OUR VISION AT SOLVENTURE

An 8-stage maturity model for S&OP 2.0

by Prof.dr. Bram Desmet, CEO at Solventure

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AN 8-STAGE MATURITY MODEL FOR S&OP 2.0

In an earlier vision paper, linked on the next page, we have described a new vision for S&OP, an S&OP 2.0, that we call Integrated Value Planning. The reason for developing the S&OP 2.0 is the continued struggles with implementing the S&OP 1.0. In her Forbes article from 2015, “Why is Sales and Operations Planning so Hard?”, Lora Cecerei talks about a lack of proper data, a lack of proper tools, a lack of buy-in from other functions like sales and finance, a lack of buy-in from the executive management, a lack of skilled resources, … If I go to conferences or talk to practitioners, it seems that 10 years later, we are still struggling with the same hurdles. Instead of just trying harder, I thought maybe it was time to try something different.

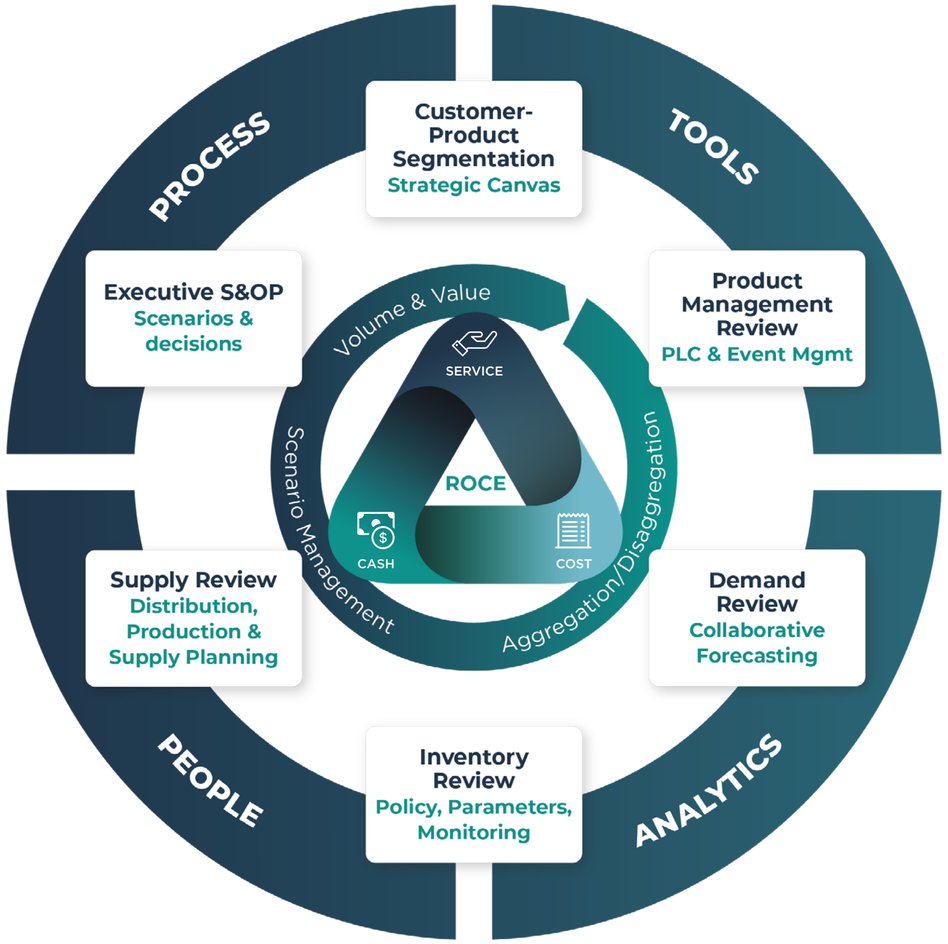


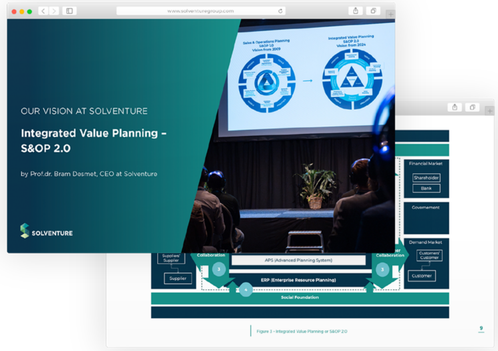
Figure 1 - The original best practice vision on S&OP from 2009 - the S&OP 1.0

WHAT'S IN IT FOR THEM?

