



The S&OP Sweet Spot by Stephanie Neil

During the holidays, cookies are in high demand. Elementary school students are selling baked goods as part of their school fundraisers, and supermarkets and restaurants are upping their orders.

That's a good thing for Otis Spunkmeyer, a San Leandro, CA-based cookie manufacturer that has seen its revenue nearly double over the past five years. But all of this holiday season activity puts pressure on the company to reconcile sales forecasts with inventory and production operations.

Until about a year ago, Otis Spunkmeyer was using Excel spreadsheets to summarize sales forecasts for the annual budgeting process. That approach limited the number of people who could access the information. In addition, it did not always accurately reflect what the sales force was seeing and could not tie financial forecasts with production. The company was often at risk of making too few or too many cookies.

"Historically, the manufacturing piece of the business was based on taking a top-level forecast and making assumptions based on history," says Kent Wegener, vice president of planning, supply chain, and customer financial services at Otis Spunkmeyer. "It was like driving by looking in the rearview mirror."

It's a backward approach to planning, but it's one that many small and mid-sized manufacturers use. Unfortunately, using isolated spreadsheets to forecast demand means there is not one version of the truth shared by sales and operations, and there are many opportunities for miscalculation. The results can be extra inventory, which costs the company money or an unsatisfied customer because a salesperson promised to deliver products that manufacturing didn't have the capacity to produce.

Now, many manufacturers that have been basing sales and operations planning (S&OP) decisions on financial spreadsheets alone — and using hindsight to predict future demand — are tying together different types of applications to get a complete picture of current demand, the financial implications of those trends, and ways their plants need to adjust. Corporate performance management software that includes budgeting tools and scorecarding can provide a clear, consolidated financial picture of how sales and other departments are operating. These tools provide information on spending in each area of the business as well as forecasts. They also integrate sales forecasts with data on how much manufacturing time is required to accommodate new sales, whether there is enough inventory — or too much — and overall production capacity.

At Otis Spunkmeyer, Wegener, turned to Host Analytics, a corporate performance management provider that delivers its revenue planning software as an on-demand service. Now, with that budgeting piece in place, Otis Spunkmeyer is in the early stages of implementing a demand planning portal from John Galt Solutions to tie in the operational planning view. The result, Wegener says, will be an integrated S&OP process and, ultimately, reduced spending on inventory. In fact, the company expects to save \$3 million to \$6 million per month on inventory spending, Wegener says.

"The old system was based on what was done previously," Wegener says. "Now there is a view of how demand for the different product lines is changing going forward. That gives our planners a lot more confidence to reduce the amount of safety stock."

While Otis Spunkmeyer is already reaping the benefits of a front-end financial planning tool that provides both a sales forecast and a way to track P&L on the balance sheet, the planned addition of a back-end demand management portal will provide a rough view of capacity constraints across the company's four manufacturing facilities. The pending planning portal, from John Galt, will slice and dice the information based on how much product was sold in the past, show seasonal spikes, and provide a view of actual inventory and production capacity conditions. Together, these two systems close the S&OP loop by balancing supply and demand.

Typically, S&OP processes are supported by a mixture of software applications rather than a single, stand-alone system, experts say. Indeed, S&OP is not a technology per se, but a process that combines budgets, financial forecasts, manufacturing, inventory, the supply chain, and, perhaps most important, people.

"The S&OP process is all about deciding what is the most optimal way to run the business from an operational perspective," says Kai Trepte, vice president of sales and services for John Galt. "But the real value-add is that S&OP helps to break down the silos. Without it, you have people selling and they are always unhappy with the people [producing] the product because there is no visibility into what the issues are.

"The real game changer is to compare all of the points of view and to understand the gaps," Trepte says. "Then you move the process from reacting to managing the gaps. You understand where you are on track or off track and can put the program and plans in place to close those gaps."

In addition, the sales and operations planning process benefits from better sales forecasting, which will reduce the amount of safety stock and other forecasting errors. At this point, Otis Spunkmeyer's inventory savings target is only partly realized, Wegener says. But there has been a palpable improvement.

"We have a much tighter integration of the manufacturing plan with the sales forecast, which we never had before. That is a big deal," he says.

The New Model

In today's economy, businesses can't afford not to have an efficient S&OP process. In a recent survey of more than 800 companies, Aberdeen reported that S&OP is one of the top two focus areas for manufacturing companies — behind supply chain visibility. High interest in S&OP can be pinned to rising supply chain costs, including transportation and inventory carrying costs; increased customer service expectations; and a volatile market resulting in high demand uncertainty.

