OUR VISION AT SOLVENTURE

Integrated Value Planning – S&OP 2.0

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SOLVENTURE



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HOW IT STARTED

When I joined Solventure 15 years ago, I developed a vision of S&OP, which today I would call S&OP 1.0. The vision was a combination of best practices like Thomas Wallace and the Integrated Business Planning or IBP process from Oliver Wight, with some own experiences like that of the need for a proper customer-product segmentation. The vision paper is still relevant for companies that are starting with S&OP. Figure 1 summarizes S&OP 1.0.

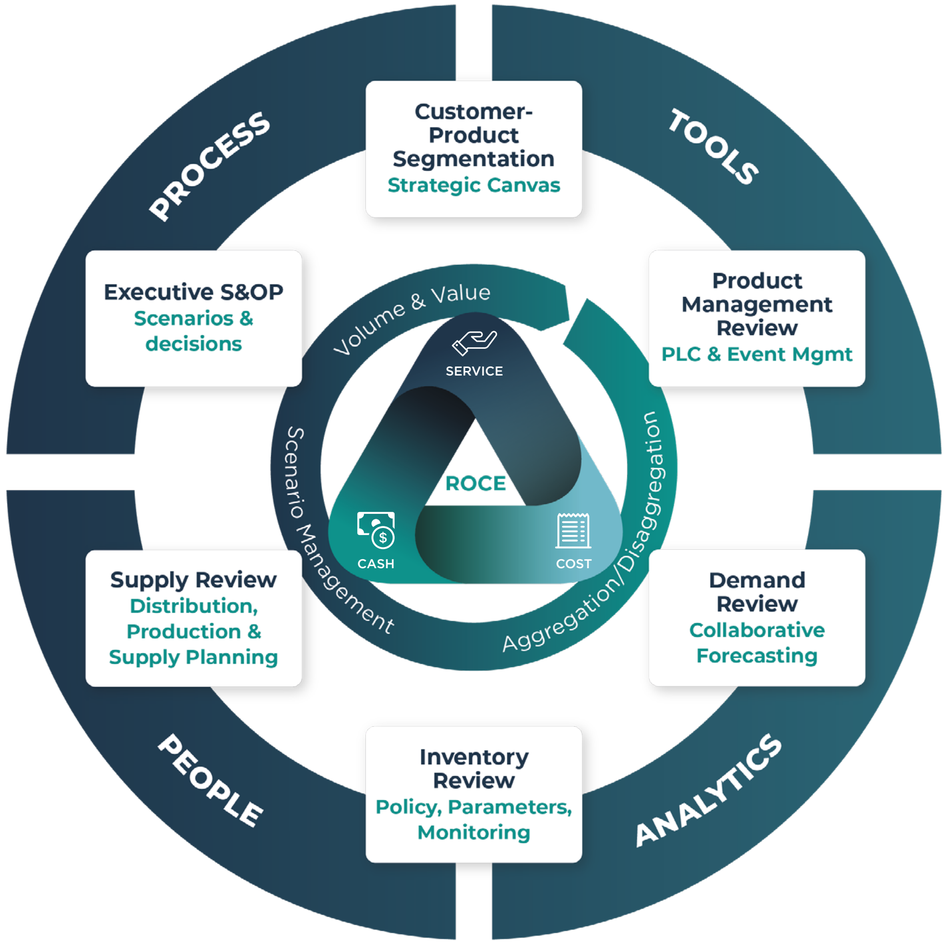


Figure 1 - The original best practice vision on S&OP from 2009 - the S&OP 1.0

THE WHITE SPACE BETWEEN SILOS

Over 2023 I wrote my third book called “Rethinking Supply Chain. Build a Strategy-Driven, Sustainable and Resilient Supply Chain.” In the book I indicate I am somewhat puzzled by the lack of progress companies are making in the S&OP space. In S&OP 1.0 we position S&OP as a key process to balance the Supply Chain Triangle of Service, Cost and Cash. In my first book (2018) I explain how the triangle is driving financial value as measured by the Return On Capital Employed. In my second book (2021) I explore the link to strategy, and I explain how different strategies lead to a different focus in the S&OP process. In my third book, I explore drivers of volatility and I explain how disconnected planning processes create the inverse of agility, as there are delays in how the information flows, we duplicate information and create alternative versions of the truth, and we subsequently spend time in trying to align them.

