

Integrated Business Planning (Advanced Sales & Operations Planning)

An Executive Level Synopsis



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Oliver Wight consultants and educators have been helping clients prepare for and implement Sales & Operations Planning (S&OP) for many years. In recent years, S&OP has continued to evolve into an even more comprehensive integrated management process called Integrated Business Planning (IBP). This synopsis is designed to help people new to Integrated Business Planning (Advanced S&OP) understand how it works and where it can benefit their company. It can help an executive, manager, or a new employee to:

- **Understand the role of an ongoing IBP/S&OP process where one already exists or**
- **Analyze the potential benefits where a new process is being considered.**

Integrated Business Planning (Advanced S&OP) is an integrated business management process through which the executive team continually achieves focus and alignment among all the functions of the organization. The IBP/S&OP process has evolved over the last 30 years from an industry best practice to an industry standard practice. The process has evolved from what was once known as production planning to a company-wide management process. Many companies have chosen to refer to the process as an Integrated Business Planning process to differentiate it from earlier demand/supply review processes run mostly by middle managers and mostly with a supply chain management focus.



Though IBP/S&OP is now an industry-standard practice, some companies execute the process very well and others less well. Research has shown that best-in-class processes yield considerably more benefits than laggardly processes.¹

Sales and Operations Planning is a significant contributor to improved company performance. In his presentation, *“Demand-driven Supply Networks: Ideas and Innovations for Top-Line Revenue Growth,”* Kevin O’Meara, Senior Vice President of AMR, told his audience at the Stanford University symposium on Global Supply Chain Management that data supports the fact that S&OP is “the ultimate best practice.”

The Aberdeen Group, in its report, *“The Sales and Operations Planning Benchmark Report: Leveraging S&OP for Competitive Advantage,”* states “Virtually all enterprises, irrespective of starting S&OP capabilities, size,

and industry, generated improvement in key business performance with an S&OP program sufficient to justify investment in these programs.”

A properly implemented Integrated Business Planning (Advanced S&OP) process routinely reviews the current and projected business performance starting with a review of strategy, updated product portfolio changes, updated customer demand, required supply resources, and resulting financial effects. The leadership and management team then “re-plans” quantitatively across an agreed-upon rolling horizon (typically 24+ months). The re-planning process occurs at least monthly. Implemented correctly, the process focuses on change from the previously agreed-upon Integrated Business Planning (Advanced S&OP) plan. It helps the management team to understand

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how the company achieved its current level of performance but is primarily focused on future actions and anticipated results. The output of the Integrated Business Planning (Advanced S&OP) process is a consensus on one set of operating numbers that the members of the executive team hold themselves accountable to execute. It includes an updated sales plan, production plan, inventory plan, customer lead-time (backlog) plan, new product development plan, strategic initiative plan, and financial plan. All current, updated plans are tested against strategy and business goals. Industry best practice behaviors require open and honest communications and an agreement among the members of the management team that they will each “do what they say they are going to do.” Many companies use Integrated Business Planning (Advanced S&OP) to build and/or strengthen the company’s management team.

