

S&OP: BEYOND THE DEMAND/SUPPLY MATCH – A JOURNEY, NOT A DESTINATION

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Report Highlights

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47% of Best-in-Class companies have established an inventory optimization initiative as strategic action.

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Best-in-Class companies are more than twice as likely to include Marketing in the demand planning process.

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Best-in-Class companies are 58% more likely to quickly respond to unplanned events in alignment with S&OP objectives.

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Best-in-Class companies are 77% more likely to have the ability to evaluate unconstrained planning scenarios during the demand/supply balancing process.

This report explores the next steps to maturity for the S&OP process beyond the demand/supply matching process, a point where many companies plateau. We examine the advantages in processes, technology and organizational involvement that Best-in-Class companies have in place for their S&OP process, moving them to the next level of performance.

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The S&OP process becomes the *one plan* for the business, the point of direction, and a predictive process model that drives priorities and performance.

It's a journey – not a destination. Every company goes through it. The basics are in place after a lot of hard work, but how do you take the next step? How does the S&OP process move beyond the supply/demand balancing process and the jurisdiction of the supply chain organization? Many versions of S&OP maturity models exist, but the key underlying point to making it the driver for managing the business, is to expand and create process ownership across the organization, along with the executive sponsorship. By doing so, the S&OP process becomes the *one plan* for the business, the point of direction, and a predictive process model that drives priorities and performance.

This paper will highlight areas for advancement when organizations feel “stuck” with their S&OP process and are looking for ways to move forward.

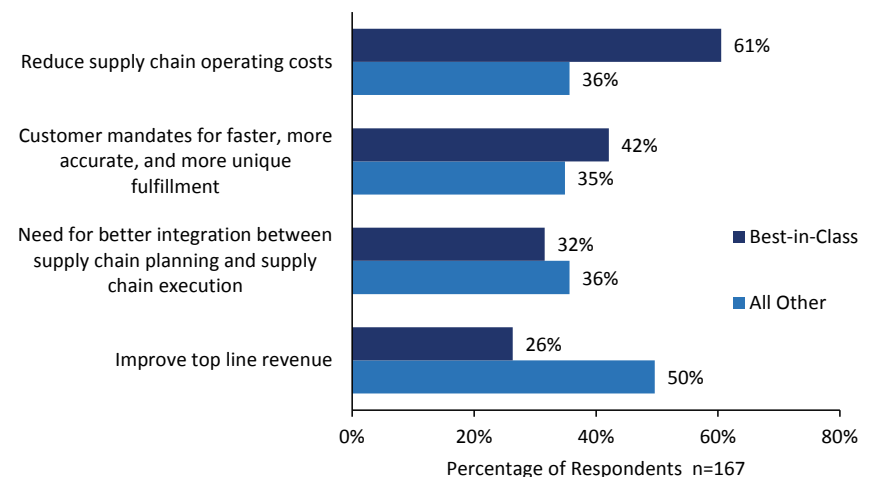
Prioritizing the Business Pressures

The difference in maturity between the Best-in-Class (see sidebar for definition) companies and their competition manifests itself in terms of how they prioritize the business pressures they all face. Figure 1 provides a look at these pressures.

Best-in-Class Definition

- *Best-in-Class* is the top 20%
- *Industry Average* is the middle 50%
- *Laggards* are the bottom 30%
- *All Others* are the sum of the Industry Average and Laggards - 80%

Figure 1: Business Pressures



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Source: Aberdeen Group, May 2015

All companies are concerned with reducing costs, but All Others are more preoccupied with growing the top line revenue. They are not yet at the level of business that would put them more in control of their market position. The Best-in-Class are much more engaged in getting the most out of the business they have, and are more focused on managing customer demands for faster, more unique fulfillment. They are concerned with enhancing their value to customers and finding ways to grow those relationships.

Strategic Actions: Priority Differences by Maturity Level

There is a reason companies get stuck in advancing their S&OP process when they have put a good demand/supply match process in place. The basic matching process is typically contained within the supply chain organization, because they are tasked with deciding what will be produced, bought, or provided in the case of a service business. This plateau can be characterized as the point where the business can achieve a comfortable balance between demand and supply, and the organization has general buy-in to how the operating level is determined. Ideally there is executive sponsorship involved, but that is not always the case at this point. “How and where to move forward?” is the question for companies who have hit this plateau. The key is to realize that even the Best-in-Class companies have gone through this stage. The answers can be found by observing the actions and capabilities in place by the Best-in-Class, which will help take your business to the next level.