Though there seem to be many reasons for integrating planning processes, the key issues we struggle with have not really changed. In a recent report, Lora Cecere indicates that throughout the COVID period, the effectiveness of our S&OP processes seems to have gone backwards rather than forward. As the biggest hurdles towards an effective S&OP, she reports the same challenges she was reporting 5 years earlier in 2015: lack of data quality, lack of support from other functions (sales, finance, …), lack of proper tools (e.g. scenario capabilities, volume to value conversions, …), lack of buy-in from the executive management, … so struggles with the people, process, tools and data/analytics. The 4 key pillars I defined in our S&OP 1.0.

When taking two steps back, my feeling was that the biggest hurdle to S&OP were and still are the strong functional silos. With sales more focused on service and top-line metrics, operations focused on cost and finance on cash flow and working capital. S&OP as a cross-functional process is trying to bridge the silos and align functions along the triangle, but the gravitational pull of the functional silos seems to keep S&OP grounded. When looking for answers, I started with a classic work in process management called “Improving Performance”, from Geary Rummler and Alan Brache. “How to manage the white space on the organization chart” is the subtitle of the book, with the white space being the space in between the silos. The idea of process thinking is not new, as the first version of their book was published around thirty years ago in 1995!

What Rummler and Brache explain is that value flows across the silos, as illustrated in Figure 2 (page 7). Marketing identifies needs in the market and turns them into product ideas. R&D turns them into product designs for manufacturing. Sales agrees on contracts and prices with customers and passes on the orders to the manufacturer who delivers products in return. To be able to produce, manufacturing must provide orders to suppliers who deliver raw materials or components in return. More than ever, it is important to look at the extended value chain, from the suppliers’ supplier down to the customers’ customer. People would tell me “it has become harder to predict customers demand” … well then maybe we should stop guessing and start a collaboration, where we have visibility on their inventories and their planned consumption and put that information next to our forecast.

During COVID all of us had important shortages of key raw materials and components. Still, we didn’t get any further than “let’s order more” and “order further ahead”. As we will discuss further, we believe it is time to treat key suppliers in a proper way and run monthly and weekly planning processes as if it were our own capacity and people to be planned. There is also an imperative from a sustainability perspective. The CO2 we emit is part of our scope 1 emissions. If we want to manage the scope 2 and especially scope 3 emissions, we’ll need to understand our upstream and downstream supply chains, all the way from the suppliers’ supplier down to the customers’ customer.

A FRAGMENTED PLANNING PUZZLE

Governments are imposing regulations, no longer just on taxes or labour but increasingly on environmental and social perspectives as well. They are co-driving the sustainability revolution. Finance is communicating with the financial markets; HR is operating in a tight labour market. As Figure 2 shows the broader eco-system, all of this must be operated within a social foundation and an environmental ceiling. In procurement it is no longer just about the cost and quality of the raw materials or components we buy; it is also about whether our suppliers behave in a socially responsible way. All of us have targets on CO2 emissions, and those targets are getting increasingly stricter year after year. We can safely say the foundation is coming up and the ceiling is coming down. So, the safe zone within which we can operate our value chains is getting smaller and smaller. And as Rummler and Brache indicated 30 years ago, we're not alone here, our competitors are operating in the same space, targeting the same customers, most probably buying from the same suppliers, working with the same banks or investors. The pressure is always on.

