

Do you know what is profitability based Sales and Operations Planning all about?

Challenge yourselves/us and learn the insights from our new S&OP

We at Tieto have recently announced Sales & Operations Planning (S&OP) as one of our key new solution focus areas for the Pulp and Paper industry, and expanding our ecosystem by establishing Partnership with the leading vendor Trading Science. As part of the tight collaboration I have had a great pleasure to get to know the S&OP area more detailed and able to work with the leading authors of the area. The S&OP area solution and digitalization has had rather limited emphasizes in the past and while its importance has significantly been growing through digitalization journey we decided to initiate Blog writing forum to support the overall S&OP awareness, understanding and making most of the business value opportunity for our customers.

Please find here the first part of our pre-taught Q&A dialog between the S&OP guru **Alan Cheesbrough**, Trading Science MD and Founder, and myself (**Jarmo Ropponen**, Tieto Head of Sales & Marketing for Pulp and Paper) as the learner. For more details, please see our Biographies. Looking forward to have your comments and contribution for the purpose.



In your words, what is profitability based sales and operations planning all about?

Businesses typically make operational decisions for operational reasons. Production planning is often a repetitive process following a pattern month on month, somehow connected with the market but not directly, and really the decisions that should be taken operationally ought to be based on the overall profitability of the business.

Profitability based planning is all about making operational decisions with an understanding of the financial consequences.

So is it a conceptual idea for a business to aspire to, or is this a common reality in the businesses that you work with?

It's the reality for many businesses. From a conceptual point of view, it is something that all businesses would aspire to do, but as your question suggests, true S&OP is still an aspiration for most.

The use of technology in production execution is by no means a new concept. Why have we only seen a significant investment in strategic and tactical planning technology in the last 5 years?

To implement a successful S&OP process we are talking about the alignment of global strategies for the business. In contrast manufacturing execution, whilst often complex, tends to be an investment in a division, site, or a process that is enabled using technology as a tool.

There are several elements that need to be in play to successfully achieve S&OP, not just investment in technology:

The first of these is a willingness to accept and implement the changes that are required for digital transformation. The Digital element is obviously the tech, but the transformation is the really significant element here. Changing ways of working, changing behaviour to focus on the way the business operates from a profitability perspective the change is significant.

The second element is, of course, the technology, it is the enabler of this change. The processes, the volume of data required to make profitability based decisions is too vast to manage without technology. The delay in adoption of S&OP as I see it, is that these two elements have only just come together for most of the industry.

So, in considering a tactical S&OP process, that can drive the strategic decisions right down to execution level, what are the major obstacles to implementing an Integrated Business Planning system? And by IBP, I mean an S&OP process that integrates directly to operational execution?

The ability to run processes to maximise profitability is one part of the process, this is what I was referring to when I said the 'willingness to change' and 'the technology' need to come together. But it's really only the first step, it's one thing to come up with the most profitable solution for the business over a short to medium term horizon. Translating and communicating those decisions to the factories, to the production lines, to the sales offices, to the warehouses so that the whole organisation can operate around the decisions that have been taken is something else entirely.

You can do that in several ways. Obviously, it's about the flow of information, but with the scale of information that we are talking about can only really be effective if you have some form of integration that drives the systems that control production, the system that control sales, the systems that control warehouses and distribution. It's the volume of information, but also the reaction times that are required to adapt when the plan falls out of alignment. So just being able to implement that integration between strategic planning systems and execution systems is technologically is quite a challenge.

You mentioned reaction times, which I guess is key. You set a strategic plan whilst working to a forecast, which will of course not be the reality. I'm thinking about this in golfing terms, (perhaps because I've been watching the masters all weekend). The Strategic Plan is your tee off, the long game, to get you as close as you can to the pin. The execution is your short game around the green, both require different approaches but even at the execution level, you could be forced to significantly change your shot if, for example, you land in the bunker. How do you deal with these changes in almost real time when the reality differs from your strategic plan?

This is the really critical question. You do this strategic planning monthly to do the best you can with the information you have, ie your drive finds the fairway.

But this really brings the reason for the integration into focus because you need to be able to re-plan very quickly, and re-execute production around the reality. Without the integration, this becomes basically impossible as you cannot re-plan or re-execute fast enough to retain the value that you were seeking when setting the strategic direction.

Finally, what, in your view, should be part of any discussion about integrated business planning?

Good question, I think an important question to ask is what is the most common factor that causes these initiatives to fail... And it's a simple answer, senior level buy-in. It's the C suite commitment to driving profitability based planning as a core objective through the organisation that will make or break the initiative. As we discussed earlier this is a significant business transformation process that will impact every corner of the organisation. There will be many obstacles through the process that without senior commitment could bring the project to a halt. As soon as you try to ask every person in every department to change their mind set to focus on overall business profitability, you will very quickly understand the size of the task at hand. As obvious as it sounds this is not as easy to achieve, and impossible if the objective is not the priority right at the very top of the organisation.

Alan Cheesbrough, Trading Science

Alan is the founder of the I-Plan® Concept and leads its strategic product development. He provides strategic direction and lead implementation consultancy to I-Plan projects globally. He is an original thinker in the field of S&OP and IBP, having worked in several industries and specifically in the paper industry around the globe since the mid-1990s.

Jarmo Ropponen, Tieto

Jarmo is driven by the customer value creation, delivering on commitments and passionate about creating success. He has 30 years of experience and extensive know-how gained in international IT, Forest, Pulp & Paper and Manufacturing industries working in service and solutions, ERP, MES, supply chain and Business Development with many leading global companies.