In her Forbes article from 2015, "Why is Sales and Operations Planning so Hard?", Lora Cecere talks about a lack of proper data, a lack of proper tools, a lack of buy-in from other functions like sales and finance, a lack of buy-in from the executive management, a lack of skilled resources, … If I go to conferences or talk to practitioners, it seems that 10 years later, we are still struggling with the same hurdles. Instead of just trying harder, I thought maybe it was time to try something different. Therefore, we described a new vision for S&OP, an S&OP 2.0, that we call Integrated Value Planning.

White Paper:
Integrated Value Planning – S&OP 2.0

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As I describe in the vision paper on Integrated Value Planning or S&OP 2.0, the key problem I see with S&OP 1.0 is that it is a supply chain process. Take the example of demand planning. We generate a statistical forecast and ask salespeople to validate and enrich. Why? Because supply chain needs it to properly plan capacities and materials. We never asked the question "what's in it for them?". For sales it is a frustrating experience. Even if they put in the correct forecast, they may still not get the product as issues are popping up in the plants or at key suppliers. In their eyes it is a waste of time. Integrated Value Planning or S&OP 2.0 starts from the sales planning and the needs of sales. Sales is also making plans on how to grow the business. Sales has committed to certain targets in the budget. We can help sales by providing insights into where we (supply chain) are about the plan. Where are we running ahead and where are we behind? Which volumes have been contracted and what is still to be done? How are we going to close the gaps, with which type of customers, in which region, and with which type of products? If we can help sales to plan their piece of the puzzle and ensure that on the back of that we get the information we need to plan capacities and materials, we will get to a different level of adoption and the best possible forecast accuracy. As I describe in the vision paper, Integrated Value Planning or S&OP 2.0 tackles the broader planning question of our extended value chain ecosystem. At the heart it connects financial planning and supply chain planning into one Financial and Supply Chain Plan or FSCP. It connects functional planning processes like sales planning, trade promotion planning, portfolio planning, resource planning and the like. It connects key customers and key suppliers. And it integrates non-financial, environmental and social metrics into our planning and decision-making processes.

THE ORIGINAL 5

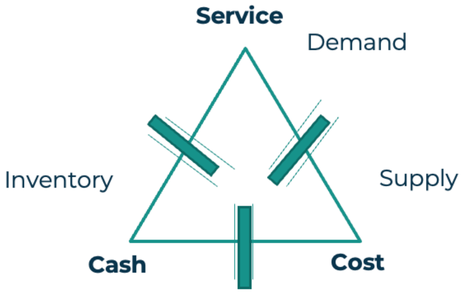
As we are extending the scope of S&OP, we also need to provide new handrails on how to build Integrated Value Planning or S&OP 2.0. A common instrument in building S&OP capabilities is the 5-stage maturity model of Gartner. In a first step we will map the 5 traditional stages to our Supply Chain Triangle. In a second step we will insert several stages and extend the model to 8 maturity stages to broaden the scope from the narrow supply chain scope of S&OP 1.0 to the broader business scope of Integrated Value Planning or S&OP 2.0.

Gartner is, I believe deliberately, vague in defining the original 5 maturity stages. In Figure 1, I have mapped them to the SupplIt Chain Triangle to make them more concrete. I see companies where sales is not making any forecasts, or where supply chain distrusts the forecast from sales and makes its own forecast to use it in the supply planning. I see companies where purchasing is not buying or making contracts based on an MRP result but based on its own forecast of material consumption, typically based on historical consumptions. Even in the 20's, these disconnects between sales, operations and purchasing are common. They define stage 1 maturity as that is called "react".

