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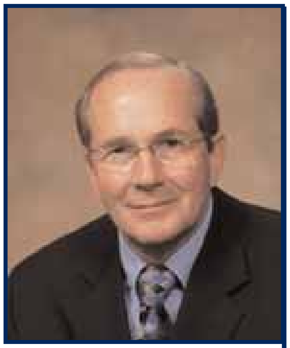
journey to business excellence

Linking CPFR® to S&OP

by Ron Ireland and Colleen Crum



Ron Ireland and Colleen Crum

Ron Ireland and Colleen Crum are principals with the Oliver Wight Companies. Both work with senior management of client companies to achieve results that provide a competitive advantage.

Ron is one of the pioneering visionaries for one of today's leading Value Chain Best Practices, CPFR®, Collaborative Planning Forecasting and Replenishment.

*Leading companies continue their migration towards best practices and emerging technologies as they strengthen their supply chain, both within their own corporation and externally with their trading partners. Two leading industry supply chain best practices are now being linked together to leverage what each does best -- **collaboration**.*

Collaborative Planning Forecasting and Replenishment (CPFR®) , the leading external trading partner collaboration Voluntary Interindustry Commerce Standard, and Sales and Operations Planning (S&OP), the leading internal collaboration process, are now being linked together to make each process even more effective.

The linkage between CPFR® and S&OP is the logical next step towards improving forecasted demand accuracy and the resulting supply capability collaboration. Andrew White, Senior Research Analyst, Gartner Group, stated at a VICS CPFR® Working Group meeting that the expectations from CPFR® are being multiplied as CPFR® is linked into S&OP.

George Palmatier, senior principal with Oliver Wight Americas and co-author of the book, Enterprise Sales and Operations Planning calls the internalization of trading partner data the "Pitch and the Catch." In the case of CPFR® and S&OP, the pitch and catch goes in both directions. Companies pitch valuable information, such as demand forecasts, point of sale data, and inventory positions through CPFR® to a trading partner to be caught in the demand planning process. This information is then internalized by incorporating it into the demand plan which then drives the S&OP process.

One purpose of S&OP is to synchronize demand, supply, and inventory. Once demand, supply, and inventory are synchronized, the demand information is pitched back to the trading partner by using the CPFR® Industry standard. In this way, trading partners understand one another's capabilities and needs and operate to a single set of demand numbers.

The Vision of Linking CPFR® to S&OP

When Wal-Mart first sponsored the creation of the VICS CPFR® Working Group in 1996, the vision was to continue to become more efficient and reduce the cost of goods sold within the entire supply chain. Sam Walton, the founder of Wal-Mart, held a long-time belief that by partnering with the vendors of Wal-Mart and by sharing information with them, better planning decisions would be made for the benefit of every business enterprise in the supply chain.