Figure 2 shows the top priorities for strategic action by the Best-in-Class. The inventory optimization initiative is a good example of how to move forward. In the demand/supply balancing process, the basic inventory levels are under control, but they

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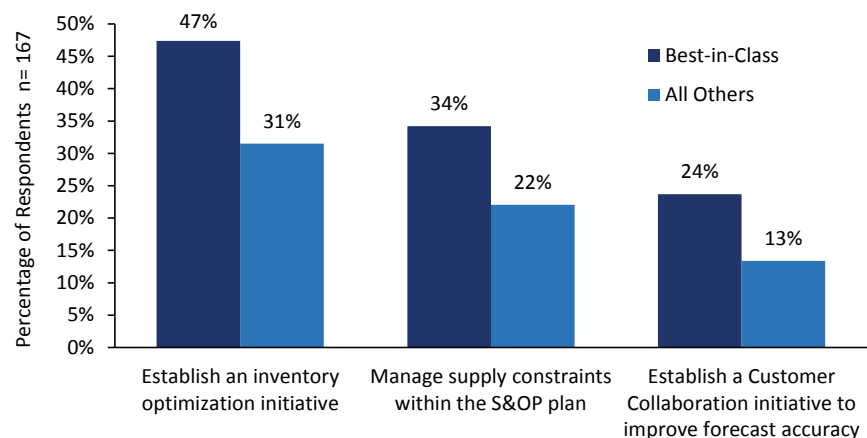
Best-in-Class S&OP Maturity Matrix

- *Customer service level*
 - Best-in-Class 93.7%
 - All Other 85.3%
- *Cash-to-Cash Cycle - Days*
 - Best-in-Class 44
 - All Other 65
- *Average forecast accuracy at the product family level*
 - Best-in-Class 81.5%
 - All Other 63.0%
- *Gross margin improvement*
 - Best-in-Class 2.7%
 - All Other 1.3%

can be modeled more effectively and leveraged to improve customer service levels with more sophisticated processes, such as inventory optimization (IO). This requires involving the sales and marketing teams to understand the competitive landscape and customer mandates for service, including channel strategies.

Managing constraints within the S&OP plan is indicative of understanding the supply and capacity limitations, building them into the plan, and working around them. These are often dealt with by creating contingency plans that turn into actions when certain trigger levels are hit. Similar to an inventory optimization initiative, this helps to refine and improve the demand/supply planning process, and requires engagement with other functional areas beyond the supply chain organization, such as marketing, sales and manufacturing engineering.

Figure 2: Best-in-Class Strategic Priorities



Source: Aberdeen Group, May 2015

The demand side of the S&OP also gets attention with a customer collaboration initiative. This requires going beyond the four walls of the organization to involve other levels within the

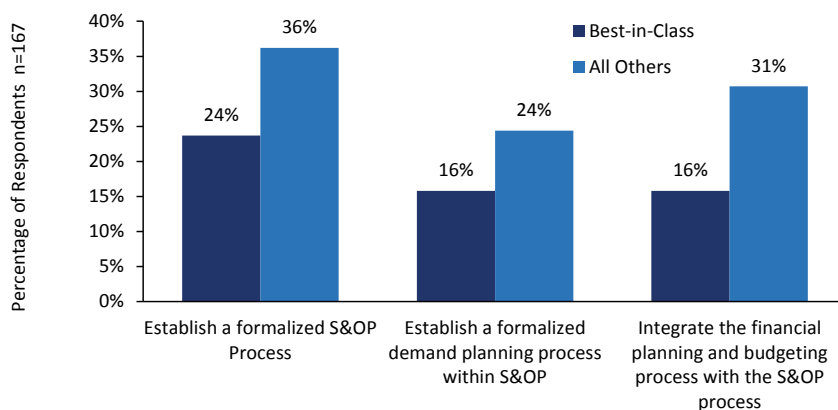
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organization. Customer collaboration is a valuable proactive strategy for engaging customers. However, to be effective, it needs to be well thought out and orchestrated so that a clear value proposition is articulated to the customer. It is critical to involve all customer-facing levels as well as the supply chain team when establishing this initiative.

