

Chapter 6

The Executive S&OP Implementation Path

Would you agree that what you've seen so far is fairly simple? No open heart surgery, no orbital dynamics, no quantum physics. But there's a paradox here: even though this process itself is very straightforward and simple to understand, it is *difficult* to implement. Here's why:

- It's a new process for the company. It is *not* an extension of past experience. It's not doing what you do better; it's doing something very different to *become* better.
- A new process means change: people changing some aspects of how they do their jobs. This results in risk for the organization and discomfort for the people.
- This change cannot be done without the sponsorship and leadership of top management, and these people are usually very busy. When they do get committed, however, they expect progress quickly and consistently. If this rapid, consistent progress doesn't happen, the effort will stall out and almost certainly die.
- In order to address all of this, people need a solid understanding of the process and the benefits it can provide in order to willingly and enthusiastically make the necessary changes.

So it's hard to do this right. The good news is that when you implement it, you don't need to reinvent the wheel. Over the last twenty years or so, through trial and error, we've learned how to do it right — every time. Today, we see the keys to success more clearly than ever:

1. Develop a solid understanding — *before* you get started — of what it is and what it will take to make it work, particularly an understanding of the need for change at all levels.
2. Use a pilot approach to allow for rapid learning in a safe environment.
3. Understand that there will be a learning curve and that you'll be *good* before you're *excellent*.
4. Remember that people are the key to success in this venture. Your success will hinge almost totally on the quality of the change management processes employed.

We will deal with all of these subjects in the chapters that follow. Now please take a moment to look at Figure 6-1 on the next page. It contains a generalized Executive S&OP implementation path. It indicates that the time required for a complete implementation will be about nine months for the average organization. Here also, there's a bit of a paradox. Why does something that involves relatively few people take eight to ten months to implement? It's because of the nature of the Executive S&OP process:

- It's different, almost totally so, from past experience and thus requires time to sink in.
- The pilot approach supports this, and also serves to minimize risk before proceeding with cutover of all the families onto the process.

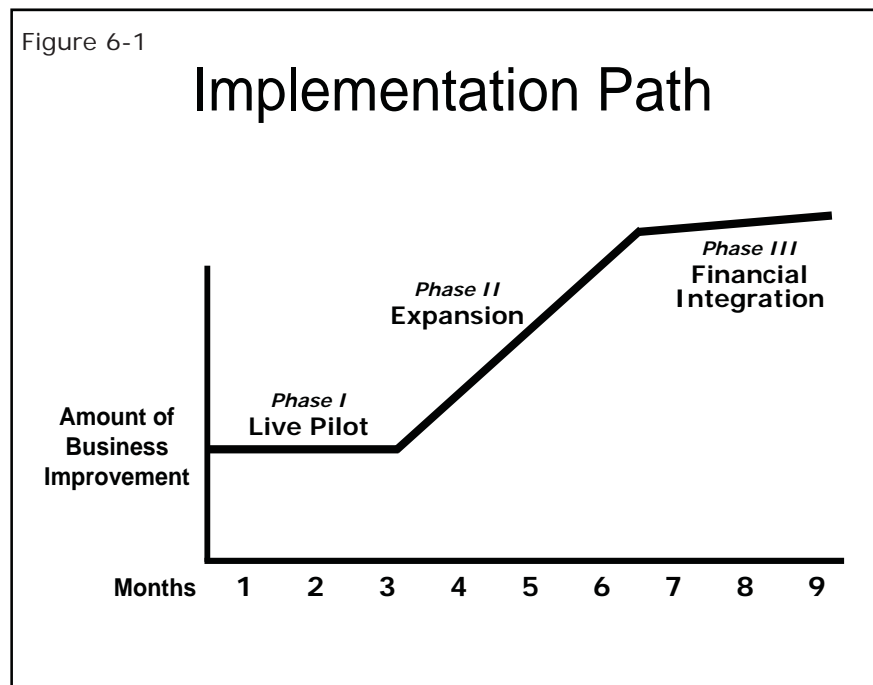
- Full financial integration can't occur until the operating portion of the process — balancing demand and supply — is working well for all product families.
- Executive S&OP occurs on a monthly cycle, and thus incremental experience and expertise are gained only once each month.

