

Building a 2027 Operating Plan That Your S&OP Can Actually Execute

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Key Takeaways:

- Build the AOP from operational reality. Translate revenue targets into product-family volumes, facility requirements and quarterly demand that S&OP can turn into an executable production plan.
- Validate capacity before approving the plan. Test proposed volume and mix against actual line, facility, labor and supplier capacity so constraints are addressed before they become margin problems.
- Use S&OP to keep the AOP on track. Compare demand, supply, inventory, margin and service projections against AOP targets monthly—and escalate meaningful gaps early enough for leadership to act.

Every year, manufacturers approve an annual operating plan that looks credible in a boardroom and falls apart by February. Not because the targets were unreasonable — because the plan was never translated into the language operations actually runs on.

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The Plan That Exists in a Spreadsheet vs. the One That Runs the Floor

The AOP gets built in financial terms: revenue targets, gross margin assumptions, EBITDA commitments, headcount budgets. That is the right language for a board. It is the wrong language for the person scheduling a production line in March or managing a supplier constraint in May.

S&OP is the translation mechanism, converting financial targets into operational commitments: which products, in what volumes, across which facilities, from which suppliers, with what inventory buffer. But the translation only works if the AOP was built with enough operational specificity to be translated. Most aren't.

The result is a version of the plan that exists on paper and a version that operations actually executes — and the gap between them is where margin disappears.

The first five articles in this series established S&OP as a strategy execution engine, showed where most processes stall on the maturity curve, and identified the data the CFO needs before budget season opens. This article closes the loop on the operations side: what the 2027 AOP needs to contain for S&OP to execute it.

Three structural requirements make the difference between a plan that runs and one that doesn't. None are complicated. All require a deliberate decision to connect the financial planning process to the operational execution system.

“The gap between the AOP and what the plant floor is executing is where margin disappears — quietly, systematically, and entirely preventable.”

Three Requirements for an Executable Operating Plan

These are not reports the supply chain team produces for internal use. They are financial inputs that belong in the budget build. If your S&OP process is functioning at Level 3 or above, it is already generating this data. The question is whether finance is consuming it. Here are the five data sets CFO should be requesting from S&OP:

1. VOLUME AND MIX DISAGGREGATED TO THE LEVEL S&OP ACTUALLY USES

A revenue target of \$450 million means nothing to a production scheduler. What matters is which product families, in what volumes, at what mix, across which facilities — by quarter, not annually. The AOP needs to be disaggregated to the level of detail that feeds a master production schedule.

Most plans fail here first. The commercial team builds the revenue line at the customer or channel level. Finance consolidates it into a business-unit total. Operations receives a number with no operational translation attached. Nobody converts that number into the SKU-level, facility-level volume assumptions a production plan is built from.

The right sequence is the reverse. Start with the S&OP demand projection — already disaggregated to product family, by facility, by quarter — and build the revenue model up from it. [Where the S&OP demand view and the commercial revenue assumption diverge](#), make that gap explicit and own it as a leadership decision. That divergence is the most important conversation the planning team needs to have before the AOP is approved.

A 2027 plan built on an S&OP demand view will surface uncomfortable gaps. It will also be the one operation can actually execute.

2. CAPACITY VALIDATION BEFORE THE PLAN IS SIGNED

An operating plan is only as credible as the capacity assumptions behind it. If it assumes 82% utilization on a line running at 94%, the margin model is wrong before January. If it assumes headcount that isn't funded, the throughput assumption is wrong. If it assumes a supplier can deliver volume they've already signaled is constrained, the service model is wrong.

None of these are unknowable at budget time. They are knowable — if someone asks S&OP for the capacity map before the AOP is approved rather than after it misses.

Capacity validation means running the proposed AOP volume through the actual operational network: line by line, facility by facility, supplier by supplier. Where the plan isn't achievable at

the proposed volume and mix, make a decision: add capital, outsource the volume, or adjust the commercial plan. Ignoring a known constraint and approving the plan anyway isn't optimism. It's the origin story of most mid-year margin conversations.

3. A WORKING CAPITAL PLAN BUILT FROM S&OP INVENTORY PROJECTIONS

Working capital targets in most AOPs are calculated as a percentage of revenue — a methodology that produces a reasonable estimate for the average quarter in an average year and a systematically wrong answer for any business with seasonal demand, promotional cycles, or new product launches. Which is every manufacturer.