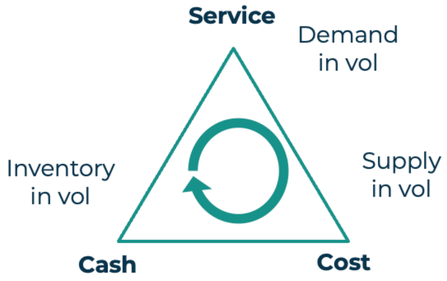
White Paper: Balancing Service, Cost & Cash in the Supply Chain Triangle



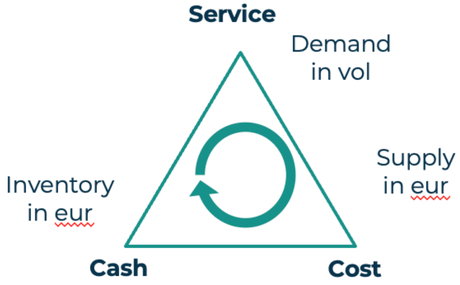
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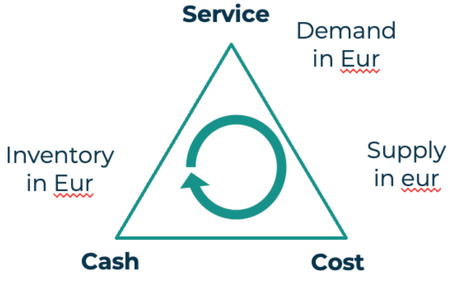
STAGE 1 – REACT: Internal disconnects between sales and operations. Firefighting to solve unforeseen demands and tackle shortages



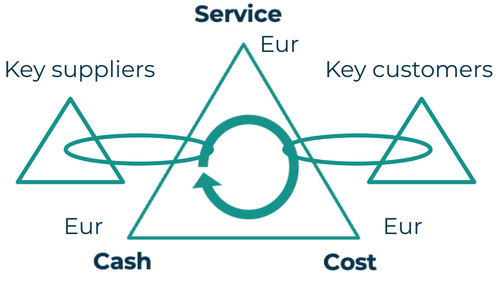
STAGE 2 – ANTICIPATE: Sales, operations and inventory are connected and balanced in volume (pieces, kg, m², ...)



STAGE 3 – INTEGRATE: Alternative plans can be evaluated based on cost. Cost-driven decision making.



STAGE 4 – COLLABORATE: Alternative plans can be evaluated based on margin. Value-based decision making within the company boundaries.



STAGE 5 - ORCHESTRATE: Connected to key customers and key suppliers. Value-based decisions across the company boundaries.

Figure 2 - The 5-stage maturity model of Gartner mapped to the Supply Chain Triangle

In stage 2, demand, supply and inventory are connected and balanced in volumes. The demand, in volume, is the result of a demand review process between sales and supply chain. The consensus demand is the input for the supply planning process, that is typically run by supply chain. We may decide to produce more or less than the demand to build up or off inventories. Any important stock increases or decreases, or any significant capacity or material constraints are discussed in the pre-S&OP and/or Exec S&OP. We come to a consensus plan with a cross-functional team, but in stage 2, the plan is primarily volume-based. Gartner calls stage 2 “anticipate”.

In stage 3, we add the cost-information to the plan. As we evaluate alternatives, for instance pre-building stock versus adding overtime in the peak period, we can analyze the impact on the production cost and the inventory value. In stage 4, we add the sales price and the sales revenue as information, so we can analyze the margin impact of different scenarios, and we can trade-off the P&L impact and the cashflow (increase/decrease in inventory) impact. Gartner calls stage 3 and 4, “integrate” and “collaborate”.

