



## HOW S&OP CHANGES CORPORATE CULTURE: RESULTS FROM INTERVIEWS WITH SEVEN COMPANIES

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**PREVIEW.** *John Mello and Bob Stahl have each contributed many publications about the Sales and Operations Planning process and its dependence on changes in corporate culture. For this article, they have teamed up to examine the cultural impact of S&OP in seven companies, interviewing individuals who were present before and after S&OP implementations. The interview results reveal remarkable changes in corporate culture and greater satisfaction with corporate performance.*

**DEFINITION.** *The term “S&OP” used throughout this piece refers to Executive S&OP, the aggregate, executive-led part of the overall Sales and Operations Planning process. See Bob Stahl’s most recent column (Stahl, 2010) for an overview of the entire S&OP process.*

### INTRODUCTION

Several of our previous *Foresight* articles (Mello, 2010 and Stahl, 2009 and 2010) emphasized the importance of corporate culture in the S&OP process. We both have argued that successful execution requires collaboration, trust, openness, and an environment in which departments and individuals accept responsibility. For S&OP to succeed, functional teams must communicate, share data, strive for consensus, and plan to achieve common sets of objectives. This can often mean doing things differently than they have been done before.

For this article, we teamed up to investigate the cultural changes that organizations have seen as a result of the implementation of an S&OP process. We conducted interviews in seven companies that were selected based on their success in establishing an effective S&OP process. Each of the selected companies achieved significant benefits in customer service, inventory reduction, productivity improvement, and risk abatement. Our interview questions sought to focus on the

potential soft benefits that can emerge from cultural change, such as improved collaboration and collegiality.

Individual participants were chosen primarily because they were intimately involved in the implementation of S&OP and closely familiar with the culture of their organizations before and after the implementation. Participants included representatives from operations, supply chain, marketing, human resources, and production planning. Most were from the VP level or higher, but several were from middle management.

What we learned from talking to these people confirmed our belief that S&OP can indeed change behaviors in companies in a positive manner. What we have set down in this article represents the actual experiences of people seeing cultural change resulting within their own companies due to this process.

### PRE-S&OP CULTURES

The interviews turned up a good deal of commonality on what company culture was

## Key Points

- We conducted interviews with individuals from seven companies, selected on the basis of successful implementation of an S&OP process. These interviews pointed to an S&OP transformation of corporate culture.
- Dissatisfaction with pre-S&OP culture included lack of management involvement in forecasting and planning, inadequate data input, prevalence of silo mentalities, and reactive rather than proactive decision making.
- Post S&OP implementation, companies saw improved interdepartmental collaboration, more openness and trust, better accountability, more data-driven decision making, and increased satisfaction with many areas of company performance.
- The cultural challenge is changing not just what you do, but changing how you behave within the entire organization.

like prior to the implementation of S&OP. Repeatedly we heard about:

- lack of involvement of top management
- acceptance of poor data used for the forecasts
- silo mentalities that inhibited interdepartmental cooperation and collaboration
- reactive instead of proactive decision making

Here are a few examples of each.

### *Lack of Involvement in Forecasting*

One company president reported a lack of top-management participation:

Executives wouldn't have been involved; for example, the CFO or the general manager would not have been involved...they really didn't participate in the makeup and the commitment to the schedule.

The actions and attitudes of top management often set the tone for lower-level employees. In this company, the lack of interest in forecasting trickled down to where "people in the trenches weren't paying too much attention to the forecast; they were just looking at tomorrow." Top management

shaped the behavioral norms of the company and created a culture of indifference toward the forecasting process.

### *Acceptance of Poor Data*

A marketing manager reported a failure to ensure that the data coming into the forecast had been thoroughly checked for accuracy: "We based all of our production planning on the salesperson's forecast. The forecast was never really scrubbed by anyone internally."

Lack of attention to data detail caused the acceptance of questionable data sources, which created subsequent problems. A general manager indicated that "tribal knowledge" and "anecdotal stories" provided the data input for forecasting and that this led to "... chaos, in the formulation of the production plan."

### *Silo Mentality*

A human-resources manager revealed that, prior to S&OP, the functional units worked independently, and "the focus was more on functional differences." The director of operations from the same company talked about the impact this had on the business:

The goals and objectives weren't particularly aligned. Both groups knew that, but there was no process to help those two groups stop doing what they knew they shouldn't be doing to each other.

