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www.ssi-schaefer-asia.com



Lining up the planets in your favour

How to make supply meet demand

Vivek Sood and **Tony Fedorowicz** of the Global Supply Chain Group outline the basics of Intelligent Sales and Operations Planning (S&OP)

In a quotation famously and perhaps apocryphally attributed to Intel Corporation founder Andy Grove, he said: "For one brief moment the demand will equal supply and we will have the perfect union. Rest of the time we struggle with either too much supply or too much demand."

Understanding the acceptance of the fundamental truth in the above quotation is perhaps the start of i-SOP – intelligent sales and operations planning. No demand forecast is perfect and no supply system is capable of meeting all the demand perfectly all the time. The result we are seeking is to work collaboratively, in order to create an organisation capable of maximising profitability under every demand and supply condition it could possibly encounter. That, in itself, is a lofty goal, given we don't even know the whole range of demand and supply conditions that could possibly be encountered.

So, what does a well functioning i-SOP organisation look like? In figure 1 on the next page, where we show i-SOP within the big picture of most of our strategic consulting work, we have highlighted all the various parts that must come together to create a good i-SOP process.

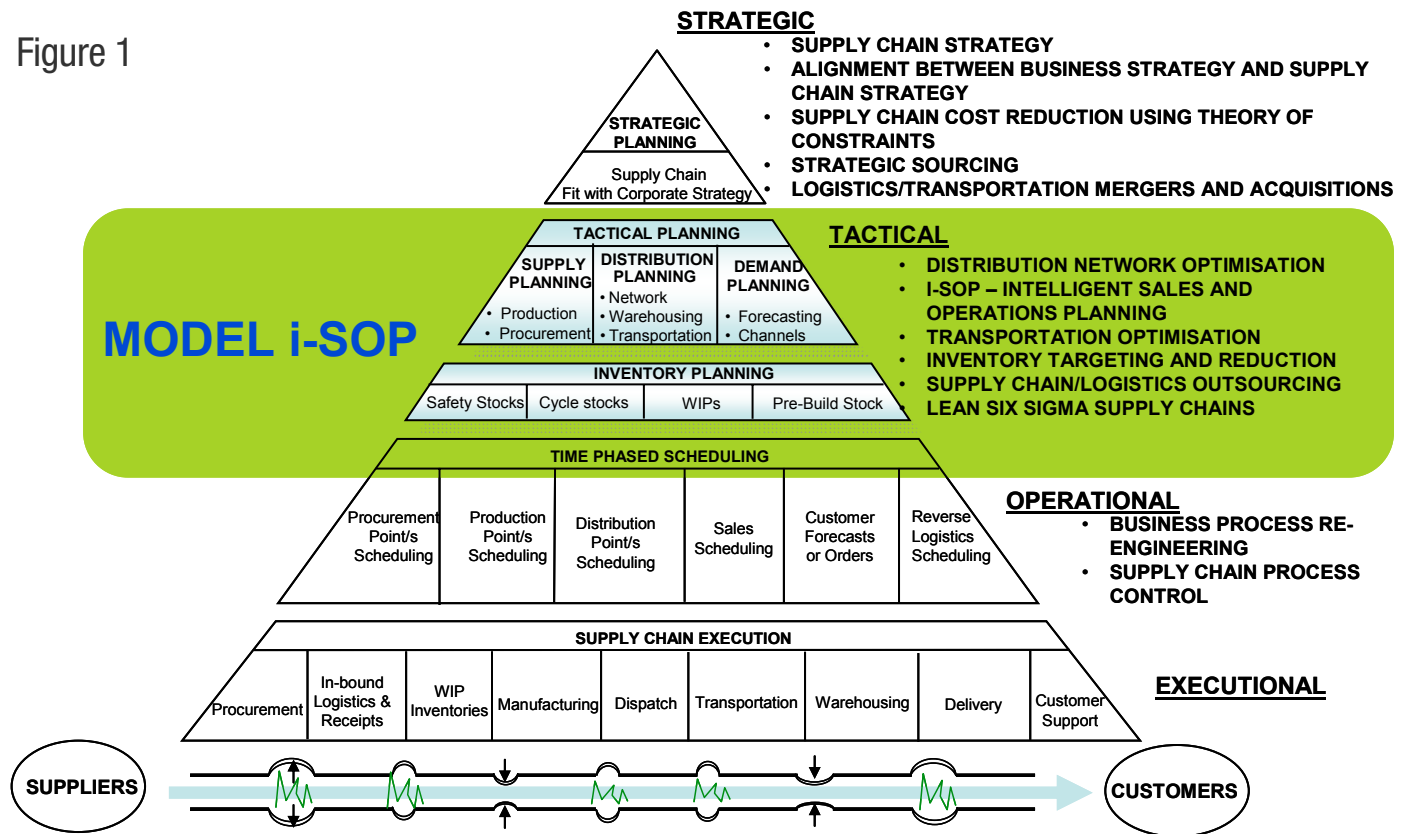
The goal we are seeking from this i-SOP process is profit maximisation. It is not inventory minimisation - there are numerous IT systems which purport to do this, and many do an adequate job. It is not cost minimisation. Again there are numerous supply chain systems that do this adequately enough. The goal is not revenue maximisation either; numerous yield management systems do that adequately enough. The end goal of a successful i-SOP process is profit maximisation, and to our knowledge there is no IT system which does this adequately enough – hence the need for an elaborate process aided by a toolkit.

