

**LEAN THINKING IN  
WHOLESALE DISTRIBUTION...**



## ***Play Off the Same Sheet of Music...***

### ***The Key Notes to SI&OP Success***

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***White Paper***

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## *Play Off the Same Sheet of Music... The Key Notes to SI&OP Success*

### **Executive Summary:**

For at least 30 years now, manufacturing enterprises have sought ways to better anticipate and synchronize their supply and demand of products utilizing a **Sales, Inventory & Operations Planning (SI&OP)** process. Done well, it enables effective “total supply chain management”. As to success, to one degree or another some report that they are less than satisfied with the results of their initiatives as well as getting different stakeholders of an enterprise on the same page. Many still believe that planning systems don’t need to have - or prefer little sales input (and certainly no ownership) - and that it doesn’t need to get “tested” against the supply chain’s ability to provide product availability. *SI&OP* forces that dialogue among the stakeholders.

Regardless, the challenge is to make critical decisions on both demand and supply – and align (play off the same sheet of music) the organization to one plan from which to operate. Some of the failures, I believe, is due to a false understanding that (1) it’s very complicated (“another batch of complexity”) with lots of jargon, (2) it’s demanding on people resources to bring together the demand plans, the supply plans and the operations plans, (3) we have a pretty good ERP system - we can do this “later”, and (4) we’re just too busy – don’t we have a business to run?

So, what does this mean to wholesale distributors who might be interested in evaluating a *Sales, Inventory & Operations Planning (SI&OP)* integrated business process - and to their assessment of its potential as a benefit to their enterprise? Is it worth considering? Can it have an impact on your ability to execute and achieve a company operational plan, its goals, and ultimately a financial plan – and, does it answer a very important question - **does it add something of value to your business efforts?**

### **Definitions & Discussion:**

Before we go any further though, let’s define and discuss some of the basic terminology, as “jargon-less” as possible. Let’s also establish a fact - that wholesale distributors are not much different from manufacturers when it comes to the need to devise a way to coordinate sales, inventory and operations. Regardless of who you are,

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aren't we all tired of accepting the inherent problems with poor sales/demand forecast accuracy, the need to build safety stocks or other types of buffers into our inventory and supply chain due to the vagaries of customer demand and maybe even due to failures in vendor reliability? Don't we rely too much on what our ERP "says"?

*SI&OP* is often defined as the function of setting the overall level of product acquisition (for wholesale distributors, that's the purchasing/procurement of product; for manufacturers, it's the level of manufacturing output - or their production plan). The objective for both; best satisfy the current planned levels of sales (sales plan/forecasts), while meeting the general business objectives of profitability, productivity, competitiveness, etc. From this perspective, wholesale distributors and manufacturers are not much different, are they?

Surely this integrated plan would need to achieve management's objectives related to maintaining, raising or lowering inventories, minimizing backlogs and backorders, and "getting a bead" on inventory and operational budgets, etc. From this perspective also, wholesale distributors and manufacturers are not much different, are they?

This integrated plan usually extends through a sufficient planning horizon to plan labor, equipment resources, productivity goals, finances, etc. From this perspective also, wholesale distributors and manufacturers are not much different.

While an integrated plan can help management to understand how the company achieved its current level of performance, its primary focus is on future actions and anticipated results. Therefore, it's used to monitor the execution of the company's strategies. My sense of this latter subset is that manufacturers are way ahead of wholesale distributors.

Surely, for wholesale distributors, *SI&OP* could be a good place to start for understanding the tradeoffs of service level, inventory and productivity. As organic growth or growth through acquisition occurs, being able to segment and understand stocking levels, and by their location, is becoming increasingly important.

