

## Success criteria for Sales & Operations Planning

### Perceived gap between importance and current level

Stentoft, Jan

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# SUCCESS CRITERIA FOR SALES & OPERATIONS PLANNING:

## PERCEIVED GAP BETWEEN IMPORTANCE AND CURRENT LEVEL



By **Jan Stentoft**, Professor at Department of Entrepreneurship and Relationship Management, University of Southern Denmark



### DANSK RESUMÉ

Denne artikel præsenterer resultaterne fra en mini-undersøgelse, der beskæftiger sig med S&OP. Vi kigger blandt andet nærmere på, hvor langt forskellige danske virksomheder er kommet med implementeringen af S&OP, præstationstiltag i S&OP-processen samt rapporterede succeskriterier.

Artiklen er en del af en lang række undersøgelser lavet af DILF og SDU, der har fokus på forskellige områder inden for supply chain management.

/Redaktionen

Each year, DILF and researchers from the Department of Entrepreneurship and Relationship Management at SDU in Kolding conduct several mini surveys focusing on different supply chain management issues. Respondents to these mini-surveys are voluntary senior managers from various Danish companies represented as the Danish Supply Chain Panel. This article presents the results of a mini-survey dealing with Sales & Operations Planning.

### INTRODUCTION

Sales and Operations Planning (S&OP) is a cross-functional process that integrates different business plans into one plan to balance supply and demand and to build bridges between strategic and operational plans of the firm. S&OP operates on a tactical planning horizon (typically 3-24 months). The cross-functional process can help companies tear down the well-known silos by bringing sales and operations staff together to get a common language and view on how to balance demand and supply. The challenge in many companies is that the different plans lack a common language; sales speaks in turnover; production speaks in units/volume and the CEO wants to see an overall budget.

S&OP is relevant for all types of enterprises that need to balance the demand and supply of goods and services capacity. The various actors in the supply chain such as manufacturers, retailers, wholesalers, carriers, service companies might benefit from S&OP: Recent research has found that S&OP not only is a process being relevant for large companies but also for small and medium-sized enterprises as well as a focus on behavioral aspects in the process can improve the process efficiency (Stentoft et al., 2019a).

S&OP normally follows a monthly process consisting of five main steps: 1) data gathering, 2) demand planning, 3) supply planning, 4) pre-meeting, and 5) S&OP decision meeting. However, the duration of the process-cycle depends much upon the industry clockspeed. Clockspeed refers to the rate at which a company introduces new products, processes, and organizational structures. Thus, some companies are operating in very high clockspeed industries and may operate with planning cycles of 14 days (or even lower) and other companies with an S&OP cycle of a quarter in lower clockspeed industries. There are a number of benefits for companies that have implemented S&OP which cover the needs for three major stakeholder groups: 1) Sales, 2) Operations, and 3) Finance. If implemented and managed well, an S&OP process can contribute to growing sales e.g.

through improved deliveries, reduced stock-outs, and improved new product launches. The process can also reduce cost consumptions to material, freight, and obsolescence due to better and aligned planning. Finally, the finance department will be able to experience reduced stock levels and improved networking capital. It is important to notice, that even a well-managed S&OP process may experience imbalances in demand and supply, but the process can then help to make better conscious and informed decisions in a controlled process.

In this mini-survey, we focus on the S&OP practices among the members of the Danish Supply Chain Panel. 64% of the respondents report they have a formal S&OP in operation. Major reasons for not having implemented S&OP are reported to lack of human resources and lack of S&OP readiness. The respondents from companies that do not have a formal S&OP also report that it is not caused by a lack of need. The following analyses rest on the answers from the panel members that have implemented an S&OP process.

### STATUS OF THE IMPLEMENTED S&OP PROCESS

The respondents have been asked to evaluate several questions concerning their current S&OP process, where they should rate their degree of agreeing on a five-point Likert-scale (1 = to a very low degree and 5 = to a very high degree). Figure 1 contains the results of five questions related to the current S&OP processes in operation. The respondents generally, perceive that their processes are in operation with sufficient support from top management with an average of 3,63. This is in line with the extant literature that underpin this among the utmost important success criteria.