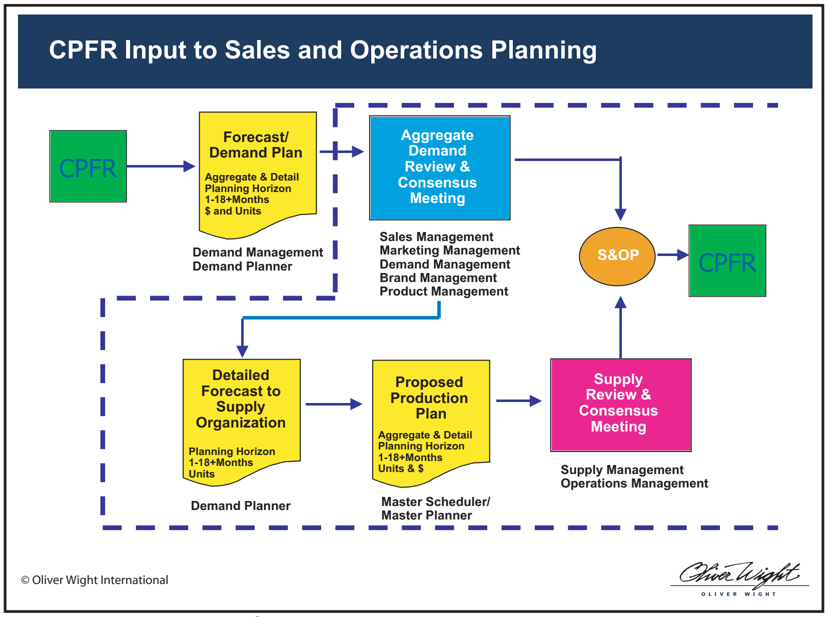


Figure 1

> "COMMUNICATE everything you possibly can to your partners. The more they know, the more they'll understand. The more they understand, the more they'll care. Once they care, there's no stopping them."
>
> Sam Walton, founder of Wal-Mart Stores, Inc.

Wal-Mart started sharing data with the trading partners through electronic data interchanges (EDI) in the 1980s. In the early 1990s, Wal-Mart developed its own private exchange called Retail Link. During this same time period, Wal-Mart pioneered the development of an automated, continuous replenishment system based on the fundamental principles of Efficient Consumer Response (ECR) and Distribution Resource Planning (DRP). A co-author of this paper, Ron Ireland, was hired by Wal-Mart to help design and lead the charge of external trading partner collaboration. Ron had participated in a Class A Manufacturing Resource Planning (MRP II) implementation in the aerospace industry. He leveraged this experience, including the internal collaboration concept of S&OP, to help develop Wal-Mart's external collaborative process, which led to the development of vendor forecasting as part of Wal-Mart's Retail Link.

Wal-Mart realized that vendors could substantially reduce the cost of goods sold if they could "internalize" the information from Retail Link. For vendors to truly optimize their internal supply chain, however, they would need other retailers to share information using some form of standardization. Retailers, such a JC Penney, Sears, Kmart, Federated, ACE, Rite Aid, and Target, as well as leading suppliers like Procter & Gamble, Nabisco, Warner-Lambert, SC Johnson, Kraft, Fruit of the Loom, Kimberly-Clark and Sara Lee, started the VICS CPFR® Working Group to develop the industry standard for external collaboration. As the effort has evolved, a long-term vision of linking CPFR® to S&OP has emerged.

Linking of CPFR® into S&OP

A best practice for demand planning is to use multiple sources of input in developing a demand plan. One source of input is from the customer or trading partner. This is where CPFR® is first linked into the S&OP process. As we all know, all customers will not participate in CPFR® programs, so other sources of demand input from areas such as sales and marketing and statistical forecasts are also needed to formulate a proposed demand plan for consensus as part of the S&OP process. It is interesting to note recent observations made by retailers and suppliers at an S&OP roundtable discussion at the VICS CPFR® Working Group. The general opinion of the group was that customer input from CPFR® is more accurate and reliable than the vendors' demand forecasts. These discussions concluded that the benefits gained by linking CPFR® into S&OP will be incremental. The more trading partners participate in a CPFR® program, the greater the benefit in the form of more accurate demand plans.

