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Managing

A new era of sales & operations planning has arrived as companies learn to deal with an increasingly volatile business environment. By **Nick Allen**



Direct sourcing from distant locations means you've got to plan for longer lead times and bigger chunks of stock.

Alastair Charatan

In recent years the volatile business environment experienced by most companies has pushed the requirement for more rapid decision making to effect fast deployment of strategy. However, according to Paul Ducie, partner at Oliver Wight, the current management processes used by many companies do not facilitate this.

"If you are living in a world which is fairly stable and you have a [straightforward] demand supply balancing process, that's fine. But as soon as the environment becomes more volatile, the organisation turns in on itself and spends all of its time managing the chaos – companies are not able to look beyond the short term," he says. Many businesses are "only looking six months out or at the annual plan and that's just nowhere near sufficient."

So, how often should companies run S&OP? Ducie says it has to be a monthly cycle. "There is so much change today. The change is not just on the demand side, but right through the whole value chain – with suppliers and raw materials, new products and innovations hitting the market from competitors, so there are many issues impacting business performance and therefore, it is no longer sufficient to look three, six months into the future, it has to be monthly."

Oliver Wight was an early exponent of S&OP and has been closely involved with the evolution of the process through the introduction of financial integration, product and portfolio management, and into scenario planning, business strategy and wider collaborative functions – resulting in what is now termed Integrated Business Planning (IBP).

Before looking at the software and tools available for more advanced S&OP, "you have to get the right processes in place and then get the right people with the right behaviours managing those processes. The tool is important, but it's not the first thing to worry about. Once you understand and synchronise your business – and you've integrated the key functions – then it's much simpler to automate parts of that process," says Ducie.

One of the big issues with S&OP is that it cuts across so many different functional silos within a business. However, Ducie advises: "If a company designs the right process, then the process itself forces the organisational silos to work together, so they start to create a synchronised plan throughout the organisation. Then we look at coaching behaviours, so that we get the collaboration and common ownership." He says an important point is to have an individual in place that can ensure "integrated reconciliation", to make sure the process is flowing through the various steps with the right information and that all parties are acting and performing in a way that will deliver the strategy.



An important consideration for any organisation is what level of granularity should S&OP run at? "Some of the legacy problems are that people are running it at a far too granular level," says Ducie. "IBP needs to be run at an aggregate or family level, as that is good enough to allow the business to make the right decisions. What we don't want to do is to try and manage it at sku or article level over 24 months, because it's not relevant."

Alastair Charatan, director of supply chain programme at Travis Perkins, offers a practitioner's perspective on the challenges of planning. One relatively new issue for the company has been direct sourcing from distant locations. "You've got to plan for longer lead times and bigger chunks of stock, compared to using UK suppliers where you can operate on a cycle of orders once a week and they will deliver within a few days lead time on

volatility



quantities that tend to be minimum order quantities. So direct sourcing brings some fresh challenges," he says.

Another issue that Charatan is starting to look into is the potential for common sourcing across a number of the company's brands. It was about a year ago that Travis Perkins acquired BSS Group, the plumbing supplies group.

He says: "There are a lot of common products and common suppliers, bringing the opportunity to purchase in larger quantities – particularly with direct sourcing overseas – and then bring the stock into the UK and distribute it among different brand warehouses within our business." Charatan recognises that the initiative will present fresh complexities, "It brings both planning and systems challenges for recognising product across many different brands and different company systems."

On the question of how often S&OP planning needs to take place, Charatan says: "With us, it happens on every level. There are automatic reviews – what we call auto replenishment – for every branch and store. So that will happen daily, as it will look at the sales history, the forecasting, the stock levels etc – and do some pretty clever stuff to place orders automatically." He continues, "Then with a lot of our central suppliers, [where goods] go through our central warehousing, we will typically have a weekly pattern of reviewing the stock on hand and sales rates etc, and place orders on a weekly basis, which works well and leads to a good economic delivery once a week."

"A big issue for us is minimum order quantities," says Charatan. "For our centrally distributed products that's not a problem because we are distributing thousands and thousands of products to our branches, so therefore their combined delivery

is always going to be a good quantity of several pallet loads at least. But it is the suppliers that are not on central distribution that is a problem and the reason they are not on central distribution is that their goods are pretty low value – concrete blocks etc. For these suppliers the transport economics are a reality – for that reason we recognise our suppliers have to impose minimum order quantities. But in terms of S&OP at the branch level, how do we make sure branches don't over order – as they often have to order a full load of product?"

"So it's a matter of having to get that balance vs not stocking out. We are continually looking at new initiatives to better achieve this with S&OP and through discussions with our suppliers to see what we can jointly do to overcome this."

According to recent research conducted by Gartner, 67 per cent of companies struggle to get beyond stage two of S&OP maturity. "Stage two describes an S&OP process that is essentially volume based, focused on balancing demand and supply, with limited use of metrics and understanding tradeoffs. Those who do achieve advanced, demand-driven S&OP can improve revenue from two per cent to five per cent, reduce inventories by seven per cent to 15 per cent, and improve the success of

new product launch commercialisation by 20 per cent," say Gartner.

John Sookias, managing director EMEA at Steelwedge says that from a systems standpoint, you have to integrate the financial plan into the operational plan. It sounds really simple, but it's not. "Because 'finance' works on different structures and details to what the supply chain community work at, the challenge is to put in place a platform that integrates the financial dimension with the commercial dimension, along with the supply dimension, and bring that all into a monthly cycle which looks both strategically and tactically," he says.

Traditionally, S&OP was tactical in nature, used for looking at just the next six or 12 months. However, Sookias points out that sometimes you need to take a different snapshot of the data. "You need to look at it for 3 years, and at other times just two months," he says. "So you need some flexibility as to the horizon you plan at and the levels of aggregation you plan at. Because when you do three year plans you are talking at a product group level, and when you are talking about the next two months you may be down at skus."

Julian Mosquera, technical director at LCP, indicates that the consultancy is currently implementing two or three multi-national, national or global implementations of S&OP a year. "So it's quite clearly on the business agenda and a focus for development," he says.

What has changed is the globalisation of commerce and the end-to-end nature of business

Mosquera believes that the principles of S&OP have changed very little. "What has changed is the globalisation of commerce and the end-to-end nature of business, so we are far more connected and we work far more closely with suppliers than we ever did," he says. "We are genuinely planning enterprise wide – meaning we plan for our suppliers, for production and

distribution – and we connect much more closely with our customers than we ever did before." He highlights how S&OP used to be about factory scheduling – usually a single entity – but is now about networks of businesses.

"Most businesses tend to be resource constrained. So no longer is it 'we can fulfil at any cost'. Companies have to make difficult choices about which customers and which markets do they serve and with what products," he says. To offer this agility companies are moving to new forms of S&OP; processes that have evolved from "planning for stock" and that are now attuned to "planning for capacity". Mosquera says companies have their resources aligned to the kind of market demand they think is coming but they don't commit stock or financial resources until they get a genuine sale.

Prof Alan Braithwaite of LCP adds: "S&OP doesn't fix agility in its own right, other than to work on shorter and more granular planning cycles – which is a form of agility – but if you are then going to change your supply arrangements, or the way you frame your contracts with your suppliers or the promises you make your customers – all those things constitute agility and S&OP simply responds to those conditions."