



# Navigating volatility: Connecting finance to the supply chain through S&OP



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# Don't let faulty S&OP processes derail your company's financial success

In times of uncertainty, people often tend to stick to what they know. For supply chains, that means tried and true processes that have always delivered results. But these are not ordinary times. Volatility is rampant. Processes and operating models once considered "normal" can become one-way tickets to obsolescence. Sequential and siloed processes are too slow. And the pressure on supply chains has never been more intense.

COVID-19, one of a growing number of global disruptive events, is spurring renewed interest in supply chain excellence. Businesses are realizing they have significant weaknesses in their supply chain structures and the underlying systems that power them. Companies have had varying success pursuing excellence and efficiency over the past few decades. But current events have Chief Supply Chain Officers (CSCOs) and Chief Financial Officers (CFOs) laser-focused on actually achieving it. The world is looking to supply chains and the people who run them to deliver what they need, from sanitation products and protective equipment, to everyday basics.

Navigating the ever-changing business landscape we're living in means re-evaluating everything and realigning on supply chain basics to create a stronger foundation for the future. The first place to start is to take a hard look at a process that's central to both business and supply chain operations – sales and operations planning (S&OP).

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# S&OP 101

Going back to S&OP basics means starting at the very beginning, with a clear definition. The Institute of Business Forecasting and Planning (IBF) defines S&OP as:

a structured monthly process that aligns all functional areas under a unified set of assumptions to enable and coordinate decision making. It integrates demand, supply, operations, and financial planning into one game plan for business. It also links strategic plans to operational plans and attempts to provide a decision-making framework to maximize sales and profit.<sup>1</sup>

At its heart, S&OP is about coordinated decision-making: reaching a consensus on a single operations plan that outlines the allocation of critical resources like people, equipment, inventory, materials, time and money – all to satisfy customers profitably. Businesses must hold themselves accountable to this plan if they want to stay successful.

But staying accountable is easier said than done, especially when we hear so often from companies that their four-week S&OP process takes six weeks to get the wrong answer. Information is becoming stale much faster these days and waiting six weeks for plan alignment isn't an option.

That's where a technique known as concurrent planning comes in. As outlined in this guide on the topic, [Thinking Differently About Supply Chain Planning: The Case for Concurrency](#), concurrent planning is: the process of making and managing synchronized plans across time horizons, business processes and organizational boundaries at the same time.<sup>2</sup>

What that means is having the agility to know sooner and act faster, so you can stay profitable no matter what life throws your supply chain's way. With concurrent planning, when something changes, everyone across your end-to-end supply chain, including the finance department, instantly sees the change and understands the impact on them, their team and the entire company. S&OP cycles don't have to take weeks. Some companies use concurrent planning to run S&OP processes weekly or even daily depending on business requirements.

Concurrent planning is also the key enabler of what research firm Gartner calls supply chain convergence, a critical component in developing a resilient supply chain. Supply chain convergence is the synchronization and integration of all activities across a supply chain, including functions like planning, customer service, sourcing, warehousing, transportation, manufacturing and more.

“S&OP helps drive the high degree of cross-functional collaboration required for supply chain convergence”

As outlined by Gartner analyst C. Dwight Klappich in his paper, *Unify End-to-End Supply Chain Processes With Supply Chain Convergence*, supply chain convergence happens when businesses adopt a cross-functional application and platform strategy so they can horizontally model, orchestrate and synchronize end-to-end processes.<sup>3</sup> Supply chain convergence is only possible when silos are broken down and business processes span traditional functional domains.

In Gartner analyst Tim Payne's report, *Mastering Uncertainty: The Rise of Resilient Supply Chain Planning*, Payne defines resilience planning as: mid- and long-term plans that mitigate against uncertainty by ensuring the right degree of resiliency is built in so that short-term plans are more executable.

Before you can absorb what resilient planning is, you first need to understand two critical points:

1. No plan is ever perfect.
2. Agility is the only way to navigate volatility and disruption.

According to Payne, resilient planning was born out of a move by companies to switch to continuous planning, an approach where planning algorithms run whenever there's a change in execution. The trouble with that is it leads to nervous planners who are prone to changing everything whenever there's a slight shift in plans. Resilient planning provides the ability to balance making changes to plans with a level of stability in operations.<sup>4</sup>

So how does S&OP fit in? S&OP is a key enabler and core component of supply chain convergence. S&OP helps drive the high degree of cross-functional collaboration required for supply chain convergence, bringing all aspects of the business from financial through operations and execution together. When it comes to resilient planning, you need to be able to separate execution-level plans from strategic ones so you don't blow things up any time a minor execution change happens. Mature sales and operations planning solves this problem. It lets your company collaborate, focus and stay accountable on strategic-level decisions.