The respondents do also, in general, perceive that their behavior is related to the fulfillment of the objectives in the S&OP process with an average of 3,58. Surprisingly, S&OP only contributes to reduce a silo culture with an average of 3,21. This might be caused by how the KPIs are defined (if any is defined) in the companies that perhaps

still sustain silo orientation. The respondents also indicate a need to make the objective of the S&OP clearer with an average of 3,11. It might indicate a lack of S&OP KPIs adjacent to silo KPIs. Finally, data reveals that there seems to be a need for an improved marketing task of making the S&OP process more visible in the organization with an average of only 2,84. Such visibility can take form on reporting how the S&OP process contributes to performance parameters concerning sales growth, cost reductions, and on reducing networking capital which e.g. can appear on the companies' intranets.

### PERFORMANCE MEASURES

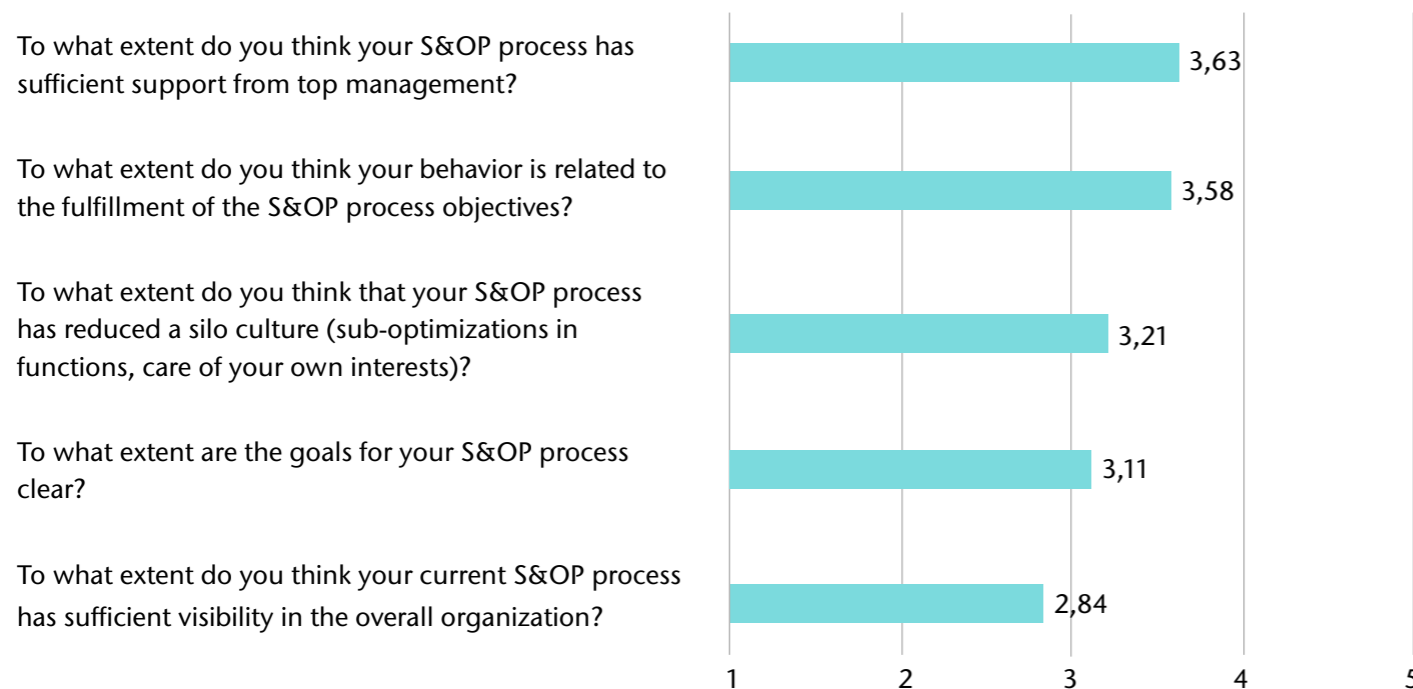
As mentioned in the previous section, the results indicated potential improvement areas on linking the S&OP much stronger to performance. In this section, the answers to such performance perceptions are discussed. As shown in Figure 2, the data reveal that there exists a need to link the S&OP process stronger with Key Performance Indicators (KPIs). The average value for linking the S&OP with performance obtains only an average of 2,58 on a five-point Likert-scale.

