



The Evolution from S&OP to Integrated Business Planning

Sales and Operations Planning (S&OP) has long been the standard best practice for companies to align supply and market demand. Continuous S&OP improvement has proven to be a worthy investment for many companies, but even at its best, S&OP alone has its shortcomings.

Many companies are now evolving from S&OP to Integrated Business Planning (IBP). IBP is a planning approach that incorporates the whole of the business enterprise with the goal to satisfy market demand while maximizing profitability. Compared to S&OP, IBP considers more factors, more functions and more opportunities, over a longer term, to help companies better respond to internal and external factors.

To discuss this evolution, I sat down with Randy Donaldson, previous Vice President, Operations and Engineering at Cosmetic Essence, Inc. and current Clarkston Executive Alliance member.

Integrated Business Planning Defined

- **Goal:** Satisfy demand while maximizing profitability
- **Benefits:** Optimized profitability, increased agility, extended accountability
- **Key Components:** Strategy, process, organization, technology
- **Stakeholders:** Sales, Material Management, Marketing, Finance, R&D, Regulatory
- **Considerations:** Executive sponsorship, organizational culture, analytics capabilities, decision making maturity



Why are companies looking to evolve to Integrated Business Planning?

Companies are turning to Integrated Business Planning (IBP) to ultimately ensure that profitability is at the center of operational planning. Companies conceptually know all sales are not created equal. However operationally, planning processes simply consider a unit as a unit, with little consideration of the attached economics. To maximize profitability, companies must optimize the economics of every sale, which requires a far more strategic and comprehensive look at planning than what companies traditionally employ.

If you think about the traditional S&OP process, financials are considered, but are typically not a key driver for planning. Sitting on the operations side of the table, my team would receive the sales forecast and simply try to operationally execute on the projected customer demand. Strategically collaborating with Sales or Finance on critical financial considerations was just not a part of the standard process. In contrast, IBP brings additional people and criteria to the table. For example, Finance works with Operations to assess run strategies, develop labor models and assess customer profitability, all of which are incredibly important for prioritization and trade-off situations.

Additionally, the complexity and speed of today's marketplace forces companies to have a faster, more responsive and more integrated approach to planning. New product developments and launches, customers with unique demands, and evolving regulations are just a few of the continuously changing factors that highlight the shortcomings of traditional planning. These changes drive variances that result in ad-hoc planning with Marketing, R&D, Regulatory and Finance. Companies know that these stakeholders must have a seat at the strategic planning table if they are going to move away from reactive planning. When companies turn to IBP, planning reaches outside the traditional boundaries of sales and operations to ensure the full scope of the business is considered.

Finally, depending on the nature of the business, some companies are even turning to Integrated Business Planning to help them identify new opportunities, form strategic partnerships with clients or differentiate their products or services. Regardless of the factors driving companies to IBP, most will find benefit in having more eyes and ears from the business contributing to the strategic planning process.

Although you have already alluded to some of them, what are the top five benefits of adopting Integrated Business Planning?

I would say the top five benefits of adopting IBP are:

- 1 Optimized profitability:** This is driven primarily from the increased scope of planning that centers around the financial implications of the operational plan and associated trade-offs.
- 2 Increased agility:** IBP's scenario planning and modeling accounts for many of the internal and external factors that would traditionally cause fire drills and reactive planning.
- 3 Extended accountability:** More people from more functions are now accountable for making planning decisions that maximize profitability.
- 4 Improved forward, long-term thinking:** IBP takes a longer-term view of planning, forcing all key stakeholders to think beyond the customer demands of today.
- 5 More business-minded operations talent:** With IBP, operations is exposed to the details of customer demands, market data and financials. Engaging in discussions about these topics can be quite transformative for operations teams.



It seems that the benefits of IBP help overcome the shortcomings of S&OP.

Is IBP just an upgraded S&OP?

IBP is not a replacement for S&OP; instead, IBP incorporates and expands S&OP through increased scope, outlook and planning term. Independently, they both have the objective of satisfying demand, but IBP helps companies optimize business results through considering more factors, functions and opportunities over a longer term. These additional factors are incorporated into the S&OP process, which will continue to generate the tactical operations plan needed to run the business.

