As this is a toolkit talk book there is more material here than would be provided to a CFO. The user should take what is applicable to their given situation and disregard what is not required.
Agenda

• S&OP Overview
• S&OP Shortcomings
• The transition to Integrated Business Planning (IBP)
• Q&A
Agenda

- S&OP Overview
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S&OP defined

Sales and Operations Planning is a set of processes to ensure day-to-day activities support higher level business plans through the balancing of supply and demand, and the integration of financial and operating plans.

Forecasted Demand

- Product A
- Product B
- Product C
- Product D

Combine All Demand

Rough-Cut Resource Plan

Impact on Resources
- Facilities
- Cost/Profits
- Work Force

Simulation of Alternatives

Financial Analysis

Integrated Sales and Operations Plan
S&OP foundations

Guiding principles

- **One forecast**, agreed upon by Marketing, Planning and Sales, drives the S&OP process
- **One unit of measure** (cases) provides common terms of discussion
- **Responsibilities and accountabilities** throughout the process are clearly defined and understood
- Capacity Planning Tools are used more extensively to **evaluate alternatives** for issue resolution
- All **key players participate** at the right moment in the process
- A clear set of **guidelines for decision-making** are used to resolve issues
- All process steps rely on **cross-functional teams**
- A high level of **communication and feedback**, lead to better mutual understanding

Critical process attributes

- A Complete, **Agreed-To** Forecast of Total Product **Demand**
- A Complete and Accurate Picture of Demonstrated Production Capacity and Current Inventory Status
- A Robust Operation Planning Process to Mesh Demand With Capacity
The monthly S&OP cycle

1. **Pre-Work**
   - Demand
     - Perform. Review
   - Supply
     - Perform. Review

2. **Demand Agreement**
   - Demand Agreement Meeting

3. **Supply Planning and Issue Resolution**
   - Capacity Modeling and Output Analysis by line
   - Pre-S&OP Meetings by SBU
   - SBU S&OP Meetings
   - S&OP Executive Meeting

4. **Pre-S&OP**
   - No Issues
   - Issue Res.

5. **S&OP**

6. **Execution**
   - Execute Plan (All)

**Key**
- Meeting
- Separate
- Doc. Process
- Software

**Monthly Cycle**
- Begin Pre-Work
- Demand Agreement Meetings
- Plant Review Meetings
- Pre-S&OP Meetings
- SBU S&OP Meetings
- Executive S&OP
Putting people in place to drive the process

DETAILED ROLES AND RESPONSIBILITIES

Roles and Responsibilities of Key Participants

- Sponsor of S&OP process—facilitates agreement between areas
- Responsible for CPO delivering all S&OP-related KPIs

- Calculates, reports, and presents slow and non-movers

- Supervises sales forecast quality
- Designs and executes all commercial activities reviewed in S&OP meeting

- Owns forecast accuracy KPI
- Constructs sales forecast jointly with product manager
- Follows up on action plan created in S&OP meeting
- Sends forecast to headquarters

Potential Emphasis in Participants' Role

<table>
<thead>
<tr>
<th>Product Availability</th>
<th>Inventory Levels</th>
<th>Speed to Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand manager expands focus on products with potential supply problems.</td>
<td>Head of Supply Chain heightens attention given to slow- and non-moving SKU's.</td>
<td>Trade head collaborates with various functions to accelerate new product introduction.</td>
</tr>
<tr>
<td>Meeting table devotes more time and more scrutiny to forecasts.</td>
<td>Product manager focuses more on products with short shelf life.</td>
<td>Participants across table may form ad hoc group to speed the launch of specific new products.</td>
</tr>
</tbody>
</table>
Benefits of getting S&OP right

**Marketing**
- Provides realistic, achievable numbers that are driven by business conditions
- Increases coordination with CM&P to increase consumer promotion effectiveness

**Customer Mkt. and Planning**
- Provides critical link to other functions to enhance promotional planning
- Reduces promotional out of stocks

**Enterprise Value**
- Clearly links the business plan with the operations of each department
- Evaluates whether financial expectations are in sync with current sales and operations plans
- Ensures issues are raised in an appropriate timeframe to have an impact
- Aligns cross-functional goals and objectives and drives cross-functional accountability with integrated metrics
- Eliminates “hidden” decisions
- Reduces required FTEs
- Reduces forecast variability

**Field Sales**
- Provides realistic, achievable targets that are driven by business conditions
- Increases coordination with marketing to improve in-market efficiency and effectiveness

**Supply Chain**
- Aligns capacity with demand to allow for asset optimization/rationalization
- Minimizes COPS by reducing unnecessary safety stock, schedule disruptions and inventory deployment

**Customer Service**
- Ensures Client can deliver volumes committed to its customers in the collaborative planning process
- Increases order fill rates by decreasing out of stock inventory
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The tension between demand and supply

S&OP processes often fail to coordinate tensions between supply and demand in a way that maximizes business objectives.