In stage 5, the idea is that we are connected to key customers and to key suppliers, we can sense the changes on the demand side or the supply side, translate the impact on one another, and evaluate different options and scenarios on both the P&L impact and the cashflow impact (increase/decrease in inventory).

If your understanding of the 5 stages of Gartner is a bit different, I’m not too concerned about that. What I hope you will recognize is the increasing level of sophistication in Figure 1. From disconnected and not integrated, to connected with key customers and suppliers and financially driven.

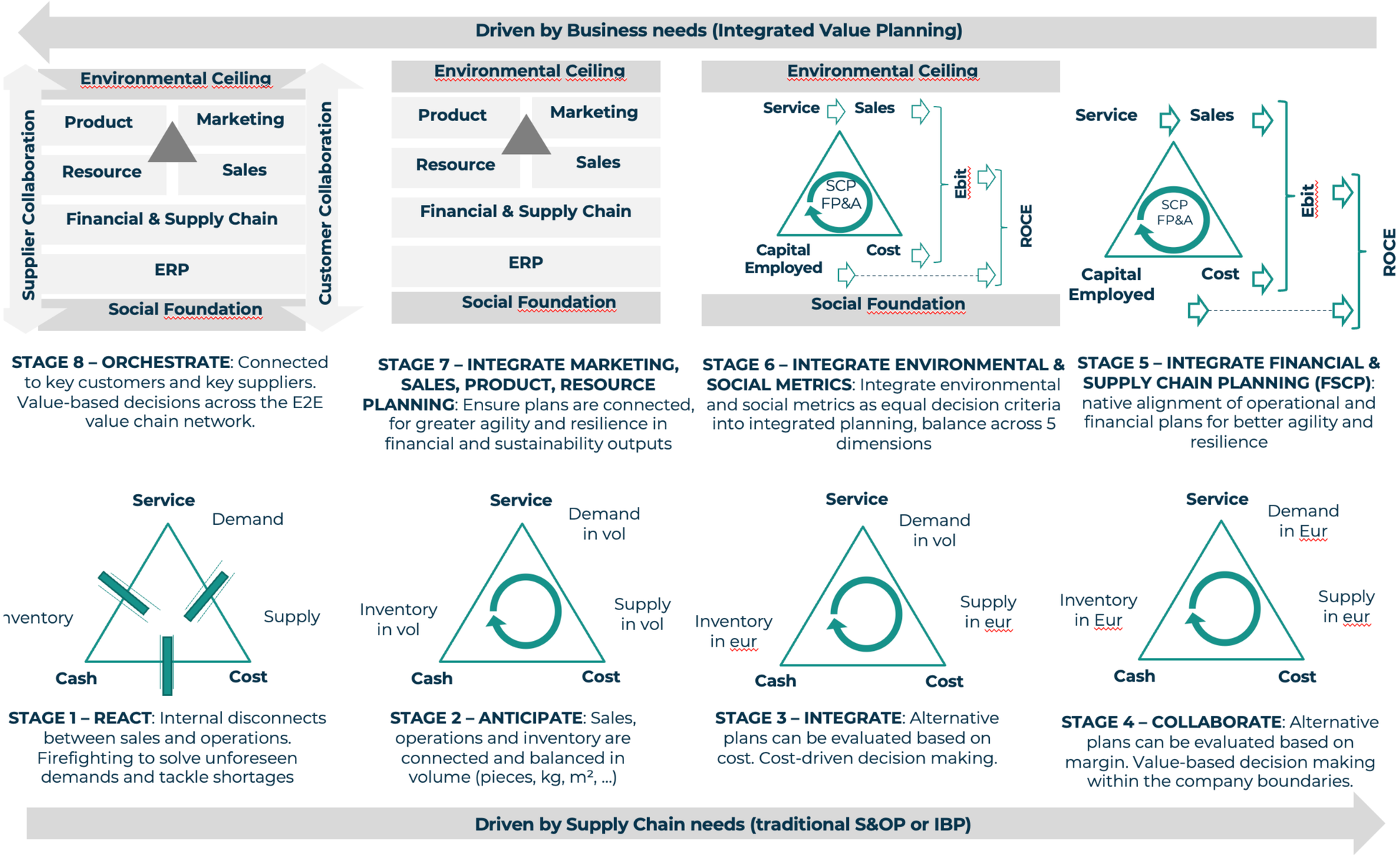
FROM 5 TO 8

As we try to link the 5 stages to Integrated Value Planning or S&OP 2.0 there are a couple of dimensions missing. Previous S&OP models, whether it is the approach of Thomas Wallace, the approach around “Integrated Business Planning” or IBP from Oliver Wight, the Gartner S&OP maturity model … none of them have the ambition to integrate supply chain planning and financial planning. All of them allow both plans to co-exist and merely try to align them. In our vision paper on Integrated Value Planning or S&OP 2.0, I have argued that was maybe good enough 30 years ago, but it is neither efficient nor effective in today’s volatile demand and supply markets. The main reason the integration has not been done, is finance not trusting supply chain and supply chain not understanding finance. It is time to leave that behind for the sake of the company and for the goal of more agility and more value generation. We introduce the Financial and Supply Chain Planning or FSCP as a stage 5 in the 8-stage maturity model shown in Figure 2.

Another element missing in the earlier S&OP models is the link to sustainability, to environmental and social KPI’s, targets and performance. In the book “Rethinking Supply Chain. How to build a Strategy-Driven, Sustainable and Resilient Supply Chain.”, I introduce models on how to expand the Supply Chain Triangle to include sustainability. One of the models is the introduction of the social foundation and the environmental ceiling to define the ‘safe supply chain zone’. Introducing these metrics and including them in our planning and decision-making processes is part of a new stage 6.