In contrast, Figure 3 highlights the key strategies prioritized by All Others compared to Best-in-Class. Their top priorities are much more contained within the supply chain organization and are involved with improving the basic S&OP process itself. Establishing a formalized S&OP process is necessary to move forward and indicates there is a need for stronger sponsorship in solidifying the process. Formalizing the demand planning process also indicates that even though the demand/supply match might exist, there are some issues with roles and responsibilities in generating the demand plan. Contrast this demand planning process focus for All Others, with the creation of a customer collaboration initiative, which the Best-in-Class are concentrating on. All Others need more internal process refinement before they will be ready to engage directly with customers.

All Others are much more internally focused and need more process refinement before they will be ready to engage directly with the customer.

Figure 3: Strategic Priorities for All Others



Source: Aberdeen Group, May 2015

All Others are also focused on integrating the S&OP with the financial planning and budgeting process, which is one of the first points of connection with external processes beyond the demand/supply match. This step is often characterized as moving to “integrated business planning” (IBF), to distinguish the point at which the S&OP moves beyond demand/supply matching. The Best-in-Class have this in place with a few exceptions, which can be seen in the capabilities review, but this does start to expand beyond the supply chain organization. It is also one of the first questions to come out of an S&OP meeting – “now that we have our plan in balance, what is the financial impact and how does it compare to our budget?” However, that is not the only dimension for improvement necessary for the S&OP process to achieve its maximum potential.

What’s in Place and What’s Not? A Comparison of Best-in-Class Capabilities Compared to the Competition – Signs of Maturity

In order to breakdown where the maturity of the S&OP process needs to advance beyond the demand/supply match, we now look at a more granular view of the process capabilities for demand planning, the business decision processes, and advanced scenario planning. In each case, the Best-in-Class have a distinct advantage as shown in the upcoming charts, and are much more likely to have the capabilities in place, compared to All Others. It is the breadth and scope of these capabilities that provides the direction for improving the S&OP process.

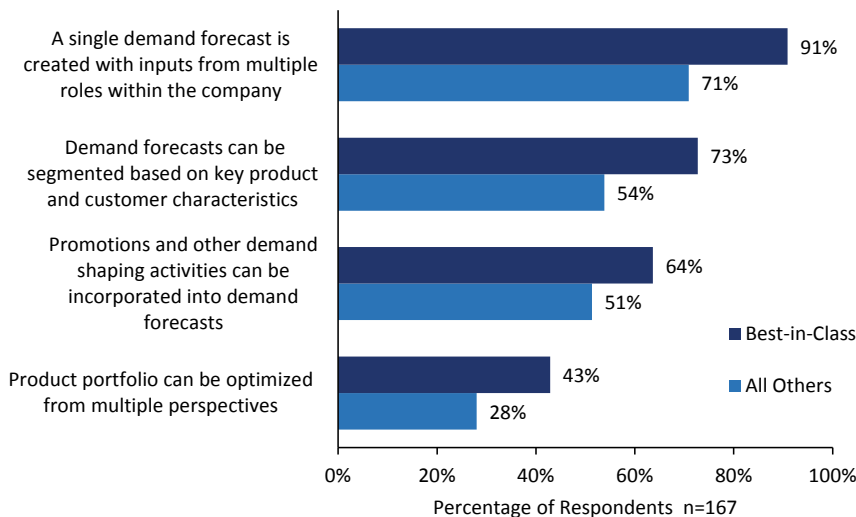
Demand Planning Process

For the demand planning process, there are two considerations. The first, as shown in Figure 4, are the stronger adoption of capabilities by the Best-in-Class, but there is also the

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organizational involvement in the demand planning process, shown in Figure 5.

Figure 4: Forecasting and Demand Planning Process



Source: Aberdeen Group, May 2015

The ability to segment demand based on the characteristics of customers, channels or products, really provides the insight to increase service levels and target problem areas, without blindly increasing inventories across the board.

As shown in Figure 4, the ability to take in multiple inputs and distill them down to a single forecast is widely adopted by the Best-in-Class, and is a sign of a mature demand planning process. A key point is the ability to work across the organization to capture the necessary inputs to improve visibility and modeling, which goes beyond the supply chain organization. The Best-in-Class have a clear advantage in this adoption and have an effective demand planning process because of it.

