

DURABLE

Hitting the Right Planning Notes

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Imagine you're watching a parade. In front of you is a large, very enthusiastic marching band, pounding out a rapid-fire rhythm. A little way down the street, another band approaches, playing a different tune with a different tempo. As the second band gets closer, their rhythms don't mesh with the first, and pretty soon all you're left with is noise.

This is exactly what's happening in most firms — the different business units are marching to different drummers and yelling at each other over the noise.

Your salespeople want to respond instantly and completely to customer needs; this means every color, shape and size you can think of, with inventory piled to the ceiling. Your production people, on the other hand, want to protect your margins. They're like Henry Ford: any color you like as long as it's black (and zero inventory, please).

BALANCING NEEDS

Both sides have the best intentions, as do marketing, supply chain, etc. What's needed here is an objective way to balance conflicting needs for the overall good of the firm: "harmony" rather than "lockstep unison." One way to achieve this is so-called sales and operations planning, or S&OP (we prefer the term "SIOP" — the "I" stands for inventory).

Unfortunately, many companies are not doing SIOP at all or are doing it ineffectively and thereby creating more prob-

lems than they solve. In our experience, this often has to do with "ownership" of the process.

It's tempting to think of an ideal SIOP owner as a sort of orchestral "conductor," tasked with whipping unruly marching bands into shape. But this approach overlooks the real needs outlined above and rides roughshod over the sometimes delicate tradeoffs those needs require. The worst SIOP owners tend to be managers of profit centers chosen because they have a "stake" in the outcome. Even though they may proceed in good faith, they will tend to resolve conflicts in favor of favorite functions, often simply because they better understand that group's concerns.

Bearing this in mind, we argue that the process owner should be accountable only for successful rollout and system upkeep, and not for the all-important tradeoff function. The latter should be handled the way it is in the outside world: through mediation and a "court system" that can apply objective standards. We generally suggest that your finance people step into this role. Why?

Take another look at the issues we mentioned (customization vs. standardization, inventory levels, etc.). You'll notice that they all boil down to monetary outcomes; there is always an outcome that will best balance risk and return. Finance people are trained to reduce everything to money values — so they can give the various SIOP players an objective "dollars and sense" answer for the ideal path to follow. Not everybody will be happy with the outcome every time, but at least they understand it and respect it as fair and transparent.

A note of caution, though: Finance must stay objective and make sure all the stakeholders are in the room as the plan evolves. If they leave people out or allow apparently arbitrary changes to be made from outside, the process will lack credibility. These threats can also come from finance people themselves -- it's a tricky line to walk, especially where the finance function overlaps with operations: more than once, we've observed the effects of finance's well-meaning decision to unilaterally "align" the SIOP with the new budget. The "court" function must be inclusive and transparent — beyond reproach or suspicion.

When done well, SIOP can free up cash flow, speed up the sales cycle and give helpful demand forecasts to production. Done poorly, you'll have more to worry about than "noise" from competing silos — if the various "bands" in your enterprise go back to setting their own agendas, they could end up marching right into each other. □



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