



Adaptive Sales & Operations Planning

Embracing Change and Driving Adaptation

Presented by Dick Ling and Carol Ptak





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Qualified Content

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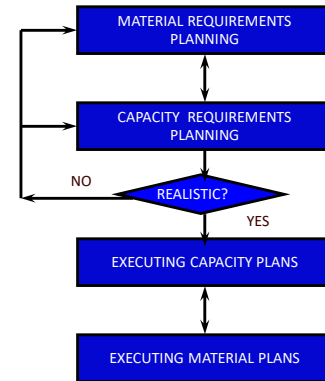


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Evolution of Manufacturing Planning and Control Systems – 1960's

Industry Plagued with

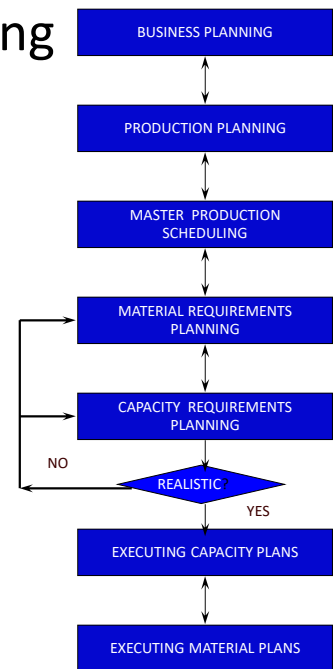
- Shortages
- Mismatched Inventory
- Lack of proper priorities
- Realistic Plans?
- Needing matched sets of parts



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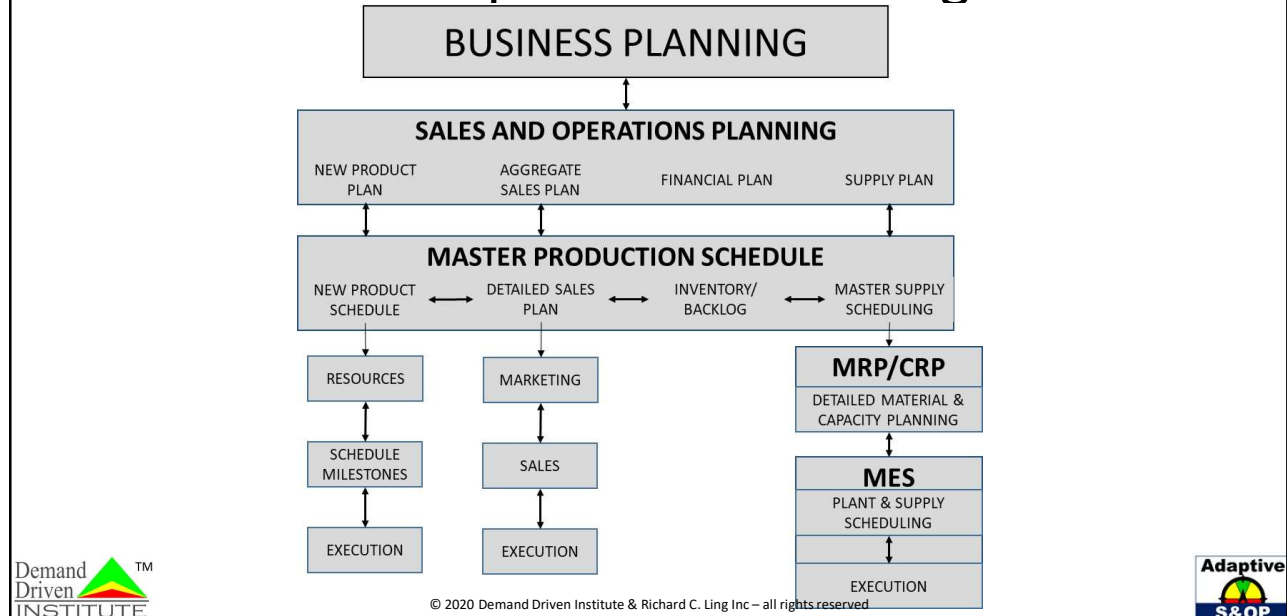
Evolution of Manufacturing Planning and Control Systems – 1970's

- Master Scheduling
- Modular BOM
- Planning BOM
- Production Planning
- Manufacturing Resource Planning (MRPII) – 1979



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1984-Sales and Operations Planning Introduced