For almost all of the companies that we've assisted in implementing Executive S&OP, benefits come sooner than six months. Some people call these “unintended benefits” because they're by-products of people beginning to communicate and work together better.

Further, once the Live Pilot becomes operational, people begin to see things that they wouldn't have seen without it. It's common to hear comments like, “Golly, if we weren't doing this Pilot, we'd have had a big problem with Medium Widgets. We'd have gotten slammed about four months from now.” Getting a better focus on the future means that problems can be avoided by taking early corrective action.

Figure 6-1 shows the three phases of an effective Executive S&OP implementation:

- I. Live Pilot, which is primarily a demonstration to Executive Management on how the process works in their company. Please note: the Y axis refers to the amount of business improvement resulting from each phase, and that no improvement is predicted for the live Pilot.
- II. Expansion, which cuts over the balance of the product families to Executive S&OP. This is a period of high improvement.
- III. Full Financial Integration, including financial simulation and data for the generation of pro forma Profit & Loss Statements and Balance Sheets. Improvement continues, at a slower pace.



For each of these segments, a detailed implementation plan is required to enable effective management of the project. Each segment, however, can be looked upon as stand alone. In other words, it's not necessary to have all three segments planned in detail at the beginning. All that's needed is to commit to, and get started with, the first segment — the Live Pilot.

To recap, two important things to keep in mind regarding the implementation of Executive S&OP:

1. Even though the logic of Executive S&OP is simple, implementing it is not. Implementing it requires people to make changes — to do some aspects of their jobs differently — up to and including the senior executive in charge of the business.
2. It will take an investment of time to fully digest and become comfortable with the new methods because this is not an extension of past experience.

In the chapters that follow here in Part Two, we'll discuss each of the elements involved in learning about Executive S&OP, getting started, and implementing the Live Pilot. Let's get started with the Executive Briefing, Education, and the Go/No-Go Decision.

Report from the Field: Oil Patch Industries, Inc.¹

Company Description: Oil Patch Industries is a multi-billion-dollar, global producer of mechanical drilling devices for the petroleum and natural gas extraction industries. Over the years, the company has grown substantially by acquisition — which has had the effect of bringing in many different information systems.

Their Experience: The company got off to a poor start with Executive S&OP, and it went downhill from there. They skipped the Executive Briefing and thus top management really didn't understand what was involved and how far-reaching it is. This led them to make the further mistake of selecting a relatively weak Executive Champion.

Data issues soon became paramount, with the corporate Information Technology group acting as a huge barrier to progress. The work involved in bringing together all the disparate data elements into a format usable by Executive S&OP was not at the top of their priority list, and they stated that it would be some months before they could get to it. The project dragged on, delayed seriously by the data issues. The weak Champion reflected the conflict-averse corporate culture and was unwilling to “go to the mat” with IT on this issue, and to involve the highest levels in the organization if necessary.

Finally, belatedly, the data was made available and the basic mechanics of Executive S&OP were put in place. But by then, it was too late. The original Champion had moved on and was not replaced. The new Champion was not an S&OP believer and had other priorities. The combination

¹ The identity of the actual company has been disguised, at the authors' initiative.

of weak, uninformed leadership and extended delays waiting for the systems work to rise to the top of IT's priority list meant that Executive S&OP was doomed even before the first pilot was implemented.

The result is that today Oil Patch Industries has yet to have an effective process for dealing with their severe business problems, which are solvable via Executive S&OP: huge over-inventories, abysmal service, and cash flow problems. How about profitability – are they hurting there? Not for the time being, because the petroleum industry is in one of its periodic booms. But booms are followed by busts, and one of those awaits Oil Patch Industries sometime in the future. When it arrives, good luck.