Disparate mechanisms

S&OP brings together two disparate but essential mechanisms to look at an even bigger picture. On one hand, demand management is the art of maximising revenue achieved out of a pool of customers and products in a given period. The key questions asked are which customers to serve; where; with which products; at what price, and in what way are they to be charged? All these questions are extremely important, and are generally thought to lie in the exclusive domain of sales departments.

Some industries such as the telecommunications and airlines are renowned for being extremely good at what is euphemistically called 'yield management' but is essentially a revenue maximisation exercise. On the other hand, supply management is the art of minimising the total cost of fulfillment while meeting all the demands placed on the supply systems. The key questions are where

Figure 1



to buy, produce and store; for how long; when and how to move, and where to move in order to keep customers happy. These questions are thought to lie in the exclusive domain of production and logistics departments.

Cost minimisation has been the most popular end goal of traditional supply chain management systems. This ability - to simultaneously focus on maximising end-results for the customers while minimising costs - is the foundation of the emerging supply eco-systems as a result of i-SOP-based thinking.

Starting with the clear purpose of maximising profitability for the company as a whole, it is much easier to create a collaborative process for sales and operations planning. Technically, every supply chain professional knows that the objective function of profit maximisation embodies inventory minimisation, cost minimisation, revenue maximisation and stock-out minimisation at the same time. The technical problem is relatively easy enough to define using the operations theory. However, in reality, it is much harder to create and infuse a collaborative process that achieves that purpose into an organisation's DNA. That is the aim of i-SOP.

Intelligent sales and operations planning

relies just enough on tools, formulae and check lists to make it a success. The key to its success is, however, the collaborative approach built into the process from the beginning. The leadership and participants are selected and trained for their positive, results-oriented attitude to joint problem-solving using lateral thinking. Open and honest communication is guided by the instruments and tools created especially for this purpose. Finally, a single measure of success is used for all participants in the process.

Let us briefly recap on the differences between the traditional S&OP process and the intelligent S&OP process by looking at the table below.

Attribute	Traditional S&OP	i-SOP
Attitude	Defensive/Offensive	Collaborative
Focus	Blame others	Team work
Orientation	Re-active	Pro-active
Communication	Stilted, stale, formulistic	Open, honest, guided but not controlled by a toolkit
Tools	Strict process charts and checklists	Dynamic balancing toolkit
Leadership	Battle hardened corporate warriors	Pragmatic, positive, results-oriented business people
Measure of success	Each departmental silo has its own measure of success for the outcomes from the S&OP process	The whole group has a single measure of success – Profit

“ The team should share the responsibility of maximising profit through dynamic decision-making to balance supply with demand. There should be no bigger agenda than the end goal. ”



These were discussed in detail in the previous issue of this magazine. In this article we focus on the way forward.

As Einstein pointed out, no problem can be solved at the same level of thinking at which it is experienced. Following key principles (shown in figure 2) underlying i-SOP rely on raising the level of thinking to that required for the purpose of achieving S&OP's fundamental goals.

1. Start with the end in mind

The end goal of S&OP is always profit maximisation. This should sit on top of everyone's mind from beginning to end during the process. The S&OP leader should make it a priority to make sure that this end goal is clearly articulated and how sub-goals in areas such as delivery performance and inventory contribute to and support the end goal. This step alone will go a long way to ensure the success of this process.