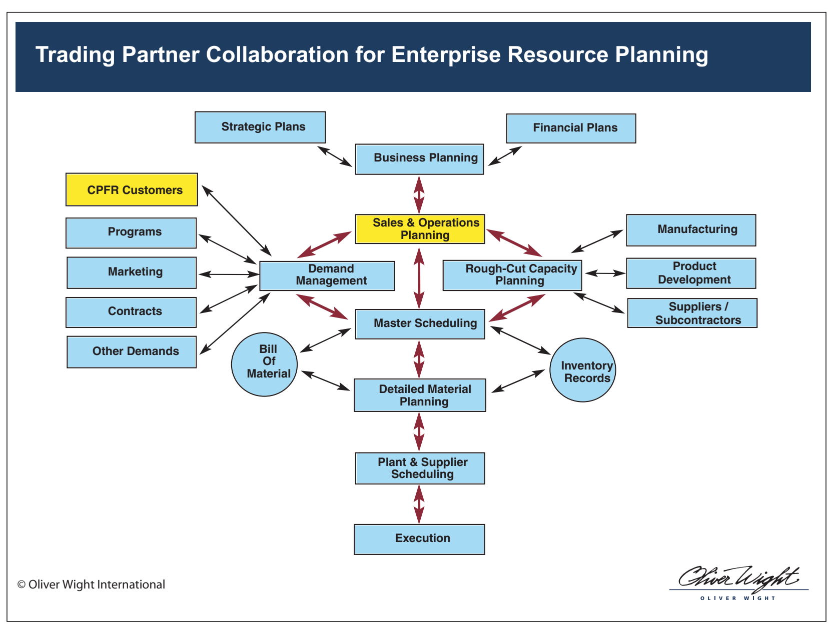


Figure 2

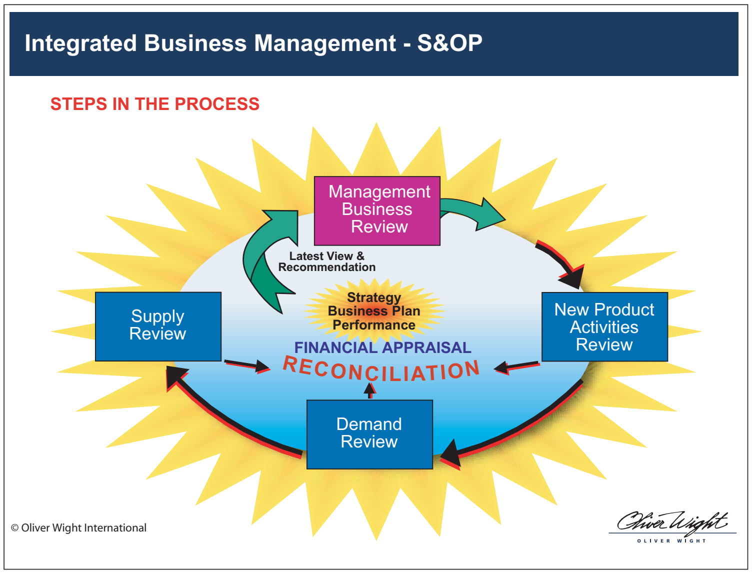


Figure 3

The information can be at an aggregate level that will be refined as time progresses and advances into the CPFR® near-term planning horizon.

The Value of Linking CPFR® with S&OP

The results of CPFR® and S&OP have been documented and published. For example, many CPFR® implementations have reported benefits such as:

Forecast improvements: 10% to 40%
In-stock improvements: 2% to 8%
Inventory reductions: 10% to 40%
Customer service improvements: 5% to 10%

The results reported from S&OP implementations include:

Customer service improvements: 18% to 25%
Productivity improvements: 13% to 20%
Purchase cost reductions: 9% to 13%
Inventory reduction: 21% to 30%

The S&OP process provides internal collaboration for new products, demand reviews, supply capabilities, financial goals and appraisal, and executive direction setting. An output of S&OP is a synchronized demand, supply, and financial plan over at least an 18-month planning horizon.

The internal collaboration and executive decision making provides valuable information that can be pitched back to the customer using CPFR®. Information that can be communicated back to trading partners includes new product plans, supply constraints, as well as demand creation decisions. When partners link CPFR® to S&OP, retailers benefit from getting early warning when there are demand and supply synchronization issues. Retailers and vendors then can work together to develop win-win solutions to these issues.

Retailers who depend on vendors for the introduction of private label products also can link up through S&OP to coordinate the product launch. An output from S&OP is a new product review to ensure that resources are available to support development of new products and the timing of supply availability for new products. When issues arise that could delay product availability, retailer and vendor can work together to develop solutions that are mutually acceptable. In the end, both retailer and vendor gain greater control of the business – and market – by using processes to ensure that demand, supply, and product development efforts are synchronized.

We are frequently asked how to link CPFR® and S&OP, given that their planning time horizons are usually different.