Once we have connected the financial planning and the supply chain planning and integrated environmental and social metrics, we can start connecting the other functional planning processes like sales planning, trade promotion planning, resource planning and the like. We introduce this as stage 7. This level of integration is absent from the earlier S&OP models, and as we tried to explain above, we believe that integrated planning will always break down if it serves the purpose of only one function. Breaking through some of the old buy-in hurdles needs a broader business planning perspective.

And then finally in stage 8, we come back to orchestrate. We believe it doesn’t make sense to start connecting key customers or key suppliers if we’re not connected internally. I see companies that receive customer forecasts but don’t have a proper planning system or MRP to which it can be connected. As we discuss in our vision paper on Integrated Value Planning or S&OP 2.0, we believe integration with key customers and suppliers is essential, from a sustainability perspective and from a resilience perspective. We need to understand our upstream and downstream CO2 and broader environmental and social impact. To deal with the increase volatility we need to get closer to truth, through creating visibility on customer inventories and planned consumption and supplier capacities and key inventories. Better and faster information is an absolute requirement for becoming more agile.



STAGE 8 – ORCHESTRATE: Connected to key customers and key suppliers. Value-based decisions across the E2E value chain network.

STAGE 7 – INTEGRATE MARKETING, SALES, PRODUCT, RESOURCE PLANNING: Ensure plans are connected, for greater agility and resilience in financial and sustainability outputs

STAGE 6 – INTEGRATE ENVIRONMENTAL & SOCIAL METRICS: Integrate environmental and social metrics as equal decision criteria into integrated planning, balance across 5 dimensions

STAGE 5 – INTEGRATE FINANCIAL & SUPPLY CHAIN PLANNING (FSCP): native alignment of operational and financial plans for better agility and resilience

STAGE 1 – REACT: Internal disconnects between sales and operations. Firefighting to solve unforeseen demands and tackle shortages

STAGE 2 – ANTICIPATE: Sales, operations and inventory are connected and balanced in volume (pieces, kg, m², ...)

STAGE 3 – INTEGRATE: Alternative plans can be evaluated based on cost. Cost-driven decision making.

STAGE 4 – COLLABORATE: Alternative plans can be evaluated based on margin. Value-based decision making within the company boundaries.

