How to Avoid Common Change Management Failures When Implementing S&OP

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EXECUTIVE SUMMARY

In the much mocked world of business improvement programs (think "Business Process Reengineering", "Total Quality Management", "Six Sigma", "Lean", "Lean Six Sigma", "TPS Reports", etc.), the name "Sales and Operations Planning" ("S&OP") is actually about as direct, simple, and accurate as can be imagined. Involve sales, involve operations, get better at cross-functional planning and improved business performance will follow.

Unfortunately, while companies often focus on putting in place the processes and tools to achieve best-in-class S&OP performance, many companies underemphasize the importance of change management during these efforts and spend too much effort focusing on aspects of S&OP that don't provide business value for their situation. As a result, personnel become disillusioned with the process, improvements can be slow to materialize, and there is a real risk that the improvement efforts will fail.

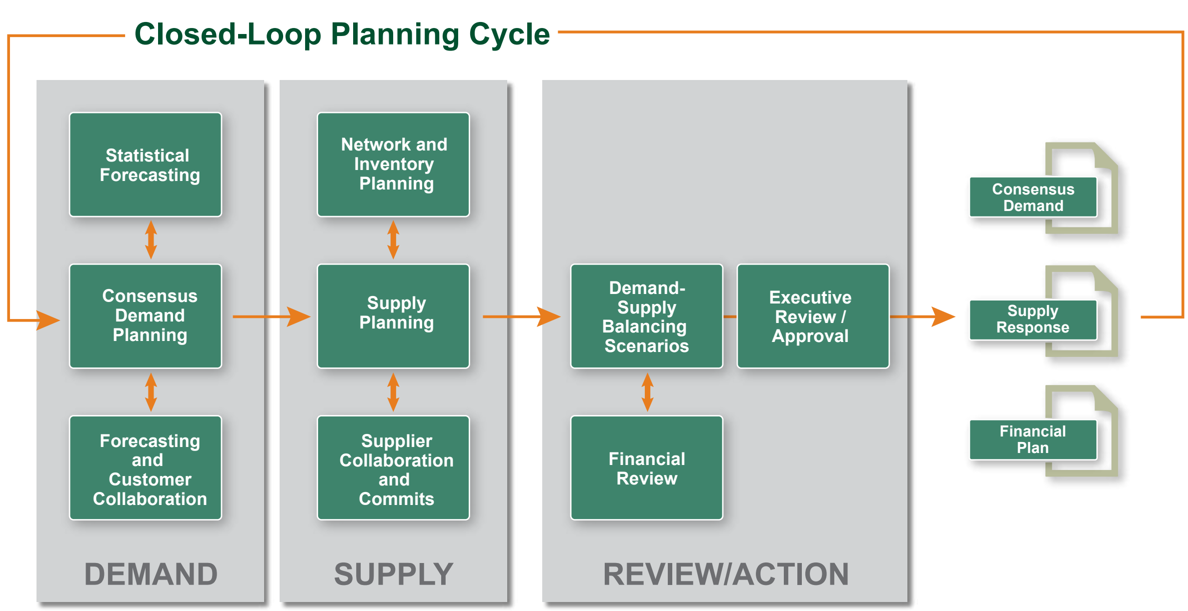
In this white paper we discuss common change management challenges we encounter during S&OP initiatives and provide recommendations for simple and pragmatic strategies companies can follow to successfully implement S&OP in their organization.

THE CLASSIC S&OP PROCESS: SIMPLE – BUT NOT EASY

The mechanics of a "classic" S&OP process are well understood from a business process and technology perspective. The S&OP process lays out a clear set of activities and meetings focused on Demand, Supply and Review/Action decision-making, and the information used in these meetings is well defined.

Spinnaker works with many clients to implement or improve S&OP – invariably, the processes implemented together are some version of the standard S&OP framework depicted below.