Because IBP incorporates S&OP, should companies first mature their S&OP process before moving to IBP?

I would say it depends. If your S&OP process lacks the critical components – executive sponsorship, execution capabilities, technology tools – then those improvements must be made first. Adding more factors to a broken process will produce no benefits.

Many companies today are starting to gradually add some of the IBP components into their S&OP process. For example, some are maturing their analytics capabilities, which are critical for IBP, and others are starting to selectively include stakeholders outside of Sales and Operations. This maturation is healthy, as it helps with the evolution and change management process to IBP.

We must realize, though, that even at its most sophisticated state, traditional S&OP still doesn't include the factors that cause the variances that lead to disintegrated business planning. It is the hallway prioritization and trade-off conversations due to a new product introduction or cashflow constraints that must be captured and legitimized. This is what IBP strives to do. With IBP, these changes should no longer be surprises, but instead contingency plans.

What are the considerations that accompany the evolution from S&OP to IBP?

As with any organizational change, executive sponsorship is required. Most companies that move from S&OP to IBP will need new players from R&D, Marketing, Regulatory and Finance involved. Due to its cross-functional nature, executive sponsorship will most likely need to come from the very top.

Effectively executing IBP means that functional areas must be transparent with one another, sharing data and information needed to make planning situations. This can result in anything from mild discomfort to all out turf battles. When companies are making this evolution, company culture must be considered, with specific attention given to openness and transparency.

On the topic of data, IBP often requires organizations to gather and leverage a great deal of data. This data acts as the input to data analyses and modeling used to make IBP valuable. Today, in the world of big data, data acquisition and analytical skills are more common than they have been in the past; however, these resources need to be secured and specifically made available to support the IBP process.

I'll mention just one more consideration and that is one that can work against all the benefits of IBP - analysis paralysis. S&OP limits the number of factors considered, so it is fairly easy to create and act on an operational plan. When additional data points are considered and scenario planning starts to happen complete with sensitivity analyses, sometimes it can be overwhelming. Thus, companies should be thoughtful about their level of comfort with analytics and complex decision making. IBP can and should be an iterative process.



Functional Contributions to IBP

Each functional area makes important contributions to Integrated Business Planning.

- **Sales:** Sales forecast, customer requirements, customer relationship details, priority customers and SKUs
- **Materials Management:** Capacity, resource plans, foreseeable constraints, raw materials status, logistics requirements
- **Marketing:** Trade promotion plans, critical consumer requirements, market trends
- **R&D:** New product introduction plans, pilot test production requirements, manufacturing capability innovation requirements
- **Regulatory:** Regulatory assessment results, anticipated regulatory changes, sustainability requirements, safety and health assurances
- **Finance:** Financial modeling, financial scenario results, sensitivity analyses, performance metrics tracking, financial constraints, capex planning

To accomplish the data analyses and modeling that you just outlined, what technology enablers are available to support IBP?

The technology available today is trying to keep up with companies' transitions to Integrated Business Planning. Enterprise resource planning (ERP) systems are working to provide a backbone to facilitate the process. SAP, for example, has been working on four new cloud-based applications for IBP covering sales and operations, inventory, supply, and supply control tower. Although only partially available at this time, this SAP functionality hopes to help automate some of the more challenging pieces of IBP, especially the scenario planning and planning adjustments. The control tower functionality is supposed to monitor changes in assumptions to the operations plan, alert stakeholders, provide alternatives, and alter the plan. Then, it is even supposed to save the logic of the selected best scenario for future modeling. In addition to ERP providers, best of breed technologies are also supporting companies with Integrated Business Planning. Kinaxis and Logility are both building on their core S&OP offering and providing companies analytics, modeling and collaboration functionality for IBP.

Although some of this technology sounds incredible, I would caution companies that technology alone cannot launch IBP. IBP needs thoughtful design considering the players, process, scenario drivers, decision making criteria and data. As I discussed previously, moving from S&OP to IBP is a significant change for the organization. Strategically planning the change, including the technology component, is the key for making everything we have talked about today a success.

Meet the Experts



Sebastian Valencia is an Associate Partner with Clarkston Consulting. He has extensive experience in supply chain strategy, distribution redesign, logistics outsourcing, sales & operations planning, contract negotiation and distribution network optimization.



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