



Considering S&OP Decisions—Make Sure You Keep Your Story Straight

You're Making Important Choices. How Do You Consistently Account for the Important Factors?

The whole point of S&OP (Sales & Operations Planning) is to keep business stakeholders on the same page as business conditions change. The process is meant to consider possibilities and risks in the marketplace, in the supply chain, and in product development, resulting in decisions each cycle that reflect consensus on the best path forward.

Information is often uncertain, and moreover the kinds of new insights or concerns that arise over time don't fall into neat categories. Within each S&OP cycle, there may be several impactful questions to assess, and they may need to be considered both independently and jointly. Cycle over cycle, slowly-evolving scenarios may need to be revisited on an ongoing basis.

The questions for S&OP process quality and performance are:

1. Can you put clear definitions and boundaries around the questions and scenarios you want to analyze?
2. Are you able to compare what appear to be apples and oranges in a business-meaningful way?
3. Can you repeat your results? If the same questions emerge next cycle under similar conditions, will your process deliver comparable outcomes?

Are Your Scenarios Well Thought Out?

One of the hardest parts of managing an S&OP process is making each alternative you assess worth the effort, and making sure meanwhile you cover the territory that needs attention.

Make no mistake, it is work to define alternative scenarios and work through them to useful conclusions. Large amounts of data are typically at stake, and you need to replicate some of the most computation-

intensive steps of the planning process to get results you can compare. Many business questions reflect a spectrum of possibilities rather than discrete events, and it's a bit of an art to nail down the most useful examples that produce the desired insights.

Questions for well-crafted scenarios include:

1. Do they describe readily identifiable, specific differences from the base case in data driven terms?
2. Is each one a clear step apart from the others, answering a different question? Do you have as few as possible without omitting key interests?

S&OP scenarios address two kinds of business questions. First, plans must be tested for robustness in the face of uncertainty of inputs and assumptions. Scenarios for this are of the type +/- demand, pricing, etc. to detect any areas where the plan is hyper-sensitive to small changes. These are often repeated each cycle as a standard element of the process. The second type is examining the impact of discrete business questions and opportunities - "what if we take Plant 4 offline for a quarter?" or "what if we enter the Japan market?" These come up when they come up and may be resolved in a single cycle or may persist for a while until it's time to make the final call.

How Do You Define Goodness?

S&OP makes a wide variety of decisions, from adding capacity at a given site to shifting pricing strategy as markets heat up or soften. Under these circumstances, comparing the impact of various scenarios is tricky.

The dashboard of measures by which you judge the merits of each scenario is ideally how you measure overall business success and performance. Metrics that respond to S&OP level business decisions typically include:

- Net Revenue
- Fill Rate or On-time Delivery Performance
- Gross Margin
- Return on Net Assets (RONA)
- Operating Profit

Such measures should be supported by additional metrics that can localize and diagnose key differences in comparable base case metrics, but their independence from "why" is part of their value.

Can You Do It Again?

One of the hardest things about scenario analysis is building confidence that your methods produce reliable insights over time, using comparable methods and measurements. Scenarios requiring analysis

can persist over multiple cycles, and it's important that their interpretation and analysis not be disrupted by one-off factors that can lead you to unwelcome decisions or dispositions.

The processes that generate scenario planning outputs and associated metrics should not be left to chance. Any scenario worth discussing deserves investment in readily auditable data definition and planning analysis, and the scenario assessment process should incorporate transparency in all key assumptions and data variations that led to the results under review. When scenarios are repeated across cycles, review should include incremental changes and observations since previous review, and evaluation of their impact on results.

While there will always be ad hoc topics that pop up in the S&OP process, robust scenario analysis for the really important decisions has to be conducted with some rigor and inevitable overhead.

How Can I Improve My Current State?

S&OP is Spinnaker's strike zone. We have helped many companies up their game, not only by applying leading practices but in supporting process quality with appropriate technology and automation. We focus strongly on the analytics and metrics that provide the essential insights into business impact and performance. We know what it means to move the needle, even with mature processes.

To find out how we can help your organization achieve measurable S&OP performance improvement, please reach out and we'll be happy to discuss.

We hope you found this information to be helpful. To access more Spinnaker thought leadership [click here](#), or to learn more about our services [click here](#).

About Spinnaker:

Spinnaker is a supply chain services company that helps clients grow, manage risk, reduce costs, and improve customer service by developing world-class supply chain capabilities. Our services help clients develop the right supply chain strategy for their business challenges and implement the process and technology solutions to improve Demand/Supply Planning, Procurement and Sourcing, Logistics and Warehousing, and Reverse Logistics business performance. Spinnaker offers a unique service delivery model that combines the strength of deeply experienced management and technology consultants with a seasoned team of business process outsourcing (BPO) and 3rd-party logistics (3PL) professionals. Founded in 2002, Spinnaker has offices in Boston, Columbus, Denver, Houston, Memphis, Pittsburgh, London, and Singapore.

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