Spinnaker's Standard S&OP Process



If S&OP is so simple, why do companies still have a difficult time implementing the process? Companies often do not adequately prepare for change. They underestimate the very real challenges of improving cross-functional business planning processes, even when all players say they want to improve the overall planning process.

Spinnaker's experience has shown that – as simple as it might seem – getting Operations and Sales to work together can be a challenge. In many organizations that Spinnaker has worked with, Operations is leading the initiative to implement S&OP to improve overall planning and operational performance. In other companies Sales is motivated by P&L responsibilities to improve Sales & Operations Planning processes but has difficulty engaging Operations. Independent of who initiates an S&OP effort, most companies that fail to implement S&OP successfully don't fail due to a lack of understanding of how textbooks say S&OP should work. They fail because they don't adapt S&OP to their unique business environment and they don't develop a trustful working relationship between Sales and Operations.

Spinnaker has observed three ways organizations fail at S&OP:

1. Companies haven't clearly defined what they're trying to achieve through S&OP and how S&OP will help them achieve these goals.
2. Companies fail to develop the trust between Sales and Operations that will allow S&OP to be a win-win for both organizations.
3. Companies try to implement only standard S&OP processes and don't focus S&OP efforts on making the decisions that impact their strategic goals.

Companies can avoid these pitfalls by adopting specific change management best practices that address each of these three issues.

S&OP CHANGE MANAGEMENT BEST PRACTICE #1:

Clearly define WHAT problems S&OP will help solve and HOW it will help solve them

Companies invest time and resources to improve planning processes because they believe the effort will yield positive business results. All too often this simple truth is forgotten when "implementing S&OP" shows up on someone's performance plan, and meeting the individual's performance objective eclipses the organization's objectives for S&OP. The cure is to clearly define *specific business objectives S&OP will help the business achieve, and how S&OP will help the organization reach these objectives*.

Starting with the "what" question, one of the few simple things about supply chain management is that there are just two primary objectives: customer service and cost management. The motivation to implement S&OP generally comes from a desire to improve performance (both average performance and reliability of performance) in one or both of these dimensions. Defining which performance outcomes need to be improved is important for developing organizational buy-in for S&OP.

The second question is "how" S&OP will help improve performance. Some typical decision-making improvements that drive better business performance include:

- Better forecast accuracy
- Enhanced coordination of new product launches
- Better visibility of demand and supply mismatches
- Strategic capacity investment and purchasing decisions

S&OP also initiates targeted communications processes and discussion forums to support cross-functional decision-making:

- A process to agree on customer/product prioritizations and manage the allocation of short supply
- A process to agree on inventory strategies
- A forum to evaluate demand risk and supply chain risk
- A process to align Sales, Operations, and Finance plans

While S&OP can help with all of these, most companies – especially those with immature processes – will not be able to focus on all of them at once. It is also worth noting that while successful S&OP does improve forecasting, in many industries forecast quality can only be improved so much. That is why Spinnaker recommends against focusing S&OP solely only forecasting improvements.

When determining how S&OP can help, an organization should weigh the ease of implementation against the benefits of each S&OP priority above, select a few to focus on, and make sure these are successful. Operations and Sales may have different incentives and strategic objectives, but to the extent that each party needs to invest scarce resources to make S&OP a success there needs to be some alignment on the goals for the process. Having a realistic set of objectives for how S&OP will help improve performance will ensure that these priorities are actually achieved.

S&OP CHANGE MANAGEMENT BEST PRACTICE #2:

Develop trust between Sales and Operations; ensure the S&OP process benefits both

Often, one organization is pushing to implement S&OP, and the other must be convinced to spend effort on the initiative. In conversations with senior Operations personnel looking to implement S&OP, the question most often is, "How can I convince my colleagues in sales and marketing to do their part, show up to the S&OP meetings, and provide me with a more accurate demand forecast?" When Sales is leading the way the refrain is, "I don't understand the supply picture and my order promise dates always move. How can I get more accurate supply information – as well as flexibility – so I can provide input and decide what demand to satisfy?"