It is interesting to see that the respondents perceive that Key Behavioral Indicators (KBIs) to a higher

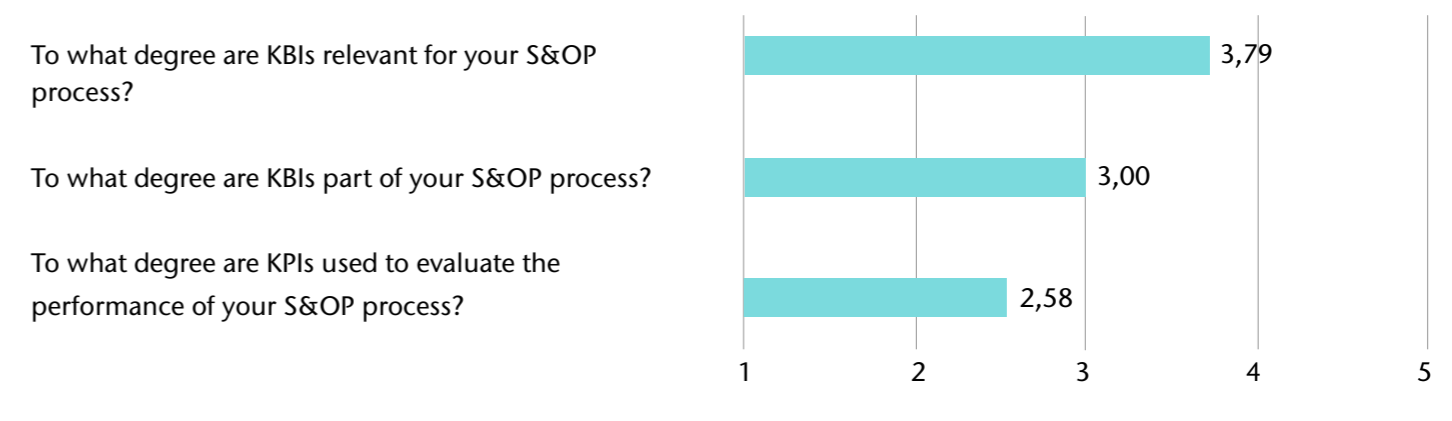
degree are part of the S&OP than KPIs and that they even believe there is much more relevance in it compared to their current focus. KBIs are concerned with a particular focus on the desired behavior by people operating in internal and external business processes. Moreover, KBIs can be implemented to focus on good and proper behavior, supported by the values on which your company is built (Stentoft et al., 2019a). KBIs complements the traditional Key Performance Indicators (KPIs) (Stentoft et al., 2019b). KBIs can be individual, between two persons or team focused. As such they are easier to implement than KPIs, but they should, however, support the KPIs.

Figure 3 shows how the respondents perceive how well their S&OP process is related to three performance areas in the companies. The highest average is obtained for the link to sales performance with an average of 3,16 followed by cost performance with an average of 2,95 and a financial performance of 2,74. Sales performance may be the easiest area to get impressions of the S&OP effect through the voices of the customers. Cost performance is dependent on how well the cost accounting system is constructed in the company. Finally, the low average of financial performance may be caused by the difficulty to assign S&OP

**FIGURE 1.** STATUS OF THE IMPLEMENTED S&OP PROCESS



**FIGURE 2.** PERFORMANCE MEASURES IN THE S&OP PROCESS



activities directly to the financial performance that also will be influenced by other company initiatives. This result supports new research at SDU in this area which currently is in the publication process.