- Improve Service and Product Availability
- Reduce Inventory and Production Costs
## Causes of S&OP breakdowns

### Sample behaviors to achieve functional objectives

<table>
<thead>
<tr>
<th>Sales/Marketing</th>
<th>Procurement</th>
<th>Manufacturing</th>
<th>Logistics/distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time discounts and promotions to hit period end sales targets, regardless of impact on margins or potential for returns</td>
<td>Use discounted bulk purchases to drive down cost of inputs</td>
<td>Prioritize production around large batch sizes to drive down unit cost of outputs</td>
<td>Ensure channel partners have enough inventory in stock to meet demand while delaying shipment as long as possible to maximize economies of scale</td>
</tr>
</tbody>
</table>

### Metrics that drive behaviors

- Sales as a % of target
- Repeat sales
- Out-of-stock complaints
- Campaign penetration

- Unit cost reduction
- Procurement management costs as a % of sales
- Direct materials cost as % of COGS

- Unit cost of SKU
- Frozen period
- Cycle time
- Master schedule adherence

- Fill rate
- LTL and FTL shipments
- Premium transportation costs
- Stock outs
Effects of functional silos

All too frequently, Sales and Marketing functions are not tightly aligned with Manufacturing and Logistics.

Scenario 1
Sales and marketing submit overly-optimistic forecasts, and fail to share planned actions that will affect demand
- Sales and Marketing pad forecasts ahead of a new promotion
- Manufacturing achieves production plan based on forecast, but demand shortfall leaves it holding excess inventory

Scenario 2
Reactive production schedule changes are driven by “who screams the loudest”, not by economic justification
- Customer calls with an emergency order
- Product manager promises to fill order
- Production manager can’t fill all orders

Scenario 3
Products stocked in the wrong locations lead to delivery delays and unnecessary transportation costs
- Warehouse “A” has product XYZ
- Warehouse “B” needs product XYZ

Scenario 4
The optimal production mix is inconsistent with marketing and sales needs
- Plant wants to only make Product ABC
- Customers need both product ABC and XYZ
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The need to move beyond S&OP shortcomings to achieve agility

**What’s at Stake**

- The absence of a good integrated business planning process leads to a lack of management control and delayed decision making.
- Wall Street rewards predictability and organizations that can confidently connect sales, operations and sourcing with financial forecasting. If you cannot then there is a need to cancel all other initiatives and start with the basics.
- Strong integrated business planning, execution and monitoring will help ensure that your business can become “self-healing,” fix structural problems and drive step change improvements. This is fundamental and core to managing a successful business.

**What to Do**

- Start the critical task of implementing a good business planning process by sanitizing and standardizing the available data to create a uniform baseline from which to manage across the organization.
- Business planning and execution must be integrated across your entire business and managed for comprehensiveness, speed, structure, and most importantly, accountability. Take advantage of Finance’s unique position to effectively manage the integration between sales, operations, sourcing and performance management.

*Findings from the KPMG Share Forum on Financial Planning, Budgeting and Forecasting in March 2009*
Introduction to KPMG’s Integrated Business Planning Approach

KPMG Findings*

- Integrated Business Planning is a methodology to align an organization with the processes and tools necessary to make unified decisions and quickly react to changing needs.
- Provides a framework for aligning the financial planning processes more tightly with the supply chain and operations plans and processes.
- The absence of a good integrated business planning process leads to a lack of management control and delayed decision making. Finance and Operations not working together leads to organizations always playing catch up with the marketplace.
- Provides a unique approach that allows finance and supply chain to jointly manage the integration between sales, operations, marketing, sourcing and performance management.
- Tightly integrated business planning, execution and monitoring can help an enterprise become “self-healing,” fix structural problems and drive step change improvements.

* Findings from the KPMG Share Forum on Financial Planning, Budgeting and Forecasting in March 2009
The Lack of Integrated Business Planning is Best Highlighted by the Inability of Companies to “Hug the Demand Curve”

Lost market opportunity and loss in shareowner value can be significant if there is any latency when reacting to changes in demand or being unable to influence demand.

Organizations often do not consider scenarios to understand the financial impact of erratic or shifting sales and the corresponding influence on operational metrics. This results in excess costs, working capital and lost revenue.

At a single point in time it is not always obvious that problems exist. There is a need to look at a trend of the right indicators and often structural problems become more obvious.
What is Integrated Business Planning (IBP)?
Alignment Across all Business Stakeholders

Integrated Business Planning (IBP) is a process through which the executive team continually achieves focus, alignment and synchronization among all the functions of the organization.

- Finance is the recommended process owner
- Aligns execution and operational decisions with strategic corporate objectives
- Integrates executives, finance, sales and marketing as well as operations (manufacturing, planning, procurement, and logistics), engineering & design and IT
What is Integrated Business Planning (IBP)?

PECA Framework: The DNA of the Business that Allows for Planning, Execution & Monitoring While Aligning Strategy and Design to Each IBP Process Area

- With a Strategy and Design in place the supporting decision framework is to Plan-Execute-Compare-Adjust (PECA)
- Execute PECA cycles annually, quarterly, monthly, weekly and daily as per the IBP process area
- Analyze plan deviations and failures and revisit the Design where appropriate
- If the Design is valid, revisit the Strategy that drove the Design
- Fix any structural Strategy and Design problems and then execute the relevant PECA cycles as per the IBP process area
Plan-Execute-Compare-Adjust (PECA) is an iterative approach to decision making that supports the strategy and design laid out in the IBP framework.

