

Gillum Strategy Partners



V I E W P O I N T

SIOP

Overview of SIOP Process

Actual Post Implementation Client Comment:

“Once we saw how effective SIOP was in running our business, we can't imagine how we operated without a SIOP process.”

Aligning on a Single Plan

We are firm believers in having a robust Sales, Inventory, Operations, Planning (SIOP) process in place. Benefits include happier customers, better service levels, increased revenue, higher market shares, greater pricing leverage, lower costs, lower inventory levels, more accurate financial forecasting – all very important and impactful. We have helped a number of clients stand up SIOP processes - each of which has yielded \$5-30 Mil in incremental annual EBITDA gains and up to \$20 Mil in decreased inventory levels.

The SIOP process is all about aligning the organization around a single plan that reflects the current and best understanding of expected demand and supply. It provides an efficient structure for an organization to ensure that it's aware of what's happened and that it's prepared to tackle what's ahead. Importantly, this is a cyclical and iterative process, meaning efforts aren't being wasted on meeting outdated projections. Further, it not only harvests insights from across the organization but forces the different parts of the organization to agree on how to act on those insights.

Step 1: Demand Review

During the Demand Review stage, the sales organization will be primarily responsible for developing a viewpoint on potential volumes for the upcoming period. To begin, typically, a forecasting engine is used to analyze

historical results and produced a statistical forecast of demand. While this forecast will be optimized for accuracy over the past, it is a purely mathematical generation and incorporates no insights into the future. This is where the sales team enters the picture. Based on their experience and feedback from the field, they might be aware of factors that were not incorporated in the statistical forecast. Perhaps a large customer is expanding to a new region and will need more product to support that effort; or conversely, a major weather event may have significantly impacted operations for a particular end market and demand will therefore be weak. As a result, the SIOP manager will typically gather feedback from the sales team on the statistical forecasts and revise them accordingly. This feedback gathering can take place either via a series of meetings or electronic document exchanges. Similarly, it's up to the organization to determine the right level of the sales force to engage with; front line or field sales might have the most granular insights, but meeting with sales team leaders might be more efficient and therefore feasible. All of these efforts culminate in the Demand Review Meeting where the leaders of the sales department and other key stakeholders gather to review and discuss the forecasting efforts. Typically, the SIOP manager has prepared materials to illustrate how the statistical forecast was adjusted and how it compares to forecasts from prior periods. It is also important to discuss risks to the forecast during this session. Each cycle, there should be a set of new risks to discuss (uncovered

during the sales feedback sessions) as well as updates on risks raised in prior sessions that remain relevant. While these risks might not drive changes in the forecast immediately, it is important that the team understand their potential impact and prepare strategies to mitigate them. After everyone signs off and approves of the proposed forecast, this “unconstrained demand forecast” is then passed onto the Supply team and the Demand Review process is concluded.

Step 2: Supply Review

In the second phase of the process, the “unconstrained demand forecast” is incorporated into the production plan. The SIOP manager should have a file or set of files that shows a consolidated view of the company’s inventory, capacity, and production schedules. As this phase kicks off, the SIOP manager works with the production team(s) to update those figures and compare them to new forecast to identify potential gaps. Similar to in the sales feedback process, the style of this work can be tailored to the organization’s preferences. Also like the Demand Review, this part of the process should be utilized to identify any risk to the production plans. If equipment needs to go offline for unscheduled maintenance or a plant is having trouble finding enough labor to operate the current shift schedule, production forecasts may need to be adjusted. When the updating process is complete, there will be a Supply Review Meeting. Much like the Demand Review Meeting, this will be an update for

the leaders from the production team and other key stakeholders. The goal of the meeting is to produce a “constrained demand forecast” (i.e., the customer orders that are planned to be filled) and potential solutions for unfulfilled demand or idle capacity.

Step 3: Reconciliation Review

After the demand and supply portions of the process have concluded, the process moves on to balancing. Here the leaders from each phase work together to determine the best paths to address the gaps identified in the prior stage. If there are capacity shortages, which customers’ orders will go unfulfilled? Or is it worth taking on extra cost to meet that demand, whether via a surge in production or outside purchasing? If plants or lines are running suboptimal volumes, what will it take to reallocate or drive additional customer demand for those products? Answers to these questions should be researched and developed prior to the Reconciliation Review Meeting, where the topics will be debated and recommended courses of action will be decided. The other focus of this process stage is preparation for the Executive Review. As such, KPIs and other important information should be gathered and grouped together on dashboards that can be easily digested. Additionally, the group should document recommended actions (with supporting rationale) and any other issues that need to be escalated to the Executive Review group.

Step 4: Executive Review

The Executive Review is the final stage of the process. Here, the organization's leadership team is apprised of the notable developments in the prior stages of the process. The financial forecast which aligned to the firmed-up supply plan is shared and compared to budget. Updates to the prior plans are explained and recommended actions are reviewed. Decisions are made and SIOP plans are finalized.

Logistics and Other Notes

As mentioned at the top, the cycle nature of this process is important. Generally, we advise to run this on a monthly basis although it may be possible to do it less frequently (quarterly, etc.). Given the importance of these meetings and the level of leadership involved, we also usually advise that clients schedule these meetings out far in advance (up to a year), even if they're on a regular cadence (e.g., the second Tuesday of the month) as holidays, vacations, and other events can create havoc. Also, keep in mind the logistical constraints to the process when planning out the length of each stage. One week for each stage might not be ideal, as convenient as that may seem. For example, how many days into the new month will the results from the prior month be available? How many sales feedback or plant capacity meetings need to take place? Finally, we've seen some clients get creative in scheduling

these meetings in order to avoid cluttering up calendars. Can the Executive Review meeting be part of an existing monthly update? Perhaps this is an enhanced version of some sort of previously established production review meeting and can replace it. The idea is not to short-change any of these meetings but to avoid placing unnecessary or excessive additional burdens on the organization.

GSP Involvement

Gillum Strategy Partners and its clients have driven tremendous impact implementing SIOP processes.

For a ~\$500 Mil business, it saved \$5 Mil in EBITDA mainly through reduced expedited freight and overtime and \$20 Mil off the balance sheet from optimized inventory levels aligned to customer expectations for OTIF and lead time.

For a ~\$600 Mil business, it refined inventory levels to align to customer requirements, with significant changes at the SKU and location level, yielding much higher OTIF, share gain, and resultant \$30 Mil in incremental EBITDA.

If you're curious what impact this might have on your organization, let us know. Our diagnostic framework can provide an estimate of where the greatest gains can be made by partnering on this process development.

Gillum Strategy Partners (GSP) is a boutique strategic consulting firm providing services to top tier clients in a broad base of industries, including technology, manufacturing and services. GSP's areas of expertise include go-to-market strategies, marketing effectiveness, channel and alliance management, growth strategies, sales productivity and operational improvement. We emphasize pragmatic solutions with measurable results and often work with our clients through implementation.

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