The planning horizon for CPFR® is typically near term -- in weeks and months. The planning horizon for S&OP covers at least 18 to 24 months in to the future. The two collaborative processes do not duplicate each other but end up complementing each other for a longer and more active planning horizon.

By contributing information on future plans over the complete S&OP planning horizon, retailers can ensure that their vendors know – and can plan for – their demand far enough in the future to determine early (and resolve) potential demand/supply synchronization issues. The information provided by the retailer that covers the longer S&OP planning horizon does not have to be at the same level of detail as the near-term information communicated as part of CPFR®.

Although we have not seen any documented, combined improvements in linking CPFR® with S&OP, it has long been recognized that the synergy of the two will add greater benefits and drive true win-win for partners. In fact, in the authors' experience, when vendors complain about gaining minimal or no benefit from CPFR® programs, most of the companies either do not utilize S&OP or do not feed customer information into their demand planning process as part of S&OP.

Collaboration makes good business sense. CPFR® is external collaboration. S&OP is internal collaboration. Companies – and supply chains – need both to optimize their profits. CPFR® and S&OP naturally complement each other and create stronger supply chain links.

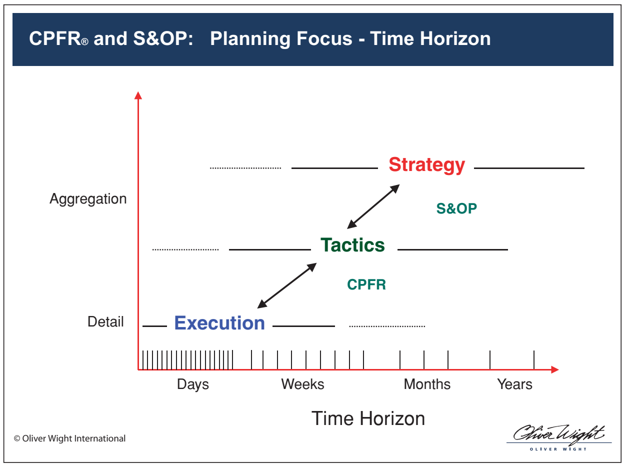


Figure 4

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In our experience and the experience of our clients, the stronger the supply chain links, the better the performance is across the supply chain, as measured by in-stocks, sales revenue increases, and profit improvements for all supply chain partners.

We suggest that you consider taking the next step in strengthening your supply chain by linking CPFR® with S&OP.

If you would like more information,
please give us a call at:
1-800-258-3862
or email us at:
info@oliverwight.com

Note: *A more detailed description of the topics contained within this document can be found in the books: Enterprise Sales and Operations Planning and Demand Management Best Practices by George E. Palmatier and Colleen Crum*

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Evolution of S&OP into Integrated Business Planning

an afterword

by Coco Crum

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Afterword

Sales and Operations Planning is evolving into what many companies are now calling Integrated Business Planning. It is no longer just a process for aligning product portfolio plans, demand plans, and strategic plans.

The key driver of this evolution is the benefits companies realize from integrating ALL company processes into an Integrated Business Planning process with which the executive team uses to manage the business.

The key differences between S&OP and Integrated Business Planning are:

- Greater financial integration across at least a 24-month planning horizon resulting in improved information for decision making and greater accountability.
- Financial performance metrics.
- Inclusion of strategic initiatives and activities in the monthly IPC management process, reinforcing that one primary management process is used to run the business.
- Improved modeling and simulations to help develop contingency plans for changing operating and financial parameters.
- Easier translation from detail information to aggregate and aggregate to detail enabling faster, more timely simulations and greater granularity of information for operations and finance.
- Improved decision making through an integrated reconciliation process to keep decisions at the lowest practical level.
- Improved trust throughout the management team with one process, clear accountabilities, and commitment to the behaviors required to ensure the Integrated Business Planning process is effective.

For more details on the differences between S&OP and Integrated Business Planning, please contact Oliver Wight Americas.