



SALES AND OPERATIONS PLANNING - CHALLENGES AND OPPORTUNITIES

THE IMPORTANCE OF S&OP TRANSFORMATION IN TODAY'S BUSINESS ENVIRONMENT



Introduction

Today's business environment is changing rapidly, driven by consumer preferences, customer and market channel structure changes and evolving supply chain challenges. As these changes evolve, an organization's ability to respond swiftly, integrated and holistically will stand out in an ever-growing competitive marketplace.

Sales and operations planning (S&OP) is vital for projecting, balancing and managing supply and demand integration. A critical function of an effective S&OP process is to integrate external and internal changes that may impact the supply and demand of resources, products and services and make the right business decision as quickly as possible. While internal processes can be "sandboxed" and controlled, external factors often create variabilities and uncertainties in the system. Here are some examples of **external factors in today's businesses**:

- **Ever-changing consumer demands:** Consumers' expectations are increasing demand variety (e.g., flavors, packaging types, sizes, etc.). The speed of these changes is ever-increasing (e.g., fast fashion) and the ability to capture the demand signals early and respond is critical to businesses.
- **Channels expansion to meet business growth:** As trade channels deepen from modern and organized trade into traditional and unorganized trade, or expand into omnichannel (e.g., online, online-to-offline, etc.), companies must re-evaluate their capabilities to plan and serve these different channels' unique requirements. Columbus research¹ found that the percentage of consumers making over 75 per cent of purchases online more than doubled to 48 per cent post-lockdown, indicating a permanent shift in purchasing channels is a necessity for companies.
- **Increased competition:** With increasing market competition such as homegrown, private labels, companies must respond with speed when it comes to introducing product innovation and new product speed to market (e.g., new product introduction, reconfiguration of the current portfolio, etc.).
- **Prevalent external shocks:** Over the past couple of years, unplanned and significant geopolitical events and supply disruptions have created shocks to the supply chain. A study² conducted by Gartner showed that 75 percent of organizations report that the number of regional and global high-impact disruptions is higher than five years back. Companies now need to develop capabilities to react with speed and agility when these incidents happen.

Therefore, there is a compelling need for any organization to have an S&OP process that is robust and integrated, while being flexible, to enable the organization and the management team to have the right information and analytics to make smarter and quicker holistic decisions.

1. Source : Columbus Global, 2020

2. Source : Gartner, 2023



01 Robust

Each process within the S&OP cycle must be set up in a robust manner, including business and process owners identified, and an agenda clearly identified with key analytics to support the discussion. It should also provide the decisions required and outcomes to be expected from the process.

02 Integrated

Each step of the S&OP cycle must be closely integrated from one to the next. It's important that the information (e.g., questions, recommendations, decisions) flows clearly between each step (i.e., to the next business function) so that a proper assessment and final recommendation to the executive decision-makers can be provided.

03 Flexible

The S&OP must also be flexible should an external shock require a quick review of the situation and cause decisions to be adjusted swiftly.

04 Data-driven

Over the last 10 years, the amount of data generated has increased by $13x^3$ (approximately nine zettabytes in 2013 vs. approximately 120 zettabytes in 2023); an effective S&OP must be able to ingest information effectively (e.g., depth, real-time, etc.) and provide recommendations for rapid decision making. The right technology enabler must be considered. Studies have shown that while the generation of data has increased, an average company only analyzes 37-40 per cent⁴ of its data, leaving immense potential on the table.

05 Holistic

Executives depend on information to make good decisions, and a holistic S&OP need can provide a balanced view by ensuring clear market insights, decisions and trade-offs, risks and opportunities and a clear financial outlook (with potential sensitivities) is available to make the assessment on recommendations.

3. Source : Statista, 2022

4. Source : Statista, 2022

In our experiences, there are clear differences between companies with a strong S&OP process vs. a weak S&OP process. A study conducted by The Hackett Group showed that while approximately 70 per cent have adopted a formal S&OP process only approximately 25 per cent have implemented a full and consistent approach (strong S&OP process) across the entire organization. Failure to address S&OP gaps can have a direct impact on a company's revenue, working capital, margins and market share.

