SALES, INVENTORY & OPERATIONS PLANNING:

It's About Time

USC CONSULTING GROUP™

Empowering. Performance.

At USC Consulting Group, we are often called in to help clients with sales and operations planning. S&OP, as it is commonly known, is a business management process that involves sales forecast reports, planning for demand and supply, and other factors. The goal is to help companies get a better, more clear look at their operations and create better-informed strategy decisions, allowing them to deliver what clients need in the most profitable way.

It's a useful process, but we've found a lot of our clients do not include inventory as a strategic tool in their S&OP process. In essence, they're leaving the "I" out of SIOP.

Adding inventory into the mix is just one additional step, but we find it can be the key to the whole process. When you're focusing on inventory, it requires more careful planning and elevates the entire planning process up a notch. When your inventory is optimized, which is not an easy mark to hit in these days of supply-chain disruption, things tend to fall into place. With SIOP, you can make your inventory work harder for you.

In this eBook, we'll highlight our SIOP process, what it is, and how it works in practice for our clients.

SIOP: What it is

Sales, Inventory and Operations Planning is a holistic process that integrates customer-focused demand plans with production, sourcing and inventory plans, resulting in improved tactical and long-term decision making.

We like to tell our clients that the purpose of SIOP is making sure you're having the right conversations about the right things at the right time. And getting what you need when you need it.

"A key to SIOP is to emphasize inventory as a strategic tool to help offset variation in either demand or production issues," explains David Shouldice, senior vice president and managing director of USC Consulting Group's global mining and metals practice. "One lever of control in the SIOP process is to make inventory harder working as a strategic tool."

This isn't a one-and-done process. The SIOP planning horizon should be at least a rolling 14 monthperiod, drop a month and add a month. We recommend that our clients update their plans monthly. Some do it more often than that. The point is covering a sufficient span of time to make sure the necessary resources will be available when you need them. The plans take into account projections made by the sales and marketing departments and the resources available from manufacturing, engineering, purchasing and finance. All of that together works toward hitting the company's goals and objectives.

Sales, Inventory and Operations Planning is done on an aggregate level, family level, and in certain cases, the SKU level. In other words, holistically. Those big-picture plans then drive the individual departmental plans. Each month, you meet again to determine whether the overall company plan is on course, and to adjust for changes in the marketplace and changes or challenges within the company.

Core components of SIOP

A foundational tenet to a robust SIOP process requires that the right conversations occur about the right topics at the right time. Core components of a successful SIOP process include:

The key to SIOP is emphasizing inventory as a strategic tool

- Pre-SIOP & SIOP monthly process schedule
- Sales forecasting and accuracy measures
- Strategic inventory considerations
- Consistent operational capability analysis (capacity and efficiency)
- Cohesive plan with stakeholder collaboration
- Ability to execute the plan or pivot
- Report and review plan versus actual
- Analyze and implement corrective actions

SIOP benefits

Why do it? Sales, Inventory and Operations Planning helps your company in a variety of ways. Here are a few:

Gets departments in sync. The SIOP process helps to determine whether your original financial expectations and budget, current sales plan and operations plan are in sync with each other. The monthly updating and reviewing of your plan will show you, very quickly, where problems lie and if anything isn't making sense.

Ensures that the plans are realistic. The key stakeholders from each department participate in formulating the plans to make sure that all recommendations can be realistically supported. Since all of the numbers and assumptions are transparent throughout the process, each department has more time to evaluate its resources and capabilities in the context of the company-wide plan. The result is a solid set of department plans that are based on real numbers and capabilities.

Effectively manages change. If we've all learned one thing over the course of the last 15 months, it's that change happens. Being agile enough to roll with those punches is vital. With SIOP, your business can effect controlled and appropriate responses to changes that can come out of the blue instead of making knee-jerk reactions.

Measures performance. How has your performance stacked up to the plan? Have you hit the mark, are you way off, or something in the middle? Is your forecasting off, or is it your performance? This helps you identify where your real challenges are and where you need to focus on improvement.

Builds teamwork. One key element of the SIOP process is, it gives each department an opportunity to participate in the overall planning process. Each executive brings experience and skills, which adds insights to the matter of making changes to the current plans.

SIOP:

- Gets departments in sync
- Improves working capital
- Ensures the plans are realistic
- Effectively manages change
- Measures performance
- Builds teamwork

How it works in practice

For SIOP to be effective, there can be no “black boxes” in the process. All participants must understand how it works and what it is designed to achieve. Here’s who we typically see take part in the SIOP process:

- President
- Vice president, sales and marketing
- Vice president, operations
- Director of logistics
- Vice president, engineering
- Vice president, finance
- Vice president, information systems
- Vice president, human resources

One reason SIOP is such a critical management tool is that key stakeholders from many departments are working from the same plan, and able to compare actual results to plan, evaluate their performance, and prepare updated plans going forward.

Sales, Inventory and Operations Planning cycles should be monthly. That timeframe is ideal. Not too short. Not too long. A month gives you time to look at your results and differentiate a trend that you need to act on from a minor variation or hiccup in the process. But it’s not so long that you can’t make changes to right the ship. Still, there are occasions when SIOP cycles must be more frequent than monthly, depending on the nature of the company and the volatility of the marketplace. Companies that sell seasonal items, for example, might have weekly cycles prior to and during their peak selling periods.

CASE STUDY:

Building materials supplier

How does the SIOP process look in the field? Here's one real-world example.

Our client, a building materials supplier with several plants across three states, was implementing a new approach to link their sales forecasting and production planning processes. They needed to optimize their plants across the region in order to ensure they were making the right decisions around production and sales to drive value for the company as a whole. They were struggling to demonstrate value with this new approach to planning, and not seeing the intended benefits of having a fully integrated planning process. Additionally, they were not taking full advantage of reviewing their previous performance against the plan in a way to allow them to make changes to their future plans to increase accuracy.

SIOP. Our focus with this client was on the development and implementation of a process that integrated customer-focused demand plans with production, sourcing and inventory plans that drove improved tactical and long-term business decision-making capabilities.

Consistent operational capability analysis. Working with representatives from each of the plants, we conducted a deep dive on their equipment capabilities and operating hours to identify the true capabilities and efficiencies of the plants. A core component of this work was the implementation of a standardized, repeatable process across the sites to track their capabilities. This new baseline of capabilities and efficiencies formed the basis of fully utilizing the plan as intended.

New calendar structure. We worked with the client to implement a new way to approach planning. Our solution was to develop a monthly structure and cadence to the planning process. Each month would consist of:

- The first third of the month was devoted to reconciliation of the previous month's performance. We looked to answer the question: "How did we perform last month in relation to the plan, and how can we get better?" Part of this was to begin holding a meeting to review the previous month's performance. We also began assigning reasons for variance to plan so that common solutions could be found across the company.
- During the middle third of the month, we focused on continuous improvement. Completing action items that were generated during the planning and reconciliation phases of the month was the main goal, but it also provided the SIOP team a chance to conduct more detailed evaluations of the plan to solve pressing issues or identify creative solutions to demand or production challenges.
- The planning for the next month was compressed into the final third of the month. This served a dual purpose: to reduce the amount of time between when planning began and the plan was implemented, as well as to focus the business on planning at the appropriate time.

The SIOP process helps us help our clients become more efficient, profitable and ultimately competitive. If you'd like to find out more, contact us today.

For more information, read the full case study at Building Materials Supplier Lays Groundwork with SIOP.