### REPORTED SUCCESS CRITERIA

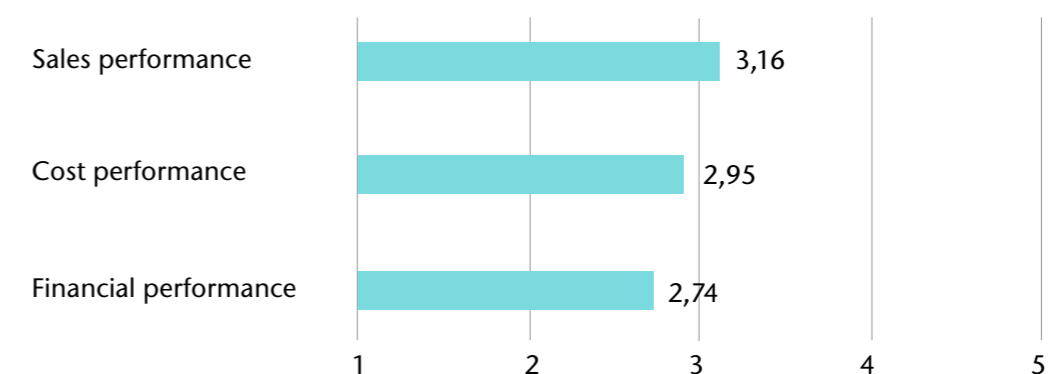
The panel members have been asked to evaluate several listed success criteria for S&OP that have been reported in the extant literature. For each success criteria, the respondents should both evaluate the relevance of the criteria and to which degree they perceive that it is fulfilled in their organizations. A general result is that for all listed success criteria there is a perception that the relevance is judged higher than their current level. This is a result we, in general, see in these mini-surveys in the Danish Supply Chain Panel. It witnesses to a general perception that there is always room for improving the ongoing practice.

However, as we shall see, the gap is for some success criteria quite high indicating special focus

areas that might improve the S&OP process. The top five listed success criteria measured in the respondents' perceptions of relevance are 1) clear roles and responsibilities among the participants, 2) cross-functional participation, 3) appointment of a process owner, 4) assigned the necessary organizational resources, and 5) accountability among the participants. The top five criteria obtain mean values above 3,70. The top five success criteria also obtain relatively high gaps between perceived relevance and present level from 0,63 to 0,84. Especially, assigning the necessary resources seems to be a development area, but is, however, an area that typically obtains high gaps. Resource scarcity is a well-known phenomenon.

Working with clear roles and responsibilities is the success criteria that obtains the highest average measured in terms of perceived presence (3,32). Thus, a little over "to some degree". In general, the perception of the present practice does not obtain overwhelming high averages which again indicates

**FIGURE 3.** PERCEPTIONS OF RELATIONSHIPS BETWEEN S&OP AND PERFORMANCE



**FIGURE 4.** SUCCESS CRITERIA FOR S&OP



a need to revisit the S&OP process to determine whether adjustments are needed.

Finally, the highest gap is present for proper communication of 1,05 (3,68 – 2,63), which indicates the relevance of focusing on the before-mentioned KBIs. Implementation of KBIs obtains a gap of 0,68 (3,05 – 2,37) together with education and training in S&OP that also obtain a gap of 0,68 (3,37 – 2,68).

**CONCLUSION**

This article has focused on the success criteria for implementing S&OP. The respondents acknowledge the importance of top management support and a focus on KBIs in their ongoing processes. Surprisingly, there is a low degree of S&OP KPIs and if used there is a higher focus on sales performance compared with the cost and financial performance. The respondents demonstrate to a certain degree that a focus on KBIs gain acceptance. Concerning the evaluation of the success criteria for S&OP, it is evident that the perceived importance for all criteria obtains higher averages than the perceived, present level. Major success criteria based on data from this mini-survey are: 1) clear roles and responsibilities among the participants, 2) cross-functional participation, 3) appointment of a process owner, 4) assigned the necessary organizational resources, and 5) accountability among the participants.

The results of this mini-survey reveal several improvement areas of the ongoing S&OP processes. For each company, the S&OP process needs to be revisited within e.g. every year to evaluate whether it still reflects actual practice (see e.g. tools at [www.salesandoperationsplanning.dk](http://www.salesandoperationsplanning.dk)). The business environment is dynamic which may require changed requirements for the S&OP process. Therefore, S&OP evaluation processes are healthy and might be a good investment. /

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