# Not just for supply chain and operations leaders

Given its name, it's easy to make the assumption that sales and operations planning really only involves people directly tied to sales and operations – folks like planners, sales leaders and supply chain managers. The truth is everyone in the company sees a benefit when S&OP processes improve. To succeed, organizations also need to have a high level of participation, cooperation and collaboration across multiple functional areas, including sales and marketing, planning, analytics, manufacturing, distribution, logistics, supply management, product management and even the finance team and CFO.

As supply chains increasingly become a growth driver and competitive advantage across businesses, CFOs and CSCOs or heads of supply chains find themselves working more closely than ever to achieve superior financial performance. This is especially true as global events like COVID-19 push us into a financial crisis that has many companies facing the harsh reality of having to dramatically reduce operating costs or face bankruptcy.

By working together, CFOs and CSCOs can drive organizational alignment by standardizing on key performance indicators (KPIs), making it easy for everyone to understand how their actions and decisions impact the company's financial picture. This finance-supply chain collaboration is also critical to managing risk and business continuity, putting a strategic focus around risk management as it relates to decisions like primary, secondary and tertiary supplier selection. It determines what risk is owned by the company and to what extent it's pushed further down the supply chain.

With supply chains typically accounting for a large proportion of many companies' costs, it's no wonder CFOs are finding themselves more invested in activities like S&OP. Within the sales and operations planning process, they bring a revenue-focused, fact-based view of the organization, helping to identify and solve business problems, provide insight and collaborate with others on addressing critical supply chain issues that ultimately have a broad impact on the company's financial success.

# The importance of accountability

No matter who's involved in your S&OP, accountability is vital to success. But who exactly owns the S&OP process? Most companies have an executive owner of S&OP, such as a CEO, managing director or COO, who provides leadership and guidance from the top down and across the entire process from end to end.

Steven J. Puricelli, Managing Director of Supply Chain Operations and Strategy at Accenture, points out in his blog on S&OP ownership, many organizations struggle with the question of ownership along with rights and responsibilities of people and functions engaged in the S&OP process.<sup>5</sup>

He explains why defining the right team is more critical than defining the right owner and identifies three essential considerations:

- Proper composition of the team
- Ownership and who leads the team
- How the team performs effectively

S&OP ownership and team structure are foundational components of getting S&OP right. But without the appropriate structure to those meetings, you'll fail to see any tangible business value.

In another guest blog post for Kinaxis on S&OP models, Puricelli identifies two key foundational components of an effective S&OP operating model: a well-understood conceptual model and a well-defined structural model.<sup>6</sup>

Research firm Gartner has more advice on how to structure your sales and operations planning to get the most value, based on its five-stage S&OP maturity model. Before you can enjoy the added value higher maturity levels bring, you need to understand where you're starting from. Here are the five stages of maturity as defined by Gartner:

- React: no shared goals or plans
- Anticipate: builds operational plans
- Integrate: balances supply and demand plans
- collaborate: Creates demand-driven strategic plans
- orchestrate: Coordinates value-network decision-making<sup>7</sup>

As outlined in his paper, "How to evolve your S&OP to create business value," Gartner analyst Michael Youssef says 67% of companies are stuck at level 2-3 S&OP maturity. Those companies are failing to drive any significant business value from S&OP. He cautions that too often "S&OP meetings go into too much detail or are simple readouts that don't engage the audience, leading to no actions being taken."

Youssef recommends that companies looking to improve the structure of their S&OP meetings:

- Focus on strategic business priorities
- Turn S&OP meetings into an action-oriented decision-making forum
- Expand the planning horizon to use S&OP to drive long-term decision-making
- Limit the review to a handful of business scenarios at each meeting
- Build an S&OP center of excellence (COE)<sup>8</sup>





# Efficiency and profitability – the benefits of S&OP

Along with operational effectiveness, S&OP is ultimately about driving profitability through fast, confident decision-making.

Tangible benefits companies see from implementing and maturing S&OP in their organization include:

- Increased customer service levels
- Higher forecast accuracy
- Improved revenue
- Lower costs

It's not just metrics that are impacted by S&OP. It can influence corporate culture by driving broader collaboration and alignment.