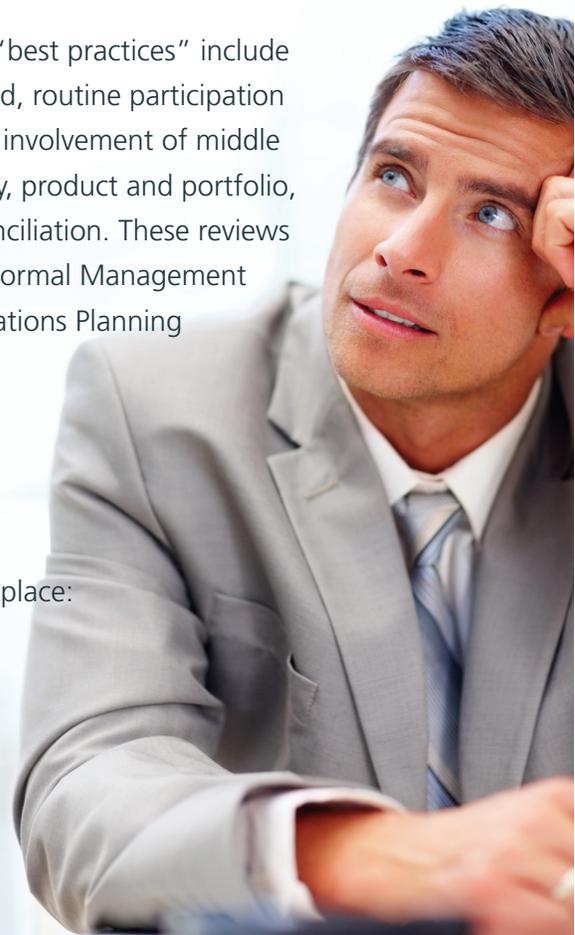
Integrated Business Planning (Advanced S&OP) “best practices” include commitment to the process and active, disciplined, routine participation from all of the executive staff. They also include involvement of middle management through reviews of demand, supply, product and portfolio, strategic initiatives, finance, and integrated reconciliation. These reviews are typically held as individual steps prior to the formal Management Business Review or MBR (executive Sales & Operations Planning meeting), which is truly a review of the business.

A key to a “best practice” Integrated Business Planning (Advanced S&OP) process is that the process is strategy and demand driven. It starts with answering what is happening in our marketplace:

What do our customers want to buy?

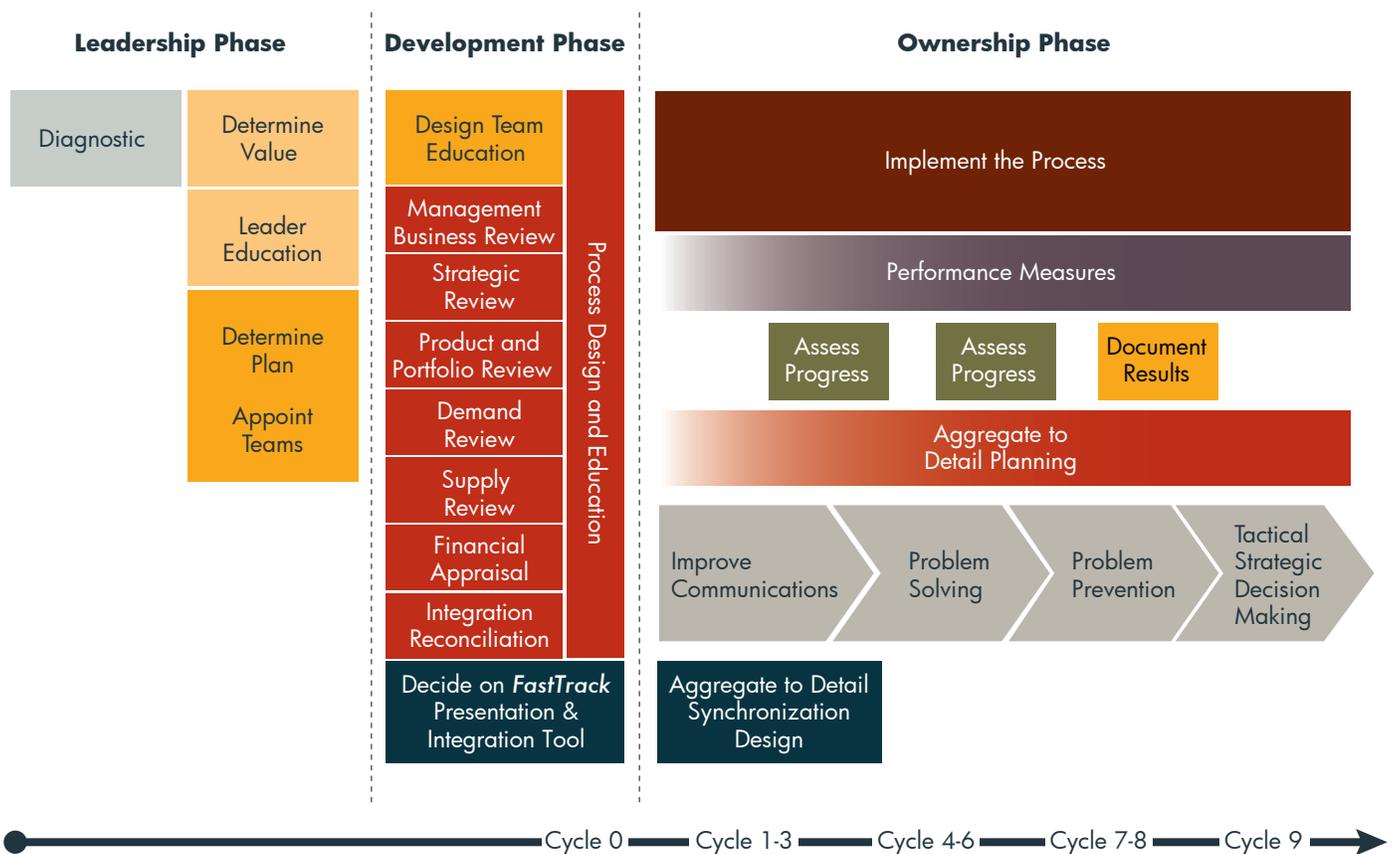
What do we want to be prepared to sell?