A business-unit manager brought up lack of coordination on demand and supply decisions as another example of the silo mentality:

Some of the problems that you used to see [are] where marketing might think they can sell 2 million pieces of something, and the finance team doesn't want to overcommit so they're only going to budget for 1 1/2 million pieces, but the production team wants to make everybody happy and over-deliver, so they're going to build 2 1/2 million pieces. You know everybody's trying to do a good job and protect their area without having that tie into a single plan, a single financial objective, and collaborating to achieve that.

A production-planning manager told us that “prior to S&OP we could be cruising along on the operations side trying to meet what we thought was a forecast for the month, and find out halfway through the month that the financial department had actually turned in a different forecast.”

A common occurrence in a silo culture is game playing. A brand manager described an instance of production changing the plan because they did not believe the forecast. This is what we call the “I know best” game, in which a functional area changes forecasts based on their own opinion rather than a consensus forecast.

A business-unit general manager talked about the “hedging” game, which involves adding more demand to the forecast “just in case”: “We were layering pad upon pad upon pad; sometimes that resulted in having \$3 million too much inventory on an item because so many people have padded the forecast.”

We can see from these examples that a company tolerating a culture of independent functional silos runs the risk of dysfunctional behaviors, hurting company performance.

### **Reactive Decision Making**

A VP of global supply chain described the “fire drill” condition at his company:

Before S&OP it was a fire drill – short-term reaction to either an up- or downswing in demand, so we’re either killing everybody to jam more product through if we’ve under-forecast it, or we’re out there shutting off machines if all of a sudden demand doesn’t come through.

This company failed to lay out a consensus plan, one that incorporates the “three-legged stool” of the Market View, the Customer View, and the Historically Modeled View, all reconciled into a single company forecast. As a result, the business was thrown into reaction mode, which can result in serious mismatches between demand and supply. The mismatch can be especially pronounced in seasonal businesses, as one company president related:

When I took over as the group president, we had a late season and had an awful June and so they decided to shut everything off. And then they had the biggest August in the history of the business.

The four negative attributes illustrated here – lack of management involvement in forecasting, acceptance of poor data, silo mentalities, and reactive instead of proactive decision making – foster behaviors detrimental to forecasting and matching supply with demand. Of major interest to us was whether these cultural drawbacks were overcome with implementation of the S&OP process.

## **POST-S&OP CULTURES**

In every one of the seven companies surveyed, we were told that “remarkable” behavioral changes occurred as a result of S&OP implementation. The new S&OP culture had these major attributes:

- inter-functional collaboration, with openness and trust between departments replacing the silo mentality
- data-driven decision making
- higher levels of accountability
- proactive approaches to demand and supply issues

### **Inter-functional Collaboration**

The change most often described was improved collaboration between functions. As a human-resources manager put it, “If I were to define a key ingredient or a key indicator of an S&OP culture, I would start with the term ‘collaborative.’” Collaboration requires a change in the way people think about working together and a willingness to focus on what is best for the company rather than for the individual departments. A production-planning manager said:

To me an S&OP culture means, number one, that it’s okay to disagree and discuss, that the goal is to reach consensus, that the goal is to achieve the best overall plan for a company, even though that is almost never the best plan for each department at a given point in time.

Another key to collaboration is consensus decision making. This means that at the end of the S&OP process, adhering to the plan is achieved and, as an S&OP manager put it, “we have our parts to play but we’re all going to hold hands and agree.” In an S&OP culture, all departments enter into discussions in a constructive manner; never, as a general manager put it, “saying one thing in a meeting, rolling your eyes, walking out and doing something different.” People talked about how the S&OP process changed attitudes between departments, making “us all feel more like a team” and that “we’re all kind of in it together, singing from the same sheet of music.”



Collaboration and consensus require openness and a willingness to “disagree without being disagreeable.” S&OP created what a human-resources manager described as a “safe environment for people” in which “you could ask any question, you could put any challenge out there.”

This safe environment is one in which the focus is on resolving problems, not on punishing people. As a VP of supply chain noted, “Basically people are more willing to elevate issues quickly because they know that instead of focusing on the bearer of bad news the focus is going to be on ‘How do we solve the problem?’” This attitude allows for robust arguments without fear of retribution.

Another aspect of openness is that there are no hidden agendas and no game playing permitted. The same VP of supply chain describes this culture as an “honest and truthful environment” in which no elements of information are held back from the rest of the company. A result of this cultural change is an elevation in the level of trust between departments and people, and this in turn fosters collaboration throughout the company.