The Moral of the Story: Don't underestimate the potential problems with the gathering of the data necessary for Executive S&OP. Getting the data issues off the critical path is essential for success, and this can be particularly challenging in a large organization.

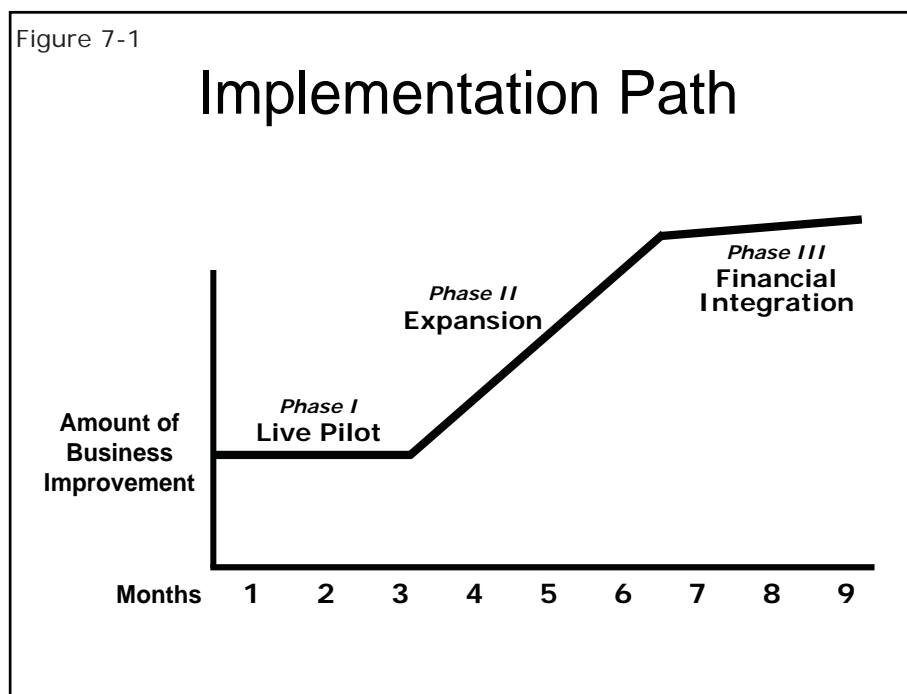
Further, the experience at Oil Patch points up the need for a strong Executive Champion; if the company had had one, that person could have gotten off to a better start and forced the data problems onto the CEO's radar screen by arguing persuasively for their solution.

Chapter 7

Executive Briefing and Go/No-Go Decision #1

Virtually all business processes center around people, and Executive S&OP is no exception. We, along with many of our colleagues, have been saying for years that people are the A item, as in ABC: the Pareto Principle. The B item is the data, and the computer hardware and software are the C item.

People are by far the most important element in Executive S&OP, and top management is the most important subset of the people category. Thus, a highly important early step is to address their needs via an Executive Briefing, as shown on the implementation path in Figure 7-1.



Before we get into the Executive Briefing in detail, we need to talk for a bit about a highly important resource.

The Executive S&OP Expert

In the pages that follow, we're going to recommend that you involve an Executive S&OP expert in your implementation efforts — for the initial Executive Briefing, for the education sessions to follow, and for the periodic status and progress checks during the implementation.

An Executive S&OP expert is someone who's been deeply involved in at least one — preferably multiple — successful Executive S&OP implementations. You may have an Executive S&OP expert working in your company, if that person has successful and meaningful Executive S&OP experience at a sister division or another company.

A good example concerns a guy named John. John was the COO at a company implementing Executive S&OP. John served as the Executive Champion (to be discussed in Chapter 8), and the company soon became very successful with the process. John subsequently left that company and became the CEO at a somewhat smaller firm. There, he successfully filled the role of Executive S&OP expert. He could do this because he had “been there.” He had experienced how to make it work. Interestingly, John also filled role of the Executive Champion, to be discussed later in this chapter.