What are we committed to selling?



From the anticipated demand plan, supply resource priorities and plans are developed. Conflicts are resolved in each monthly cycle. Implementation of Integrated Business Planning (Advanced S&OP) is often the result of companies recognizing that long-term market success requires more than just product leadership.

Figure 1. *FastTrack* Proven Path for IBP/S&OP



As is pointed out in the book, *The Discipline of Market Leaders* (Perseus Books/Harper Collins, NY, NY – 1995), by Treacy and Wiersema, sustained market leadership is a result of focus on one of three areas: product leadership, operational excellence, or customer intimacy. Through their research, the authors not only arrived at the above conclusion, but also identified that to focus in one area is necessary but not sufficient. Sustained market leadership requires at least competence in the other two areas. Integrated Business Planning (Advanced S&OP) is key to ensuring that manufacturing and engineering companies will achieve at least competence in operational excellence.

Just imagine being better than the competition in all three areas. That is called “owning the market.”

Traditionally, industrial companies tend to be product focused. When it becomes apparent that they have delivery, cost, quality, or new product launch problems, the successful companies strive to achieve operational excellence. As a company focuses on operational excellence, it becomes apparent that improved communications and visibility of anticipated demand will improve in all operational areas. Thus, Integrated Business Planning (Advanced S&OP) is implemented, and the demand planning (forecasting) process is strengthened. This, in turn, leads to improved customer knowledge and moves the company toward customer intimacy. Improved customer intimacy then leads to improvements in the company’s offering, including new products. Done well, each of the focus areas – product leadership, operational excellence, and customer intimacy – feeds the others. Just imagine being better than the competition in all three areas. That is called “owning the market.”

During implementation of Integrated Business Planning (Advanced S&OP), most likely the process will first uncover demand and supply misalignment. The early decisions to be made will center on balancing supply resources with customer demand. Key in this rebalancing is whether to purposely

decouple demand from supply. Simply stated, a company can produce with a different volume and timing than the demand is or will be received. This provides the supply side of the business with the ability to control its own destiny regarding manufacturing, engineering, and supplier efficiencies and costs.

In decoupling demand and supply, the management team needs to decide for each product line what variable will be used to enable the decoupling. This results in decisions about whether to produce to inventory, to manage customer lead time (backlog), to cost-effectively flex capacity, or to restrict demand. In practice, a company will use a combination of these alternatives, and the decisions will vary with different business situations. Integrated Business Planning (Advanced S&OP), properly implemented, will enable those decisions as overt choices by the management team based upon customer/marketplace needs, the manufacturing/supply cycle time, and the ease in which manufacturing, engineering, and suppliers can efficiently flex capacity.