IMPACTED AREAS

Revenue

COMMON PAIN POINTS

- **Customer Service**
 - Late shipments
 - Declining customer satisfaction
 - "Surprise" customer orders
 - Stockouts
- **New product launch issues**

Working Capital

- **Inventory**
 - Not having the right inventory to satisfy customer orders
 - Excess inventory
 - Obsolete inventory

Margins

- **Increase operating cost**
 - Higher overtime
 - Increased expediting fees
 - Capacity mismanagement and constraints
- **Supplier issues**
 - Higher costs
 - Material requirements volatility

Market Share

- **Market competitiveness**
 - Lost sales
 - Lost shelf space
 - Delisting

Key Pitfalls Faced During S&OP Transformation and Actions to Make the Change Sustainable

While the benefits of a world-class S&OP process are clear, based on our experiences supporting companies in their S&OP transformation, these are the **key pitfalls** companies faced when transforming their S&OP process.

Key pitfalls and actions for success:



Lack of executive sponsorship: Sometimes, while an organization agrees on the benefits of an S&OP, it is viewed as a functional responsibility and assigned to be led by a specific function (e.g., supply chain or finance). An effective S&OP transformation first needs to be sponsored by the top executives (e.g., Chief Executive Officer and/or Managing Director of the Business Unit) and needs to be fully supported by leaders across all functions (i.e., marketing, sales, supply chain, finance etc.). It will require an unwavering commitment and involvement to role model the change management required.

“Process” vs. “business” intent: Drive S&OP as a process change or technology project rather than a business planning and decision-making process. In addition to executive sponsorship, it’s critical to initiate the S&OP change as a business transformation initiative. The S&OP process should also be treated as the core business planning process and the “single source of truth” for decision-making.



“Perfection” vs. “learn-as-you-trial” approach: Some companies aim to build a perfect design before implementing the process. This will result in a process that is ideal on paper but not practical. As a consequence, its implementation becomes cumbersome, its complexity creates a lack of buy-in and eventually a lack of belief in the change. It is therefore better to construct the key elements of changes required and put them through the S&OP cycle to test its effectiveness and use feedback from stakeholders to refine the process to fit the specific needs of the business. Efficiency improvements will come over time as familiarity evolves.

Lack of governance and tracking: When the right performance indicators (both leading and lagging) are not defined and measured, it’s difficult to properly assess the success and eventually, the maturity of the S&OP transformation. An S&OP dashboard that has both leading and lagging indicators and is tracked monthly will provide a good indication of the progress of the changes implemented.



Under-investment in people and capabilities: The importance of finding the right change agents to lead the S&OP process and providing the right type of support in developing the capabilities to drive the S&OP discussions is critical. A well-built process will not deliver on its intent if not led by capable change leaders. These leaders must not only understand the process and its intended delivered outcomes but also be able to challenge the discussions, influence stakeholders and communicate with clarity and purpose to decision-makers and executives.

How to Drive Transformation and Implement S&OP Programs

To implement an effective S&OP transformation, companies can benefit by adopting three broad principles:

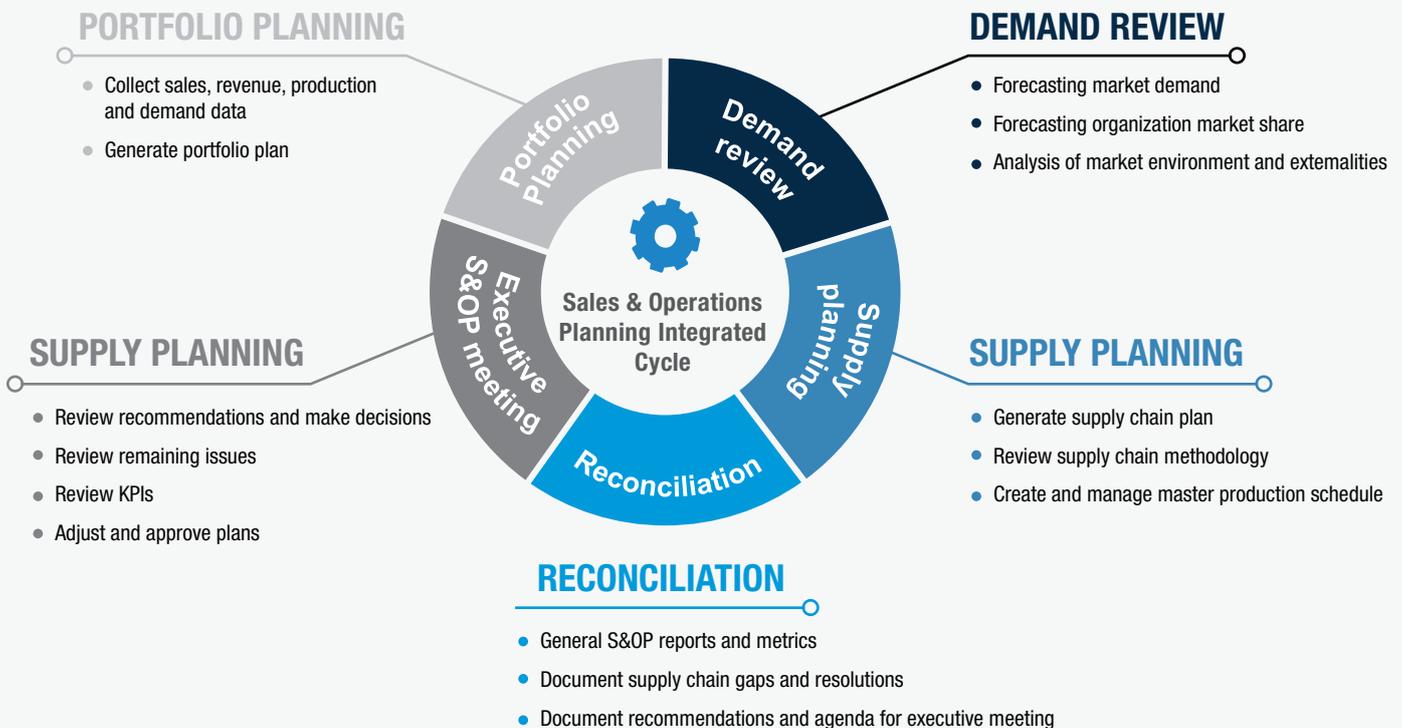
1. Develop end-to-end process design

Develop an end-to-end process design that is integrated across all functions, executable processes developed "ground up" and can be implemented rapidly.

An effective S&OP process enables management across five key groups—marketing, sales, supply chain, finance and executive team—to align planning efforts and support enterprise objectives. Companies must take a holistic view across portfolio strategy, demand requirements and supply-demand balance and financial reconciliation for the management to drive an effective and desired business outcome.

A&M can support companies in this endeavor by building an integrated process tailored to the current maturity of the organization, implementing it quickly to learn and work together to adapt it as the situation evolves. In addition, A&M's "muddy boots" approach to working can help accelerate the transformation by guiding the key S&OP leaders in setting up the S&OP analytics, driving the S&OP discussions and developing the influencing and management skills required to ensure the right decisions are made.

A&M S&OP Integrated Cycle framework



2. Stay pragmatic and agile.

- **Pilot perspective and iterate quickly:** Companies need to understand the gaps and build capabilities required in data, system, process and people and can do so by piloting based on the initial hypothesis, having a “finger on the pulse” and changing it as and when required.
- **Develop functional templates:** Having output-driven templates to drive discussion in each process and ensure the required information is fed between processes.
- **Set actionable key performance indicators (KPIs):** Proactive identification of root causes and corrective actions with proper metrics (leading and lagging indicators) are necessary for each part of the process.
- **Build capabilities within the organization:** Develop materials and train key users on how to lead and execute processes end-to-end, including analytics, presentation of information, influencing and stakeholder management skills.

3. Integrate all key stakeholders

Through change management and potentially re-organization.

- **Clear communication and role-modelling from the top:** Articulate purpose, objectives and commitment but stay laser-focused on the required actions. Leaders must also be role models of the behaviors expected in an effective and integrated S&OP (e.g., involvement, data-driven, integrative view, etc.).
- **Aligned leadership and competencies:** Each part of the S&OP process needs to be owned by functional leaders (e.g., marketing head, sales head, supply chain head, finance head and general manager) with well-defined accountabilities, escalation, roles and responsibilities to empower decision making.
- **Defined culture:** Cross-functional collaborations that identify risks and opportunities and promote a focus on the “greater good” vs. optimizing “functional results only” decisions.

Through our “battle-tested” playbooks and deployment of industry veterans, we can help companies to flip the odds of implementing S&OP programs and accelerate profit and loss (P&L) impact.