Cross-functional cooperation is a hallmark of excellence in S&OP, but it is a mistake to make it a prerequisite to launching an S&OP initiative. The most successful companies make it a priority to start first with the improvements that are possible, develop a track record of success, and then engage supply chain partners.

When thinking about engaging the functional area that is not motivated to pursue S&OP, companies should consider the following questions:

1. Does the less motivated party care about the "what" that the group driving the initiative wants to improve?

   In many companies, Sales and Operations are natural partners in S&OP and work well together. However, there are examples where Operations doesn't trust Sales' input into the planning process or where improved operational performance truly isn't a priority for Sales.

   At one Spinnaker client, the Vice President of Operations was focused on reducing inventory and customer lead times, both legitimate goals. But the Vice President of Sales was focused on his strategy to sell consumer electronics to customers and then retain them as online subscribers. From his perspective, the consumer electronics devices made reasonable margins, but the revenue from subscriptions was both larger and significantly more profitable.

   In a situation like this, improving the planning and S&OP process can still provide significant results. But it is foolish to assume Sales will devote scarce resources to a process that is not high on their priority list. Spinnaker has also observed situations in which Operations views a Sales-led S&OP effort as an attempt for Sales to micro-manage, create work for, or embarrass Operations.

Companies that are successful with S&OP have realistic perspectives on how the differing priorities of the sales and operations functions impact willingness to invest time in S&OP-related initiatives. In the ideal situation, a shared sense of urgency can be created; when that isn't possible, an alternative approach may be required.

2. To achieve "how" S&OP will help improve performance, do I need full participation from the other functional area?

S&OP can help improve supply chain performance by improving forecast accuracy, aligning new product launches and strategic purchasing decisions, and by providing a forum to manage the allocation of short supply.

When deciding how to use S&OP to improve performance, it is worthwhile to consider the amount of cross-functional collaboration that will be required and take into account that driving change across organizations is more difficult than within one group.

For some, strategies can be executed very effectively with very little need for outside functions to commit time and personnel; in these cases, being overly focused on cross-functional involvement can be a detriment to getting results. Where strategies don't require heavy cross-functional involvement to provide significant ROI, companies should focus on what provides value and avoid the urge to dwell too much on whether or not all functions are fully engaged.

Even when it looks like cross-functional S&OP involvement will be difficult-to-impossible, there is still hope. The fact is, a variety of problems can contribute to an underperforming supply chain: poor forecast accuracy, slow planning and execution response times, high costs, unreliable suppliers, or an overall inability to recover from even the slightest problems.

Companies that are the most successful with supply chain collaboration – both collaboration between functions within a company and collaboration between companies – fix the problems in their own backyards first and then work across organizations.

That is why it makes sense to begin by taking all reasonable steps to improve the performance of the supply chain and planning related processes controlled by the specific function. Before tackling problems that require the participation of different functions, best practice dictates establishing a track record of solving problems that matter to other organizations.

Next, companies should develop alignment across functions to solve problems that matter to the cross-functional leadership. Starting with small efforts, they begin to address these issues together.

Organizations that focus on creating S&OP buy-in across functions and developing a track record of working together usually find both internal and external supply chain partners are much more willing to engage in cross-functional improvement efforts such as S&OP. Failure to build trust over time can turn S&OP into one more failed flavor-of-the-month improvement initiative.

S&OP CHANGE MANAGEMENT BEST PRACTICE #3:

Adapt S&OP to suit your priorities

For most companies, business results are based on a few strategic, key decisions. Recognizing this, world-class companies focus their S&OP process on these key decisions rather than putting equal effort into every step of classic S&OP. Because S&OP is often used as a vehicle to engage executives in key decisions, it is crucial to focus executive time on the decisions that matter most to make the process successful.

The client case studies following illustrate how two different companies emphasize specific aspects of S&OP based on the key decisions that matter for their businesses.