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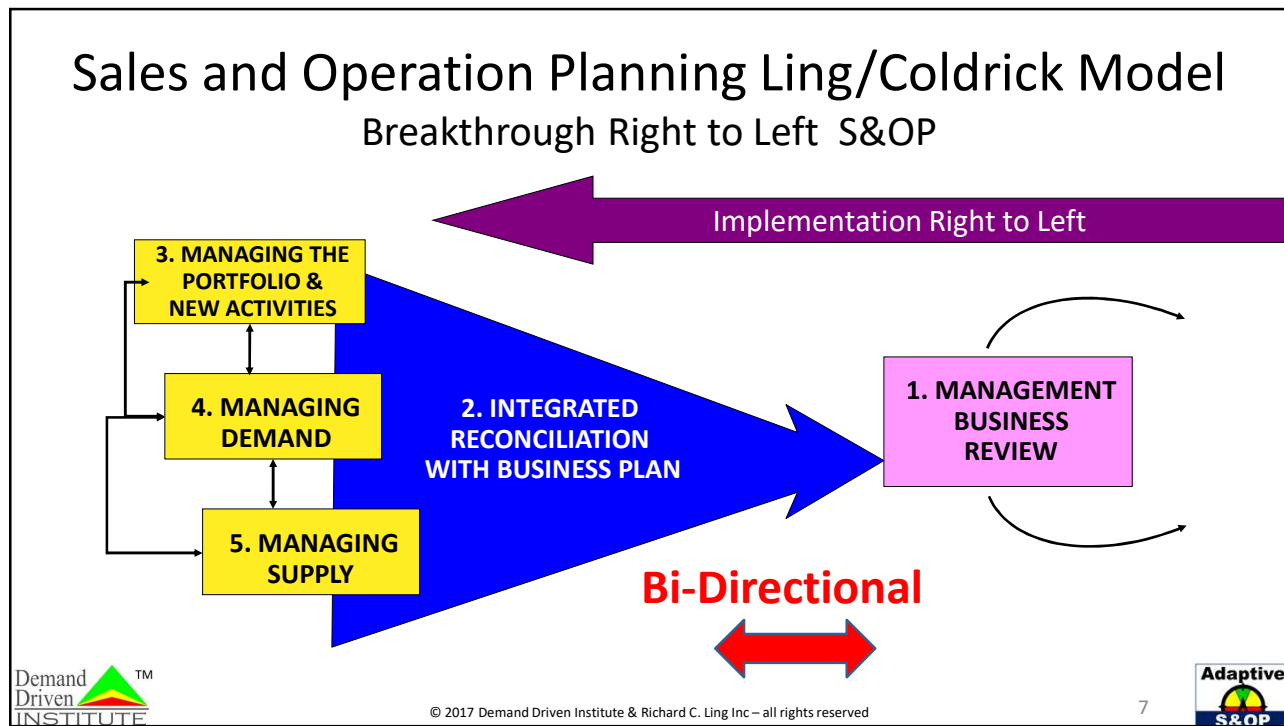
SALES AND OPERATIONS PLANNING is the process with which we bring together all the plans for the business (customers, sales, marketing, development, manufacturing, sourcing and financial) into an integrated set of plans.

It is done at least once a month and is reviewed by senior management at an aggregate (product family) level.

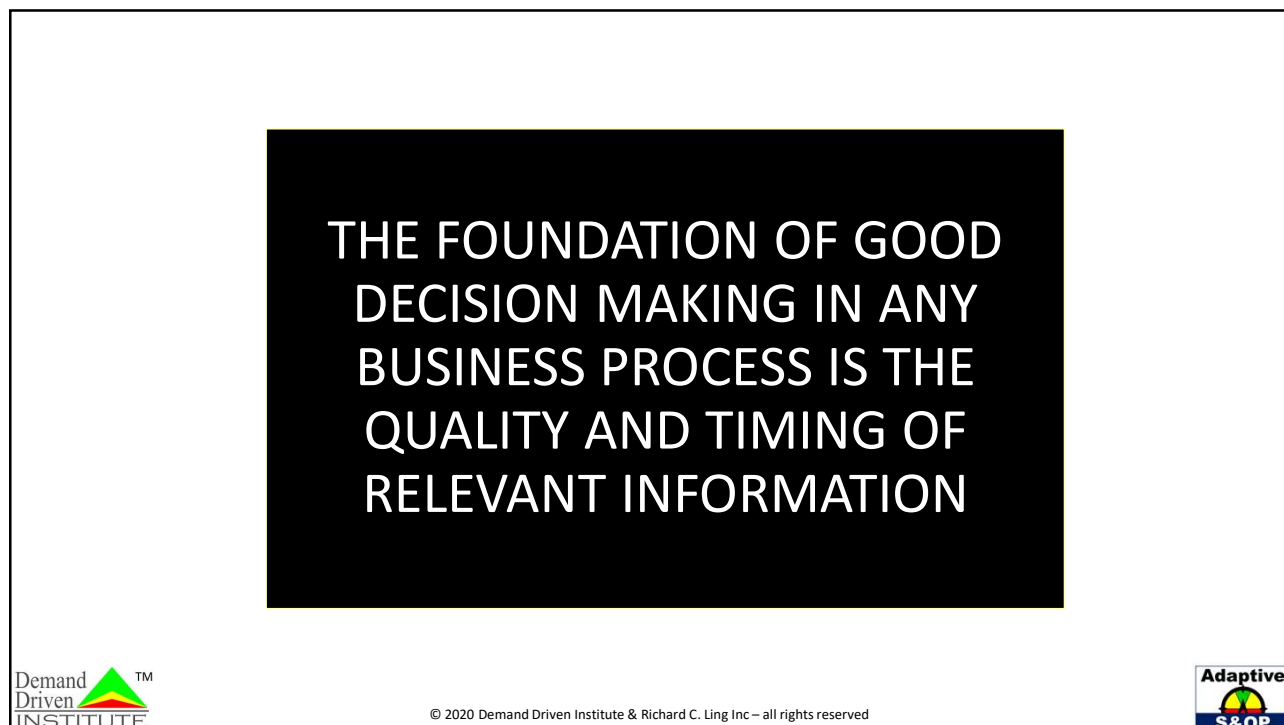
The process must reconcile all supply, demand and new product planning at both the detail and aggregate level and over a horizon sufficient to develop and reconcile financially the Annual Business Plan.