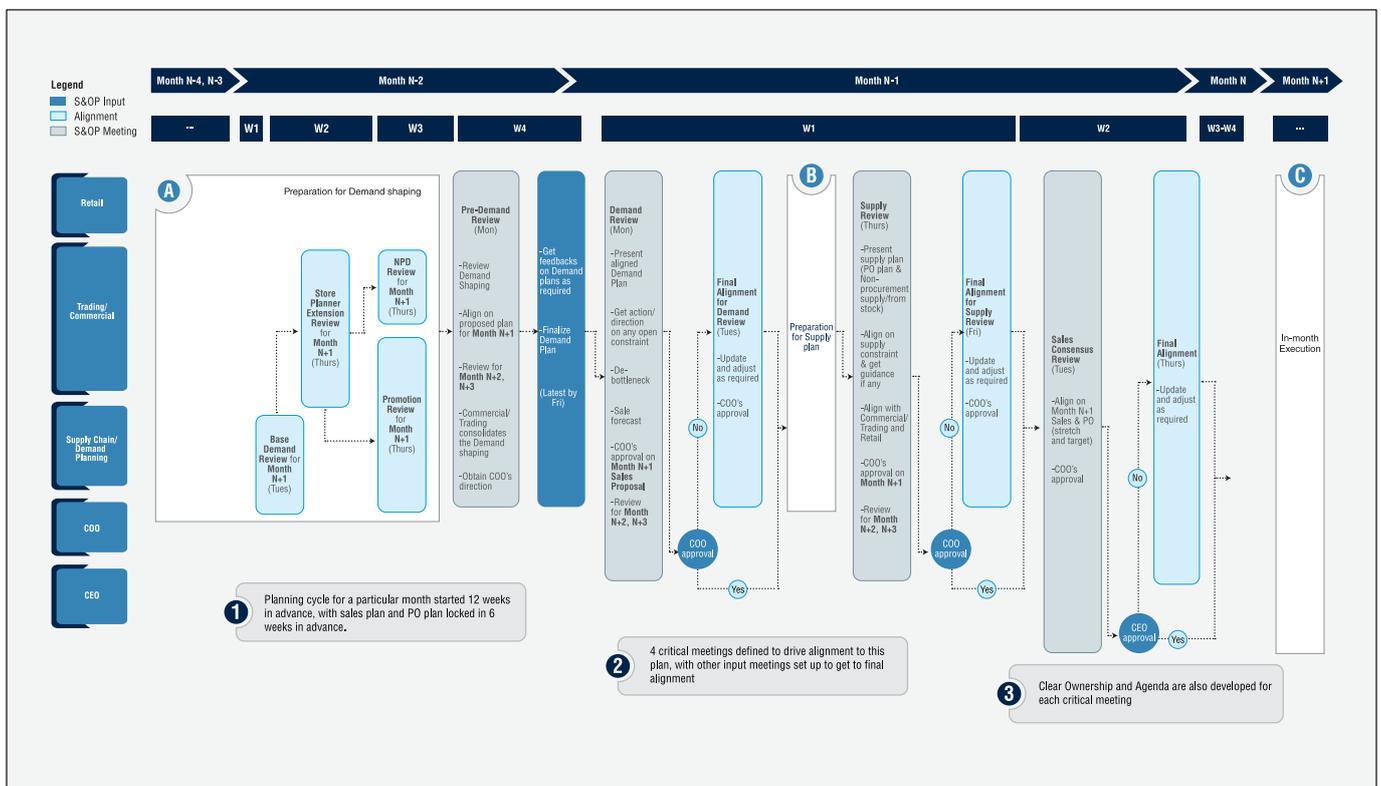
Case Example

Our client, a leading pharmacy, health and wellness retailer was under stress due to liquidity issues, including free cash balance falling way below safety thresholds in part due to escalating costs. Service levels were deteriorating due to incorrect product focus and inaccurate demand forecasting, significant cash stuck in unsold inventory (DSI >200) and lost sales of core stock keeping units (SKUs).

