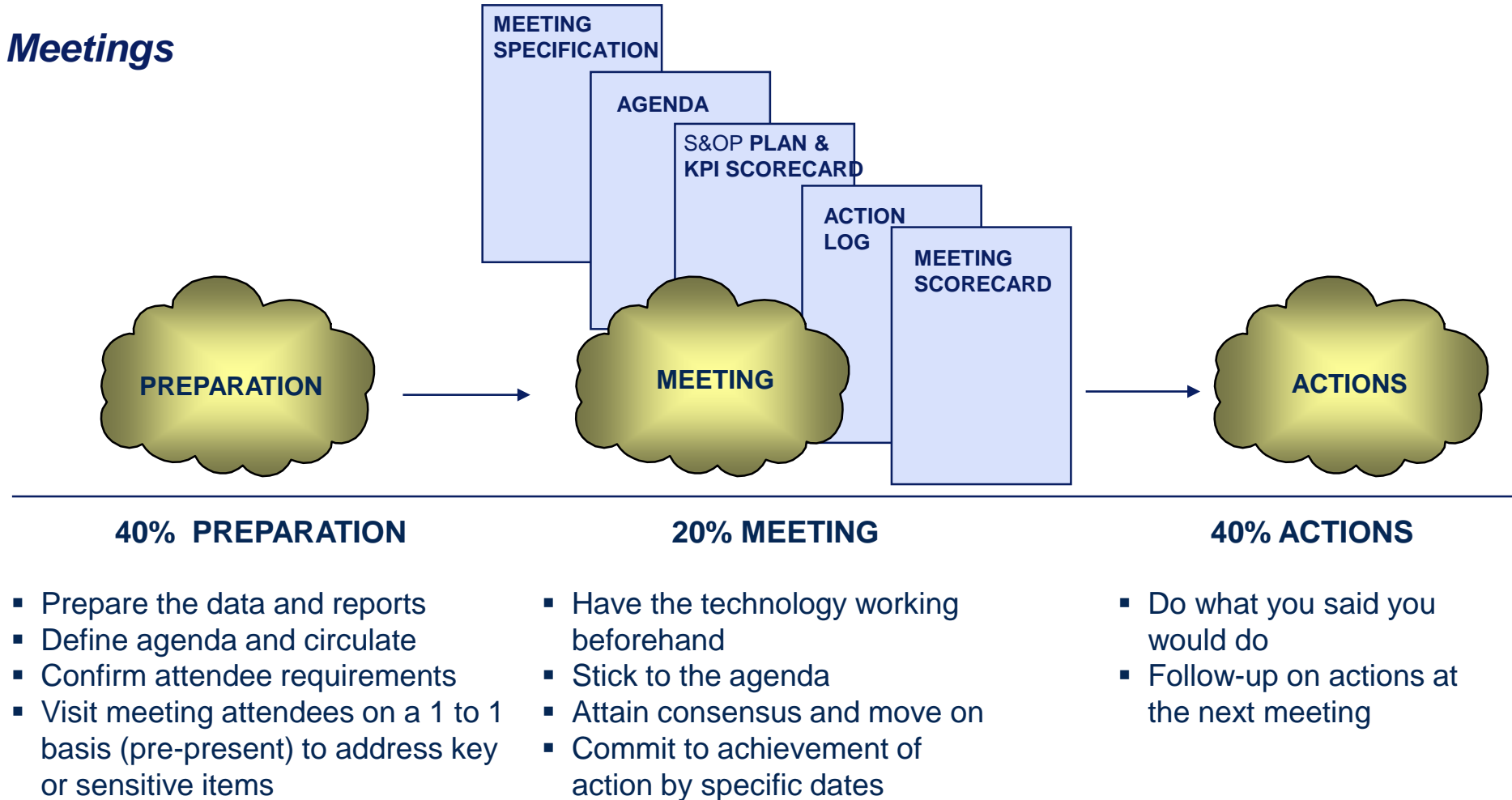
Linking leaders through S&OP builds winning teams.