A typical Sales and Operations plan will therefore project at least 18 months into the future. It may be longer in order to adequately plan new product launch, long lead time material planning and manufacturing capacity planning.

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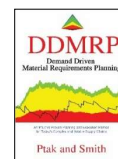
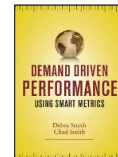
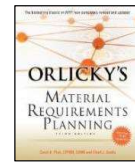
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History of Demand Driven

- Demand Driven Manufacturing was a PeopleSoft term (2003)
“Sense changing customer demand, then adapt planning and production while pulling from suppliers – all in real time”
- First “how to” was released in *Orlicky’s 3rd edition* (2011)
- First articulation of the Demand Driven Operating Model in 2013’s *Demand Driven Performance*
- An in-depth DDMRP explanation in *Demand Driven MRP* (2016)
- Now Demand Driven is being brought to the strategic level



Why is this strategic application so important?



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**Harvard
Business
Review**

Topple Rates Increased 6X

“We investigated the longevity of more than 30,000 public firms in the United States over a 50-year span. The results are stark: Businesses are disappearing faster than ever before. Public companies have a one in three chance of being delisted in the next five years, whether because of bankruptcy, liquidation, M&A, or other causes. That’s six times the delisting rate of companies 40 years ago. And the rise in mortality applies regardless of size, age, or sector. Neither scale nor experience guards against an early demise.

We believe that companies are dying younger because they are failing to adapt to the growing complexity of their environment. Many misread the environment, select the wrong approach to strategy, or fail to support a viable approach with the right behaviors and capabilities.”

[\(Martin Reeves, Simon Levin, and Daichi Ueda, Harvard Business Review, January-February 2016\)](#)

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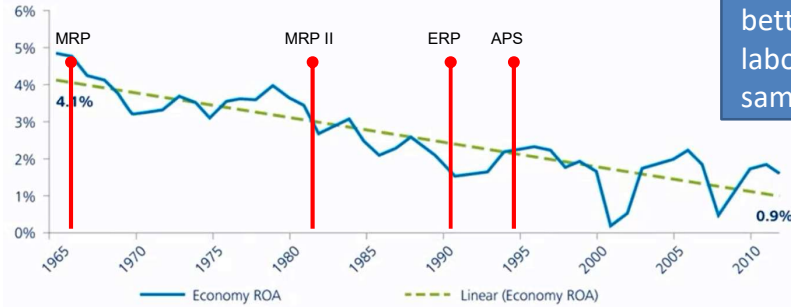
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Are We Doing the Wrong Things Faster?

Figure 1. Return on assets for the US economy (1965–2012)



Development and proliferation of planning systems has not enabled better ROA performance despite labor productivity doubling in the same period!

What will it take to change this?

US firms' ROA fell to a quarter of its 1965 levels in 2012. To increase, or even maintain, asset profitability, firms must find new ways to create value from their assets.

Deloitte University Press DUPress.com



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Complex and Volatile is the “New Normal”

Supply Chain Characteristics	1965	Today
Supply Chain Complexity	Low	High
Product Life Cycles	Long	Short
Customer Tolerance Times	Long	Short
Product Complexity	Low	High
Product Customization	Low	High
Product Variety	Low	High
Long Lead Time Parts	Few	Many
Forecast Accuracy	High	Low
Pressure for Leaner Inventories	Low	High
Transactional Friction	High	Low