CLIENT CASE STUDY #1

For leading consumer electronics manufacturer, retail promotions (co-funded and co-planned with retailers) had a huge impact on weekly sales. Weekly retail sales for a product on promotion could easily increase by a factor of fifty relative to non-promotion weeks. But accurately forecasting the multiplier was extremely difficult. The manufacturer noticed that if a lower volume product was promoted and sales were on the lower end of the forecasted quantity, it could take months, or even years, to burn off the excess inventory pushed into the channel to prepare for the promotion. In an environment where inventory carrying costs were on the order of 50% (due to product obsolescence and rapidly decreasing production costs) such mistakes were extremely expensive.

While the manufacturer was exposed to channel inventory and had little control over it, the manufacturer's internal supply chain was based on a demand-driven postponement model that provided the capability to quickly and cost effectively react to demand changes. Given the situation where demand mistakes are costly but supply is responsive and flexible – the company decided to focus most S&OP effort on managing demand and channel inventory. The company ultimately realized that promotion planning (which SKUs could be promoted, the discounts allowed, and the advertising mechanisms) had a huge impact on supply chain, inventory, and financial performance and promotion planning decisions during the "Consensus Demand Planning" step in S&OP began to play a central role in the process.

CLIENT CASE STUDY #2

A fabless semiconductor company was in the business of designing devices using flash memory, purchasing this memory from third-party semiconductor fabrication companies, manufacturing hundreds of different devices using this memory, and selling them to other companies. Like the company in Case Study #1, the company takes raw materials (semiconductor chips) and produces finished devices with a short cycle time. However, in order to ensure timely delivery of the raw materials, the company was forced to place firm purchase orders with semiconductor manufacturers three to four months ahead of when material was required. While the company only purchased between five and seven different types of memory chips, the spend associated with these purchases represented hundreds of millions of dollars. The price of being wrong was lost sales on the one hand, and on the other, significant inventory holding costs due to rapid declines in flash memory pricing.

Because of the investment and risk involved in silicon procurement decisions, the "Executive Review/Approval" step in S&OP played a prominent role for this company. The CEO, COO, and CFO would all forgo travel in order to be physically present at a monthly meeting to review the recommended purchases and actively engage with engineering, sales, marketing and operations in a dialogue on the assumptions and implications of the recommended plan. While micro-level details of the demand and supply plans were sometimes discussed, the meeting became an important forum to discuss macro-trends in the industry and incorporate these into key operational business decisions.

Both of these companies developed a clear understanding of the key decisions they wanted to improve by implementing S&OP and adapted the process to focus on those decisions. These specific decisions don't appear in a textbook S&OP process. But, the S&OP framework provides an effective structure to prepare the necessary analysis, evaluate the options, and gather the important decision-makers to improve the way these decisions are made. Companies that succeed with S&OP ensure that the decisions being made are the right ones.

CONCLUSION

In working with dozens of clients to improve planning and S&OP performance, Spinnaker has had the opportunity to observe the critical differences between companies that adapt well to change and those that do not. Those that are most successful in their S&OP initiatives follow three best practices for effective change management:

1. Clearly define what problems S&OP will help solve and how it will help solve them.
2. Focus on cultivating cross-functional trust between Sales and Operations and use the process to drive benefits for both organizations.
3. Adapt S&OP to address your business priorities.

SPINNAKER

Spinnaker is a global leader in supplychain consulting and execution services. We deliver supply chain excellence with world-class people, processes, technology and operational know-how.

Founded in 2002, Spinnaker operates on two guiding principles – measure our success by our client's accomplishments and treat every situation with honesty and integrity. It's from these guiding principles that Spinnaker has been able to achieve tremendous growth.

Spinnaker has worked with entrepreneurial start-ups to Fortune 100 enterprises in industries such as Consumer Products & Retail, Energy/ Oil & Gas, High Tech & Semiconductor, Industrial Manufacturing, Medical & Pharmaceutical, and Telecommunications. We combine our vast supply chain and business process knowledge with industry best practices to deliver solutions that drive tangible results for our clients.

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