If Figure 2 shows the extended value chain eco-system we must manage … how many planning processes do you think we have as a company? And how many planning tools do you think we have? I counted many of them. Finance has a financial planning process and may be using its FP&A tool for that. Marketing is running a trade promotion planning process and may have its TPP tool for that. Sales is managing a pipeline of sales opportunities as part of its sales planning and is most probably managing that information in a CRM. Supply chain runs multiple planning processes and if lucky it is supported by an APS. Each department wants to improve its planning process and will run its own software selection and subsequent implementation sponsored by its own functional VP. I see too often that nobody questions upfront how these systems should be integrated and what the broader planning puzzle looks like. We only find out when we implement these tools that we need some information left or right. As we don't account for this in our budgets, we may decide on manual integrations which we know are doomed to fail. So, we end up with a fragmented planning puzzle poorly connected through a forest of excel files.

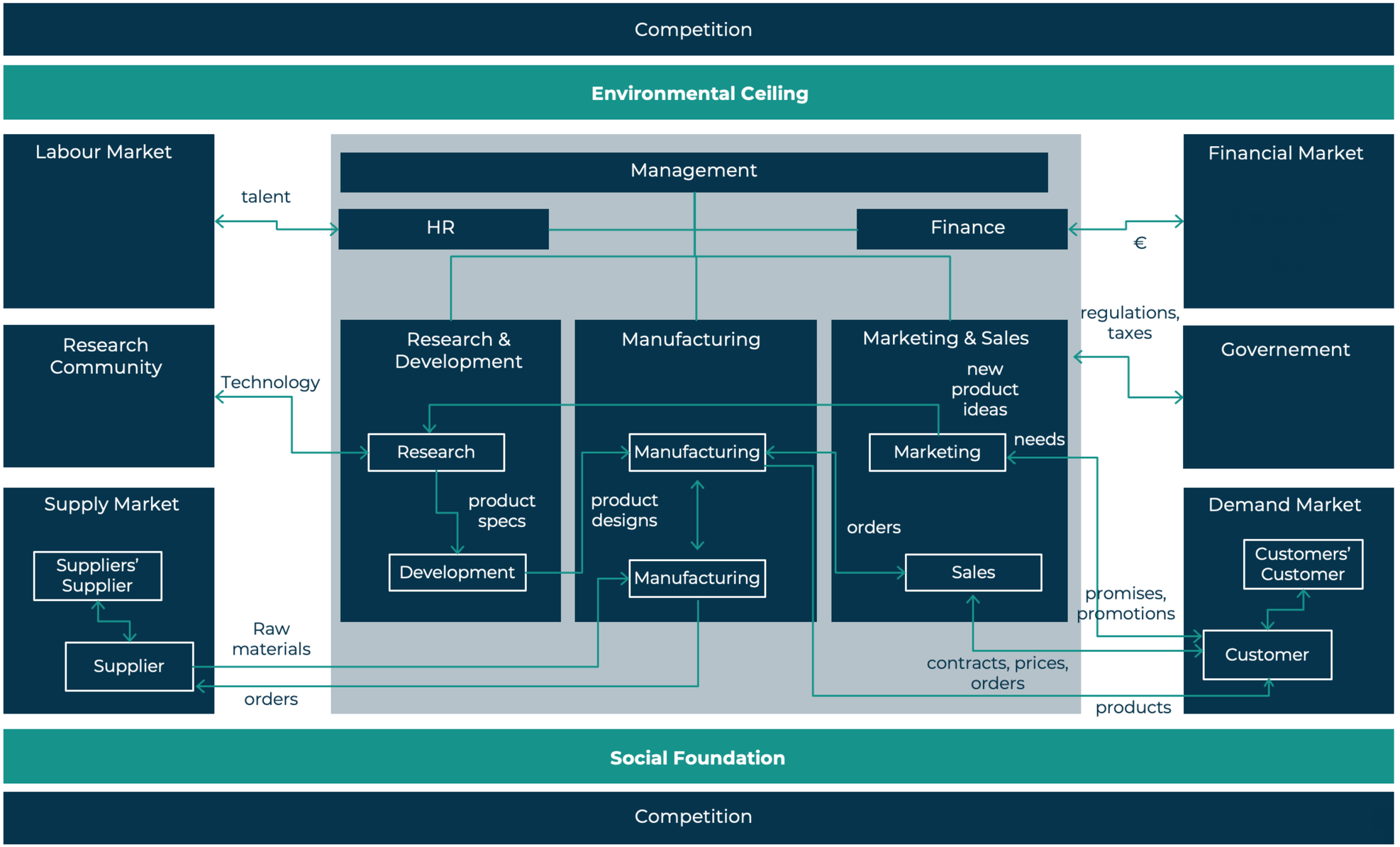


Figure 2 - Value flows accross the silos in our extended value chain eco-system

INTEGRATED VALUE PLANNING

In my latest book “Rethinking Supply Chain” I propose a new vision which I call “Integrated Value Planning” or more recently the “S&OP 2.0”. It is illustrated in Figure 3. It starts from a full integration of financial planning and supply chain planning. As I argue in the book, there is already an 80% overlap between the two. Both start from a sales forecast, need BOMs and routing to calculate material consumption and resource consumption. In today’s volatile markets it is irresponsible to withhold the proper financial information from supply chain managers and have them make decisions based on volumes or incorrect financial information. I see finance is frustrated as well by the lack of grip on the business. We spend a lot of effort on financial forecasting and planning but in today’s volatile markets the results are inaccurate, misleading and frustrating. In this situation the last thing to do is duplicate the planning process and then triple the effort by trying to compare the two. That is what the old paradigm of Integrated Business Planning or IBP is telling us to do. That maybe was good enough 30 years ago, but it isn’t good enough for today’s complex and volatile markets.