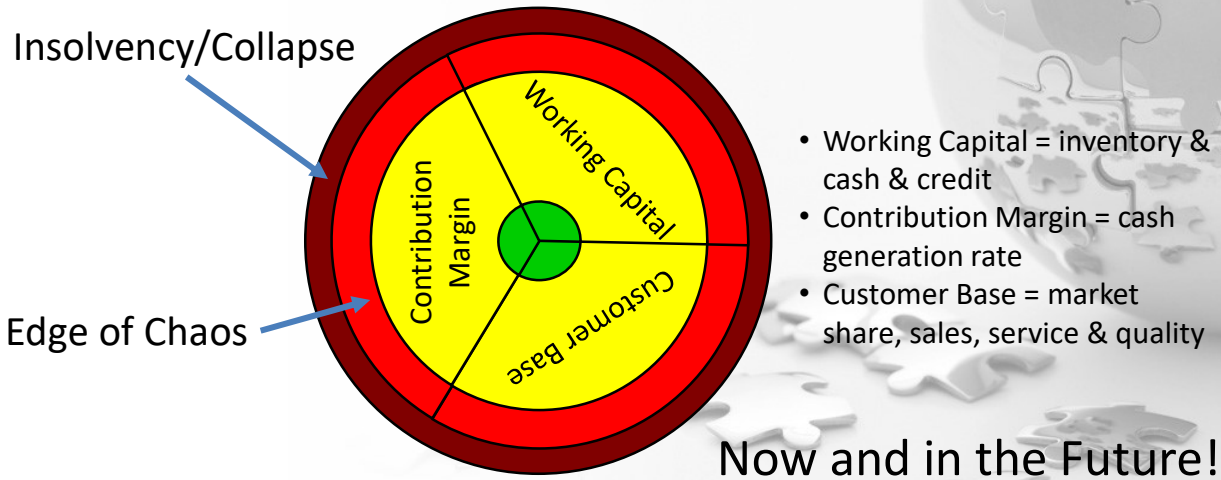
Today's supply chains look VERY different from 1960's supply chains when conventional planning rules were formulated but...

Conventional planning rules have not appreciably changed since the 1960s. MRP still plans today the way it did 50 years ago!



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Leadership's Challenge in a Complex World

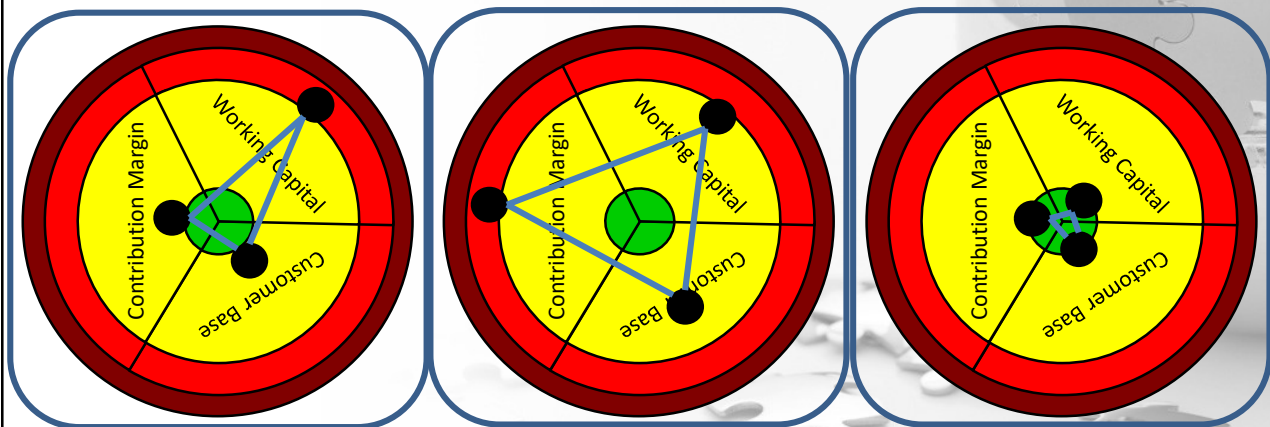


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Which Scenario is Healthier?



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Visibility Connects to ROI

Δ Visibility \rightarrow Δ Variability \rightarrow Δ ROI

Visibility is defined as **relevant information** for decision making.

Visibility  = Variability 
 Visibility  = Variability 

Variability is defined as the summation of the differences between our plan and what happens.