1. **Create a Plan**
   - **Annual Schedule**
     - Quarterly: Q1, Q2, Q3, Q4
     - Monthly: 1, 2, 3
     - Weekly: 1, 2, 3, 4

2. **Execute the Plan**
   - Run the cycle
   - Compare Plan vs. Actual

3. **Compare Plan Vs. Actual**
   - Sales
     - Plan: $\ldots$
     - Actual: $\ldots$
     - Miss: $\ldots$
   - Operations
     - Plan: $\ldots$
     - Actual: $\ldots$
     - Miss: $\ldots$
   - Financial
     - Plan: $\ldots$
     - Actual: $\ldots$
     - Miss: $\ldots$

4. **Adjust Structural Deficiencies**
   - **Strategy & Design**
     - Vital Few
     - Focused Transformation
   - Execute PECA cycles annually, quarterly, monthly, weekly and daily per the IBP process area
   - Analyze plan deviations and failures, and revisit the Design where appropriate
   - If the Design is valid, revisit the Strategy that drove the Design
   - Fix any structural Strategy and Design problems, and then execute the relevant PECA cycles per the IBP process area

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How does IBP Work?
Comparisons from the PECA Framework should be Tied into Scorecards and Management reporting to Provide Early Insight into Business Adjustments

Stakeholders
- Board of Directors
- CEO/Executive Leadership
- BU Leadership and Customers
- Creditors and Analysts
- Auditors and Regulators
- Capital Markets
- Functional Leadership

Balance Sheet (Asset Efficiency)

Operational Drivers for Inventory

Financial Statements
- Balance Sheet
  - Investment
  - Working Capital
  - Accounts Receivable/Payable
  - Current Assets/Liabilities

Balance Sheet
- 2009
  - Inventory
  - Working Capital
  - Accounts Receivable/Payable
  - Current Assets/Liabilities
- 2008
  - Inventory
  - Working Capital
  - Accounts Receivable/Payable
  - Current Assets/Liabilities

Assets
- Current Assets
  - Cash and cash equivalents
  - Restricted cash
  - Accounts receivable, net
  - Inventories, net
  - Other current assets
  - Assets of discontinued operation held for sale
- Total Current Assets
- Restricted Cash
- Net Property, Plant and Equipment
- Goodwill
- Intangible Assets
- Other Assets
- Total Assets

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### How does IBP Work?
**What it is and What it is Not**

<table>
<thead>
<tr>
<th>What IBP is not</th>
<th>What IBP is</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Having meetings</td>
<td>• A process that involves meetings between finance, demand and supply groups but also has structure, reporting and accountability behind the process</td>
</tr>
<tr>
<td>• The implementation of an ERP or Advanced Planning System</td>
<td>• Technology is an enabler. IBP starts with ensuring the required process and people are in place and leverages technology to reduce manual effort and human error</td>
</tr>
<tr>
<td>• The considerations of just demand and supply</td>
<td>• Linking financial planning processes to the demand and supply balancing performed by sales and operations</td>
</tr>
<tr>
<td>• A process that plans and executes and keeps going in that loop</td>
<td>• It is not only planning and execution but the ability to compare and adjust. These steps are the most important stages in the IBP process, but are most frequently overlooked or not completed</td>
</tr>
<tr>
<td>• A process that takes the strategy from executives and tells the shop floor to just do what they can and let the finance people know once it is done</td>
<td>• The need to continually address strategy and design deficiencies as part of the normal business cycle in an effort to produce solid business performance in good times as well as bad</td>
</tr>
</tbody>
</table>
### Full IBP Process Decomposition

<table>
<thead>
<tr>
<th>Monthly/Weekly/Daily</th>
<th>Demand Management</th>
<th>Supply Management</th>
<th>Finance, Demand and Supply Balancing</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1 Collect Market Inputs and Feedback from Regions</td>
<td>8.1 Generate Material and Capacity Requirements Based on the Financial and Demand Forecast</td>
<td>9.1 Reconcile Finance, Demand and Supply Plans</td>
<td></td>
</tr>
<tr>
<td>7.2 Develop Demand Forecast Based on Approved Guidelines, Actual Sales and the Financial Forecast</td>
<td>8.2 Reconcile Material and Capacity Issues with the Appropriate Supply Groups</td>
<td>9.2 Review Responses From Supply Teams</td>
<td></td>
</tr>
<tr>
<td>7.3 Review and Approve Demand Forecast</td>
<td>8.3 Finalize and Approve Supply Plan</td>
<td>9.3 Evaluate Outcomes of Different Scenarios and Prepare for IBP Meeting</td>
<td></td>
</tr>
<tr>
<td>7.4 Communicate Demand Forecast to the Finance and Supply Groups</td>
<td>8.4 Communicate Supply Plan to the Finance and Demand Groups</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The IBP process architecture features a continual feedback loop whereby Demand, Supply and Finance work together to evaluate scenarios, reconcile forecasts, and then quickly arrive at a single plan.
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Questions?