## ***So What Is The Case for SI&OP in Wholesale Distribution?***

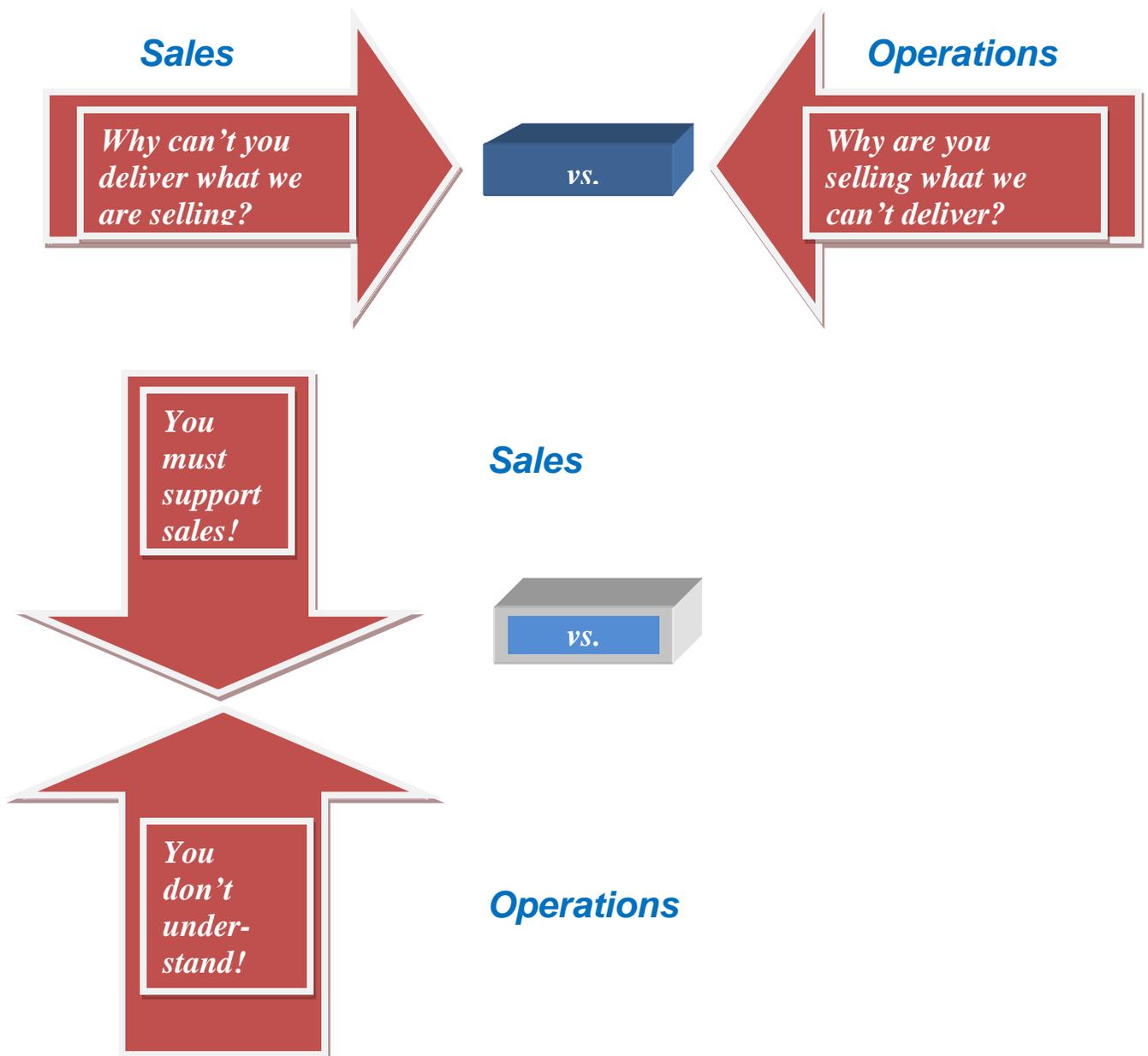
- 1. Drive supply chain benefits such as "higher service levels", the "right Inventory everywhere", and "minimize total supply chain and distribution operations costs".***

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2. Avoid the “epic battle(s)” - between sales versus operations.

Figure 1 – Sales vs. Operations – The Epic Battle(s)



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## ***What Are the Issues That Could Be Solved, Resolved or Mitigated Using SI&OP? – The Key Notes to Success***

Well, let me suggest these topics to start – kind of a checklist. Although not necessarily in any order of priority - they might typically include:

1. Inventory dollar objectives; aggregate totals, by product group and by location
2. Monthly inventory budget/procurement planning development
3. System forecasts & management over-rides to system forecasts
4. Initial forecasts for new product introduction
5. Seasonal and trend line build-up
6. Forecast “expiration dates”
7. Safety stock parameters and “buffers” methodology
8. Different products – different replenishment rules
9. Intermittent/lumpy, unusual or exceptional demand mitigation
10. Does product “flow” into your DC’s and branches?
11. Service level/fill rate differentiation requirements among products/product groups
12. The right Key Performance Indicators (KPI’s), performance dashboards and trend Lines.
13. Warehouse & Distribution Center staffing/budgeting and cost structure planning based on the sales outlook, procurement plans, and historical productivity.

That’s probably a good first “whack” at it. Can you come up with more? By this time, I think you probably understand my point and what the objective is.

Now, how does this all differ from what customarily goes on? Well, too often we just react to what our ERP system “says” we’ll sell or should order. Forecast variance is typically high (I bet, at least 20% error) and we “launch” purchase orders. Often, we don’t really recognize the ramifications (versus the expected outcome) on inventory investment, labor costs and productivity. Somehow, we expect everyone and everything to “react accordingly”.

### **The SI&OP Process Development:**

So, what if we could establish a disciplined (on time and according to schedule), monthly (at a minimum) planning process, driven toward consensus, and including

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tactics meant to link near term sales and marketing plans directly to the operations side of the business?

1. A “team game” with shared ownership (not often easy to establish) of decisions to meet business demands.
2. Collaborative in its planning, alignment, and execution steps.
3. Bringing decision-making know-how to balance demand and supply, integrating operational plans and financial plans, linking higher-level strategic and business plans with the day-to-day operations of the company.
4. Providing structured processes and “business impact sensitivity analysis” to support the decision making process and other alternatives available. In other words; what will the impacts of your decisions be, and preferably can they be measured in a quantitative (metrics) way?