Figure 3 - 8-stage maturity model for Integrated Value Planning or S&OP 2.0

DID YOU PASS THE TEST?

We believe the stages 1 to 4 are still heavily driven by the needs of supply chain. It is about balancing the service towards the customers (the demand), the cost to supply them, and the inventories we need to invest in that. It is about connecting and balancing the base triangle, first in volumes, then in cost and finally in margin and cashflow terms. The stages 5 to 8 really expand that into a broader business perspective, by linking in the financial planning, by integrating non-financial metrics, by connecting other functional planning processes and by finally integrating key customers and suppliers. We believe the 8-stage maturity model shows quite well how Integrated Value Planning or S&OP 2.0 differs from the more traditional S&OP 1.0 or its variants like Integrated Business Planning or IBP. We believe that broader perspective is needed to come to a proper balancing of the triangle while respecting the safe supply chain zone.

We estimate the average maturity level in companies to be around 1 to 2. Even companies that have a perfect S&OP process on paper, suffer from buy-in from the sales community, have supply chain departments changing the figures behind their back or have plans that are primarily volume-based. Being a level of 1 or 2 on a scale of 8 might be a frightening perspective. As Solventure we always told people what they need to know, not necessarily what they want to hear. We believe that the current ambition of many companies to be a level 3 or 4 is, by far, not good enough. We also believe that increasing the scale to 8 will help companies to raise their ambition. A level 3 or 4 seems socially acceptable on a scale of 5. Nobody will accept a level 3 or 4 on a scale of 8! That would mean you didn't pass the test!

We have developed a complimentary S&OP maturity survey, that can help you and your executive team to reveal where you are in your S&OP maturity and your S&OP journey. You can access the survey and we recommend reading the book "Rethinking Supply Chain" for more background and details.

As always, we greatly appreciate your thoughts, questions and feedback. Compared to sales or finance, supply chain is still a relatively new discipline. As the world gets more complex, we need to improve the tools we have to deal with it. If we exchange our insights and experiences, we will get to a richer result faster.

IN SUMMARY

In her 2015 Forbes article, Lora Cecere highlighted persistent issues in Sales and Operations Planning (S&OP) like poor data, inadequate tools, and lack of buy-in from key stakeholders. Ten years later, these challenges remain. To address them, a new vision called S&OP 2.0, or Integrated Value Planning, has been developed.

This new approach first connects financial and supply chain planning into a unified Financial and Supply Chain Plan (FSCP). Afterwards, integrating key customers, suppliers, and non-financial metrics like environmental and social KPIs.

The traditional 5-stage S&OP maturity model by Gartner has therefore been expanded to an 8-stage model to encompass this broader scope. This new model promotes a holistic business perspective, emphasizing internal integration before extending to key external partners, thus enhancing agility and resilience.

Despite the maturity of S&OP processes, many companies remain at early stages, facing significant challenges. The expanded model aims to raise ambition levels and encourage comprehensive adoption of Integrated Value Planning.

ABOUT THE AUTHOR

Bram Desmet - CEO | Professor | Author
As CEO, since 2009 Bram has led the Solventure Group to transform organization's sales & operations planning processes into a competitive advantage using his innovative Supply Chain Triangle® and Strategy-Driven approach.

As an adjuct professor at both Vlerick Business School and Peking University, Bram bridges the gap between academia and industry practice.

As an author, he has encapsulated his experiences into elegant and practical frameworks in his books, Supply Chain Strategy and Financial Metrics and The Strategy-Driven Supply Chain, evangelizing strategic thinking for cohesive alignment of strategy, supply chain, and finance within organizations across all sectors. Bram is also founder of The Strategy-Driven Supply Chain Institute.

ABOUT SOLVENTURE

As Solventure we proud ourselves of being experts in designing and implementing Strategy-Driven S&OP. We do that through a unique combination of people, processes, tools and analytics. Solventure is Arkieva's, OMP's and Kinaxis's implementation partner.

Check us at www.solventuregroup.com or contact us at contact@solventure.eu for more info.