

Bridging the Planning-Execution Gap of S&OP

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While globalization has resulted in many bottom-line benefits, it has simultaneously increased the level of complexity and uncertainty by which companies operate today, making the sales and operations planning (S&OP) process more critical to a company's success than ever before. Companies now face a host of new business challenges – such as increased service level demand from retailers, shorter product lifecycles and global competition with cost pressure – and their position in the market is being defined by how quickly they can react to these challenges.

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With this new level of variability, companies must have the capability to synchronize their demand and supply plans to that of their largest customer, especially now that critical-mass retailers have more influence over the manufacturing supply chain planning process. This complex process, which involves sensing demand signals further down the supply chain, requires an S&OP process that synchronizes the executive planning and execution sides of S&OP.

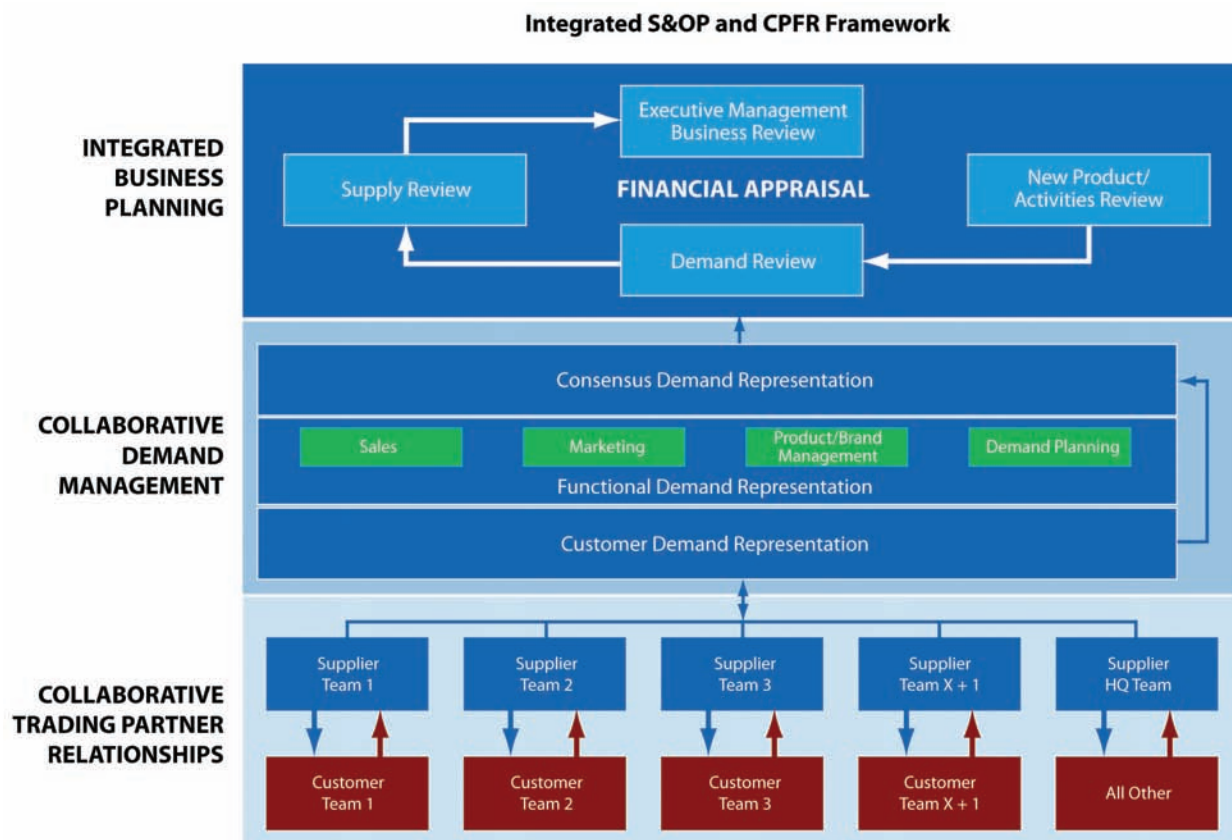
Companies that embrace this integrated S&OP framework will benefit from improved company-wide visibility, strategic alignment and financial accountability. It is through achieving this level of supply chain planning excellence that businesses will be able to implement executive-led strategies that increase revenue, lower costs and improve cash flow across the entire supply chain network – resulting in greater profitability and market share.