More often, however, such a person will not be on board. Thus you'll need to obtain an Executive S&OP expert from among the ranks of consultants active in this field, most of whom are in the supply chain and resource planning fields. They are not rookies; they have many years of experience not only in operating jobs but also as consultants, and they are totally comfortable in communicating with top management. This last point is paramount because communicating with top management is the most important thing they do.

When you're talking to someone regarding an Executive Briefing, education sessions, or other Executive S&OP support, we recommend strongly that you check his or her references. You need positive answers to the following kinds of questions:

- Have you been involved in one or more implementations of Executive S&OP?
- How successful were those implementations?
- What were your roles in those implementations?
- Where were those implementations, and can I talk directly to people at those companies?
- Do you have a process, a methodology for implementing Executive S&OP?

If the answers to all these questions are positive, and if the companies being referenced confirm them, you should be in good shape. If not, look elsewhere.

Still some of you may still be thinking, “What's the big deal? This Executive S&OP stuff is simple.” Sure, the basic logic and process is, as we said at the start of Chapter 6. Thus, it's easy to get blindsided by the simplicity of Executive S&OP logic. Don't make the mistake of thinking that because it's not structurally complicated, it'll be easy to make it work. It won't.

Peter Tassi, formerly with the Ford Motor Company's Lean Manufacturing Center, said it superbly: “The soft stuff is the hard stuff.” He meant, of course, that the people issues are almost always tougher challenges than hardware, software, machinery, and so forth.

So, implementing Executive S&OP successfully is mostly about dealing with people issues and the most important role of the Executive S&OP expert is to help keep those people issues from becoming people problems and thus derailing the project.

Let's examine those potential people problems, which can be split into two categories: individual and organizational. Individual people problems include:

- Aversion to change
- A schedule that is too busy — or a perception of such
- Reluctance to share information and control
- Apprehension toward the new process
- An unwillingness by the president and staff to devote the time to review and understand the details that underlie Executive S&OP

And, of course, there are others. In the organizational category, here are the three problems we've seen most often:

- Discomfort with accountability: an aversion to hold people accountable for getting things done. Some organizations don't deal with this well and that can be a problem, because Executive S&OP puts a spotlight on accountability.
- A culture of conflict aversion, resulting in reluctance to raise problems and discuss them. The reason for this is often the informal practice of "shoot the messenger" — the person who raises the problem is seen as THE problem. Well, Executive S&OP forces conflict to be raised. It must be addressed in an atmosphere of comfort and positive energy. As former U.S. Senator Everett Dirksen said: "We have to learn how to disagree without becoming disagreeable." And . . . the organizational culture must promote such an atmosphere. Organizations must learn how to deal with conflict and to resolve it.
- Lack of discipline and self-discipline. In some companies, the prevailing mind-set is to do one's own thing. If that means not preparing for a meeting, or even not showing up for them . . . well, the corporate culture says that's okay. With Executive S&OP it's not okay; this is a cross-functional, highly interdependent, team-based process. The members of the various teams must be able to be counted on to do their part.

Most companies can expect to encounter some of these kinds of problems, both individual and organizational. All of the above issues will cause some form of discomfort and stress. To be successful, there must be a willingness to endure this discomfort and thus allow change to take place. Not dealing openly and effectively with these issues will prevent change from happening.

This is where the Executive S&OP expert comes in. Organizations most often need experienced, skilled help and facilitation to work through the process and the issues. The time to start working on problems is

when the Design Team (Core Team, to be covered shortly) gets assembled. If you can't make the culture change within the Design Team, it is unlikely that you'll be able to alter it throughout the organization.

Bottom line: most successful implementations have an Executive S&OP expert involved early in the implementation process and throughout it.