By understanding what the marketplace requires for delivery lead time and how that lines up with the manufacturing cycle time, a company can determine “where it should meet the customer.”

This evaluation determines whether a specific product line should be make-to-stock, make-to-order, finish-to-order, or engineer-to-order. Many companies fail to proactively choose, which results in customer delivery problems or in inventory and/or manufacturing costs running out of control. It is through the effort to determine where to meet the customer that postponement tactics are developed with consensus being achieved among the management team.

What is required to fulfill previous financial performance promises? At a minimum, expectations may need to be changed.



Once demand and supply are in balance, the next issue that surfaces is that the most current Sales & Operations Plan is not in sync with a previously communicated business or financial plan. The next decisions required address reconciling current reality to previous financial commitments. What is required to fulfill previous financial performance promises? At a minimum, expectations may need to be changed.

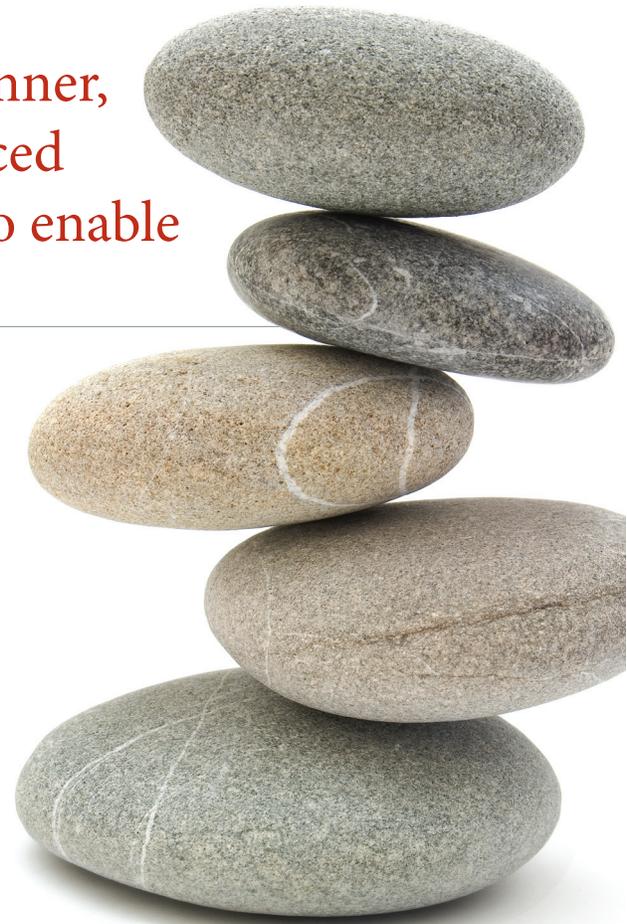
After a company has progressed through the first two decision-making phases, it will begin to use the Integrated Business Planning (Advanced S&OP) process to define and monitor company actions intended to close the gap between strategic goals and current reality. The Integrated Business Planning (Advanced S&OP) process, coupled with long-range quantitative planning, provides the ability for the executive team to routinely manage the actions chosen to meet strategic goals.

Since Integrated Business Planning (Advanced S&OP) is a monthly process, it provides a routine forum to monitor performance to strategic plans and helps ensure consistency across all functions in the implementation of these strategic plans. It helps preclude a

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dysfunctional organization that can arise through lack of communication, understanding, or from lack of resources balanced to execute the plans. In short, it helps to ensure that strategic goals are met. Some companies view the process as a synchronization process. Many larger companies benefit from Integrated Business Planning (Advanced S&OP) because it replaces an often time-consuming, flawed, annual business planning process. Since the planning horizon of Integrated Business Planning (Advanced S&OP) is 24+ months, the following fiscal year is already planned multiple times prior to committing to a financial plan. In essence, a flexible budgeting process replaces the annual budgeting process.^{2, 3}