The Power of Synchronization

A synchronized S&OP process transforms the traditional supply and demand balancing exercise into an integrated business planning process that aligns a company's operational plans with its long-term business strategies and financial objectives. To achieve this level of coordination, companies must establish an integrated planning framework that links S&OP with Collaborative Planning, Forecasting and

Replenishment (CPFR) initiatives. Consider the graphic below. Starting at the bottom, companies have established collaborative trading partner initiatives with their key customers and suppliers to build joint value by collaborating on forecasts, new product and replenishment plans. These external insights can improve the collaborative demand planning processes that are internally executed across functions within a company (See second layer of graphic – Collaborative Demand Management). After a consensus demand plan is created that incorporates the key insights from customer and supplier relationships, it becomes a key input into the long-range Integrated Business Planning process for a company to synchronize their demand, supply, new product and financial plans over a time horizon that links to corporate strategy – typically 18 to 24 months or more on a rolling basis. (See top layer of Integrated CPFR and S&OP Framework graphic.)

Significant transformations have occurred in the marketplace recently that make the connection of S&OP and CPFR more attainable and valuable, including the deployment of time-phased order planning capabilities by many critical-mass retailers. With this new capability, retailers can now provide a view of what they plan to order beyond a single lead time in addition to providing critical-mass demand data from the retailer's shelf or Web portal. This results in further improving a company's planning process.



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Additionally, businesses need the capability to create and evaluate scenarios for demand spikes, supply shortages and other strategic, operational and tactical events. This analysis enables companies to examine how different scenarios will affect the company's financials and determine the best course of action, enhancing the sales and operations plan. Yet, in order for a company to achieve perfect-order fill rates and customer service targets, the sales and operations plan creation must be tied to plan achievement.

To accomplish this, companies need the capability to track their daily progress against the sales and operations plan and take corrective actions to resolve any performance gaps or deviations as they occur – instead of waiting for the next month's S&OP cycle to modify future plans. As companies sense any gaps in performance – such as demand or mix deviations, supply constraints or unexpected competitive actions – they must have access to “process playbooks” to improve their response time. Process playbooks provide companies with the most profitable solution to a particular deviation, automatically escalating deviations not included in the playbooks to the appropriate executive for immediate resolution. By employing this type of continuous improvement process, companies can ensure that they are operating in accordance to plan.

Achieving the Planning-Execution Connection

Yet, despite these benefits, many companies find it challenging to connect the executive planning and execution sides of S&OP. In fact, according to a recent AMR Research study¹ “few companies claim to successfully link S&OP output to operational or execution processes. The study tells us 30 percent find driving the use of the plan in daily operations is a top challenge.”

Technology plays a key role in synchronizing this process and companies interested in achieving an integrated planning framework that connects execution, operational, tactical and strategic processes will benefit from a technology solution that features:

- **A robust data management system.** Given the breadth and depth of today's global supply chains, companies have exponentially more data – all of which need to be consolidated into one format that can be easily digested and acted upon. Solutions need a meta-data management layer that features mappings and common data definitions for business unit, product, geography, etc., to help facilitate this process. Plus, with the increase of partners from emerging markets, companies need to be able to consolidate data with varying degrees of sophistication and different time horizons into one cohesive plan.