Executive Briefing — Making the Business Case

In almost all cases, the best way to get started with Executive S&OP is to conduct an initial briefing — at the executive level. This is a several-hour session facilitated by the Executive S&OP expert.

The purpose of the Executive Briefing is to transfer enough information about the process to enable the senior management group to:

- Understand the capabilities of Executive S&OP. They need to learn what it does, how it works (in very general terms), and what kinds of benefits companies have realized from using it.
- Match Executive S&OP's capabilities to their business problems. This is where the business case is made for Executive S&OP. Show actual performance data and ask what problems the company is experiencing in shipping to its customers on time, running the plants effectively, keeping finished goods inventories low and customer order backlogs in line. Which of these would get better if Executive S&OP were used well?
- Learn how Executive S&OP is different from current practices, even if the current process is already called S&OP.
- Understand how the process is best implemented and what will be required of each member personally.
- Make a decision to implement a live Executive S&OP Pilot within 90 days.¹

Some companies are reluctant to conduct such an Executive Briefing, because they think they already know all about Executive S&OP. Even if this is the case, and it rarely is, skipping this step is almost always a mistake. The Executive Briefing gains a *collective* and *common* understanding between and among executives. Not to do the Executive Briefing often results in surprises later that delay or derail the implementation.

Go/No-Go Decision #1

At the conclusion of the Executive Briefing, or shortly thereafter, a decision needs to be made: a) get started with Executive S&OP on a limited basis, or b) do not do it. This is practical because the Executive Team is now in a position to make a *semi-informed commitment* about going forward.

¹ To be done in parallel with existing practices.

Please note: this is not a decision to implement all of Executive S&OP. Rather, it's a commitment only to go to the next step: the development and execution of a 90-day Live Pilot of Executive S&OP, on one or several groups of products. As such, it carries low risk and low cost — two factors that are almost always appealing to top management.

Let's take a moment and discuss the three types of commitment, two of which we've seen already:

1. **Uninformed Commitment: Do an Executive Briefing.** Made prior to the Executive Briefing, with little or no knowledge of Executive S&OP. The Briefing moves the group to the next level.
2. **Semi-informed Commitment: Do a Live Pilot.** Made at, or shortly after, the Executive Briefing, now with some knowledge of Executive S&OP. This is Go/No-Go Decision #1: whether or not to go to the next step. Top management has not yet experienced Executive S&OP and thus should not be asked to risk a complete cutover. They are committing only limited resources to executing a Live Pilot.
3. **Fully Informed Commitment: Go to Full Cutover.** Made at the end of the Live Pilot. Now the executive group has seen the process in operation in their company, and they're fully equipped to make Go/No-Go Decision #2: whether or not to proceed with full implementation. Top management has now experienced Executive S&OP with their products, in their company, and with their people. This then becomes a low-risk decision.

In our experience, the answer to each sequential go/no-go decision is usually “yes, let's go to the next step.”

Stop the Bleeding

But sometimes the decision is “yes, let's go to the next step — but not right now.” We've seen this happen in companies experiencing serious problems, so serious that the business may be in jeopardy. In that case, it's often not practical to wait for Executive S&OP to be implemented; they need to fix the problem(s) *now*. Yes, these fixes will be only temporary and will probably not be ideal but they must be done.

There are three sets of activities on the table here:

1. Run the business and stop the bleeding.
2. Implement Executive S&OP.
3. Continue to implement other improvement initiatives already launched.

Our recommendation to a company in this situation is first to discontinue all of the improvement initiatives underway except for those that will contribute directly to stopping the bleeding. All others should be temporarily suspended.

Next, proceed with Executive S&OP only if the resources are available to run the business, stop the bleeding, *and* implement Executive S&OP. If not, defer it until the bleeding has stopped and the patient is stable.