The next process identifies the ability to segment the demand based on the characteristics of customers, channels or products, which really provides the insight necessary to increase service levels and identify problem areas without blindly increasing inventories across the board. Segmentation capabilities also require working with the sales and marketing teams to better

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Promotion planning and demand shaping also require working with the marketing and product management teams to begin driving demand rather than just responding.

understand the business priorities, the market channels and their behaviors. Companies involved in Omni-Channel businesses need to incorporate this capability to better align their inventories with the demand, as a refinement to their demand planning process.

Promotion planning and demand shaping also require working with the marketing and product management teams to begin driving that demand, rather than just responding to it. The Best-in-class are 25% more likely to have this in place, and it is definitely a step beyond the basic demand/supply match. It moves the organization to start *shaping* the demand to align with company strategies, and begins driving the business in a more prescriptive manner.

Taking demand planning a step further is the ability to optimize the product portfolio and incorporate profit optimization into the decision process. At this point, the S&OP process starts to become predictive and opportunistic, by driving the business in a way that not only satisfies customer service levels, but does so in the most profitable way.

As the level of proficiency for the demand planning process improves, it should be recognized that in addition to the processes identified in Figure 4, there is an increased internal level of engagement required, as shown in Figure 5.

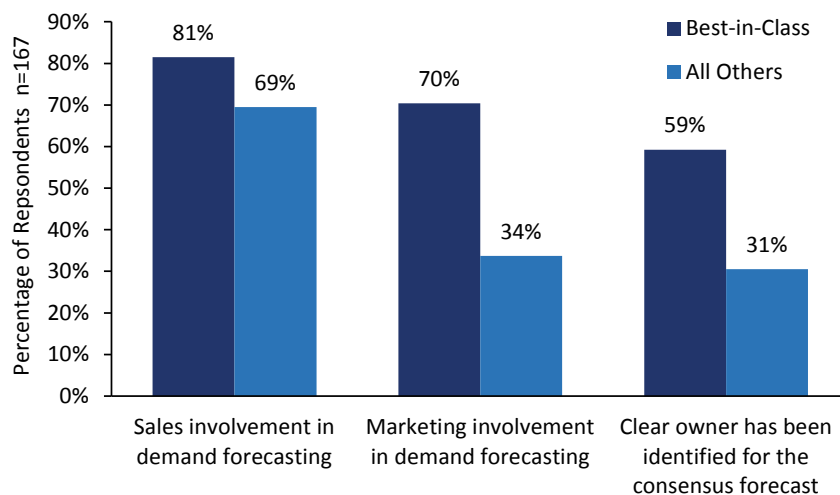
Having sales involved in the forecasting process is required to move beyond just number-crunching. The sales team is generally the closest to the customer and can provide valuable insight to the timing, direction, and pain points the customer may be facing. The Best-in-Class are further along this path, but All Others have realized this is valuable to the forecasting process.

Defining a clear owner of the consensus forecast who has the experience to create, orchestrate, and manage the model to incorporate the inputs is an important step in the maturity process.

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What is not nearly as prevalent is the engagement with the marketing organization, where the Best-in-Class are more than twice as likely to be engaged. The marketing team can help in many ways, to shape and fine tune the forecast. They can provide a view of the market direction, competitive requirements, product group portfolios, promotion plans, new product introductions, and potential opportunities that might exist if the organization is capable of responding. Inclusion of the marketing team in the demand planning process is where the sophistication and insight into the demand management increases, and can become very prescriptive and proactive to not only shape the demand, but do so more profitably.

Figure 5: Involvement in the Demand Planning Process



Source: Aberdeen Group, May 2015

Mention has been made of incorporating all inputs into the demand planning process, but identifying how those inputs are rationalized into the consensus number for a given SKU (stock keeping unit) needs to be defined. This is part of the process evolution that must occur, and where the Best-in-Class are nearly twice as likely to have this capability in place. Defining a