Effective meetings are critical to keeping people engaged

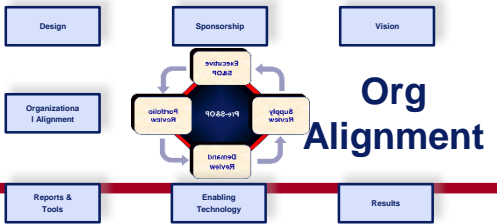


Components of Effective Meetings

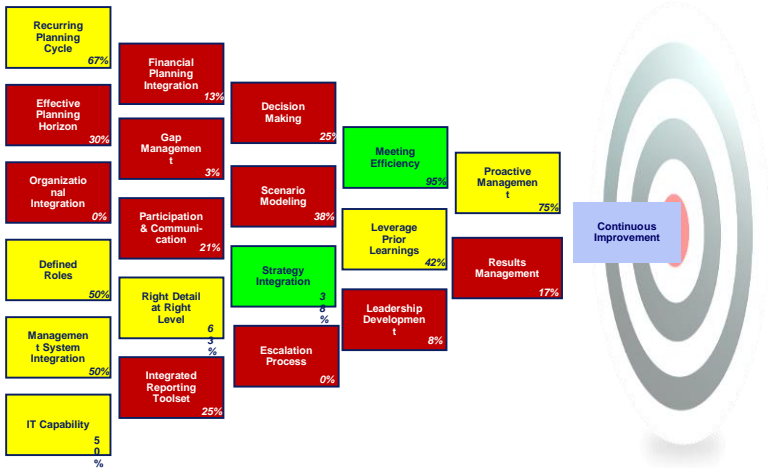
- Preparation
- Participation
- Time Sensitivity
- Discipline
- Actions
- Follow-up and feedback
- RESULTS



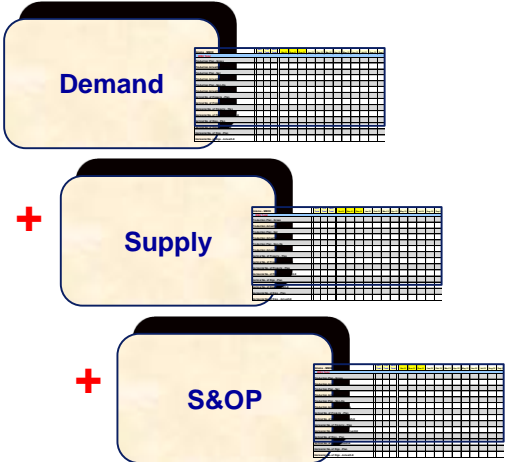
It's just not just about the meetings, the elements of S&OP work together to create the foundation for continuous improvement



An evaluation of planning processes, identifies opportunities for improvement



A series of monthly meetings are grounded in the part of the plan and business each are accountable for



Meetings and plans build upon each other showing more detail in prep meetings prior to the company level meeting

The plans and discussion build up to a consolidated operating and financial plan

Volume - MBOE	2011	YTD	2012	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12
WBUI Total	Total	Total	Total												
Production Plan - Gross															
Production Actuals - Gross															
Production Plan - Net															
Production Actuals - Net															
Production Plan - Non-Op															
Production Actuals - Non-Op															
Vertical No. of Projects - Plan															
Vertical No. of Projects - Actuals															
Horizontal No. of Projects - Plan															
Horizontal No. of Projects - Actuals															
Vertical No. of Rigs - Plan															
Vertical No. of Rigs - Actuals															
Horizontal No. of Rigs - Plan															
Horizontal No. of Rigs - Actuals															



S&OP helps to align and distribute accountability throughout the organization



The diagram illustrates the Business Model Canvas components and the tools needed for its development. On the left, a central dark blue circle labeled 'Pre-SEOP' is surrounded by six light blue boxes: 'Executive SEOP', 'Portfolio Review', 'Demand Review', 'Supply Review', 'Change Management', and 'Value'. These are connected by arrows in a clockwise cycle. To the right of this cycle are three light blue boxes: 'Sponsorship', 'Design', and 'Organizational Alignment'. On the far right, a collection of tools including a wrench, a hammer, a screwdriver, and pliers is shown, symbolizing the practical application of the business model.



