DRIVING S&OP

NEXT

DOWNSTREAM

For many enterprise shippers, Sales and Operations Planning (S&OP) has become a critical function of top-level supply chain practitioners. Effective S&OP creates and wields a powerful competitive differentiator that offers prescriptive measures to ensure supply matches demand. It's the holy grail many enterprises scramble to find to lessen costs across the board and increase cash flow, profits and shareholder value. However, companies of all sizes are failing to include and empower the very individuals tasked with implementing the S&OP mandates and initiatives.

Crucially, nearly all of the issues preventing S&OP from providing maximum value stem from the same root cause: it is imperative to align front line supply chain decision making with business goals.

This paper will look at how enterprises can push the S&OP function downstream, identifying optimization opportunities that rely on the team on the front line.

DEFINING S&OP

The idea of trying to match supply and demand is certainly not new.

Vendors have tried to ensure the right level of inventory since the first days of bartering.

Over the last 15 years or so, however, the practice has been given a new framework and moniker. S&OP has become far more organized and disciplined as a cross-functional initiative that touches nearly all of the stakeholders in an enterprise. A formal meeting structure was introduced to align business goals and supply chain practitioners in the mid-2000s, and generally speaking, it incorporates constituents from across an organization (marketing, supply chain, production, executive, HR, etc).

By way of example, an ideal S&OP approach would incorporate a marketing department's use of specific channels to drive an increase in sales a few months in advance. To plan for this increase in sales activity, the company would increase production and inventory; the goal is to increase sales, not run out of a product and leave customers dissatisfied. This increased inventory would mean having extra storage and/or warehousing available.

As we continue the example, however, we must consider warehousing costs, which are often inversely proportional to the length of time that space is needed; it is more expensive to rent space for a few weeks than it is for a few months. This is one of many variables an S&OP initiative should incorporate.

It might be better to rent space at $2 per sq foot for one month than to rent space at $1 per sq foot with a 3-month commitment. Depending on how fast the inventory is forecasted to move, the $2 per square foot for one month is less expensive than spending $3 per square foot in total), assuming all inventory will move in one month.

Adding to the equation, we can look at the costs of moving the inventory to and from the warehouse. It can be less expensive to transfer goods during certain times of the year, but meeting this timing may require longer-term warehousing. This increased time might eliminate the argument for paying for space for a shorter period (no one is arguing S&OP is easy).

Furthermore, we're assuming an accurate forecast from sales and marketing. Typical S&OP forecasting is roughly 66% accurate, which means all of the decisions about shipping and warehousing are being made based on models that will be inaccurate by approximately one third… plus or minus.

The marketing team might create a campaign that dramatically overachieves, or they might miss the mark entirely. All of which will have an impact on the variables such as how much extra inventory to produce and how much trucking capacity/warehousing space will be needed.

This is, of course, only starting to scratch the surface of how S&OP can work in an organization.

Operationalizing S&OP, however, is dependent on exception management.

In supply chain, there will always be exceptions. Transportation managers are at the mercy of vehicle traffic, mother nature, car accidents, and hundreds of other variables.

As Mike Tyson said, "Everyone has a plan until they get punched in the mouth."

Within an organization, it's often the decision-maker at a warehouse or shipyard getting punched due to the very nature of their role.

The central thesis of this paper is that maximizing alignment between business goals and supply chain initiatives means empowering the team on the front lines. It's time to replace the ice packs they're using to recover from their wounds with relevant information that helps them support S&OP initiatives.

TECHNOLOGY

One of the most significant issues in an S&OP implementation is the tremendous technology gap between planners and the "boots on the ground." S&OP solutions allow practitioners to identify and solve for dozens, or even hundreds of variables. The transportation managers responsible for getting goods where they need to be, however, often utilize paper and fax (yes, really) to communicate with the truck drivers in the market.

For planners, overcoming the technology gap goes beyond asking transportation managers to update their version of Excel.

S&OP solutions have evolved and offer sophisticated capabilities. In shipping, however, many of the technological approaches on the market are in their infancy.

Venture capitalists have poured more than $30 billion into the FreightTech market in the last two years as they place bets on which companies will ultimately solve the trillion-dollar shipping puzzle.

However, this means a majority of the solutions on the market haven't been battle-tested yet. Retailers and enterprise shippers shouldn't bet their Black Friday and Cyber Monday earnings on software that might not hold up to demand.

On the other hand, there are issues of practicality. "This is how we've always done it" is a common approach to moving goods; shipping is among the world's oldest professions and brings with it a tremendous institutional knowledge.

There can be concerns that old guard transportation managers, many of whom have come from a trucking business, simply haven't been exposed to the technological solutions that can be available to add efficiency. This isn't to say that there are laggards everywhere, but as a way to ask planners to step away from their Tableau instances to be willing to educate their business partners as necessary.

One way to overcome some of the technology gaps is to include the enterprise-level procurement team in the early phases of identifying shipping partners. This group should have insights and best practices that can help select the tech-forward carriers that offer track and trace solutions as well as proactive exception management.

Another is to incorporate solutions that provide robust API options to integrate across workflows. Zendesk, for instance, can power communications between transportation managers through text messages, but also be used to identify exceptions in real-time on a back end tracking solution. Corporate procurement and IT should be able to stop efficiencies such as this due to their bird's eye view of what's implemented across an organization.

EXECUTIVE SUPPORT

It isn't just technology gaps causing turmoil between the S&OP team and the transportation function; executive support is often lacking on the front lines. To wit, companies that invest in people and policies that encourage S&OP have typically decided to transform their supply chain into a competitive differentiator. However, very few companies are looking at their trucking relationships through the same lens; Trucking as a Service, or TaaS, hasn't yet become some sort of buzzy approach that empowers digital transformation.