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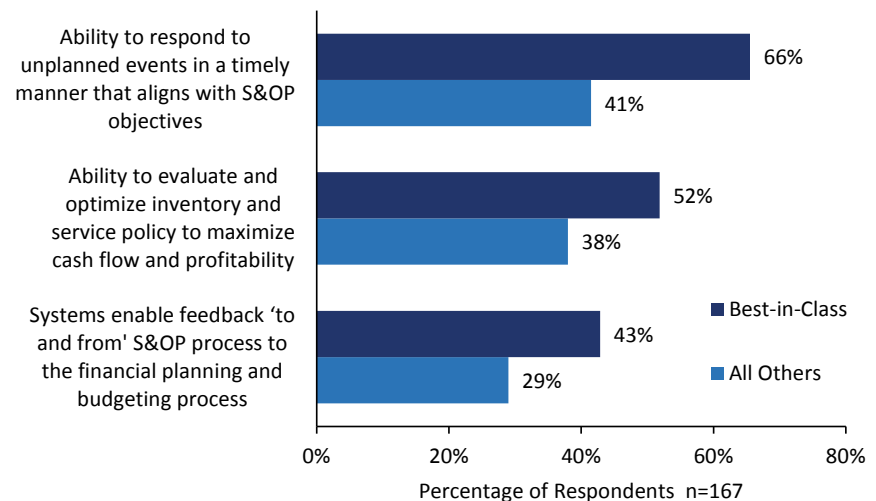
- [Read the full report, "S&OP: A Proven Process to Maximize Your Business Results"](#)
- [Related Research "S&OP: Non-Negotiable as a Process"](#)

clear owner of the consensus forecast who has the experience to create, orchestrate and manage the model that incorporates the inputs is an important step in the maturity process.

Advanced Business Decision Processes

In addition to the demand planning process changes required to move beyond the demand/supply match, there are several improvements that need to occur for the decision support processes, as shown in Figure 6.

Figure 6: Advanced Business Processes



Source: Aberdeen Group, May 2015

The ability to respond to unplanned events in alignment with S&OP objectives emphasizes the element of control that occurs as the S&OP process matures. Firefighting is pretty much eliminated, and because of the involvement and inclusion of other functional areas, plus executive sponsorship in place, the organization knows how to deal with unplanned events. Best-in-Class companies are 17% more likely to have the CEO, President or COO as their executive sponsor. The scenario planning that

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occurs at this level, often models some of the potential unplanned events that might occur.

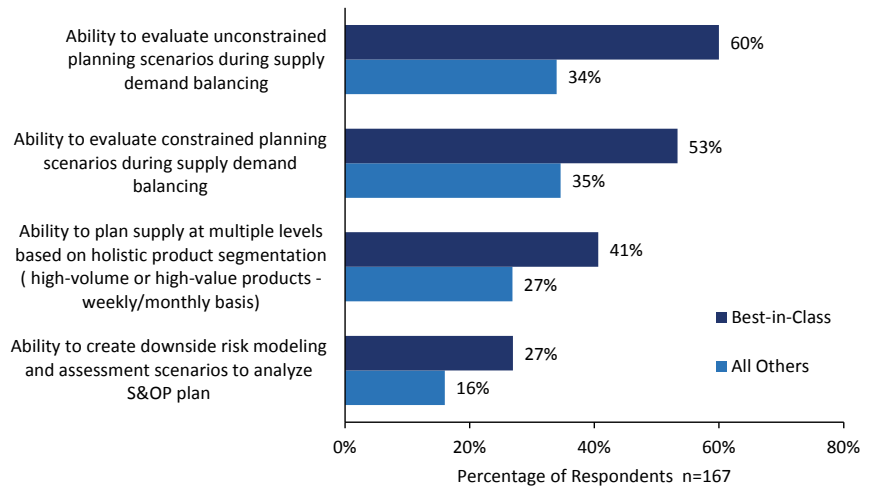
The Best-in-Class are much more likely to have the ability to optimize their inventory for improved service level and profitability. This is also an area where increased adoption needs to occur and requires engagement from marketing and sales to align the inventories with the business objectives.

Scenario Planning

Figure 7 provides a look at the level of scenario planning that Best-in-Class companies have in place compared to all Others in a more mature S&OP process. We have discussed these in more detail in our previous research, [S&OP: A Proven Process to Maximize Your Business Results](#), December 2014, and [S&OP: Non-Negotiable as a Process](#), December 2013. The unconstrained scenario considers what it would take to satisfy upside possibilities first. Then by comparing the requirements to existing capabilities, the scenario provides the visibility to see what the stretch goal would mean to the organization. It can also lead to contingency planning that identifies the trigger points where investment and/or hiring might be required for expansion.

As the vetting process for the various scenarios occurs, confidence increases in the adopted plan because the organization realizes that a thorough consideration was given to all possibilities as part of the process.

