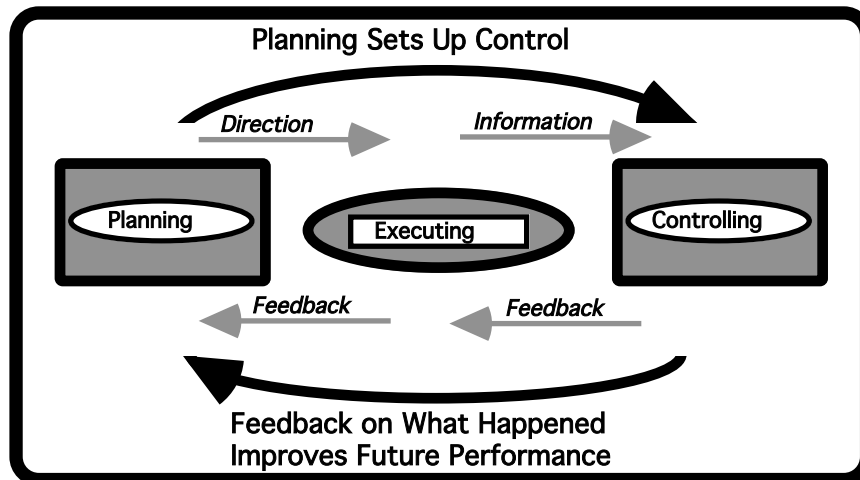


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Sales and Operations Planning



Introduction

This diagram that looks so simple has a lot of authority to it. What used to be able to be kept in the head of a person running a small business can get to be too much as that business gets larger. Without a system to replace the thought processes, there is no integrated scheme of things and control is lost.

Instead of one person, there are departments or at least different people planning for their areas of responsibility. Where once, one knew all, there are now several who see only their part.

For a company to succeed as it grows, it has to develop systems to do what people used to do when it was smaller.

MRP II is the abbreviation for Manufacturing Resource Planning. It is an integrated approach to business planning that integrates and involves all parts of the business. It is the way the connections that were lost with the establishment of separate planning, controlling and administrative activities are reconnected again.

Sales and Operations Planning is process that shows a sales plan and corresponding operations plan that reflect the business plan. It is the process that produces control.

Planning sets up control. Those with the most accurate picture of the future will be in the best position to capitalize on the opportunities as they see them. When you begin to lose accuracy in your picture of the future you begin to lose the timing necessary to bring resources into place to deal with today's events. Eventually you get to the point where it is too late to bring something in (i.e. inventory) to deal with the situation and the situation overwhelms you.

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Forecasting is the picture of the future in the form of an accurate sales forecast. It is the company's crystal ball that's going to predict what's coming. The forecast is normally the responsibility of the top individual in the company who is closest to the customer.

An accurate forecast is so valuable that there are many who recommend that up to forty percent of the forecaster's bonus potential be directly tied to forecast accuracy. This helps encourage a deeper knowledge of the intentions of the customer base. It also guards against setting a low forecast and then looking good by beating it or setting an unrealistically high forecast with very little chance of hitting it.

Sales and Operations Planning

With the forecast complete, the **sales and operations planning process** can begin. (For this discussion we will be using monthly reports as the basis of this process.) This starts with a meeting chaired by the top manager and it is run monthly as soon as possible after the close of the previous month. If it is held much later than that it is easy to digress into a discussion on how the present month is coming along rather than a review and measurement of the forecast and planning for the future.

If the new forecast is less than the business plan then **sales planning** kicks into play with planned actions on the part of the sales and marketing function to bring the forecast back up to the business plan. If it is determined to be unlikely then the business plan is revised to the forecast. With this revision come changes to the fundamental base of the business, usually with reductions in personnel, inventories, marginal assets, and capital spending.

Using the sales and operations planning format though, these revisions to the business plan will come early rather than late.

The **operations planning** part of this function also begins with the updated forecast. If the forecast is in line with the business plan then things are on schedule and no changes are made. If the forecast is light, then inventory, people, and capital plans are reduced accordingly.

If the forecast shows a much higher than anticipated level of sales then there is a one week period for review. If it is then determined there are insufficient resources available to meet the revised forecast, a decision is made to either invest in bringing these resources in, or revise the forecast back down to the original business plan with a note as to why this revision was made.

If there are no changes from operations proposed one week after the forecast then the company goes with the revised forecast under the assumption that is achievable and will occur.

There are two stipulations here. The first is the planning horizon must be sufficient to plan all resources effectively. The second is that downward changes to the original business plan are only made as a last resort after all possibilities have been explored.

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Common Reasons for Failure

The most important part of this plan is the relationship it has with the control process. A good plan will develop reference points that set up the control process in the company. Here are some of the more common reasons for this process to fail.

- The planning is not integrated into the system.
- The different dimensions of planning have not been understood.
- Management at all levels is not engaged in the planning activities.
- Responsibility for planning is vested solely in one individual or a planning department.
- Management fails to operate by the plan.
- Extrapolation and financial projections are confused with planning.
- Inadequate information inputs are used.
- Too much emphasis is placed on only one aspect of planning.

Here are a few suggestions on how to prepare for the sales and operations meeting and how to execute this process.

The Sales and Operations Planning Process

Before the meeting:

1. Adjust any of the forecast for two months or more out (the forecast for the immediate month out is frozen by this time).
2. Measure and record the one and two month out forecast accuracy from the previous month
3. Forecast the new month twelve
4. Load the new forecast into the crewing guide
5. Determine the staffing needs for the next month by week

Sales and Operations Planning meeting Agenda

(suggested format)

1. Old Business
2. New Business
 - a. Review the new forecast
 - b. Review the updated staffing plans
 - c. Review the one and two month out forecast accuracies from the past month
3. Operations Planning – Approve the new forecast or schedule

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- a follow-up meeting to respond to the new demands
- 4. Sales Planning – Approve the new forecast or schedule a follow-up meeting to respond with a new sales and marketing plan
- 5. Other

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