The inventory investment required to support a revenue plan is not proportional to revenue. It is a function of demand timing, supply lead time, variability, and committed service levels. A 15% revenue increase with a seasonal profile may require 30% more inventory investment in Q1 and almost no incremental investment in Q4. A revenue ratio misses that entirely.

S&OP's inventory projection — built from the actual demand and supply plan — tells you what inventory you need to hold, when, and in what form. That is the working capital model the AOP should be built from. A cash flow plan built on a revenue ratio will be directionally right and operationally wrong, and the cash surprises will arrive at exactly the wrong moment in the cycle.

How S&OP Monitors Execution Against the AOP All Year

Building an executable operating plan is necessary but not sufficient. Once the AOP is approved, S&OP's job is to monitor execution against it monthly and surface the decisions that need to be made before variances become crises.

This requires a formal closed-loop mechanism: at each monthly S&OP review, the latest demand and supply projections are compared against AOP targets — volume, mix, inventory, margin, service level. When projections diverge beyond a defined threshold, the gap escalates to the executive team for a decision, not to the operations team for a workaround.

The behavioral marker of a mature S&OP process is the direction of the conversation in the monthly meeting. A Level 2 organization asks: 'what happened last month?' A Level 4 organization asks: 'what decision do we need to make this month to protect the annual plan?' The first is a reporting meeting. The second is an execution system.

Four Questions to Ask Before Signing the 2027 AOP

Before approving the annual operating plan, the COO or VP of Operations should be able to answer yes to each of these:

- Can your S&OP team disaggregate the revenue line to the facility and product family level by quarter? If not, the plan cannot drive a production schedule.
- Has the proposed volume been validated against actual capacity — line by line? If not, the margin model contains hidden cost assumptions that surface as expediting and overtime.
- Is the working capital plan built from S&OP inventory projections, or from a revenue ratio? If the latter, the cash flow plan does not reflect how the business moves through the year.
- Does your S&OP process have a formal mechanism to compare monthly projections to AOP targets and escalate divergences? If not, the plan exists on paper but has no execution system behind it.

CLIENT SPOTLIGHT

Food Service Solutions Industry

The VP of Operations needed plant managers consistently meeting targets with clear actions to recover when they weren't. TBM built a management system diagnostic, then established KPI alignment between daily operations and AOP objectives. Layered audits and leadership coaching reinforced the accountability behaviors needed to sustain performance.

Result: The division consistently met or exceeded parent company annual targets. On-time delivery improved from under 90% to 95%+. Fill rates rose from 95% to 98%+. Injury rates were cut in half. Quality defect rates fell 50%.

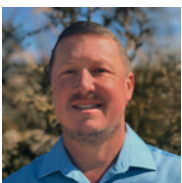
The Planning Process Your 2027 Budget Deserves

S&OP and finance should not be running parallel tracks that only intersect during the variance review. They should be feeding the same plan — one built on demand signals that reflect what customers will actually do, capacity data that reflects what the business can actually deliver, and working capital assumptions that reflect how cash actually moves through the cycle.

TBM works with manufacturing and distribution companies to build that connection — **creating the data bridge between S&OP and finance that turns budget season from a negotiation into** a grounded planning process. If your 2027 plan is being built without S&OP inputs, that is the right place to start the conversation.

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Meet the Expert



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Stop Building Plans You'll Be Apologizing for in Q2

The most expensive place to discover that your AOP isn't executable is February. By then, commercial commitments are made, capacity decisions are locked, and working capital is already moving in the wrong direction. The margin conversation that follows isn't a planning failure. It is the consequence of a connection that was never made between the financial plan and the operational execution system.

S&OP is designed to make that connection. When the AOP is built with the operational specificity S&OP needs — disaggregated volume, validated capacity, inventory-based working capital — and when S&OP has the governance to monitor and escalate against it monthly, the plan on paper and the plan on the floor become the same document.

TBM works with manufacturers to build that connection — designing operating plans operations can execute and building the S&OP governance structure that monitors performance against them

The Planning Process Your 2027 Budget Deserves

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