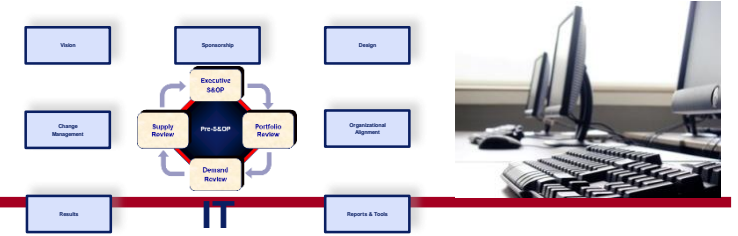
- Analyzes Plan to automatically identify exceptions to plan
- Variance analysis measures
- Focuses discussion

KPI Scorecard

- KPIs in the right meeting at the right level, reviewed by the right people
- KPIs focus on underlying levers to reduce variances, exception based
- Baselines & targets

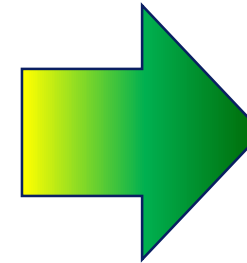
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IT tools are improving to support basic S&OP requirements as well as advanced functionality



Basic IT Requirements

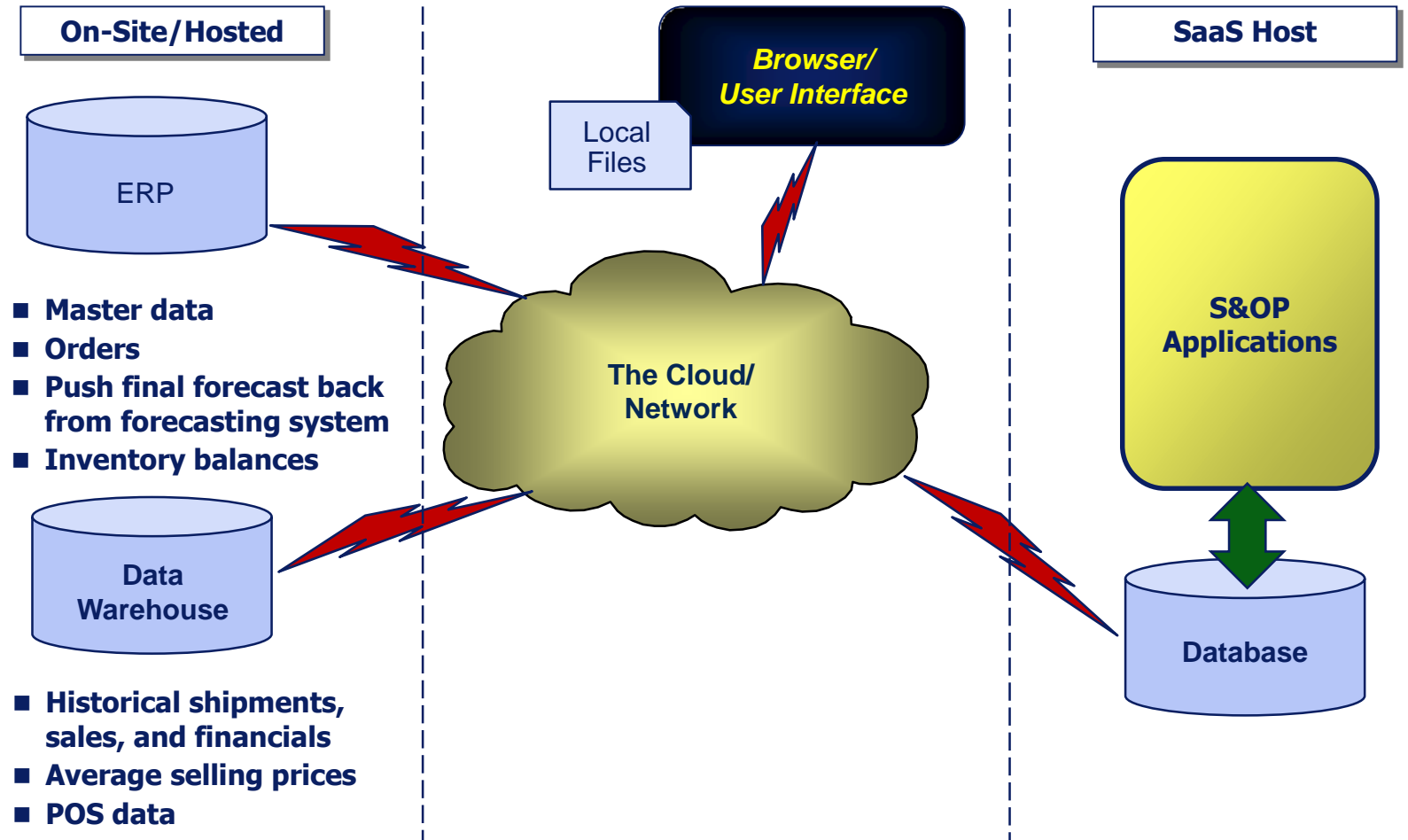
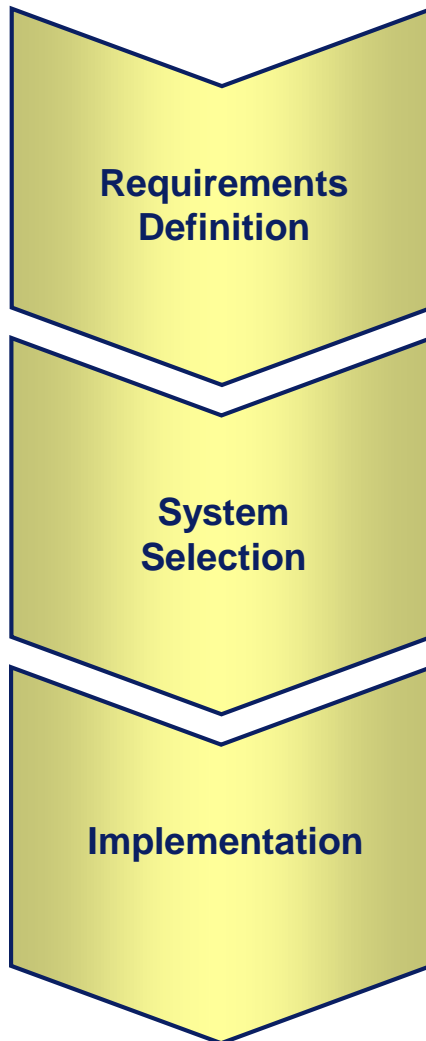
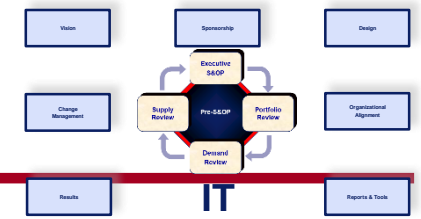
- Data people trust
- Report at any level in the product hierarchy with views to match your S&OP design
- Generate reports in an automated fashion such as not to require significant manual effort
- Report historical actuals with go forward plans on monthly rolling basis
- Exception highlighting or reporting
- Ability to monetize volume plans
- Make changes and have changes cascade throughout business systems
- KPI reporting



