Commentaries on "Misconceptions, Missteps, and Bad Practices in S&OP"

PREVIEW *In their three-part* Foresight *series entitled "Misconceptions, Missteps, and Bad Practices in S&OP," (*Foresight *issues 46, 47, 48) Chris Gray and John Dougherty expose a baker's dozen of blunders blocking the road to an effective S&OP process. They wrote:*

The famous 20th-century American humorist Will Rogers once said, "Good judgment comes from experience, and a lot of that comes from bad judgment." With over a quarter-century of experience with S&OP, we can now definitively say that there has been plenty of bad judgment—in fact, more than enough to go around. And while there are hundreds if not thousands of companies using S&OP very successfully, there seem to be an equal or greater number that wish to repeat the errors of the past.

Here is their baker's dozen of misconceptions that undermine the effectiveness of S&OP, brought to you by all the bad judgment of the last 25 years.

1. *S&OP Is the New Name for ERP.*

2. *To Make S&OP Work, We'll Need New Software.*

3. *For Our Company, S&OP Is Operations (O) and Inventory without Involving Sales (S)!*

4. *Make to Stock, Make to Order: Makes No Difference.*

5. *More S&OP Families Are Better than Fewer Families.*

6. *Cogito Ergo Sum: I Think I Am Doing S&OP, Therefore I Am.*

7. *We Can Have an Effective Strategy Even Without Effective Supply-Demand Balance.*

8. *What Do You Mean, Time Fences?*

9. *To Make S&OP Work, We'll Need to Freeze the Forecast (or the Supply Plan or the Master Production Schedule).*

10. *Laziness Is a Virtue (?!): What Do You Mean "Document Assumptions"?*

11. *When It Comes to Metrics for S&OP, "One Size Fits All."*

12. *Laziness Is a Virtue: We'll Set the S&OP = Sum of the Master Production Schedule (MPS) Detail.*

13. *With an Advanced Planning System (APS), Humans Can Be Completely Eliminated from the Planning, Production, and Support Processes.*

Now, we offer commentaries from an S&OP practitioner and an S&OP researcher.

S&OP Vision, Culture, and Language

NIELS VAN HOVE

As an S&OP practitioner and consultant, I've come across most of these misconceptions, and I agree that they restrict the effectiveness and sustainability of S&OP. In reviewing the list, I see several major themes:
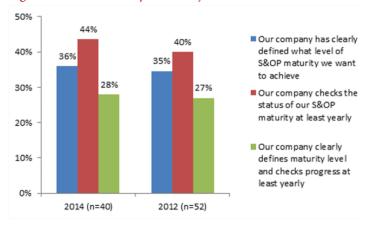
- The missteps happen mostly during an S&OP implementation. There are important roadblocks, however, that must be overcome *before* a company starts an S&OP implementation.
- They are largely system, process, and tools focused, whilst leadership, people, and culture also have an enormously important role to play in effective S&OP.
- Their orientation is on supply chain, but there are needs for S&OP as a business-governing model in other areas.

So let me expand upon these themes.

WE HAVE A BUSINESS VISION, BUT NOT AN S&OP VISION

Any self-respecting company will have a vision, a long-term view on where the business sees itself in the future. A company vision ought to inspire and align employees around a common goal and give employees something they can believe in. The development and communication of a clear vision are acknowledged to be the first steps before undertaking change management.

Implementing S&OP in a complex business environment—across countries, business units, and manufacturing and distribution footprints—is difficult. Developing effective S&OP in these environments is a long-term game, taking up to 5-10 years. With this time frame in mind, S&OP needs a long-term view. Such an S&OP vision ought to provide energizing descriptions on how the process will help the company move forward and how the future will look with effective S&OP. This vision should also provide a road map with clear goals and measurements across organizations, geographies, processes, systems, and people-support capabilities.

Goals need measurements and targets, and these need to be checked at least yearly to assess progress toward reaching desired maturity levels. However, in a recent survey (**Figure 1**) in which I asked practitioners—about three-quarters of whom were managers or directors—about their S&OP vision, only about one-third reported having clearly defined S&OP maturity levels, and only 28% both set targets and checked those yearly (Van Hove, 2014).

Without a common goal to align functions, and without clear targets for S&OP effectiveness, it isn't likely that *effectiveness* will ever be reached.

OUR EMPLOYEES WILL START COLLABORATING ONCE S&OP IS IN PLACE

Effective S&OP requires commitment, trust, empowerment, role modeling, constructive engagement, and a collaborative spirit (Tuomikangas & Kaipia, 2014).

When S&OP is newly implemented, it is often assumed that collaboration between functions will automatically follow. Although a horizontal process like S&OP provides a platform for collaboration, it is certainly not a guarantor for it.