Not surprisingly, companies with higher S&OP maturity do see the greatest benefit. In fact, research from Gartner finds that higher maturity businesses saw a 5.6% increase in revenue, a 7.5% decrease in costs and a 7.2% increase in profitability because of successful advanced S&OP.<sup>9</sup>

Driving profitability through advanced S&OP is possible and can have an impact on profit and loss, the predictability of financial planning, and how to create a continuous planning cycle.<sup>10</sup>

# The future of S&OP and what's next

What exactly is advanced S&OP, and what's next for this crucial business function? Many believe advanced S&OP transforms into integrated business planning (IBP), which incorporates financial planning directly into the S&OP process. By adding finance to supply chain planning, companies move one step closer to supply chain convergence and organization-wide synchronization.

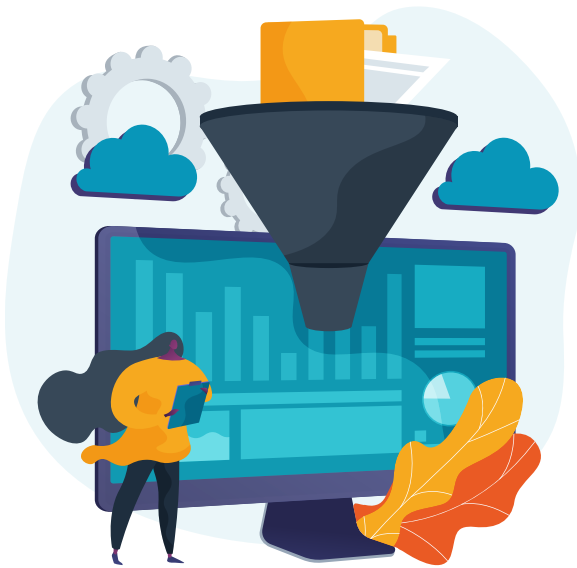
There are a lot of benefits to bringing together finance and supply chain operations.<sup>11</sup> Companies that take this next step become more operationally savvy and improve financial efficiency through:

- Exposing potential risks and enabling executable and optimized plans
- Driving sustainable cost reduction and profitable growth through more mature planning models
- Combining rolling forecasts and S&OP to streamline business processes

While IBP connects finance to S&OP, another process called sales and operations execution or S&OE is the next step in connecting planning to true operational execution. Gartner defines S&OE as:

a weekly cyclical multistep process that involves at least four sub-processes or steps running in parallel with an underlying financial-alignment process. These sub-processes include a merchandising review, a demand review, an inventory plan and gap reconciliation, and an executive S&OE meeting.<sup>12</sup>

What S&OE does for your sales and operations planning is free that process from detailed discussions around operational issues. Instead, you'll be able to focus on strategic initiatives and decision-making, a critical component to resilient planning and responding to volatility and disruption. Adding S&OE to your list of processes gives you a way to translate those strategies and decisions



into tangible, measurable actions. Gartner has a recent post around how to set up S&OE in supply chain planning that's worth checking out if you want more information.<sup>13</sup>

If the thought of trying to run both S&OP and S&OE cycles within your business sounds daunting, then this next section may be for you. Another advanced S&OP concept is what consulting firm mSE Solutions calls S&OX<sup>®</sup>: a holistic, practical approach for the digital transformation of supply chain planning and management processes.

S&OX merges S&OP and S&OE to completely close the gap between S&OP and the execution of transactions. In its paper, S&OX: A game-changing concept for digital supply chain

transformation with disruptive power, mSE cautions that before you can move to S&OX, you need to have a supply chain planning solution with a certain level of technical sophistication. This is not something you want to try doing in Excel. Technical capabilities for S&OX center on digital twins and include:

- Integrated demand and supply planning
- End-to-end visibility and impact analysis
- Concurrent planning
- What-if scenarios and scenario evaluation
- Built-in collaboration
- Automation, including artificial intelligence and machine learning (AI/ML) algorithms
- Real-time, closed-loop integration to the transactional layer, including ERP systems<sup>14</sup>

# Choosing the right technology

Are the technical requirements needed for S&OX the same ones you'll need if you're just starting out with S&OP, looking to mature to IBP or adding S&OE? The answer is yes. Even if you're in the very early stages of S&OP maturity, picking the right tool to support your S&OP process is a critical step.