As a company implements the Integrated Business Planning (Advanced S&OP) process, the executive team will realize that it provides visibility and regular communications to enable them to make the often difficult choices required to balance decisions affecting their “customers”: the buying customers, shareholders, and employees. Hewlett Packard historically used a triangular approach to communicate to new general managers. Each point of the triangle was labeled with one of the three primary “customers.” HP’s message was that the general manager lived inside the triangle and must constantly keep balance among the three. It is imperative that the general manager not consistently make one customer happy at the expense of the other two. Implemented in a “best practices” manner, Integrated Business Planning (Advanced S&OP) is the general manager’s tool to enable that balance to occur.



A frequently asked question that has to be answered in every Integrated Business Planning (Advanced S&OP) implementation is: “What level of detail is required to be reviewed in the process?” “Best practice” has shown that the number of product families reviewed by the senior executive team should be limited to a manageable number, often around 10 product families. However, the pre-MBR steps – product portfolio, demand, supply, and financial reviews – will usually be conducted at a subfamily level. This greater level of detail may be required to understand the mix of product demand and supply. Once the subfamily level planning is completed in the pre-MBR reviews, the information is aggregated into the product families for the MBR. If necessary, the executive team can look at the subfamily detail by exception during the MBR.

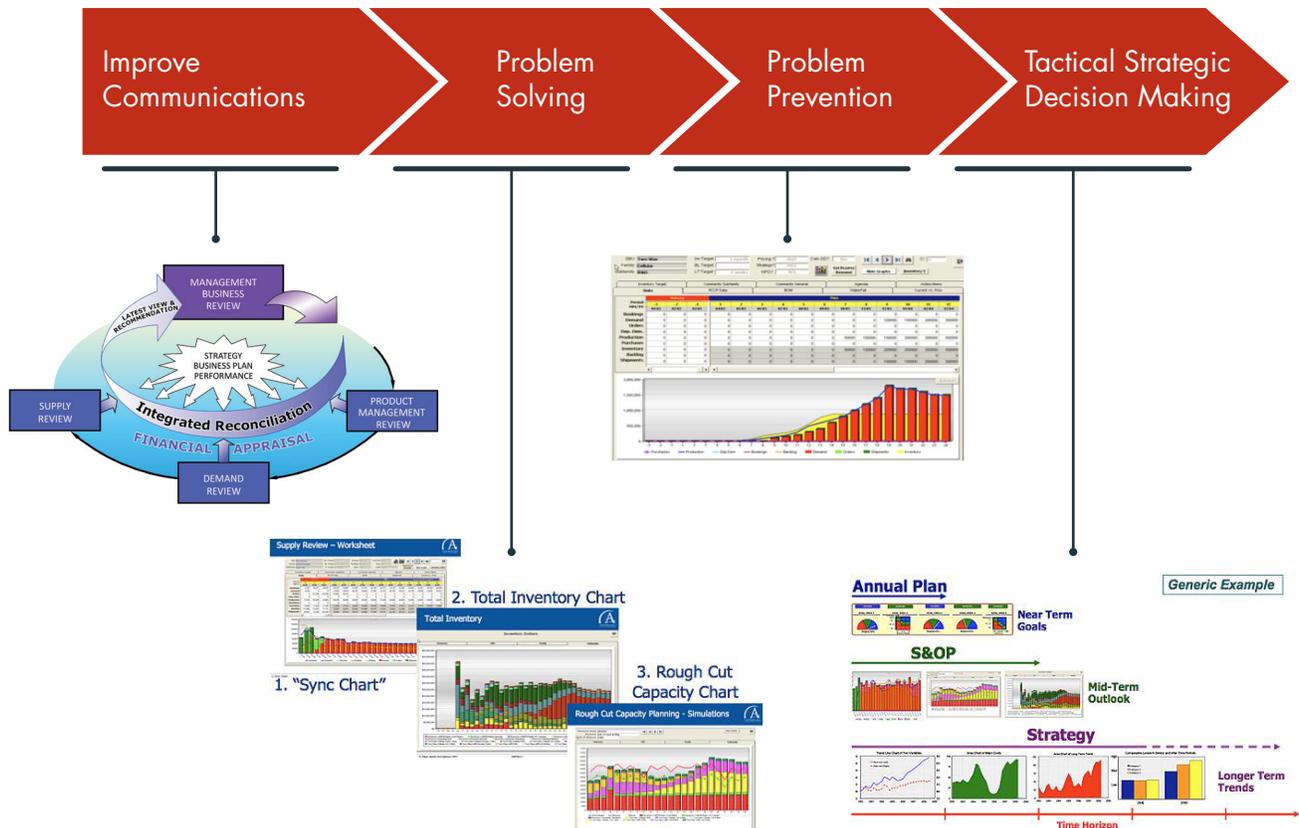
Subfamily detail is usually all that is required to accomplish Integrated Business Planning (Advanced S&OP). Additional detail will be required for master planning and scheduling. It is part of the demand management function and the master planning and scheduling function to determine what level of detail is required. They will need to determine how the detailed information will be developed, how it will be communicated, and how it will be monitored to ensure it is sufficient for the detailed planning and scheduling of company resources.