Figure 1. S&OP Maturity-Level Objectives

In his experiments on cooperative behaviour, Yochai Benkler (2011) found that 30% of people behave as though they are selfish. Adam Grant (2013) divides people into givers, takers, and matchers. Givers find ways to be helpful to others, takers focus on getting as much as possible from others, whilst matchers can go either way.

A willingness to help others achieve their goals lies at the heart of effective collaboration. However, givers only represent about 25% of the population, takers 19%, and matchers make up the rest. Knowing that many people are by default selfish rather than collaborative, it is important to understand that hard work and possibly extra initiatives will be required to change behaviours in support of S&OP. Practitioners seem to agree: As shown in **Table 2**, over two-thirds said that behaviours are not adequately addressed in such implementations (Van Hove, 2015).
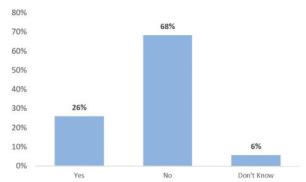
To support collaboration, you should assume you'll have to train employees, including senior leaders, in communication, self-awareness, and behavioural capabilities. To make these capabilities sustainable, they need to be defined as part of the S&OP vision and must be integrated into recruitment policies, development plans, and rewards and recognition. Senior leaders should serve as role models.

S&OP IS OUR END-TO-END BUSINESS MODEL, BUT WE TALK SUPPLY-CHAIN LANGUAGE

There are plenty of reasons that S&OP can go awry or lag behind in expected progress, but at the core is a lack of senior leadership support. The process ought to support the whole business, not just supply chain, and in this regard it requires executive support from all business functions.

S&OP projects often start from the supply-chain function, and so it is not surprising that much of the S&OP vocabulary has a supply-chain orientation. Concepts like time fences, order types, master production schedules, and supply-demand balancing are all vital for supply chain—but we have to ask ourselves how

Table 2. Survey on Adequacy of Addressing Behaviours in S&OP

Question: Do you think behaviours are addressed enough in S&OP implementations? (n=123)
Source: Supply Chain Trend 2015

relevant these are for functions outside supply chain. To say that "S&OP is primarily a volume-oriented process" will not engage a CFO or CEO who wants to know the status of strategic projects and performance versus budget. So we need to push out from the boundaries of supply-chain language.

As I pointed out in an earlier *Foresight* article (Van Hove, 2017), if outcomes such as performance versus budget and strategy status are clearly communicated to employees, business goals are better understood, and employees derive a clearer idea of how their role contributes to the strategy. The result is improved employee engagement. These S&OP outcomes are important: a 2017 Gallup poll revealed that only 33% of employees in the U.S. are engaged and only 22% of U.S. employees strongly agree that the leadership of their organization has a clear direction.

Furthermore, S&OP can create meeting environments where employees feel safe to speak up. This increase in psychological safety improves team effectiveness and employee well-being and performance.

Conversations about performance versus budget, strategy, employee performance and well-being will raise the profile of S&OP across the company and engage support from all functions, not just supply chain.

OUR EXECUTIVES ARE CAPABLE AND WILLING TO DRIVE AN EFFECTIVE S&OP PROCESS

A key objective for senior leaders who embark on the S&OP journey is to create and nurture an environment and culture where this process can thrive. As I've already mentioned, it is unlikely that a company culture in support of a thriving S&OP pre-exists at the start of an implementation. We seem to assume that executives have the self-awareness, emotional capability, and willingness to nurture the values and behaviours that are requisite to effective S&OP. Without these leadership traits, S&OP might have the right data inputs and process structures but still lack the open debate, constructive conflict resolution, trust-building, and emotional engagement of employees so essential to collaboration. An authentic leader must have an inner belief and emotional involvement in the core precepts of alignment, integration, open communication, and trust-building, and must stay committed over the long run to overcome resistance to the cultural changes necessary to sustain an effective S&OP process.

WE DON'T NEED S&OP PIONEERS

In Part 3 of their series, Chris and John argue that "there is no need to reinvent the wheel or be a pioneer." I agree that this might be so for tried-and-true supply-chain planning. The first S&OP pioneers gave us a beautiful, supply-chain-oriented, collaborative platform, and we have to be grateful to them.

We also have to acknowledge that S&OP has the potential to provide value for industry and functions beyond supply chain, such as HR, strategy, financial planning, and performance management. However, in order to extend the S&OP conversation to other industries or other functions, I believe we do need new pioneers: trailblazers who think outside the supply-chain box, and who are willing to step into unknown territory and fail. We need pioneers to cement S&OP as the default, end-to-end, business-governing model.