This eBook, [Powering the Future of S&OP](#), has more details on the specific capabilities you'll need for S&OP, including what-if scenarios, collaboration and record keeping.

While Excel may feel like a reasonable starting point, you're likely to outgrow it quickly. Its limitations also become painfully clear during moments of crisis – which often turn into critical tipping points for your organization. Excel doesn't handle large scale data sets well and doesn't support alerts or lend itself to managing by exception.

By contrast, a planning tool designed to handle S&OP gives you the visibility, agility and efficiency you need to be able to know sooner and act faster.



# The role of agility in S&OP

Agility is the most important capability you'll need to respond to any global disruptive event like COVID-19.

Agility is the ability to move quickly and easily. That's exactly what your supply chain needs to do to survive.

But agility in supply chain planning and, in particular, S&OP is a lot harder to achieve than one might think.

When multi-million dollar decisions need to be made during S&OP meetings, things are bound to get heated.

Everyone has opinions on what move to make next. The very future of the company is on the line. You need to be 100% confident you've got the right information to make the best choice.

That choice requires the visibility which can only come when all areas of the company are working in tandem, sharing information like plans and projections with a singular focus in mind: moving the company through the current phase and into the future. Data must be up-to-date and complete.

But data and visibility alone aren't enough. Making the best choice during an S&OP meeting means understanding what your options are and the related tradeoffs. That takes more than run-of-the-mill scenario planning. You need to be able to run scenarios on the fly, compare them against each other and see their impact on crucial KPIs. That's what will give your S&OP process the agility you need.

During times of crisis or major disruption, having the agility to seamlessly connect planning and execution through S&OP allows companies to address both the immediate short-term impact of an unplanned event, plus re-adjust longer-term plans to mitigate further fallout, offset revenue shortfalls and adjust the business strategy to reflect the new normal. By realigning on S&OP basics, you'll be able to effectively navigate volatility, setting yourself and your company up for future success.

# Transform and mature your S&OP and financial planning and analysis with Kinaxis

Why wait weeks or even months to complete a single S&OP cycle? With Kinaxis RapidResponse®, you don't have to. Our S&OP application eliminates data silos for fast, easy collaboration across functions. Synchronize demand and supply planning, inventory management, capacity planning, finance, sales and marketing to get quick, clear insights into each team's changes and their impacts. No more wasting time reconciling spreadsheets or aligning email chains. Instead, teams work in parallel to set financial targets, measure progress and optimize outcomes. The final product is better results for your entire business.

“The speed in which scenarios can be created and analyzed has gone from 24–48 hours to 10–30 minutes in our S&OP process with RapidResponse.”

**OPERATIONS MANAGER  
S&P 500 ELECTRONICS COMPANY**

With Kinaxis, you'll be able to:

- **Increase efficiency.** Improve accuracy while shortening the S&OP cycle with fast, collaborative plan development.
- **Take control.** Increase consensus and reduce surprises with contributions from and vetting by cross-functional stakeholders.
- **Improve business outcomes.** Reduce risk and maximize business opportunities with superior ability to set financial targets and acceptable levels of variability.
- **Align with financial goals.** Easily scale and align your S&OP processes as your company's objectives change without sacrificing efficiency or precision.

With decades of in-depth supply chain expertise, our cloud-based RapidResponse platform and purpose-built planning apps use patented database, visualization and analytics technology you won't get anywhere else. Use RapidResponse to run one or more of our easily configured supply chain planning applications like S&OP or build your own custom apps and algorithms right in the platform. RapidResponse is easily scalable and delivers the capabilities you need to grow and succeed.

Whether your company is in the early stages of S&OP maturity, making financial planning an integral part of S&OP or looking for ways to evolve and fine-tune your processes, Kinaxis is here to help. [Reach out now to book a demo](#) and find out how.

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# Resources

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#### ABOUT KINAXIS

Navigating supply chain volatility takes agility. Why? Because plans are never perfect. Kinaxis® is the authority in empowering fast, confident decision-making across the supply chain so people plan better, live better and change the world. Trusted by top brands, we combine human intelligence with AI and concurrent planning to help companies plan for any future, monitor risks and opportunities and respond at the pace of change. Powered by an extensible, cloud-based platform, only Kinaxis delivers industry-proven applications so everyone can know sooner, act faster and remove waste. Don't believe us? Ask us to prove it. Learn more at [Kinaxis.com](https://www.kinaxis.com).



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