



The S&OP:
WHEN SALES WON'T COME TO THE TABLE
by Bill Belt

Several companies I have worked with, don't want to do a Sales and Operating Plan (S&OP) because Sales isn't on the site and/or doesn't give any forecast. So the factories do Rough-Cut Capacity Planning or "Operations Planning" instead, a much simpler comparison of load and capacity. The "S" in Sales and Operations Planning doesn't make sense, they say, because there's no sales function on the site.

The problem with this approach is that even a « production site » needs a sales presence. It doesn't have to be physical; however, we shouldn't forget the observation of Lawrence Goldman, President of the New Jersey Performing Arts Center: "People tend to be disconnected by electronics." For a site to believe that it is "production only", and that Sales and Marketing and the customer are far away, violates one of the cardinal rules of Supply Chain Management—which aims to satisfy the intermediate final customer—and of Lean, which starts by obtaining the Voice of the Customer, both final and intermediate. A factory cut off from 'sales' invites disaster...and offshoring its production.

The S&OP is a company affair to balance the volume of external demand with the volume of capacity to cover it. We should distinguish between *demand*, which comes from the customer, and *load*, which comes from a production plan. Load is not at the same level as demand; it's an internal affair of the factory. Reconciling capacity with external customer demand, however, is company business. The profitability of the company depends on it.

DEMAND ≠ LOAD

		Week				
		1	2	3	4	5...
Demand {	Forecast	0	50	125	150	200
	Customer Orders	150	100	25	0	0
	Inventory	250	100	250	100	350
	Production Orders		300		400	
			<i>x 2 hrs machining</i>		<i>x 2 hrs machining</i>	
	Load	0	600 hrs	0	800 hrs	0

Surprisingly, the construction of the supply chain for many companies, particularly large ones, tends to distance Sales and Marketing from Production. Sales and Marketing are organized by market segment, by geographical region, or by customer, while the factories are organized by technology, by historical production know-how, or by country with favorable tax laws. Instead of disintermediating the supply chain and drawing consumer and producer together, in many large companies their matrix organization pushes them apart.

We're not recommending here going back to the good old company of yore, wherein the entire Management Committee could sit around the table with the President seated at its head and, once a month, make all the decisions. The arrival of Supply Chain Management, by connecting functions within companies into value streams and by connecting companies one to another, automatically creates two levels in the supply chain : strategic and operational (see our Technical Newsletter No. 54).

This encourages the natural separating of strategic from operational tasks for the greater good of all concerned. What is the noble task of a salesman? To sell, but not necessarily by going door-to-door requesting orders. Insofar as a salesman can use his talents for communication and negotiation to get us referenced at our large customers or by distribution networks or by wholesalers, and to lay the groundwork for information exchange at the operational level of the supply chain, he or she will be far more productive for the company and for himself.

The actual customer order could be, for example, simply a quantity moving from the planned zone into the firm zone of a replenishment program transmitted by the customer, whose implementation was negotiated initially by the salesman. The actual customer order could also be the confirmation of a project which was already entered into the planning system. The actual order could also be a Kanban signal. The people working in the operational level of the supply chain are much more talented to perform their noble task, which is managing the detail and insuring the completeness of the customer order, than the salesman.



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The heart of the problem is often the forecast, that Sales (1) doesn't want to make, (2) doesn't want to explain and defend in the S&OP meeting, and (3) doesn't want to be measured on! Some rules can help here. First, from the company point of view, **Sales and Marketing are responsible for the forecast** ; it's obvious. Second, **the forecast must be expressed in physical units, not just in dollars**. Third, **the forecast should be managed mainly by family**, leaving it up to a software package to make the detailed item forecast. Sales and Marketing should not be obliged to do this low--motivating task.

The S&OP Meeting itself should always have a place for Sales and Marketing. Everybody should realize that not having Sales in the S&OP Meeting is a big handicap...especially for Sales! The rich discussions between Sales and Production won't happen, and the company as a whole will suffer.