

Sales and operations planning

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Sales and operations planning (S&OP) is an integrated business management process through which the executive/leadership team continually achieves focus, alignment and synchronization among all functions of the organization. The S&OP plan includes an updated sales plan, production plan, inventory plan, customer lead time (backlog) plan, new product development plan, strategic initiative plan and resulting financial plan. Plan frequency and planning horizon depend on the specifics of the industry. Short product life cycles and high demand volatility require a tighter S&OP planning as steadily consumed products. Done well, the S&OP process also enables effective supply chain management.

A properly implemented S&OP process routinely reviews customer demand and supply resources and “re-plans” quantitatively across an agreed rolling horizon. The re-planning process focuses on changes from the previously agreed sales and operations plan. While it helps the management team to understand how the company achieved its current level of performance, its primary focus is on future actions and anticipated results. Companies that have an integrated business management process use the S&OP process to monitor the execution of the company’s strategies.^[1]

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Definitions

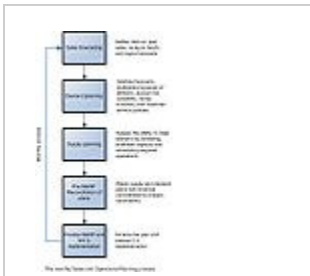
APICS defines S&OP as the "function of setting the overall level of manufacturing output (production plan) and other activities to best satisfy the current planned levels of sales (sales plan and/or forecasts), while meeting general business objectives of profitability, productivity, competitive customer lead times, etc., as expressed in the overall business plan. One of its primary purposes is to establish production rates that will achieve management’s objective of maintaining, raising, or lowering inventories or backlogs, while usually attempting to keep the workforce relatively stable. It must extend through a planning horizon sufficient to plan the labor, equipment, facilities, material, and finances required to accomplish the production plan. As this plan affects many company functions, it is normally prepared with information from marketing, manufacturing, engineering, finance, materials, etc."^[2]

Sales and operations planning has also been described as "a set of decision-making processes to balance demand and supply, to integrate financial planning and operational planning, and to link high level strategic plans with day-to-day operations"^[3].

The planning process

S&OP is the result of monthly planning activities. It is usually based on an Annual Operations Plan (AOP) that acts as the company's annual target in terms of sales and supply. Therefore, the sales and

operations plans are a means to gradually accomplish the AOP targets - by linking monthly sales and marketing planning directly to the operations side of a business^[4]. The process for deciding upon the monthly S&OP is illustrated in the figure below.



Monthly S&OP Process

S&OP best practices

S&OP best practices share a common set of approaches, namely: (1) reliance on a phased approach; (2) development of an “outside-in” sequence of S&OP initiatives; and (3) a focus on critical information, not just more data.

Rely on a Phased Approach S&OP is much more an integrated set of business processes and technologies than a single, all-encompassing process or technology. If you just focus on the implementation of a new technology and think that S&OP will miraculously take shape, you’re wrong.

Develop an “Outside-In” Sequence of S&OP Initiatives Typically, the events that will have the most profound and negative impact on your sales and operations planning are those outside of your control. For the most part, these are due to the decisions and actions of your customers, partners, and competitors, which have a direct impact on your revenue and your competitor’s strategy.

Focus on More Information, Less Data Another key to successful S&OP is clean, current, and accurate data. Plans are often slowed down by the effort of gathering data that has minimal importance to the overall project. It is important to ensure that you know exactly what business problem you are trying to resolve and understand the minimum data necessary for the project.

Software vendors

- Steelwedge
- Kinaxis
- I2 Technologies
- Wipro
- Infor
- ICON-SCM
- Infosys
- Logility
- SAP AG
- TXT e-solutions
- Oracle Corporation

[5]

See also

- Demand
- Demand chain
- Demand chain management
- Forecasting
- Supply and demand

External links

A series of papers authored by Dr. Larry Lapide of the MIT Center for Transportation and Logistics:

- Sales and Operations Planning Part I: The Process
- Sales and Operations Planning Part II: Enabling Technology
- Sales and Operations Planning Part III: A Diagnostics Model

References

1. ^ Palmatier, George E., "The Need to Lead", text available here
2. ^ Dougherty, J.R., "Getting Started With Sales & Operations Planning", text available here
3. ^ Wallace, Tom, author of textbooks on sales and operations planning, see for example S&OP 101
4. ^ Ling, R.C. and W.E. Goddard (1992). "Orchestrating Success: Improve Control of the Business with Sales & Operations Planning", Wiley
5. ^ AMR Report, "S&OP Technology Landscape: Evolution to Integrated Business Planning Is a Work in Progress, Report AMR-R-21370", 2008, Boston (MA), see [1], text available here [2]

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