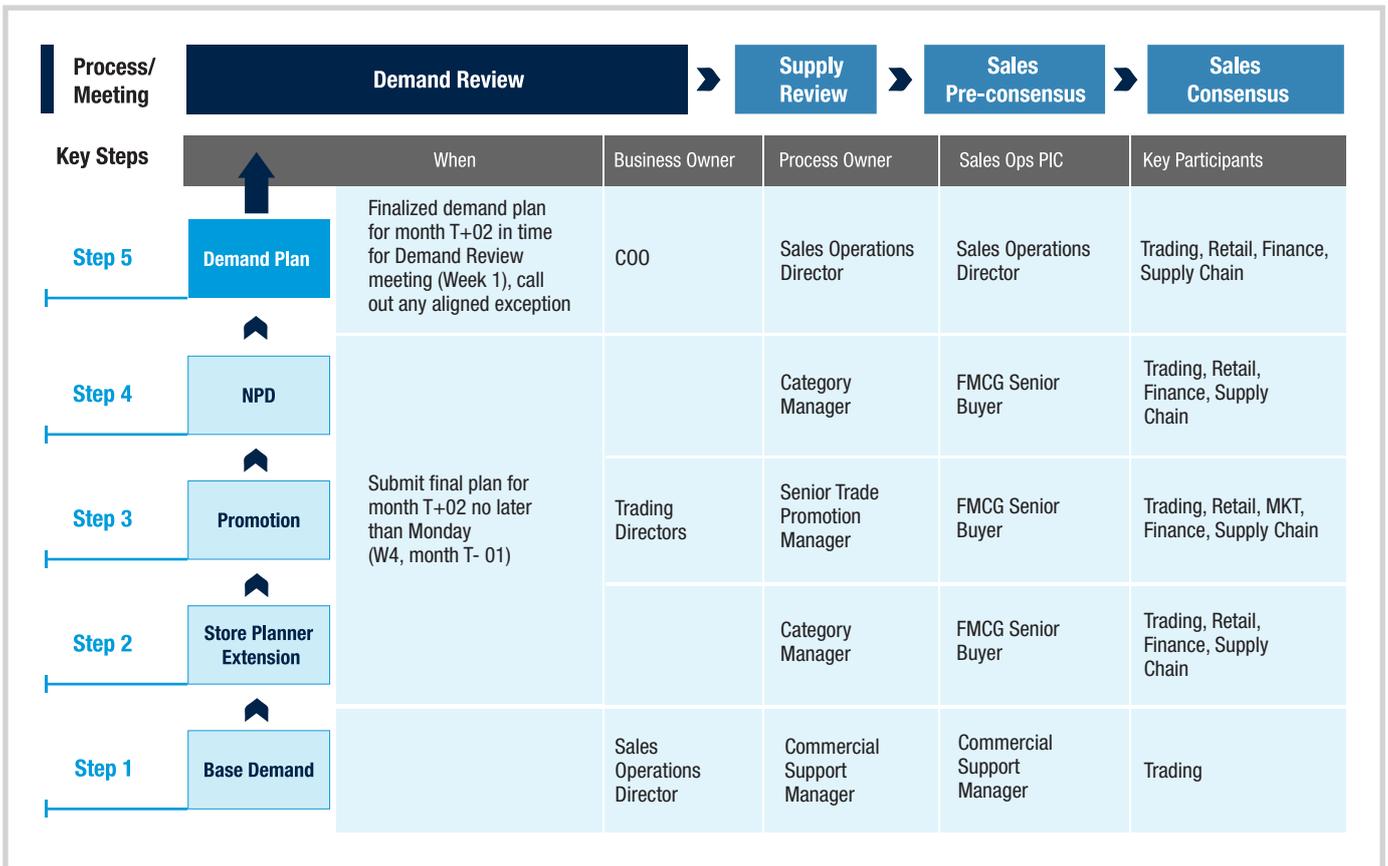
The program was developed across three modules:

1. Evaluation and mapping: A full-scale company transformation formulated across short (<1 year), medium (<2-3 years) and long (>3 years) time horizons. S&OP transformation was seen as a key initiative to better align the capability of the organization to drive the organization's focus towards one aligned plan and help ensure better coordination between the commercial and supply chain functions while ensuring business implications to the decisions are clearly identified. This will further enable the organization to drive better sales and market share, optimize working capital (inventory) and deliver better service levels to their customers.