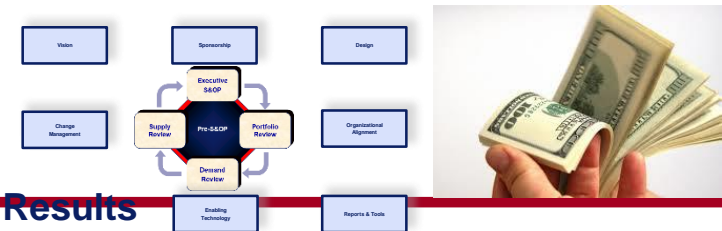
Advanced Functionality

- Access and summarize data from several systems
- Reporting templates that are easily changed by users
- Capability to cut or roll-up the data using ad-hoc views
- Scenario modeling to aid in decision making & profitability analysis
- Electronic workflow
- Exception identification
- KPI/Dashboard reporting
- Detailed planning functionality

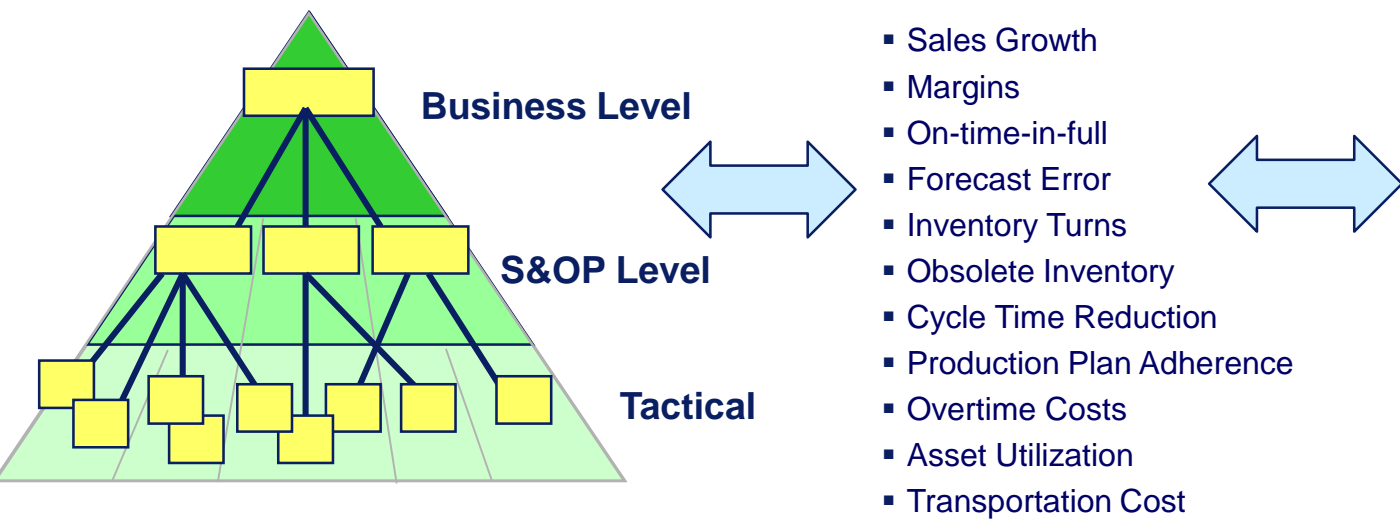
Just like any other IT system, there's the business and technical sides



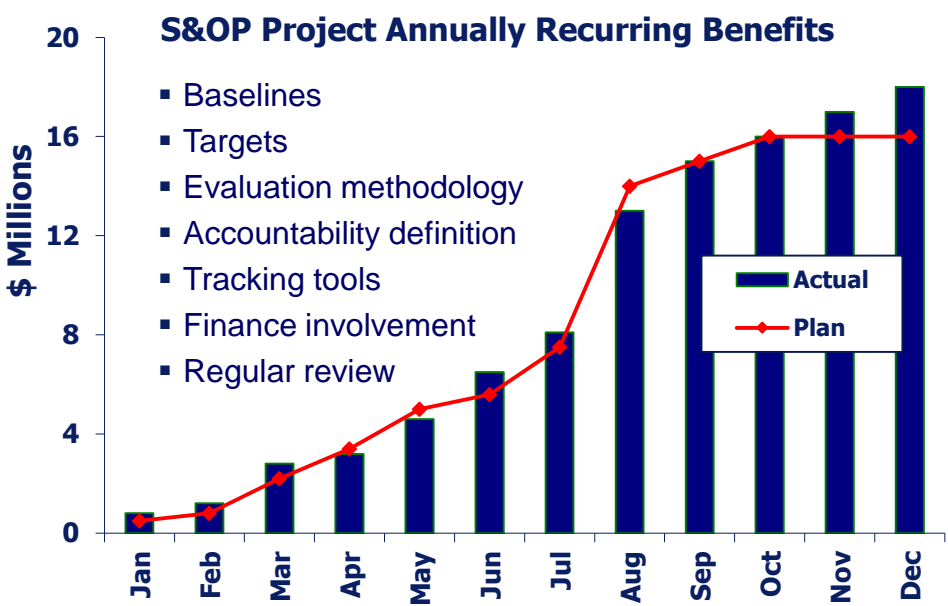
Results must be quantified to demonstrate the impact of S&OP