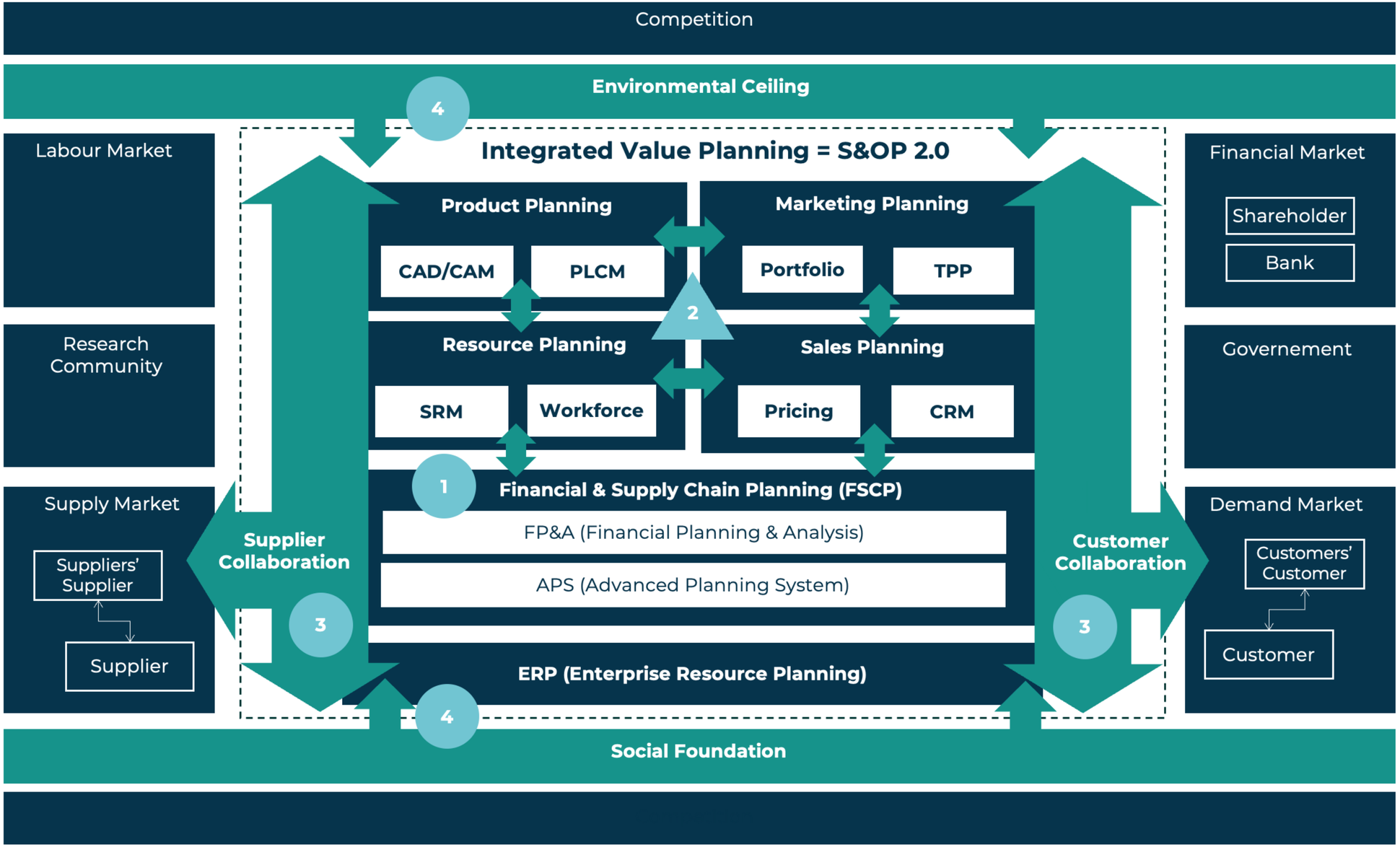


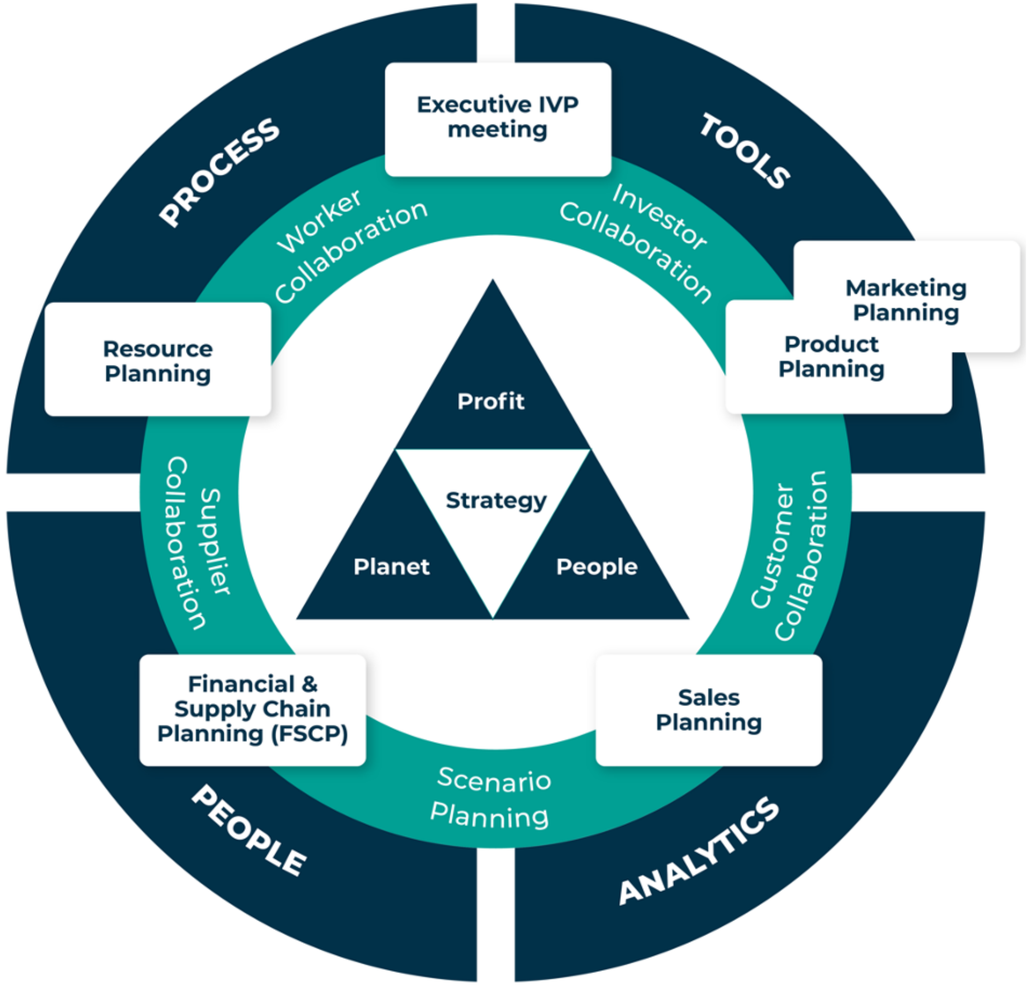
Figure 3 - Integrated Value Planning or S&OP 2.0