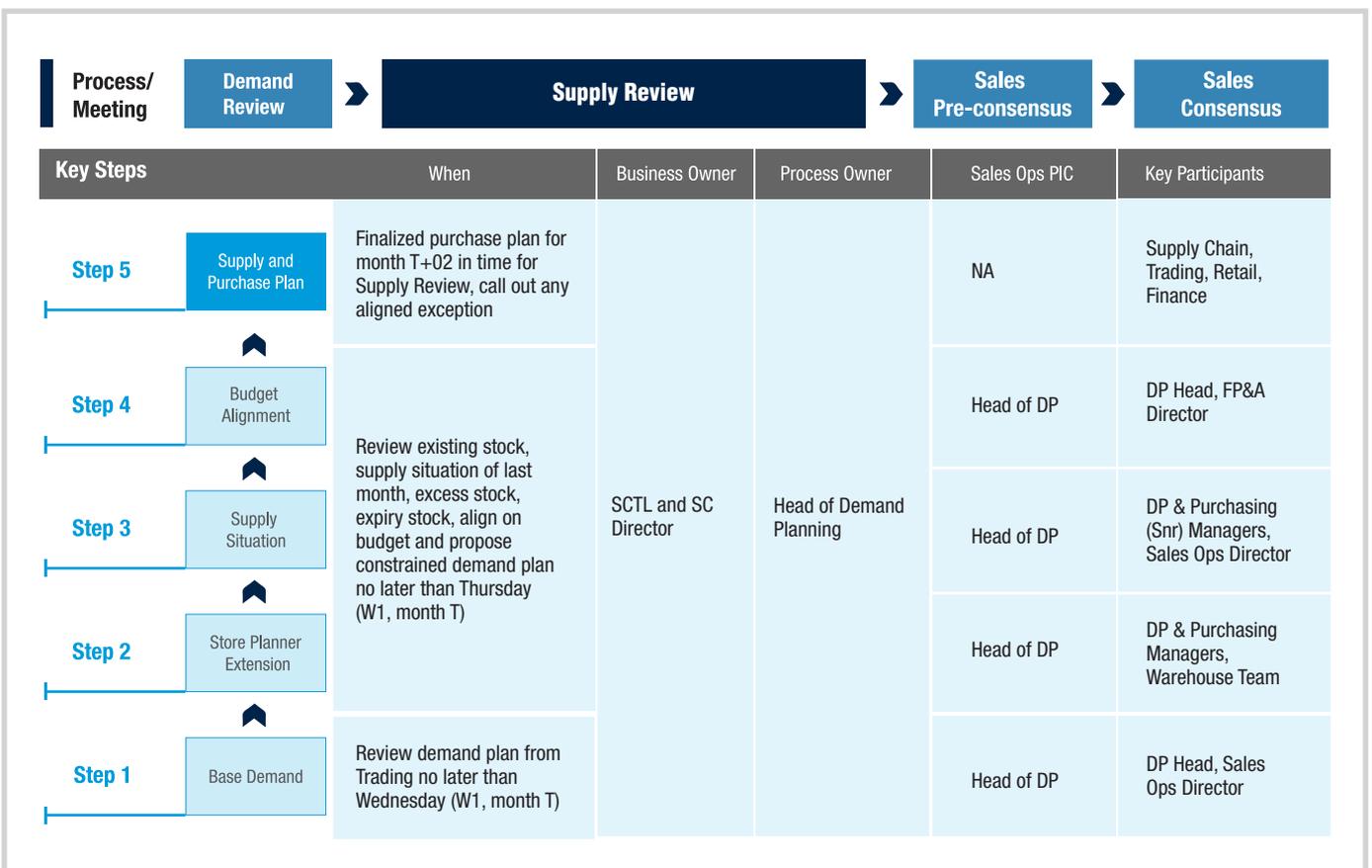
2. Analysis and optimization: The S&OP transformation included a quick review of the current state and identifying the critical areas that needed to be built or re-built to develop the intended outcome. Process deficiencies were also identified and built (e.g., discussion materials, analytics). People and skillset capabilities were also determined, and the right change leaders were recruited and trained to develop their capabilities with the S&OP transformation.