### *Data-driven Decision Making*

Another common cultural benefit of S&OP was the emergence of data-driven decision making. An S&OP manager noted that decisions are no longer based on opinion, force of personality, or who can yell the loudest: “It’s not about who has the most power in the room, it’s about who has the best information.”

A production planner echoed this when she said, “For us, the most important thing is the facts.” This focus on data makes for an open, constructive approach to making decisions based on fact, “not on what someone thinks they can do or what someone wishes someone could do.”

A company president related how this new focus helps his company make decisions and stay on plan:

S&OP culture is where everyone is on the same page, you have robust dialog based upon data and informed opinion, not uninformed opinion, and that robust dialog becomes heated at times but it’s always about the data, and then you come out with a game plan that everybody executes against.

Since the information at the S&OP meetings is there for everyone to see and question, and everyone knows that decisions will be made based on that information, there is great incentive for anyone responsible for the data to make sure that the information is as accurate and objective as possible. This allows the meeting to focus on solutions rather than the perspectives of the various company functions.

### **Responsibility and Accountability**

Those interviewed reported an increased sense of responsibility for the plans coming out of the S&OP process. A business-process owner told us:

There is now a greater sense of responsibility to be in alignment and be in sync, and to come to that integration meeting understanding what the demand issues are, what the supply issues are, and how you're going to come together that month.

Along with a greater sense of responsibility comes a greater accountability for input into the process and the decisions coming out of it. Some of this stems from the additional scrutiny given departmental performance and how closely it conforms to the plan upon which they agreed. A VP of sales offered this example:

Once we started the S&OP process, one of the things that we started doing is to say, "Okay, you national sales managers are telling me this is what you guys sold. How does that compare to the S&OP plan we put together with the demand and supply teams?"

Because all departments began to have input to the plan and are part of the consensus agreement that created the plan, the various functions know they will be held accountable for what they commit to, removing any incentives for game playing or operating under a different set of numbers than those used by other functions in the company.

### **Proactive Decision Making**

Another important change in behavior noted by participants was a shift from reactive to proactive decision making on demand and supply issues. As a VP of global supply chain expressed it, S&OP has given his company the ability to anticipate problems earlier and devise plans to deal with them:

I think the biggest thing is that problems come to light earlier...and it's amazing to see by looking out farther at the aggregate level you can make decisions that give you flexibility when the short term arrives. So

it's definitely been helpful in that, when those things come up, we've usually got some things that we can do to reallocate capacity or to bring additional capacity on-line in order to respond to those shorter-term needs.

This type of observation was echoed by a VP of operations, who discussed how the ability to be proactive helped his company:

[S&OP] helped the business by fostering more discussion and more action to create proactive activities that improved the condition of the business. So sales people were looking at how do I deliver something different than just what the trend says I'm going to deliver, and operational folks were expected to be in front of those trends rather than behind.

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In summary, the major cultural changes attributed to S&OP included inter-functional collaboration, data-driven decision making, openness and trust between departments, higher levels of accountability, and proactive decision making. These new traits mark a significant change in behavior compared to pre-S&OP cultures. In the majority of our companies, demand and supply planning moved from a dysfunctional, often detrimental process, to one that the companies felt very positive about. The positive feeling came not only from improvement in behavior, such as increased cooperation between departments, but also in the belief that overall company performance had improved.

### **CONCLUSIONS: THE BENEFITS OF AN S&OP CULTURE**

Cultural change can be difficult to achieve, and often goes in directions other than those intended by company leaders. However, as

many of our participants noted, when change occurs in the right direction the results can be excellent. From what we learned in our interviews, the implementation of S&OP brought about many beneficial changes to their culture:

- far more serious involvement with the demand and supply process at all levels



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- better understanding and communication between functions
- improved alignment of departmental goals – game playing reduced or eliminated
- decisions driven by data rather than opinion
- less animosity and finger pointing between functions
- decisions made more quickly and in a more proactive manner

Certainly not least, we heard that company performance had improved. Participants talked about better budgeting and long-term planning, heightened customer service with less inventory investment, higher sales revenue, greater profitability, and a higher degree of optimism about company prospects. As one general manager said, "[T]he business result has led to the culture of the company being optimistic and positively minded, as opposed to pessimistic" – the way it used to be.

The logic and mechanics of S&OP are simple, but making the process work is not an exercise in technology; it is mostly change management and process improvement. It does not involve gaining improvement by taking what you have always done and doing it better, but rather by doing something different to be better. Therein lies the challenge: changing not just what you do, but changing how you behave within the entire organization.

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