Financial and operating metrics to manage business results



Quantified improvement areas connected with a project

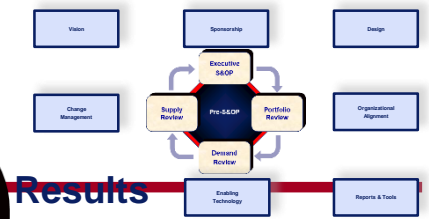


		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Portfolio Review	Plan	0	1	1	1	2	2	2	3	3	3	3	4
	Actual	0	0	1	1	1	2	2	3				
Demand Review	Plan	0	1	1	2	2	2	2	3	3			4
	Actual	0	0	1	1	1	2	2	3				
Supply Review	Plan	0	1	1	1								4
	Actual	0											
Pre-S&OP	Plan	0				1	1	2	2	3	3	3	4
	Actual	0				1	2	2	3				
Executive S&OP	Plan	0	0	0	1	1	1	2	2	2	3	3	3
	Actual	0	0	1	1	1	2	2	3				
Overall	Plan Tot	0	4	4	6	7	8	10	13	14	15	15	19
	Plan %	0%	21%	21%	32%	37%	42%	53%	68%	74%	79%	79%	100%
	Actual Tot	0	0	5	5	5	10	10	15	0	0	0	0
	Actual %	0%	0%	26%	26%	26%	53%	53%	79%	0%	0%	0%	0%

A defined S&OP process maturity tracking system

- Defined characteristics and best practices for each stage
- Expectations and timeline for improvement
- Tracked at the S&OP component level
- Data collected from surveys throughout the organization

S&OP is an enabler to improved company performance, results can be measured across several areas



S&OP aligns medium-term planning to drive, enable, and sustain benefits

Focus in the sub-process areas is often required to get the benefits.

6-12 Month Benefits (5- 25%)

- Reduced Inventory
- Reduced Obsolete Inventory
- Reduce Transportation Costs
- Reduce Unit Production Costs
- Reduce Material Costs
- Product Portfolio Management
- Grow Sales
 - Improved OTIF
 - Reduce Stock-outs
 - Manage to stretch goals

Portfolio Management

- Replace negative or low margin products with higher margin products
- Reduce service on low margin products
- Bring new products to market more effectively

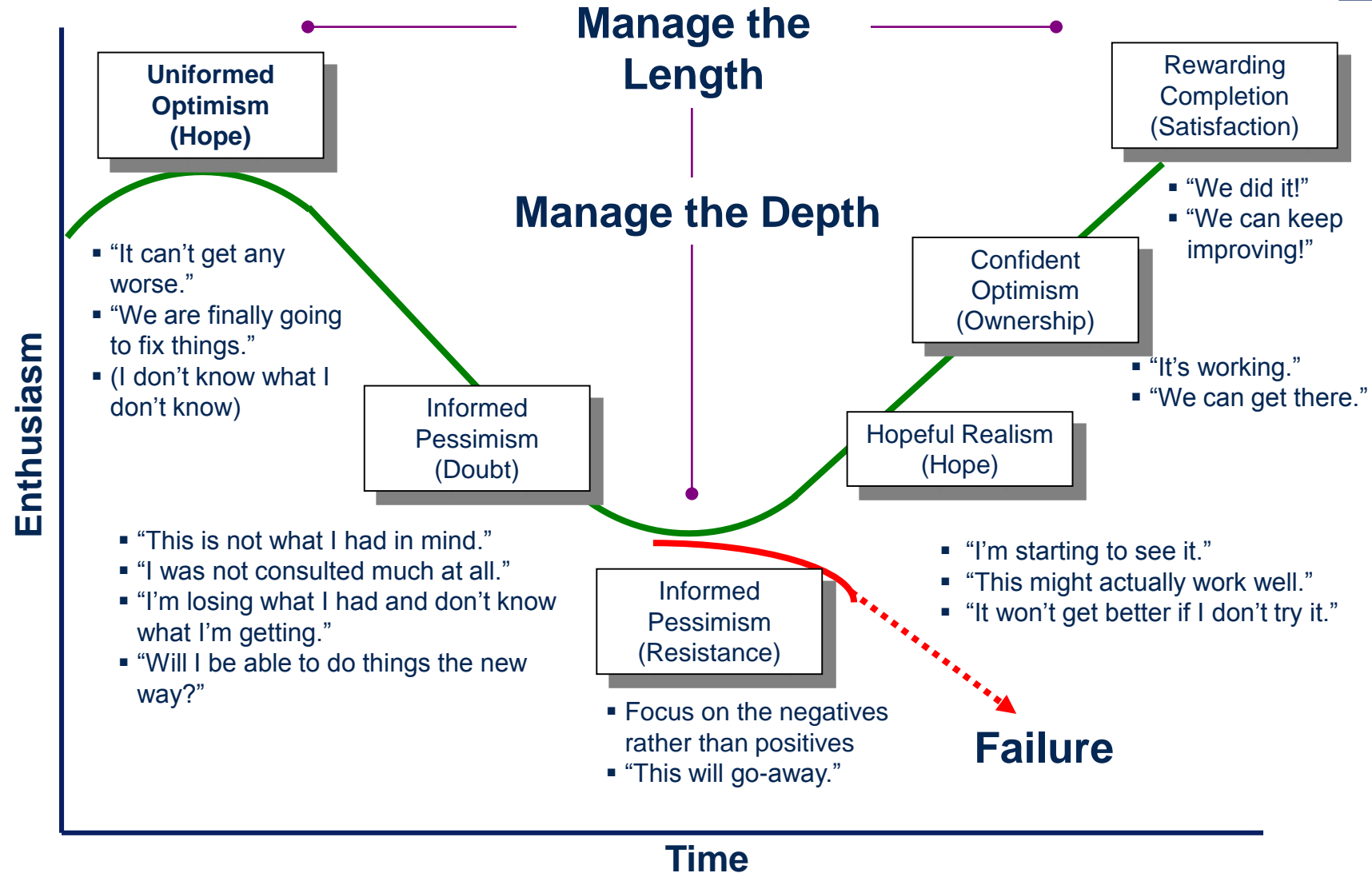
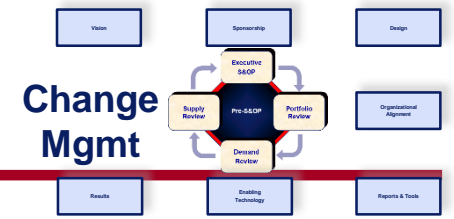
Demand Management