2. Get the right leadership and right team

Second most important principal in creating an i-SOP system is to get the right leadership and team on board. This is easier said than done. In current circumstances, demand for good supply chain professionals far outstrips supply. Pragmatic thought leaders in this field are writing their own salary tickets. Finding the right people is hard. Still harder is to retrain current staff. However, we believe it is possible and necessary to do both. Generally, a few strong leaders in the team are enough to create the momentum and critical mass needed to develop the right culture.

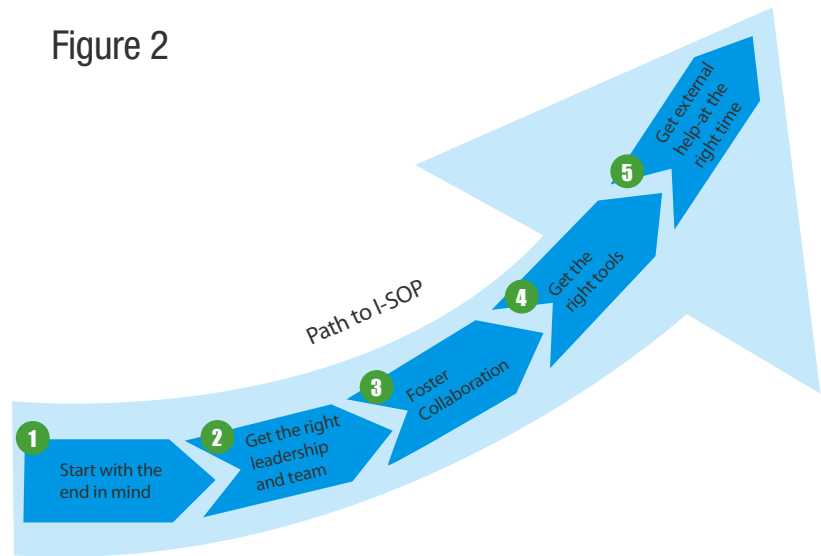
3. Foster collaborative teamwork through open, pro-active attitude

With the right team and leadership in place, it is important to create a collaborative team environment. The team should share the responsibility of maximising profit through dynamic decision-making to balance supply with demand. There should be no bigger agenda than the end goal. There are many ways of achieving collaborative team work – most of them pertaining to team-building workshops. While in our experience some are better than others, we will not go into these in too much detail here because most readers will already be familiar with these methods.

4. Get the right tools

All the above steps are necessary pre-conditions before we can discuss the right

Figure 2



“ No demand forecast is perfect and no supply system is capable of meeting all the demand perfectly all the time. The result we are seeking is to work collaboratively, in order to create an organisation capable of maximising profitability under every demand and supply condition it could possibly encounter. As Einstein pointed out, no problem can be solved at the same level of thinking at which it is experienced.

tools. Dynamic, light, open, collaborative, balancing tools are required to support the above three steps. i-SOP incorporates some of the most effective, yet easiest to use tools that dynamically match demand and supply in order to highlight excess and/or deficits in the facilitation of collaborative decision making. These tools are not resource or data hungry, and not clunky. Most important, they do not take over the whole process, but are merely an aid to collaborative decision-making. **Start with the end in mind** making.

5. Get external help – at the right time

This advice will sound slightly self-serving coming from external consultants. However,

after significant strategic experience in operations, supply chains and effectiveness, we have come to a strong belief that the right external help at the right time can save a lot of heartache and time. Just like the way top golfers regularly get coached by a swing coach (who might be a much more ordinary player than the player himself), it helps to get objective, external view points on a periodic basis.

Most internal consultants find it hard to make effective change as they themselves are too entrenched in the organisation's culture and processes to break away from them.

The i-SOP process has been designed to parachute a highly trained professional into the organisation for two days every month to collect data, process information and make preparations for collaborative decision-making during the actual meeting. However, this is not the only way to use external help. The leader in each case is in a good position to think and decide on what is the most appropriate time and manner in which the external help can best be utilised.

The above five steps, if carried out in proper order and spirit, will go a long way to ensure success of the sales and operations planning process. This process is at the core of every organisation, and needs to move with time. ■

About the authors

The authors co-wrote with Dr. Wolfgang Partsch a recent report entitled, *i-SOP; an intelligent way to design and implement Sales and Operations Planning*, which is widely regarded as a ground breaking text on the subject.

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