- **A consolidated business view for all stakeholders.** An effective S&OP process involves input from stakeholders such as finance, product development, procurement, manufacturing, demand and supply planning, and sales and marketing. Yet, each stakeholder needs the ability to view the time-phased plan in the language and hierarchy level respective to that individual's role in the organization. For instance, a production planner may only need visibility into family-level demand on a key resource within his plant, whereas a senior-level executive may want an aggregated financial view of how the plan is operating against budget and whether the company is on track to achieve its long-term objectives.
- **Visibility into all supply chain functions.** Companies need insight into company-wide supply chain planning activities, as well as the plans of their supply chain partners. This level of visibility is critical for companies initiating demand-shaping activities as they need visibility into the extended supply chain network to ensure planned promotions won't strip away their capacity to make the product. This visibility will become even more critical as the economy recovers, enabling companies to divert sources of supply to higher-margin markets and boost the company's overall margins.
- **Automated workflow synchronization.** Within the S&OP process, there's a cadence and order to the activities that must occur and a level coordination required between stakeholders. As companies deploy an integrated S&OP framework, the number of steps and coordination of activities across these functions and resources will increase. By using automated workflows and alert mechanisms, critical decisions can be elevated to the appropriate stakeholders, ensuring the company continues to achieve its goals and objectives by operating according to plan.



Synchronized S&OP Maturity Model

Characteristics	Consensus Demand Management	Supply-Demand Balancing	Integrated Business Planning (IBP)	Inter-Enterprise IBP
Strategy to Operations Synchronization	Disconnected	Disconnected	Connected Within Company	Connected Within Company & Key Trading Partners
Organizational Functions Involved	Demand, Sales (Planners)	Demand/Sales/Mfg (Directors)	Demand/Sales/Mfg Finance (Senior Execs)	Demand/Sales/Mfg Finance (Senior Execs - Connected Across Companies)
Financial Integration	None	None	Tightly Coupled	Tightly Coupled, Trading Partner Influenced
Cross-Functional Process Facilitation	Limited	Demand - Supply	Workflow Automation, Qualitative Continuous Improvement	Inter-Company Process Orchestration With Qualitative Continuous Improvement
Enterprises	Single	Single	Single	Multiple With Accountability
What-If Scenario Analysis	Volume-Driven	Volume-Driven	Financially Driven	Financially Driven, Multi-Company Orientation
Ownership	Sales/Demand Management	Supply Chain	Senior Leadership	Connected Senior Leadership
Functional Requirements	Forecasting & Internal Collaboration	➤ Rough-Cut Capacity Planning	➤ Capacity Optimization, Process Calendars, Simulation, Time-Phased Financial Statements, Process Scoring, Dashboards, Executive Visualization	➤ IBP Functionality Modeled for Multi-Enterprise Review
Metrics	Fast Accuracy Fill Rate	Fill Rate, On-Time Delivery, Turns	Revenue, Cost, Market Share, Profitability, Cash Flow	Revenue, Cost, Market Share, Profitability, Cash Flow

It's the Journey, Not the Destination

A company's need for an S&OP process that closes the planning-execution gap will be determined primarily by the industry in which it operates. Not all stages of the S&OP maturity model, however, will apply to each industry (see graphic above). For example, companies in the consumer electronics industry are constrained by increasingly short product lifecycles. Consequently, execution to plan has become a condition for market survival, prompting those in the consumer electronics industry to move toward the highest levels of S&OP synchronization.

On the other hand, industrial manufacturers, business-to-business manufacturers and companies with slower-moving consumer goods can achieve great gains through modest S&OP improvements such as enhanced process orchestration and synchronization with finance. Ultimately, the closer a company is to the end consumer, the more important it is for them to understand the demand stream and harness that knowledge to create an integrated S&OP process that satisfies the company's business objectives and bottom line. ■

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¹ AMR Research (recently acquired by Gartner, Inc.), "Conquering the Seven Deadly Challenges of Sales and Operations Planning," Jane Barrett, Steve Steutermann, January 2010