- Enable benefits throughout the supply chain through better
 - Demand management
 - Customer collaboration
 - Customer management

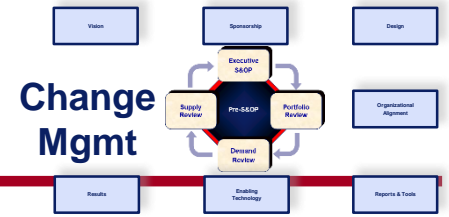
Supply and Distribution Management

- Short-term inventory reduction → “Police” production on top items
- Sourcing
- Tactical transportation areas (e.g. routing, backhauls, preferred carriers)
- Overtime management

On change initiatives, most people and teams go through an “Emotional Cycle of Change”



Managing change on a large scale is complex, it takes a variety of tools and methods at various points in a change program



Methods for Leading and Managing Change

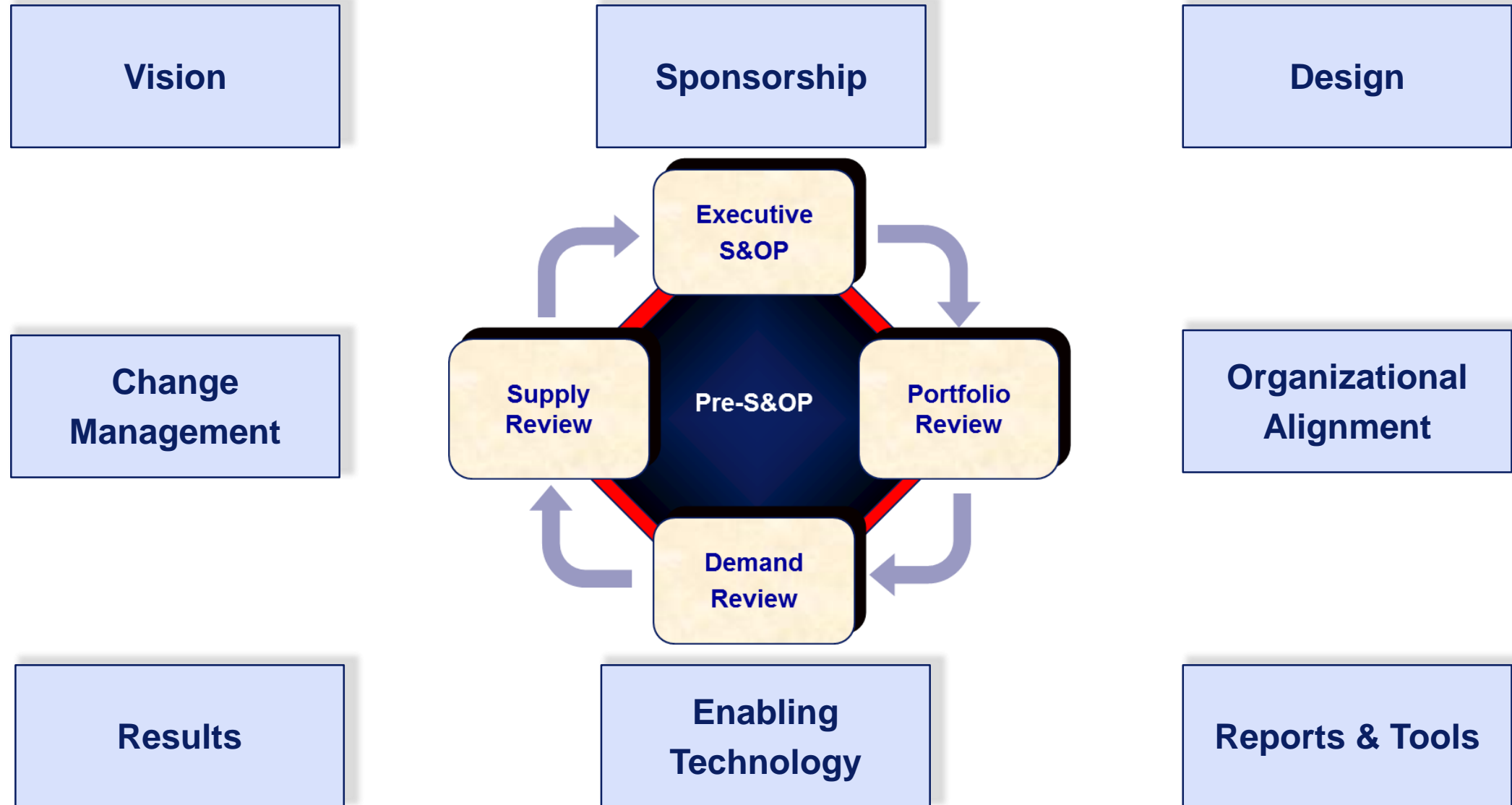
- Coaching at all levels – “WIFM”
- Celebrating wins, Root-causing missteps
- No surprises
- Communicating the Vision
- Communication Plans
- Stakeholder Analyses
- Defined Roles & Responsibilities
- Project Structure (e.g. Team Charters, Milestones, Project Plans)
- Project Reviews
- Results Management
- S&OP Meeting Effectiveness Reviews
- Action Logs
- Team Effectiveness Reviews
- Change Implementation Schedule

Desired Outcomes

- People are communicated to
- People are bought in
- People know what to do
- People got what they thought they were going to get
- People feel successful
- The “old way” disappears
- Results
- Sustainability
- Culture change

The idea is to build upon and improve capabilities in a sustainable manner to promote a performance improving culture.

Attention to these 8 levers will put your team on the path to S&OP success!



Tips and traps when implementing S&OP include:

- Remember the 8 levers
- Conduct an assessment first and commit improvements to measurable results
- Plan for training and roll-out sessions
 - Executive session during design phase, set expectations
 - Wider communication meetings to those not directly involved
 - Just in time training during the roll-out of the meetings
- Pilot the roll-out with a “friendly” business unit or area of the business, we want to show a quick win and success up front
- Roll-out to other areas in a manner that matches your capacity to support (meetings, data preparation, training stakeholders)
- Start the Executive S&OP meeting in month 2 or 3 of the rollout
- Don't underestimate the data assembly/IT requirements
- Measure operational and financial results
- Projects need communication plans, project management, and change management
- Get it 60-80% right, launch, and fix the rest as you go
- Each group takes about 3 cycles to be able to discuss the full scope of their business

If you'd like some more information



See the website

- Case studies
- Articles and blog postings
- Survey results
- More videos

nexviewconsulting.com



Consider our training courses

- Periodic public courses provide opportunities to exchange ideas with like minded professionals
- Company courses can be tailored to your team's needs and are a great way to build momentum
- Both provide a mix of instruction, exercises, and case studies with actionable outputs

Contact us

- We are happy to answer questions
- Provide our most recent survey information
- Exchange ideas on your particular situation

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