

Sales and Operations Planning Lite

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Abstract

Our philosophy at Supply Velocity is that every business does some of the work covered by the Sales & Operations Planning toolkit. How could you not? If you want to successfully deliver for your customers, somehow sales has to sell the right things and then operations has to deliver them. However, we often find significant areas of opportunity to improve planning for both Sales and Operations with our clients. In this white paper we will describe our lighter version of Sales & Operations Planning (S&OP Lite) which can help any organization benefit from better planning and alignment of their company. While it is designed with small and mid-size companies in mind, even larger companies that want a lighter level of bureaucracy associated with S&OP can adopt some of these methods.

Traditional Sales and Operations Planning

We have heard from many companies who are not successful at implementing the traditional Sales & Operations Planning structure. Further, many more have not tried because of the perceived challenges and lack of long-term success.

Like many bureaucratic processes, S&OP was designed based on experience of what tended to go wrong without discipline. The fundamental idea of S&OP is to align the organization across both sales and operations. That idea is a clear winner, but the implementation often does not deliver on the promise. The key downside is that S&OP can seem like just a series of meetings to be had with some expected analysis along the way. Unfortunately, the ultimate goals of making decisions and taking action can be lost in the monthly cadence of meetings and preparation.

Lots of companies find S&OP doesn't work very well because they focus too much on the formal process and not enough on the point. And for smaller organizations, investing in a process with that much overhead does not sound like a good idea to begin with.

The Key Goals of any S&OP process

If S&OP is to be beneficial to an organization, there are a few key outcomes that we look for. The most important is to see greater alignment across the organization as the whole team works together. As a result of the S&OP process, we also expect to see good decision making that will allow us to profitably fulfill our chosen subset of customer demand. But more than that, a good S&OP process provides a platform for both the Sales and Operations teams (with input from Finance) to identify bets worth taking. Some examples of what we mean by "bets" are:

- Choose to start production or reserve capacity before an order is firm
- Order from suppliers early to introduce flexibility or shorten lead times
- Prioritize operations based on assumptions about the behavior of end customers
- Run a promotion below cost to attract future customers
- Ordering a larger quantity to get a discount because we think it will sell

S&OP is unique because it asks both Sales and Operations to take a seat at the planning table together, with leadership available to decide how to balance the two

sides. If the decisions being made or bets being placed do not require a balance between Sales and Operations, the S&OP process is not necessary. Said another way, if Sales OR Operations can solve it by themselves, you don't need S&OP.

S&OP Lite

For smaller or less hierarchical organizations, the traditional S&OP process can be a lot of overhead. And for organizations that are not disciplined about the purpose of S&OP, it can quickly become a waste of time for the team. To avoid both issues, we sometimes choose to implement "S&OP Lite" with our clients. S&OP Lite is most appropriate when the owners of the demand forecast and the supply forecast are also part of the leadership team who will choose how to balance demand and supply.

If the leader of sales has visibility to all sales activity, the role of an S&OP process should be focused on helping them remain disciplined on quantifying sales opportunities. Similarly, if the leader of operations has visibility to all capacity constraints, it can also be helpful for them to quantify where current and expected bottlenecks exist. If it takes a team to identify total demand or supply, that is your hint that a more traditional S&OP process may be worth the effort.

For S&OP Lite, product families continue to play a key role in communication between demand and supply estimation. Product families should be unique to your business and help quantify how different operational choices may impact total throughput. They also continue to help elevate the S&OP conversation to a tactical level that is most often missed in the daily hustle of smaller organizations.

Going into the S&OP Lite meeting, our agenda always focuses on the key question of what either Sales or Operations could ask of the other to help the company be more successful. Some example topics:

- What changes to capacity does Sales believe they could fill?
- Where is there open capacity on the operations side already?
- What changes to Operations would allow us to more profitably fulfill customer demand?
- If we made more capacity available through a bottleneck, could sales fill that additional capacity?
- Are there changes in the market which operations could be responsive to if they were aware of them (e.g., lead times).

Focusing on the bigger picture and what each side needs from the other ensures the meetings are valuable and solving problems that cannot be solved another way. Creating a (slightly) formal process also ensures these important topics are not lost in the daily shuffle.

Implementing and Sustaining S&OP Lite

Creating a Sales & Operations Planning process will have the same key steps regardless of if you are focused on the Lite version or the traditional structure. However, while the key steps are the same, our attitude towards completing those steps shifts dramatically. We fully believe each component of traditional S&OP exists for a reason, and ideally most organizations would have all the same components as part of their process.

However, we believe a framework consisting of monthly meetings that are focused on making decisions and placing bets to balance Sales and Operations will always be valuable – even if all other components are missing. For traditional S&OP a proper sales forecast and supply forecast are considered table stakes. This often introduces a long delay in benefiting from S&OP as each side tries to improve their forecasts before beginning the formal process.

Depending on the size of the organization and the team, the first step in your S&OP journey could be to just commit to the monthly meeting with the right players. We do believe product families are a key to S&OP working, so your organization will need to quickly tackle that problem. Similarly, everyone needs to be on the same page about demand and supply. Therefore, with or without a numerical forecast, both sides should expect to present on the current state.

As we have highlighted throughout this paper, the goal of the meeting should be to make decisions and place bets. Some specific decisions we have seen with our clients:

- Operations will hire more people in our bottlenecks to meet demand
- Purchase critical components ahead of the customer order to promise a faster leadtime than competitors
- Sales will try to sell more work that does not hit our bottlenecks
- We will outsource work that would hit our bottlenecks
- Sales and Operations defined together what the time fences are for planning and production
- Produce in advance of sales
- Prioritize customers and orders together based on the relationship and capacity

Conclusions

If your organization does not have a formal S&OP process, we encourage you to start somewhere. Whether or not you pursue the traditional S&OP process or a Lite version focused on getting the right people in a room and talking about the issues, every organization benefits from a platform for balancing sales and operations.