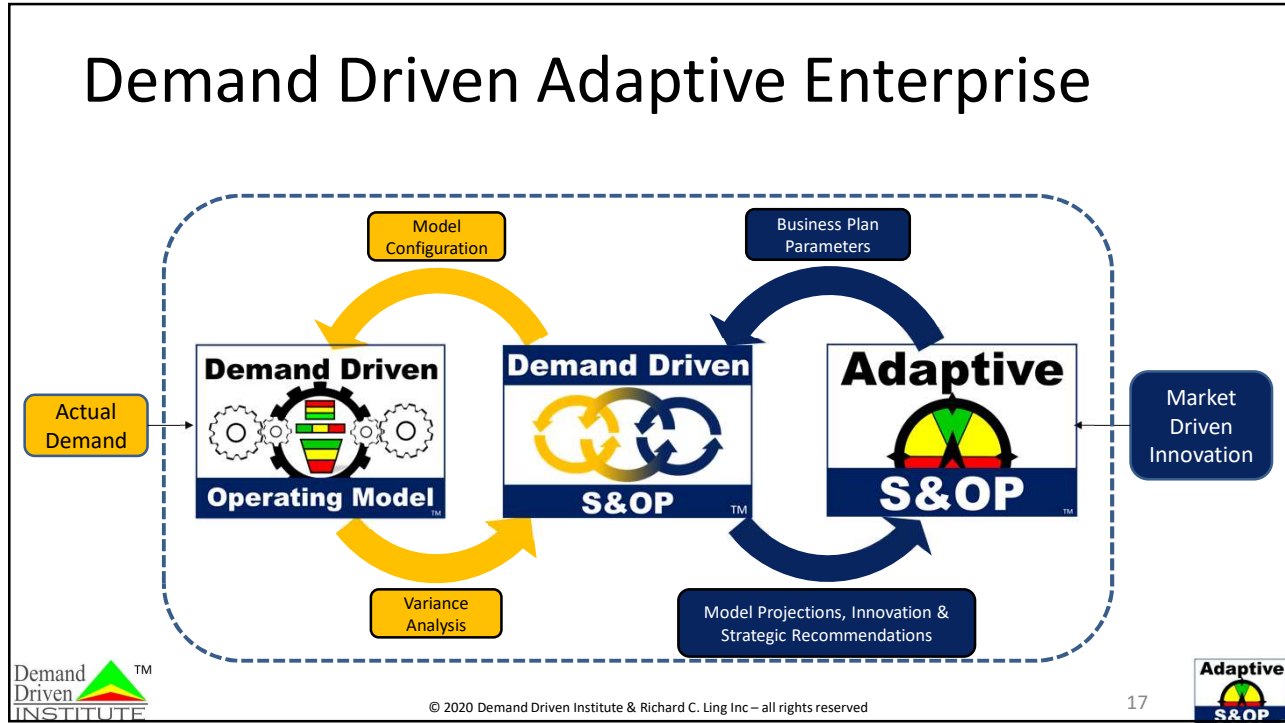
Variability  = ROI 
 Variability  = ROI 

The Purpose of Sales & Operations Planning

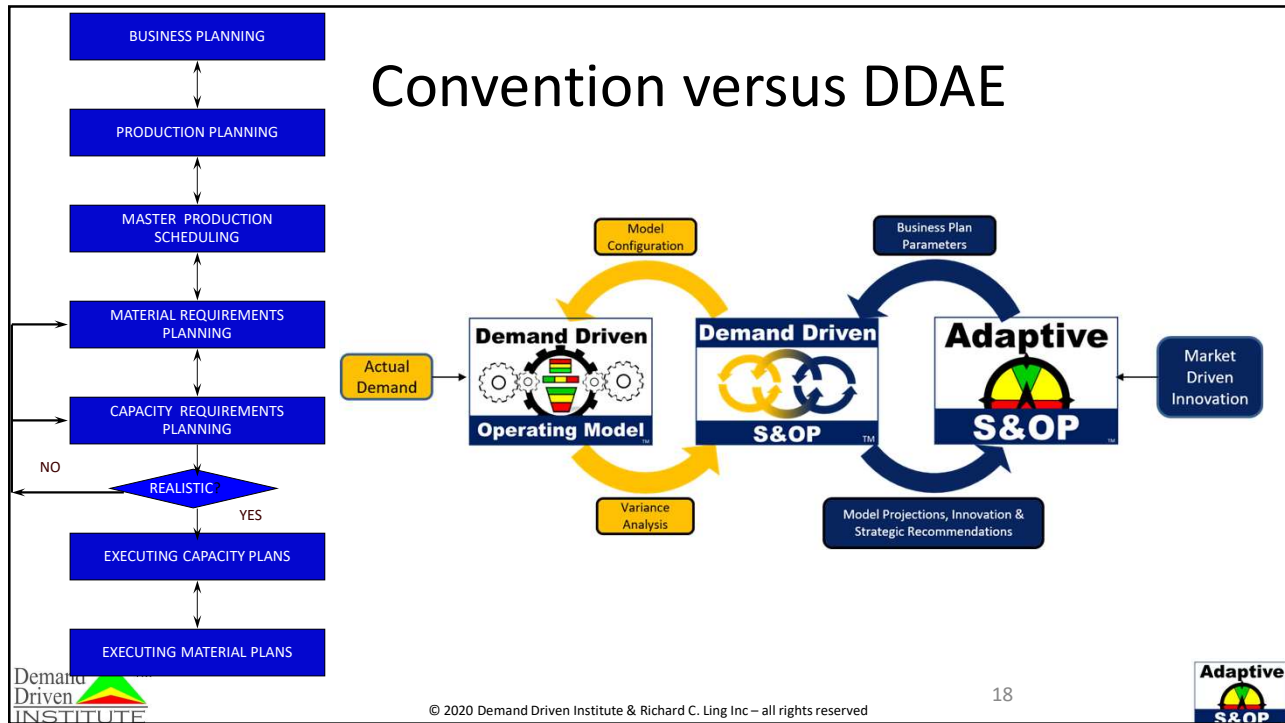
Δ Visibility \rightarrow Δ Variability \rightarrow Δ ROI

- Keeping our subsystems in alignment requires visibility to relevant information...
- Which allows us to control variability...
- Embrace change...
- So that we can drive ROI

This is the purpose of S&OP!!