Figure 7: Scenario Planning



Source: Aberdeen Group, May 2015

The constrained scenario planning looks at what can be achieved by leveraging existing capabilities. It can also be used to identify underutilized capacity that might be employed to better shape demand and maximize the utilization of all assets. This type of effort is where close internal collaboration is required between the supply chain manufacturing and marketing teams to tackle a business challenge that goes beyond any one silo.

Further scenario planning capabilities include planning at multiple levels by using segmentation capabilities, and incorporating risk into the S&OP discussion. Even though the Best-in-Class are much more likely to have these scenario planning capabilities in place, they are not as widely adopted as the constrained and unconstrained scenario abilities. This is an indication that even for mature S&OP processes, there is continued evolution.

Scenario planning is one of the key reasons why the organization learns and adopts the S&OP process as a driver for their

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business. The scenarios test the up and downside possibilities to arrive at the approved plan that the organization will execute. As the vetting process for the various scenarios occurs, confidence increases in the adopted plan because the organization realizes that a thorough consideration was given to all possibilities as part of the process. Getting the buy-in to one plan is no longer a struggle, but a way of life.

Technology Support

To support the process advancements that go beyond the basic demand/supply match level of S&OP maturity, there is a need for technology to support these capabilities. Table 1 provides a list of the process areas where technology is required and moderate - strong support is provided. Across the board, the Best-in-Class are much more likely to have support behind each one of the primary capabilities and strategic actions that are being undertaken.

Table 1: Technology Support – Moderate to Strong

Supporting Technology	Best-in-Class	All Others
Supply planning	89%	60%
Inventory planning	89%	63%
Demand planning	81%	57%
Promotion planning	73%	38%
Demand Segmentation by distribution channel or other segmentation filter	62%	29%
Risk management	50%	22%
Inventory Segmentation	48%	27%

Source: Aberdeen Group, May 2015

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To get beyond the demand/supply match level, extending the S&OP process ownership beyond the supply chain organization is required. The demand planning improvements require technology to support them on segmentation, collaboration and promotion planning solutions. Improved inventory modeling and optimization (IO) to drive higher service levels is dependent on IO tools as discussed in our previous research, [Best-in-Class Practices: Maximizing Your Inventory Performance](#), November 2014. Developing and leveraging scenario planning requires the “what if?” capabilities that can be exercised quickly to test a plan. Where the S&OP process continues to grow is in the predictive performance area, which seeks to avoid risk and plan around potential problems before they occur. With the new “boss” we all now have, formerly known as the customer, inventory deployment and segmentation is moving up the ladder in priority to address omni-channel challenges.

Key Takeaways

The realization is that a robust, mature S&OP process is a journey that evolves to address the business challenges, rather than a destination of a fixed set of predetermined processes. Moving beyond the demand/supply match level of maturity to a more robust process with wide organizational ownership and executive sponsorship is demonstrated by Best-in-Class attributes. In order to move your organization from a basic demand/supply match to more mature and predictive S&OP process, we recommend the following key steps to success as a guide for improvement.

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- Formalize the S&OP process – make it mainstream
- Establish executive sponsorship and extend S&OP process ownership beyond the supply chain organization
- To encourage ownership, establish and publish the S&OP process checklist to identify where delays/pain points still exist
- Include sales and marketing teams in the demand planning process
- Identify an owner for the consensus forecast.
- Integrate the financial planning functions to quantify the impact of the S&OP plan/changes on the financial plan
- Adopt the technologies to develop constrained and unconstrained scenario planning
- Standardize and streamline the scenario planning process for upside, downside and risk scenarios
- Establish an inventory optimization initiative to address service level and omni-channel concerns by right-sizing the inventory with improved modeling across the organization
- Adopt the technology/tools to enable demand shaping in order to drive a more profitable business

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[*S&OP: A Proven Process to Maximize Your Business Results*](#); December 2014

[*S&OP: Non-Negotiable as a Process*](#); December 2013

[*Demand Planning: Why the Best-in-Class Excel & Why You need to Know!*](#); February 2015

[*The Best-in-Class Leverage Forecast Accuracy Across the Organization*](#); May 2014

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About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide improve their performance. Our analysts derive fact-based, vendor-agnostic insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategy. Aberdeen Group is headquartered in Boston, MA.

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