CONCLUSIONS

Before you start an S&OP implementation, make sure you have a long-term vision, clear goals, and the required capabilities to make S&OP effective and sustainable.

• Understand your current company culture, define required behaviours, and prepare your employees for behavioural change.

• Provide meaningful language for all functions, not just supply chain.

• Ask the senior leadership to take an honest look in the mirror about how capable and willing they are to nurture required S&OP behaviours.

• Start with the basics but dare to be a pioneer who implements aspects of S&OP we've not before imagined.

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A Cautionary Tale from a Former Operations Planner

JOHN E. MELLO

The three-part *Foresight* series "Misconceptions, Missteps, and Bad Practices in S&OP," by Chris Gray and John Dougherty, raises issues that managers, frankly, should be worried about. The series warns us about things that companies get wrong and details why and how they can be resisted, if not corrected. The articles are valuable and I commend the authors for bringing these issues out into the open. In this commentary, I'll focus on but one of their key points: the importance of accountability when it comes to the outcomes of sales and operations planning. This point, in my own experience, cannot be overemphasized. It speaks to the integrity of the S&OP process and a company's commitment to making it work.

Many years ago, I worked for a large consumer packaged-goods company in the operations-planning department. Our function was to run a production-attainment plan in monthly buckets and pass that plan on to the five manufacturing facilities for building a master production schedule.

Although it was not formally labeled "sales and operations planning," we followed a process similar to that shown in the third article of *Foresight*'s Gray and Dougherty series (2018). The production-attainment plan was based on sales forecasts, new-product ship-to-trade volumes, and current inventories. It also involved give-and-take discussions with the planning departments at the manufacturing plants, during which volumes might be adjusted or capacities changed depending on issues with component supplies or manufacturing capabilities.

One aspect in which we unfortunately did not adhere to the Gray and Dougherty warnings, however, was our lack of a meeting in which plans could be reviewed and approved/adjusted at the executive level. Gray and Dougherty's warning was to avoid having "engineered senior management completely out of the process, undermining executive ownership and accountability for the plan that results."

In our case, manufacturing success or failure was based on the attainment plan, with each plant responsible for hitting the targets regardless of changes to demand during the monthly period the attainment plan was in effect. Thus we were guilty of the "tendency to delegate the S&OP supply-planning process completely to lower levels of the organization, specifically to the master scheduler, without including a way for senior executives to set and approve a plan at a different level (higher or lower)."

We could have done a better job of vetting the plans at a higher level, but at the time there was no such thing as a "Sales and Operations Planning" process, and we thought there was sufficient oversight coming from operations planning to ensure the right products got made in the right quantities and at the right time.

However, leaders at one of our plants decided that since they were making most of the decisions concerning the production schedule anyway, there was no reason to be bound by what they believed to be an arbitrary attainment number that may or may not have accurately reflected actual demand. The plant manager, who enjoyed a close and trusted relationship with the Senior Vice President of Operations, convinced the V.P. that his plant did not need the oversight of operations planning and could handle the question of what got scheduled, and when, all by itself. In effect, this removed not only senior management from responsibility, but mid-management as well. From my perspective as an operations-planning manager, and later as the materials manager at that plant, this led to mixed results.

There were times the plant did better than the others in keeping products in stock, and not so at other times.

Still, the plant manager was convinced that there was no need for operations planning to "get into our business." The V.P. backed him up. Eventually, the plant manager was promoted to Director of Manufacturing and all of the plants were directed to take responsibility for their own production requirements. And not long afterward, a complete restructuring took place with the operation-planning department being disbanded. Doing so broke the linkage between the demand side (marketing, sales, customer service, and sales forecasting) and the supply side (purchasing, manufacturing, distribution). No longer being coordinated by operations planning, communication between the plant and other company functions such as marketing, purchasing, and customer service became sporadic and less effective. It also removed the extra set of eyes often needed to ensure proper inventory levels across the company and to track the activities required from the different functional areas to ensure on-time product launches.

In retrospect, had we established a formal meeting at the executive level—placing responsibility for reviewing performance and approving future plans on senior management—things might have gone better. Because higher-level managers would have had direct involvement in the process of matching demand to supply, I believe we would have had greater consistency in customer service and on-time product launches. Paraphrasing Gray and Dougherty, by stamping a seal of approval on the manufacturing plan at the executive level through the executive S&OP meeting, senior executives would have had an effective way to record what the real company game plan was, to measure performance, and hold people accountable for results. Abrogation of that responsibility to lower levels left the organization in a vulnerable position in terms of accountability for performance. This is a critical issue, and one that is well addressed by this series of articles.

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