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What is Sales & Operations Planning?

The Sales & Operations Plan defines top management’s strategic decisions regarding:

- How much of each product line will be produced in the upcoming month or quarter
- Planned ending inventory and backlog levels
- Allocation decisions – if the plan is to produce less than customers demand

The Master Scheduler has a lot of latitude for making day-to-day scheduling decisions, but must receive executive-level authorization to stray from the parameters established by the Sales & Operations Plan.

Why is Sales & Operations Planning important?

The Sales & Operations Planning process is top management’s primary “handle” to ensure that the annually-revised Strategic Plans are implemented (and perhaps adjusted) on a monthly or quarterly basis.

Sales & Operations Planning establishes the heartbeat rhythm to pump the "blood" that nourishes every cell within your organization. (With "blood" defined as inventory, information, and money)

S&OP is an executive-level responsibility – yet far too few executives understand that this is supposed to be one of their most important responsibilities.

The more clearly that executives understand the importance of S&OP, and the more skilled they become at establishing a strong and rhythmic heartbeat – the stronger and more capable their organizational teams become.

It is amazing how much better an organization’s teams can work together when they’re not constantly “difibulating” (being jerked around with last-minute unforeseen priority changes that cause enormous wastes and lost profits).

How does Sales & Operations Planning Work?

What is being planned?

Product families (not end items)

Units of measure are usually either dollars or “generic units” (e.g. a generic unit of measure might be “bicycles” without any details of end item bicycle configurations)

Frequency of planning

Usually quarterly or monthly

Typical length of meeting

Half day (assuming that everyone comes well-prepared)

Typical planning horizon

Must span the longest lead time

Who brings what?

Who	Brings what
VP Sales & Marketing	Sales Forecast – in either dollars or “generic units” per product family Forecast to Actual for prior period Measures Scorecard targets to actuals
VP Operations	Resource Requirements Plan – an analysis of long-term capacity planning for key constrained resources. (E.g. Might we need a new plant? New equipment? To hire some people?) Master Schedule to Actual for prior period Measures Scorecard targets to actuals “Resource Requirements Plan” is the APICS term for
CFO	Financial and Cash Flow plans Cash Flow forecast to actual Budget to actual Measures Scorecard targets to actuals
President or General Manager	The President brings his or her: a) Arbitrating skills to resolve conflicts and make “the buck stops here” decisions b) Listening skills. (There is much to be learned within each Sales & Operations Planning meeting.)

Sample Sales & Operations Plan

The following is only one example of what a Sales & Operations Plan might look like. Every Sales & Operations Planning Team should continuously improve their S&OP document format(s) to include appropriate information for making important planning decisions within each unique production environment.

A Sales & Operations Plan is created for each **family** of finished goods items.

Units of measure are usually dollars or “generic units” (e.g. “bicycles” without any details of end item bicycle configurations).

Planning period (mos or qtrs)	B	-3	-2	-1	Current	+1	+2	+3	Entire horizon with optional summaries
Forecasted demand		160	160	180	180	200	200	200	
Actual/revised demand		164	166	187	190	205	205	205	Horizon must span longest lead time
Difference		4	6	7					
Cumulative difference	0	4	10	17					
Planned shipments		160	160	180	180	200	200	200	Companies that plan to ship all
Actual/proposed shipments		162	163	178	185	203	215	215	demands on their requested ship date
Difference		2	3	-2					can combine forecast & shipments
Cumulative difference	0	2	5	3					into a single "forecasted shipments"
Planned production		170	170	170	170	200	200	200	
Actual/proposed production		164	165	168	180	200	210	210	
Difference		-6	-5	-2					
Cumulative difference	0	-6	-11	-13					
Planned inventory	60	70	80	70	60	60	60	60	
Actual/proposed inventory	60	62	64	54	49	46	41	36	
Difference	0	-8	-16	-16					
Planned backlog	10	10	10	10	10	10	10	10	
Actual/proposed backlog	10	12	15	24	29	31	21	11	
Difference	0	2	5	14					

Definitions

Planning period: Can be months, quarters, or any appropriate planning period. Should span the entire planning horizon. Can add a column to summarize numbers for calendar and/or fiscal year end. Planning period “B” contains beginning balances to make calculations work as prior periods roll off from the horizon.

Forecasted demand: Forecasted demand, (demand might include sales orders, service orders, inter-plant orders, engineering orders, etc.), with requested ship dates within the period. [Some companies will include two lines - one for *original forecast* (beginning-of-year), another for *current forecast* (as revised at last S&OP meeting)]

Actual/revised demand: For prior periods, this is actual. For current and future periods, this is the greater of actual demand or forecast, and forecast might contain proposed revisions. (Some companies use two separate lines to differentiate actual demand from the remaining forecast.)

Planned shipments: This is for companies that need to manage their demands. Companies that plan to ship all demands on their requested ship date can combine demand and shipment into a single “Forecasted Shipments”.

Actual/proposed inventory: Previous period inventory + actual/proposed production - actual/proposed shipments.

Actual/proposed backlog: Previous period backlog + actual/proposed demand - actual/proposed shipments. [Some companies also add a row for the more common definition of backlog: current backlog + all unshipped open sales orders (including those with requested ship dates in future periods)]