Once we have connected financial planning and supply chain planning into one Financial and Supply Chain Plan or FSCP, we can start connecting the other planning processes in the organization. Let's take the integration with trade promotion planning as an example. Promotions are typically known in detail for the next 6-12 weeks. It is important that beyond that horizon we still have a good view of what type of promotional activities we will do and which type of volumes it will drive. Without that information we can't do a proper longer-term capacity planning or project a longer-term P&L. It is important that we define upfront which type of information will travel back and forth between the FSCP and the functional plans supporting the key functions in the organization.

A third element of Integrated Value Planning or S&OP 2.0 is connecting with key customers and key suppliers. It is due time to properly integrate these as an integral part of our extended value chain ecosystem. In the book I show how the period 2010-2020 was defined by a relative stability in markets with predictable growth, stable supply chains, ample access to cheap funding, … The world has changed. In today's complex and volatile demand and supply markets integration and collaboration is key to driving financial and non-financial value. Which brings us to a fourth element of Integrated Value Planning or S&OP 2.0, that we need to integrate the key metrics from our social foundation and environmental ceiling into all our planning and decision-making processes. When sales is pushing us to accept that last-minute export order, it should not only be judged by the revenue it can bring, the extra costs it could cause and the impact on margins, or the inventory risk if the prepayment doesn't come through. In a sustainable corporation we should also understand the environmental impact from the expediting, the potential waste in production from breaking the optimal sequence and the social impact of overtime within our plants and at co-packers. It is across the 5-dimensional set of service, cost, cash, environment and society that we should assess the impact and compare scenarios. Integrated Value Planning or S&OP 2.0 natively supports what I develop in the book as the 5-dimensional or 4th generation supply chain.

Integrated Value Planning or S&OP 2.0 can be captured in a monthly recurring process in a comparable way as the traditional S&OP 1.0. It is illustrated in Figure 4. It starts with marketing planning and product planning, it continues to sales planning, we then integrate everything into a financial and supply chain plan that interacts with resource planning to integrate key supplier, key labour, key capacity or key financial constraints like working capital. In the Executive IVP meeting we make scenario-based decisions. As with S&OP 1.0 it is driven by people, processes, tools and data/analytics.

Though it looks similar to the S&OP 1.0 shown in Figure 1, the IVP or S&OP 2.0 is dramatically different. As we elaborate in more detail in our extended 8-stage maturity model for IVP, it is integrating the business planning processes whereas S&OP 1.0 is essentially a supply chain process. Take the demand review shown in Figure 1. What does it do? We calculate a statistical forecast and ask sales to validate it. What is the purpose? It is to be able to properly plan our supply chain. For sales it is a frustrating experience, even if the forecast is correct at times they still don't get the product as one of the first or second tier suppliers appears to have a problem. We'll never get to a proper adoption or accuracy with this type of process. The question we have overlooked in those 15 years is: "what's in it for them?". Sales is also making plans and they are committing to certain targets in the budget. In the sales planning shown in Figure 4 we are showing sales how they are doing with respect to their plans and the budgets. Where are we running ahead, where are we running behind? What has been contracted and what is still open? And what is the plan? How are we going to drive the growth we promised, with which type of customers, in which regions, and with which type of products? If on the backside of this we ensure we get the information needed to properly plan the supply chain, adoption will be guaranteed and accuracy as good as it can possibly be.