There's another variable to consider: very few executives understand how trucking works. Imported goods are handled by a dozen companies between the ship and the shelf. This level of complexity is often under-communicated.

After all, our experience as consumers tells us to know, down to the minute, what time our Postmates order will arrive. The idea of a shipment containing tens of thousands of dollars of merchandise being at sea for weeks, with no updates, is entirely foreign to today's digital natives.

Essentially, overcoming this issue requires the folks in most need of executive support (the transportation team) to shift their approaches and be willing to "manage up," educating leaders throughout their organizations on what's happening on the front lines (see below for example).

There is a road leading out of Washington DC that has tremendous congestion around 3pm during the summer, but not the winter. To someone outside the industry, this might not make sense. After all, there should be less traffic since school is out of session. By investigating what's happening on the front lines, however, leaders and planners can learn that the sun is perfectly aligned with the west-bound road at this time, causing a wicked glare and grinding traffic to a standstill. This type of information (or at least, examples like this) can move up the corporate ladder to inform smarter, actionable insights. Planners can then change departure times for trucks, but more importantly, change the schedule of warehouse or distribution center employees to maximize efficiencies.

CEOs don't necessarily need to become experts in the field of seasonal sun-patterns and their disruptive influence on supply chains. However, executive leadership does need to take an active interest in becoming more informed about the decision tree that transportation managers face every day. This is the only way to empower front line employees to utilize their institutional knowledge to tweak and execute S&OP initiatives.

In short, it's critical to take top-down (S&OP) and bottom-up (frontlines driven) approaches to ensure success. This means creating a culture of inclusivity so that teams on the front lines aren't just invited to the S&OP meetings and initiatives; they're encouraged to engage and participate actively.

INCENTIVE ALIGNMENT

Beyond executive support, organizations need to align the incentive structures of front line employees with those of S&OP initiatives.

If the saying about "good, cheap, fast" (you can only pick two) holds up to scrutiny, then it's fair to say transportation managers have, by and large, been forbidden from finding "good."

In most organizations, this role is responsible for maintaining the lowest costs above all else. This creates many issues:

- Generally speaking, the least expensive trucking companies are cheaper for a reason (again, good, cheap, fast… pick two). Whether it's missed appointment windows or a willingness to flout hours of service regulations (putting everyone driving at risk), the cheapest carrier is rarely the most effective at their job.
- Failing to meet a delivery window has cascading effects; distribution center and warehouse managers must schedule staff according to workload, so missed deliveries mean a center is overstaffed for parts of the day, and shorthanded for others. The few dollars saved by hiring the least expensive carrier are spent overcoming the inefficiencies these very carriers create.
- It isn't just trucking where supply chains can run into issues. At the port of LA and Long Beach, many shippers work with specific terminals because they can save $10 per container, never accounting for the known inefficiencies at terminals that lead to tens of thousands of dollars in demurrage fees. A handful of containers being left behind in these terminals can eliminate the savings of 1,000+ containers being handled on time.

Frontline decision-makers, those who are most likely to understand the issues above, must be incented to meet the metrics that matter for the company. This might mean a quick formula that identifies the relationships between cost savings at the trucker level and unintended expenses. It might also imply something more complex; again, transportation managers need a seat at the S&OP table.

Incentive alignments can actually go beyond S&OP as well. For enterprises with green initiatives, or mandates to support female/minority owned businesses, it's possible to incorporate these goals with downstream transportation leadership. This alignment creates opportunities for corporations to more aggressively support their missions beyond profitability. A transportation manager at a leading energy corporation shared that working with NEXT Trucking would help achieve a bonus because NEXT is a WBENC company.

DATA AVAILABILITY

It's nearly impossible to align incentives with S&OP goals without making far more data available to the transportation leaders. We touched briefly on creating a formula or offering access to overall supply chain performance metrics, but those barely scratch the surface of what's possible.

With a few APIs, every warehouse manager can have access to real-time updates on when a shipment should arrive, and transportation managers can focus more heavily on making meaningful contributions to the company.

For years, cross-docking has been viewed as an aspirational goal in supply chain efficiency. Moving goods stored in a container at the port directly into a trailer headed for a warehouse cuts costs tremendously by eliminating storage fees and limiting the manpower necessary to move goods.

However, cross-docking becomes a pipe dream when transportation managers are saddled with carriers that lack track and trace capabilities. It's impossible to ensure the trucks you'd want to cross-dock arrive at the same time without real-time information. Enterprises are saving pennies on trucking instead of seeing the big picture and saving $20 bills on their overall supply chain due to misusing or failing to share critical information.

Many shippers incorporate electronic data interchange (EDI) into their supply chain as a way to digital transfer orders and information. EDI has its challenges; there are more than 2,000 variants of EDI in use across supply chains.

This has led to a situation where EDI powers transactions between corporations and carriers, but the high costs of essentially 'translating" the data means front lines employees are being left out of the information loop.

CONCLUSION

Today, S&OP is commonplace across enterprises; but not all S&OP models are created equally. Overall initiatives that aim to utilize planning as a competitive differentiator are failing to deliver on their promise, in no small part, because they lack input and buy-in from the front line transportation professionals tasked with implementing them.

However, mature organizations that incorporate the institutional knowledge from their logistics team are well-positioned to improve corporate results, in a meaningful, bottom-line way.

ABOUT NEXT

NEXT Trucking, a FreightTech pioneer, offers premium shipping experiences to many of the world's best-known companies. NEXT's platform connects shippers with freight capacity across drayage, transload and FTL. Headquartered in El Segundo, CA, NEXT is venture-backed by world-class leaders such as Brookfield Ventures, GLP and Sequoia Capital. For more information, visit www.nexttrucking.com.