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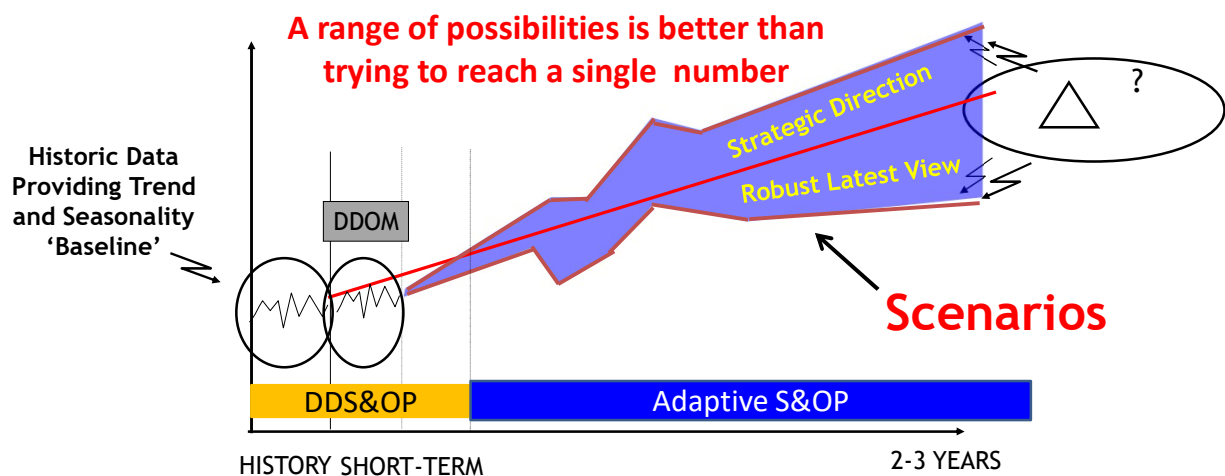
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Why is S&OP not universally accepted and implemented?

- Lack of education and tools to support the process
- Sales forecasts always inaccurate
 - Results in demand nervousness
- Not viewed as management process
 - Viewed as a Supply Chain function resulting in MPS
 - Little perceived value for other functions
 - Assumed to be supply/demand balancing

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Roughly Right rather than Precisely Wrong

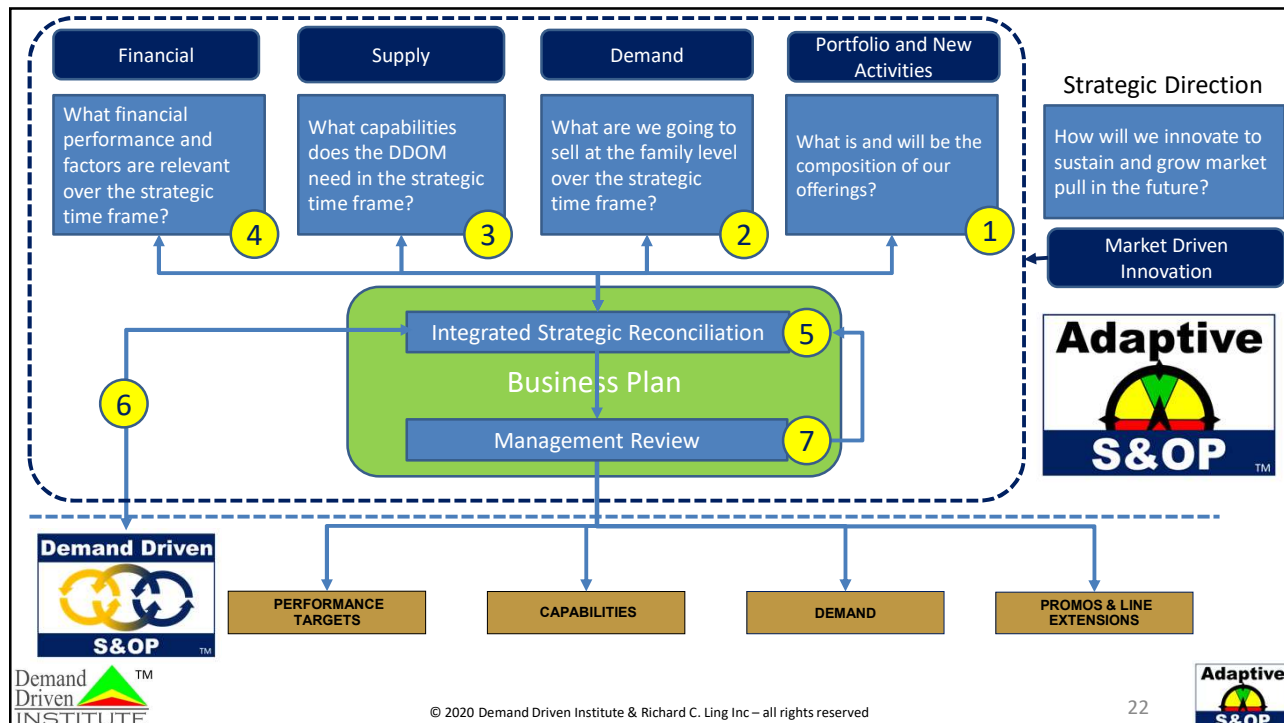


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The Objectives of S&OP

- 1) Demand Driven (Customer & Strategy)
- 2) Drive Execution of the Business Plan
- 3) Ensure That the Plans Are Realistic Throughout the Demand/Supply Chain
- 4) Welcome External Change
- 5) Integrate Strategies and Tactics
- 6) Drive Internal Change Through Continuous Improvement
- 7) Integrate The Decision Making Process

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Adaptive Sales and Operations Planning

Adaptive Sales and Operations Planning is the integrated business process that provides management the ability to strategically direct its businesses to achieve competitive advantage on a continuous basis by the protection and promotion of return on investment.