Having said all that, most companies are not in such dire straits and so most of them say yes. We believe the main reason for this is that the inherent logic of Executive S&OP is valid and compelling; for most top management people it exerts a strong pull. It means doing things simpler and better — a powerful combination.

One of your authors recalls the CEO of a consumer packaged goods company, who upon learning about Executive S&OP at the Briefing said, “If we’d had this 25 years ago, I’d be a younger man. I’d have fewer scars — and more hair.”

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FREQUENTLY ASKED QUESTIONS

Some consulting firms advocate a “big bang” cutover — all families being brought on to Executive S&OP at the same time. Why don’t you guys recommend that?

Four reasons:

1. It carries a risk of disrupting the operation of the business. The company’s ability to ship product might be impaired.
2. It also has the risk of seriously damaging the implementation. People may get overwhelmed with the magnitude of the tasks. If Executive S&OP doesn’t work well the first one or two months, the company may give up and drop the process.
3. Executives dislike activities with high risk (as well as high cost). The pilot approach carries very little risk, and not a lot of monetary cost. There is a cost in the people’s time though, as we’ll see shortly.
4. You need the experiences of one family to do the next families better. If you do them all at once, you will do all of them only as well as the first. (Authors’ note: this is a corollary to the principle of being smarter tomorrow than we are today — and not having to apologize for it.)

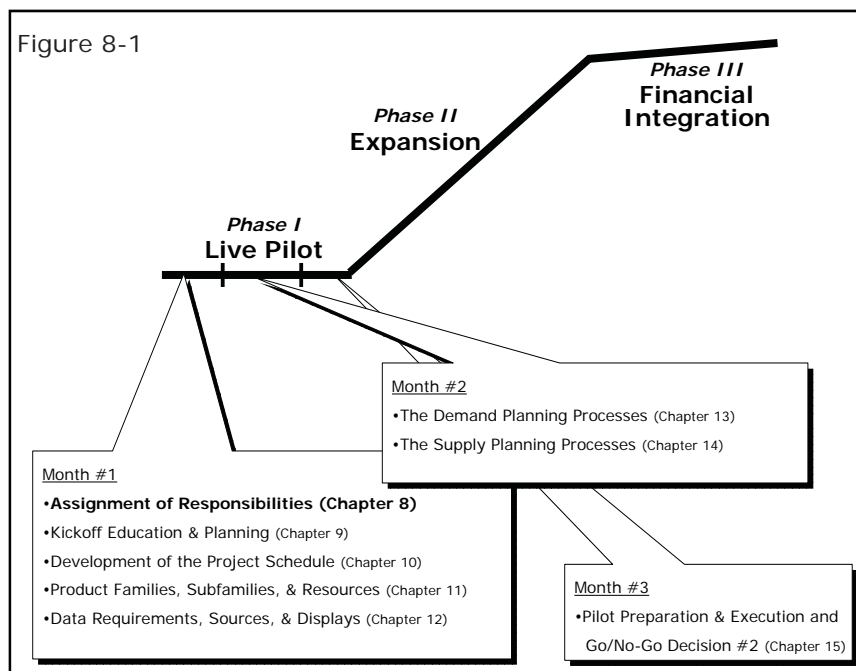
More on this in Chapter 15.

Chapter 8

Assignment of Responsibilities

Once a company makes the decision to proceed with a Live Pilot, many things need to be addressed.

Figure 8-1 is a more detailed version of the implementation diagram. It shows Month #1 of the Pilot period as being devoted to laying the foundation: selecting people, educating them, setting the project schedule, defining families, and determining data requirements. Month #2 is largely involved with developing the demand and supply planning processes that will be used, and the third month focuses on preparing and executing the Live Pilot.



The first item shown in Month 1 is Assignment of Responsibilities. As we said earlier, this can precede the Kickoff Event, or follow it shortly thereafter. The following is what needs to be addressed in terms of roles and responsibilities.