Overall S&OP Architecture



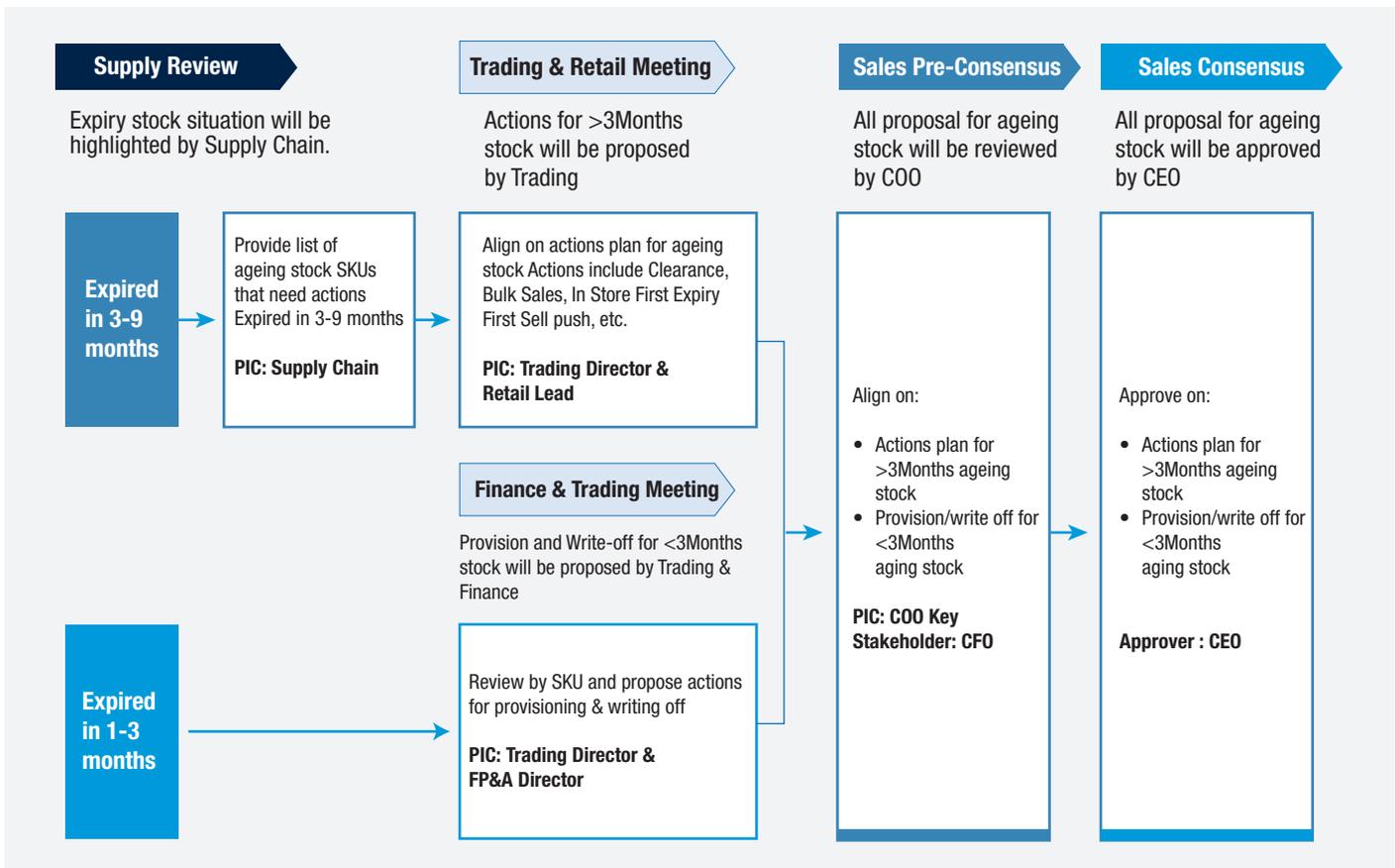
Demand Planning Process and RACI



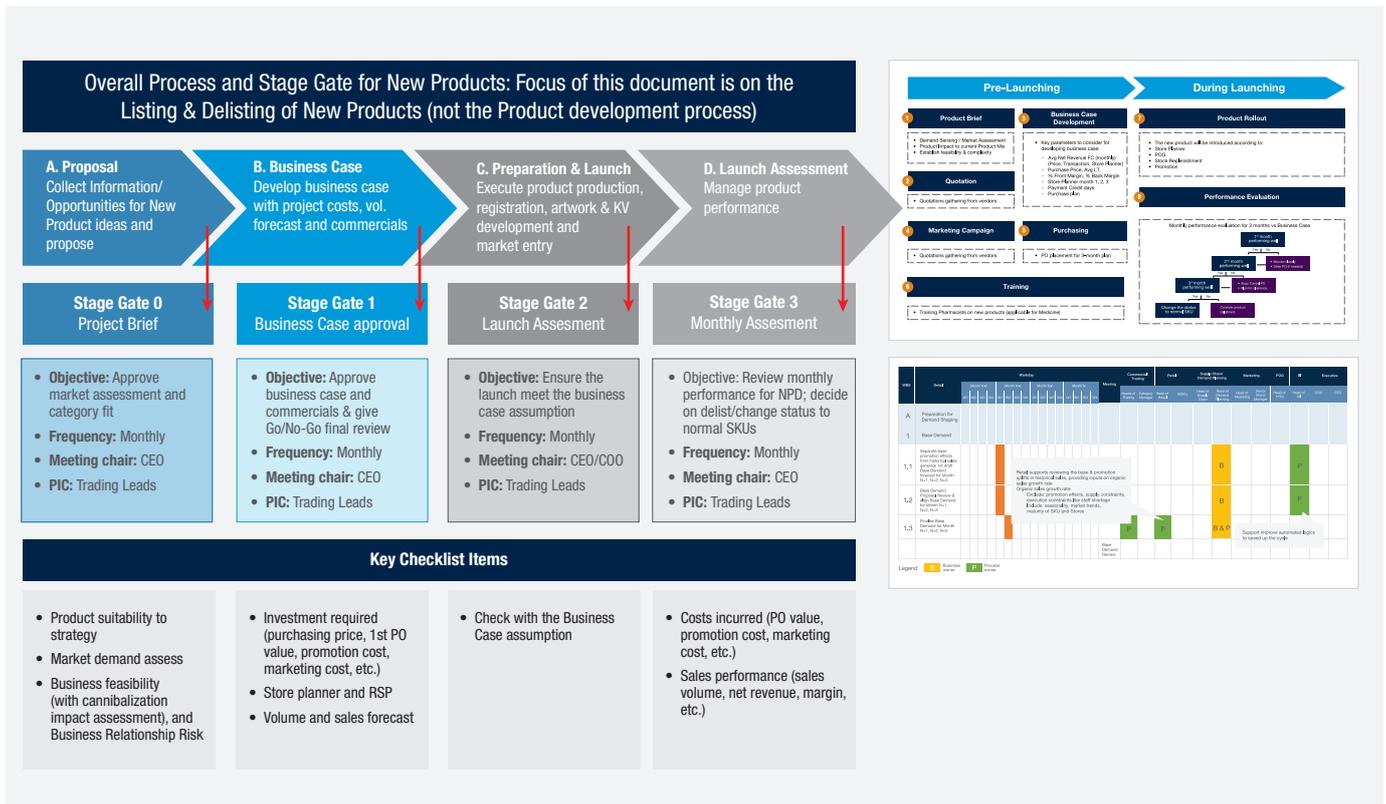
Supply Planning Process and RACI

Topics to be reviewed in SCCM	Details	Presenter
1 Sales Performance against Demand Plan	MTD Sales Performance across Base Demand, Store Planner Extension, Promotion, NPD	Sales Operation Director
2 Service level (MTD Cumulative OSA)	Specific categories, SKUs as needed	SC Director
3 In-month Supply Issues	Any in-month supply issues (quota, late delivery, etc.) to be highlighted for Trading's actions	Head of Demand Planning
4 Inventory Situation	Actual Inventory of the week and forecasted Inventory for the upcoming weeks, Excess Stock position, Expiry stock position	Head of Demand Planning
5 Purchase Progress against Demand Plan	Actual Purchase compared to aligned Demand Plan Any deviation from plan and justification	Head of Demand Planning

In-month Demand-Supply Execution



Expiry Stock Management



New Product Development Stage Gates and Governance

3. Implementation: Through A&M’s “boots on the ground” approach, senior A&M leadership was deployed as interim management to lead, guide and coach the transformation over a period of six months. By the end of the period, a playbook was developed along with key leaders trained in roles, and the S&OP process went from being “driven by A&M” to “guided by A&M” to eventually “led by client”.

Through the cost reduction initiatives and operationalized action plans with monthly milestone tracking, the company has delivered impact across service levels, inventory, and lost sales:

- Service level has improved from approximately 80 per cent to more than 90 per cent
- Inventory levels have improved from 150+ days to 88+ days
- Lost sales have reduced by 50 per cent



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With over 9,000 people providing services across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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