Product innovation, customer focused marketing plans for new and existing products, operations strategy and the financial strategy are managed on a continuous basis by an integrated reconciliation team to enable the company management to sense, adapt and innovate successfully across the supply chain.



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Adaptive S&OP Starting Assumptions

1. There is a defined company strategy. *Strategic Stock positions are chosen and sized to match customer tolerance times and targeted service levels by market segment.*
2. An existing or at least partially established business plan.
3. The future will look different from the past. The VUCA world guarantees that unexpected things will occur. *Precise calculations are less valuable and short lived.*
4. The basic difference between managing for flow and managing for cost is understood by the whole Organization. *KPIs will conflict and the DDOM "difficult" to maintain.*
5. The organization has a "relevant" DDOM in place. *No DDOM means no well-defined and realistic capability ranges and visibility.*
6. The organization has capable personnel to perform tactical reconciliation. *Without tactical reconciliation there is a disconnect between emerging strategy and operational capability.*
7. Information should be presented in roughly right ranges rather than precisely wrong discrete numbers.
8. Adaptive S&OP can only be fully understood by knowing the DDAE model characteristics in relation to Complex Adaptive Systems (CAS). *DDOM is Designed and sustained with the "Right Rules".*



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What has changed vs. what is the same with the S&OP process in a Demand Driven Environment?

Has not Changed

- Strong Portfolio Management and New activities process
- Integrated Reconciliation process
- Strong Financial Integration
- Documented assumptions
- Driven by Senior Management

Changed

- More focus on aggregate planning rather than SKU forecasting
- DDSOP process
- Bidirectional process which enables company to become adaptive utilizing an adaptive engine inside the DDOM

What is different today that will enable companies to adopt AS&OP

- S&OP Is a mainstream process
- DDMRP, DDS&OP and AS&OP will be supported by education and software companies will provide the tools to aid implementation
- Companies will not have to rely on fragile Excel spreadsheets to support their implementations
- Support by largest global Supply Chain Association

Successfully Implementing Adaptive S&OP

- ✓ Education as a team with the General Manager/Process owner present to lead the effort
- ✓ Understanding of the fundamental principles that are needed to support Adaptive S&OP (DDAE Model)
- ✓ Adoption of the 7 elements of Adaptive S&OP
- ✓ Learn by doing philosophy of implementation
- ✓ Appropriate tools
- ✓ Comprehensive self-assessment throughout the implementation



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Benefits of S&OP

- ✓ Improved Customer Service
- ✓ Improved Control of the Business
- ✓ More Insightful Response to Change
- ✓ Better Management of Resources
- ✓ Operate with Less Inventory
- ✓ Improved Margins
- ✓ More Predictable Financial Results
- ✓ Becoming a Demand Driven Adaptive Enterprise



