

## **Sales & Operations Planning in Non-Manufacturing Environments**

We're starting to see Sales & Operations Planning – both Executive S&OP and the mix elements – being used in organizations that don't make things.

### **Retail**

A number of major retailers – The Home Depot, Radio Shack, Coles-Myer in Australia, among others – have active Sales & Operations Planning projects under way or have already implemented the process. Why? Well, the logistics of retailing were simpler when most of the merchandise came from nearby. Today, however, a large volume of products are obtained from half a world away, and this means that the lead times to get product from the source to the store have lengthened a lot.

Furthermore, those lead times now are more variable due to potential transportation delays and disruptions. These companies are finding that Sales & Operations Planning is an effective tool to project demand for months into the future, to harmonize supply with it, and thus to better manage their inventories.

### **Designer/Distributors**

We're using this term to mean companies that design, market, distribute, and sell products – but don't produce them. They use contract manufacturers exclusively. The task here is the same as with company-owned plants: get the supply in sync with demand and provide good forward visibility.

Examples here abound, including many companies who sell electronic equipment. Microsoft also comes to mind; they've been using Executive S&OP for their X-Box business and also for computer hardware such as mice. Does it really matter who owns the plant that makes the product? Not really; demand and supply still have to be balanced.

### Process Design Groups

We are presently working on an Executive S&OP initiative for the central project and process design group within a major chemical company. It's responsible for billions of dollars per year of new plants (design and construction), and new equipment (design and acquisition). Demand comes from the operating divisions – the ones who make and sell products – and this demand can result from new products, growth in existing products, availability of new technologies and so on; it can vary greatly from year to year.

The supply side consists of skilled, highly trained engineers and project management people, and they are not always readily available. Thus the lead times over which demand must be projected can be quite long, so that the supply of the right people can be in place when needed.

The vice president/general manager of this business unit has had prior experience with Executive S&OP during a time when she ran an operating division. She says: "Executive S&OP is a perfect fit to help us balance project demand with the supply of trained people. We need this balance every bit as much as a production operation does."

Does it really matter whether the output of a given organization is a physical product or an “intellectual” product such as design specifications? Not really; demand and supply still have to be balanced.

## Banks

A major bank is reporting strong results from Sales & Operations Planning in its consumer loan business. Demand for loans can be variable, based on the season of the year, interest rates, economic conditions, consumer confidence levels, and so on. On the supply side, the processing of loan applications is people intensive: having too many people causes unnecessary costs while not having enough people impacts negatively on customer service, quality, and good will – and may result in lost business. The process helps them to balance the forecasted demand for loans to the supply of people to process them, with the appropriate lead times for hiring and training.

In short, Sales & Operations Planning is spreading into new areas. It's not just for manufacturing companies anymore.

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**FAQ:** *You said that with offshoring, lead times are longer and more variable. I can understand how they're longer, but why are they more variable?*

With offshoring, here's what has to happen after the product (or component) is finished:

1. It gets put in a container and loaded onto a truck.

2. The truck drives to the port where the container is taken off the truck and put on a ship.
3. The ship sails for thousands of miles to reach the port of arrival.
4. The container is taken off the ship and queues up for customs.
5. The container clears customs and is loaded onto a rail car.
6. The rail car travels for hundreds or thousands of miles, and then is put onto a truck.
7. The truck delivers the container to your facility.

Remember Murphy's Law: whatever can go wrong, will go wrong. In the above scenario, there are lots of opportunities for things to go wrong including delays, damage, losing an entire shipment, and so forth. They're all unpredictable and they all add time.

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Coming up next are two chapters on implementation: how to make it happen.