Although process is important, we shouldn't over-emphasize process rigor over the business value that could be attained.

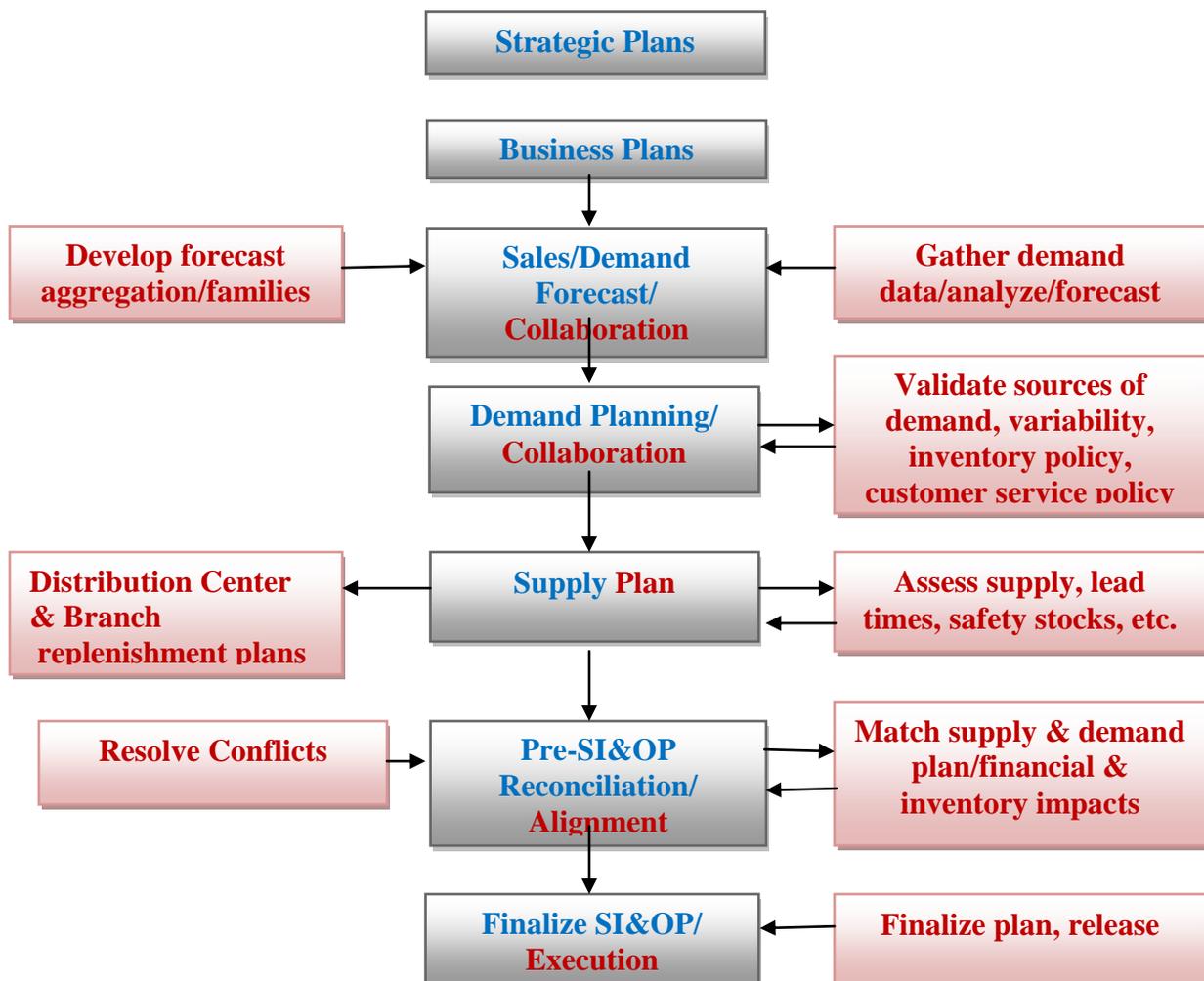
**See Figure 2**, below. It represents those generally accepted planning steps, you are probably familiar with that most companies undertake, only in this example within the context of *SI&OP*. Namely:

1. **Collaboration**
2. **Planning**
3. **Alignment**
4. **Execution**

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Figure 2: Monthly Sales, Inventory & Operations Planning Process



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## Best Practices:

In **Figure 3**, below, “the best practices in *SI&OP*” usually share a common set of approaches, but sometimes these can also be found to be the major “constraints” to successful *SI&OP* if not adhered to.

## Figure 3

### ***Best Practices for Successful SI&OP***

#### ***Can be your biggest “constraints”***

Practice	Summary
	Rely on a phased approach
	Focus on events that have the most profound & negative impact
	Focus on more good information, less data
	Provide effective leadership

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## ***Let's Wrap Up***

So, *SI&OP* is about sustaining operational performance. Its processes will dictate the types of enabling technology you will need to put in place (best left as another topic of discussion).

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Compare your current processes to what I've described here. What are the gaps that need to be closed? Can you develop a roadmap that specifies what initiatives need to be undertaken?



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