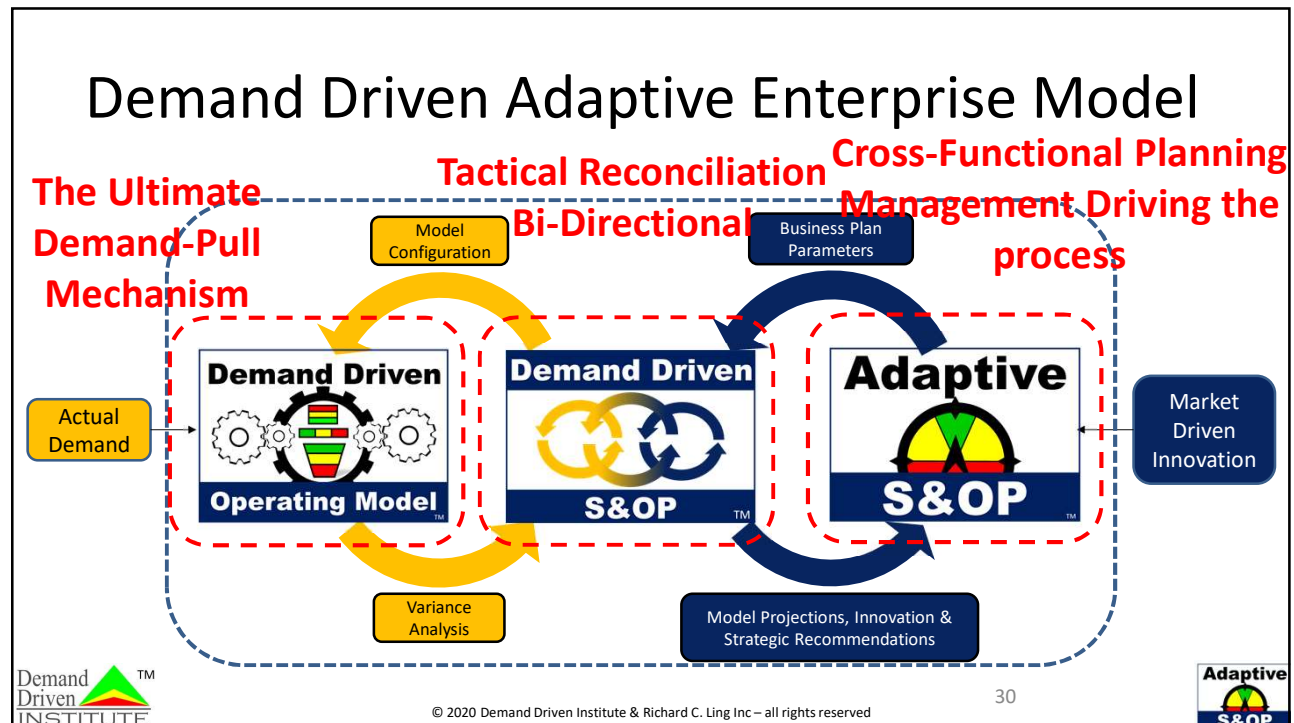
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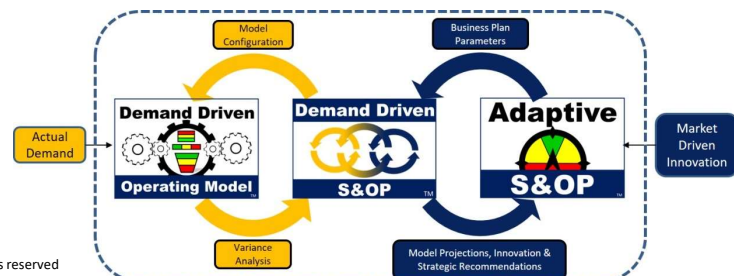
What is the Future of S&OP?

- The future is bright indeed
- It must be an integral part of a Demand Driven Adaptive Enterprise
- Where Management makes decisions, manages change and drives the business
- Enabling a company to become truly adaptive



You do not just implement Adaptive Sales and Operations Planning

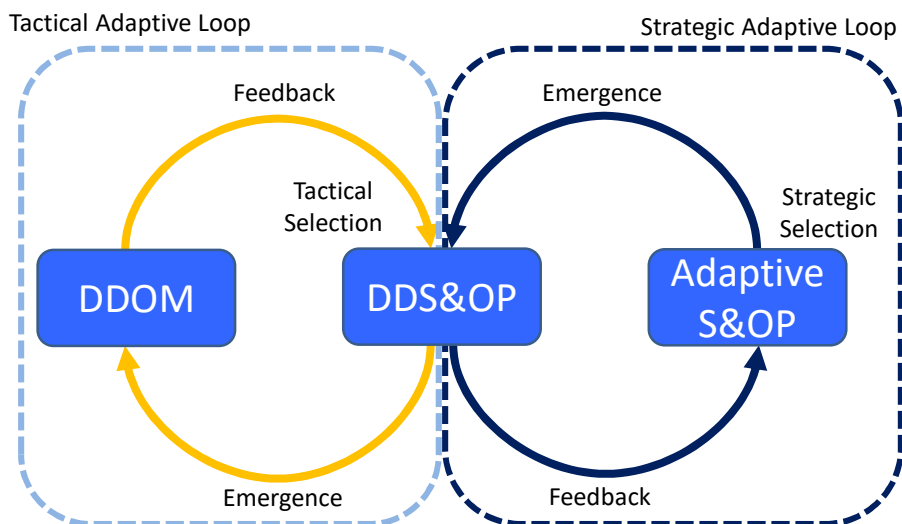
1. Implement DDMRP inside the DDOM
2. Implement S&OP Fundamentals or assess and improve your current S&OP process
3. Enable DDS&OP This is very important and critical to the process
4. Achieve Bi-Directional Communication
5. Become Adaptive



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Adaptive Loops



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S&OP is Crucial for Sustained ROI



DDAE III	Sensing, Adapting and Innovating across the supply chain (customers and suppliers) for continual ROI improvement. Mature DDAE Model.
DDAE II	Leverage the Demand Driven Operating Model capability across the enterprise and into the market. DDS&OP and Adaptive S&OP in place.
DDAE I	Synchronizing and leveraging operational capability for better flow performance. Expand the implementation of a Demand Driven Operating Model.
Stage 2	Begin to emphasize flow-based operational efficiency with the preliminary implementation of DDMRP.
Stage 1	Focused on cost-based operational efficiency (Cost reduction AND Responsiveness in conflict).



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* DDI Affiliates can provide you discount codes that will provide a further price reduction of \$100 – \$200 USD (depending on your location)

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