Executive Champion/Sponsor

From the outset, it's important to have one member of the top management team assigned to champion the Executive S&OP implementation. He or she can be a big help in:

- keeping executive attention focused on the initiative,
- removing impediments,

- acquiring needed resources,
- supporting the folks doing the heavy lifting.

He or she should be willing to provide leadership, spend some time, carry the flag for Executive S&OP and, in general, to get personally involved, to “put some skin in the game.”

Who should it be? In general, our first choice would be the President — provided he or she had the time and the inclination to do the job. If not the President, it should be one of the VP’s who reports directly to the President. Ideally the person selected should be enthusiastic about Executive S&OP and have a solid working relationship with the President. The person should be from one of the line departments: Sales, Marketing, Operations, Finance, Product Development. We’ve seen Executive Champions from all of those areas.

Despite this job’s importance, it’s not highly time consuming. It involves:

- mentoring and staying close to the Design Team Leader,
- providing support to the Design Team on tough issues,
- leading discussions with the Executive Staff on the status of the project, on getting commitment to the Executive S&OP Policy (to be covered in Chapter 16), and so forth.

The Design Team (Core Team, Project Team)

This is the group that will do most of the work necessary to make Executive S&OP a reality in the company. The Design Team is typically consists of eight to twelve people, including the Team Leader, covering all of the S&OP-related areas in the company. There may be some overlap: some people may represent more than one area or department.

The role of these people is to represent their home departments in designing how the Executive S&OP process will work in the company. Additionally, they will lead the change processes in their areas of the business. They also become task team leaders for specific tasks that have cross-functional participation and assure that proper resources are assigned to get the work done per the project schedule.

How much time is typically required of Design Team members? An average of about 20 percent, which equals eight hours per week. They’ll need to spend more time early in the project and less later.

Design Team Leader

The Design Team Leader chairs the team meetings, maintains the project schedule, and identifies problems to the Champion and the Executive Staff. In small to medium-sized companies (\$1 billion per year or less), this normally is not a full-time job. Expect it to take about 50 percent of an individual’s time and

thus you must do some sort of offloading to relieve this individual of about half of his or her workload for the duration of the project.

So what should this person's qualifications be, and from where in the organization should he or she come? It doesn't have to be a top management person, although we've seen that on occasion. Rather, it should be someone with solid managerial experience within functional departments of the company. Key attributes of the Design Team leader:

- Good people skills
- Proactive and well organized
- Able to lead a meeting effectively
- Knowledge of the business — the customers, the culture, the products, the process, the people, and last but definitely not least, the politics

This last point, knowledge of the business, is the reason that the Design Team Leader should not be someone from the outside. It would take a long time for an outsider to learn these critically important elements of the company and to earn the respect of the people — far longer than it would take an insider to learn the elements of Executive S&OP.

So where should the Design Team Leader come from? Our answer is the same as with the Executive Champion: Operations, Sales, Marketing, Finance, Product Development. Here again take your pick, with one caveat: it's best if the Design Team Leader and the Executive Champion come from different departments. This avoids sending an unintended message that this project resides in one department. One other caveat: neither the Champion nor the Design Team Leader should be from the IT department. This is not because these people aren't capable; it's because it sends a message that this is a "computer project." Nothing could be further from the truth.

A look ahead: frequently the Design Team Leader, following a successful implementation, transitions to become the Executive S&OP Process Owner. This is not a project role, but rather is a permanent position to oversee the operation of Executive S&OP. More on this in Chapter 16.

Spreadsheet Developer

You might find this curious — to include what may seem to be a rather mundane function. Perhaps, but we've learned the hard way not to overlook it. In Chapter 12, we'll get into the spreadsheet topic in depth, but for now let's just say that the odds are very high that your Executive S&OP data will be displayed by spreadsheet software, such as Excel™ or one of its worthy competitors.