Oliver Wight has developed an Enterprise Sales & Operations Planning Tool designed to follow “best practices.” It combines information, presentation, and aggregation with the ability to perform rough-cut capacity planning simulations and scenario planning. Once the template is populated, it provides most of the basic information necessary for a successful Integrated Business Planning (Advanced S&OP) process. This Enterprise Sales & Operations Planning Tool is provided as part of our Integrated Business Planning (Advanced S&OP) implementation services.

A company should expect its Integrated Business Planning (Advanced S&OP) process to be up and running within three cycles for a significant part of the business and will begin to realize benefits through the improved communications, problem solving, and problem prevention. It should be functionally operational within six cycles, but benefits are typically realized starting with the first cycle. Oliver Wight’s *FastTrack* program is specifically designed to minimize the time to benefit for a new Integrated Business Planning (Advanced S&OP) installation.

**Synchronized,
aligned, and
integrated
business
management
is achieved
through the
implementation
and operation of
the Integrated
Business Planning
(Advanced S&OP).**

Figure 2. Four Stages of Implementation



Integrated Business Planning (Advanced S&OP) is truly a disciplined communication and decision-making process. There is nothing magical about the process from a technical perspective. In fact, it is often referred to as “organized common sense.” It is a logical, simple, but tremendously powerful process that brings with it the benefits of obtaining focus, alignment, and engagement by all the members of a company’s management team.

A word to the wise; though the IBP/S&OP process is “organized common sense” and it is conceptually simple, it is not necessarily easy to implement. It takes a combination of people, processes, and tools working together under strong leadership direction to implement quickly and well. We encourage the use of coaches for each step of the process. With proper support, early results will be achieved.

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ABOUT THE AUTHOR

George Palmatier, an Oliver Wight principal, has assisted many companies that make everything from soup to satellites in implementing integrated management processes. He is recognized as an expert on Sales & Operations Planning, Integrated Business Planning, and Demand Management as well as ERP, Integrated Supply Chain Management, and Integrated Product Development (IPD). George works with clients to formalize and integrate their strategic plans into an integrated business management process, Integrated Business Planning. With twenty years of experience in sales, marketing, strategic planning, and general management, George has a thorough knowledge of how to achieve sustained results improving business performance. During his 11 years as vice president of sales and marketing at Bently Nevada Corporation (now part of General Electric), George was responsible for bringing the sales and marketing departments into an integrated business management process. Bently Nevada was one of the pioneers in developing and implementing Sales & Operations Planning using it in a truly integrated management process. George has authored or co-authored four books: *The Marketing Edge*, *Enterprise Sales and Operations Planning*, *Demand Management Best Practices*, and *The Transition from Sales and Operations Planning to Integrated Business Planning*.



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