But the report, "The Supply Chain Executive's Strategic Agenda 2008," notes that very few companies use S&OP effectively. To be successful, companies need a way to collect data, ensure that it is clean, and conduct "what if" analyses. There also must be active participation from the different parts of the organization, the report says.

"Companies have a fundamental gap in terms of how they do financial planning and how they do operational planning," says Narayanan Viswanathan, supply chain and logistics research director at Aberdeen.

"S&OP needs to evolve into a more integrated business process, and it should be bidirectional," meaning financial goals drive the S&OP process, and if the manufacturing facility doesn't have enough capacity or enough demand, that should be reflected in the financial targets. Right now, "there is not one solution that has all of the pieces together. There is a gap in the marketplace," Viswanathan says.

Privately held Elkay Manufacturing Co., a maker of plumbing products, best known for its stainless steel sinks and faucets, has more than 5,000 employees, 16 production plants, and 14 distribution centers. When John Hrudicka joined the organization two years ago as vice president of finance, his first priority was to organize the company around financial accountability.

Hrudicka's predecessor was ready to invest in OutlookSoft Corp.'s financial planning tool, an on-premise licensed solution that was going to cost upward of \$400,000 and require a year to deploy, he says. (OutlookSoft was acquired by SAP in May 2007.)

Instead, he decided to couple an on-site costing analytics tool from Acorn Systems Inc. with the SaaS-based balanced scorecard software from Host Analytics, an enterprise performance management tool that measures corporate goals and progress against targets.

"There is a tremendous advantage to a hosted application in terms of affordability without sacrificing functionality," Hrudicka says, noting that he addressed two significant needs of the business — cost analysis and scorecarding — for the same price he would have paid for OutlookSoft.

Nowhere to Hide

While Otis Spunkmeyer's Wegener chose the Host Analytics software as a budgeting tool, Hrudicka is counting on Host Analytics' balanced scorecard to instill accountability across the company and, more important, to make finance strategic rather than an under-valued function.

"I wanted to transform the financial organization to have an equal seat at the table driving the business results," Hrudicka says. The way to do that is to first understand the financial dynamics of the company.

The scorecard, coupled with an executive dashboard, provides charts and graphs showing how Elkay is performing against targets. Individuals, departments, business units, and the overall corporate strategy are measured against established key performance indicators. It is basically a financial performance management application, but, when coupled with the Acorn system, the tools can measure profitability by customer and even by SKU.

At Elkay, the scorecard touches finance in every department, from human resources to marketing. And now, "everything is transparent," Hrudicka says. "Every initiative is tracked and measured for everyone to see ... There is nowhere to hide."

Of course, the goal is not to punish underperformers, rather to create self-managed employees who can execute against a corporate strategy that continues to evolve. It's what Hrudicka calls a "continuous planning environment."

The ultimate goal, Aberdeen's Viswanathan says, is to empower people. With or without the technology, "best-in-class companies need to have good people who know how to run their business."

Similarly, at Otis Spunkmeyer, which operates 52 sales centers, there is a new level of detail available to end users, one that sorts sales by customer, region, and product. "Now we have a different level of accountability within our sales organization which will ultimately be our biggest transformation," Wegener says.

And if the sales organization can track accounts more reliably, the manufacturing side of the house can adjust accordingly. For example, the John Galt planning portal, which Otis Spunkmeyer is in the process of installing as an on-premise licensed product, can pull information from the Host Analytics system, as well as from other parts of the organization, including inventory, scheduling, and capacity planning. Ultimately, it may serve as a tool to figure out the most efficient way to schedule batches of cookies.

That piece of the puzzle is not live yet, but it will be just as important as the front-end finance tool.

For manufacturers such as Otis Spunkmeyer, the motivation to assemble the right tools to support the S&OP process goes beyond just coping with a surge in cookie sales. It's about gaining the agility required to survive.

"How many companies out there, when they were doing their annual [financial] plan in October, could foresee a 3,000-point swing in the Dow or that, over the summer, oil would go from \$80 a barrel to \$160 a barrel? They can't; there's no way," says Host Analytics CEO Jon Kondo. "That's what we see driving corporate performance management. Old spreadsheets aren't nimble enough to do this. You have to be able to sit back and say, 'Our world changed overnight. Now what are we going to do about our business?' "