FINAL WORDS OF WISDOM

My advice to supply chain people has always been “if you want to improve S&OP, don’t talk about S&OP”, the reason is that as soon as you talk about S&OP people will consider it your process and your problem, not theirs. When writing my first book my advice was “start from the supply chain triangle of service, cost and cash”. Ask a cross-functional group of senior executives where they see the issues and then you can propose S&OP as a way to solve some of them. S&OP is not a goal, it is a means to an end. When writing my second book my advice was “start from the strategy, as a company how do you want to stand out, where do you want to dominate and where do you want to differentiate”. Assume you want to differentiate by offering a total solution, then you know that your product portfolio will always be above average. Then you know you need good customer product segmentation and resulting service differentiation for a smart balancing of service, cost and cash. And you will need a strong product management review to continuously monitor the added value of your portfolio. Once more, S&OP 1.0 can be the way to support and realize strategic differentiation. Start with the why. When writing the third book I realized we need to ask, “what’s in it for them”. I’m increasingly pessimistic the S&OP 1.0 has some inherent flaws. It tries to be a cross-functional process but is designed to solve the supply chain problem. If we don’t take a broader perspective and try to solve the broader planning puzzle, I believe we will keep struggling with the buy-in from other functions which inherently is undermining the S&OP effectiveness.

In a separate vision paper, we will introduce an 8-stage maturity model for Integrated Value Planning or S&OP 2.0. Fill out our online survey that helps you identify where you are on the 8-stage maturity model and what are the logical next steps to take within the broader and longer-term Integrated Value Planning or S&OP 2.0 vision.

White Paper:
An 8-stage maturity model for S&OP 2.0

DOWNLOAD NOW



And as always, I am most curious for your thoughts and comments. Let’s get on a call to see what you recognize, where you follow and where potentially you don’t. Only by challenging and developing each other will we get over some of the hurdles of the past 15 years and deliver the much-needed planning improvements for better financial, environmental and social impact and performance!

IN SUMMARY

When I joined Solventure 15 years ago, I developed a vision of S&OP, which I now call S&OP 1.0. This vision, combining best practices and my own experiences, remains relevant for companies starting their S&OP journey. In 2023, I published “Rethinking Supply Chain: Build a Strategy-Driven, Sustainable, and Resilient Supply Chain,” expressing my surprise at the slow progress in the S&OP space.

S&OP 1.0 balances the Supply Chain Triangle of Service, Cost, and Cash. My first book (2018) explores its financial value, while the second book (2021) connects strategy to S&OP. The third book delves into volatility drivers and how fragmented planning processes can significantly hinder agility.

Despite many reasons to integrate planning processes, core issues like poor data quality, lack of support from other functions, inadequate tools, and lack of executive buy-in persist. Functional silos in sales, operations, and finance remain the biggest hurdle.

Seeking solutions, I turned to “Improving Performance” by Geary Rummler and Alan Brache, which discusses managing the “white space” between organizational silos.

I propose a concept called “Integrated Value Planning” or “S&OP 2.0”. It starts from a native integration of Supply Chain Planning (SCP) and Financial Planning (FP) into one single process called Financial & Supply Chain Planning or FSCP. It connects other functional planning processes like portfolio planning, promo planning and sales planning. It connects to key customers and key suppliers and accounts for the environmental and the social impact. It can be turned into a monthly planning process comparable to the S&OP 1.0 but it is structurally different in that it truly connects business planning processes to drive business performance.

ABOUT THE AUTHOR

Bram Desmet - CEO | Professor | Author
As CEO, since 2009 Bram has led Solventure to transform organization's sales & operations planning processes into a competitive advantage using his innovative Supply Chain Triangle®, Strategy-Driven Supply Chain® and Integrated Value Planning® 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, The Strategy-Driven Supply Chain and Rethinking Supply Chain, evangelizing strategic and tactical 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 Integrated Value Planning. 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.