What's involved here is both formatting the spreadsheets and extracting the data from the company's data sources, and this can be somewhat complex. It will be a fairly intensive effort during the early part of the Pilot development, and then again on several later occasions as further changes are made. A good rule of

thumb here is to expect to modify the format of your spreadsheets and graphs at least three or four times following the Live Pilot and during the Expansion phase.

One of the people assigned to the Design Team from a functional department may be able to handle both the data sourcing and the display. If so, they could fill this role of Spreadsheet Developer. If not, you'll probably need to acquire an IT person to fill that role and to serve on the Design Team. In short — you'll need an “Excel™ Wizard” — don't leave home without one.

Support from the Executive S&OP Expert

Here's some more good news; unlike some other initiatives, with Executive S&OP you won't need to have an army of outsiders — systems integrators, junior consultants, or whatever — swarming all over your company. On the other hand, as we said earlier, support from an Executive S&OP expert — truly an expert, from either inside or outside of the company — can be a big help in making this process work.

This expert's role is to:

- teach and thus help create a credible vision of the future,
- encourage,
- provide expert advice on the “technical” aspects — families, units of measure, formats, composition of the teams and so on,
- head off problems before they occur,
- help solve problems that have already occurred, and
- communicate directly with the President on problems, impediments, issues, and so forth.

In short, the expert's job is to help keep the project on the rails, to push — hard, if necessary — for visible progress each and every month so that the project doesn't stall out. Remember, we said earlier that this is a people project. The soft stuff is the hard stuff.

Not an enormous amount of the expert's time should be required to do this. Assume for a moment that you do not have an Executive S&OP expert within your organization. For a typical company, then, an average of a day or two every month or two, for about eight to ten months has proven to be adequate — with more days being applied early in the process and fewer later. If the expert is an outsider, make him or her part of the team. Keep your expert in the loop. Don't hesitate to communicate with that person frequently between visits.

Among companies that have used an Executive S&OP expert, the percentage of successful implementations is very high. Among companies that haven't done so, the success rate is much lower.

Report From The Field: The Homac Corporation

Company Description: Homac is a 45-year-old company, privately held, with about 400 employees and headquartered in Ormond Beach, Florida. Their products are electrical power delivery connectors and cable accessories primarily for the utility, construction, industrial and OEM marketplaces.

Their Experience: Homac's Executive S&OP efforts were initiated by Mark McGrane, President. They got off to a good start via an Executive Briefing, but struggled with the selection of the Design Team Leader. There just didn't seem to be a good choice from within the ranks of senior middle management, primarily for reasons of workload – not an uncommon situation in smaller companies.

One of the executives who could have filled the role of Executive Champion was Rick Hall, VP of Operations. Bob Stahl, their Executive S&OP Expert, raised the question: "Could someone from the executive staff be the Design Team Leader?" And further, "Rick's operations seem to be in very good shape; might he be a good choice to head up the Design Team?"

Well, they appointed Mark McGrane, the President, as Executive Champion and Rick Hall as Design Team Leader. It worked superbly. As it turned out, Rick was able to take on some of the Champion's tasks, due to his presence on the executive staff.

Homac has been extremely successful with Executive S&OP, and this is due in no small measure to the superb job by Vice President Rick Hall as Design Team Leader.

The Moral of the Story: Pick the very best people for the key roles of Executive Champion and Design Team Leader. If you don't, you'll probably be sorry; if you do, dividends will almost certainly follow.

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FREQUENTLY ASKED QUESTIONS

What about setting up a full-time and dedicated Executive S&OP project team or task force?

For businesses of average size and complexity, we've not found this to be necessary or helpful. To set up a central team or task force tends to eliminate or diminish the "ownership" factor by those who are running the business. What gets designed can become an imposition from "outsiders," is therefore less effective, and often fails to make any real change.

In large multi-divisional companies, the same principle is true — the more local business ownership, the better. While there may be some benefit to establishing a central project team or task force for setting corporate standards, the real decisions must be made by the people who have to make it work.