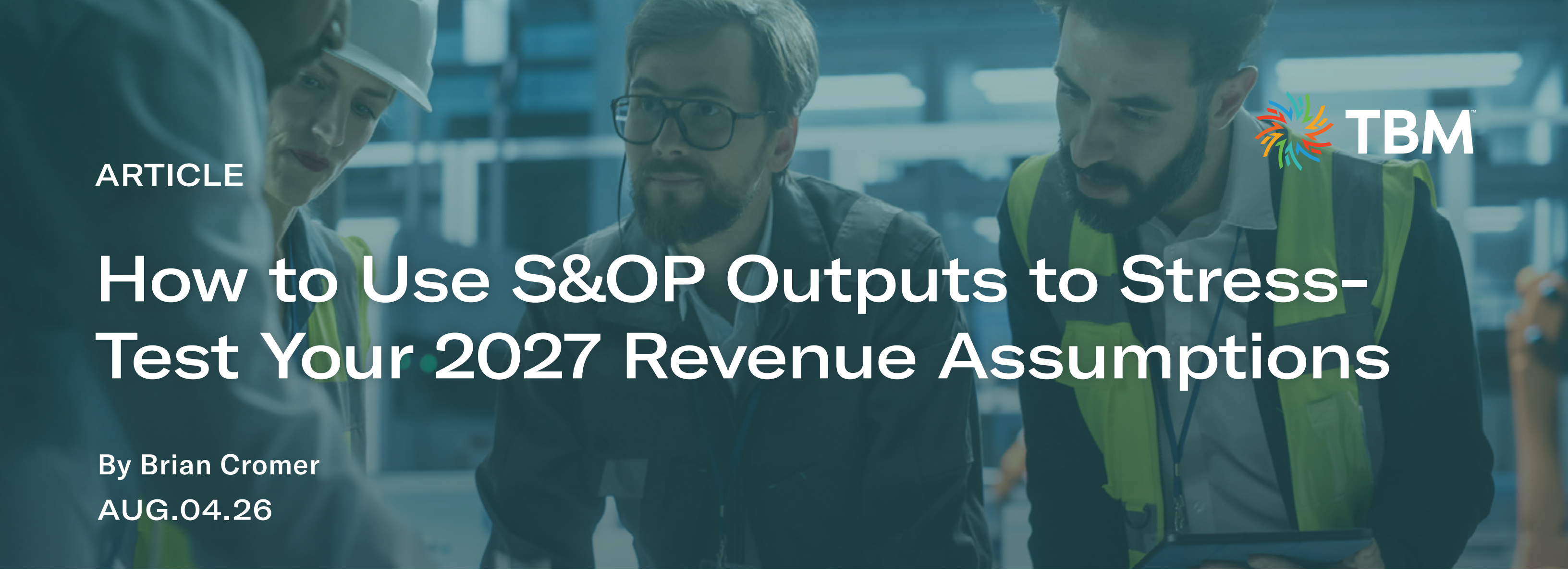

ARTICLE

How to Use S&OP Outputs to Stress-Test Your 2027 Revenue Assumptions

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Key Takeaways:

- Use S&OP data to pressure-test 2027 revenue and margin before the budget is locked.
- Connect S&OP demand, capacity, inventory, and scenario outputs directly into the annual planning and budget process.
- Align finance and operations with a defined handoff and closed-loop governance to protect EBITDA and avoid mid-year surprises.

How S&OP Protects Your 2027 Revenue Plan (Before It Misses)

The 2027 budget is being built right now. The revenue assumptions going into it — volume, mix, capacity, working capital — are being negotiated in a conference room. Your S&OP revenue planning process holds the data to challenge every one of them. Most companies never make that connection.

The Budget Room Has a Data Problem

Here's how most annual operating plans get built. The commercial team submits a revenue number. Finance scrubs it against last year's actuals. Operations gets handed a volume target and told to make it work. Nobody in that room has pulled up the S&OP demand projection to ask whether the volume assumption is realistic — or whether the margin implied by that revenue number survives contact with actual capacity constraints.

Then February arrives. A top customer shifts their forecast. A key line is running at 94% utilization and there's no buffer for the Q2 demand build. Spot purchasing kicks in. Overtime gets approved. By Q3 you're explaining to the board why the budget's EBITDA margin is 200 basis points light.

This is not bad luck. It's a process failure — and it's entirely preventable. The data your organization needs to build a credible 2027 plan already exists. [It lives in your S&OP revenue planning process.] The question is whether your planning cycle is structured to use it.

What "Stress-Testing Revenue Assumptions" Actually Means

Stress-testing a revenue assumption is not pessimism. It's discipline. It means asking four questions before the budget gets locked — not after it starts missing.

1. Can your capacity actually support the revenue volume being proposed? Not in theory — at the mix, in the facilities, on the lines that will actually run it.

2. Is your demand mix assumption grounded in real customer signals? Or is it a top-line growth rate distributed across channels by feel?

3. What does this revenue plan require in inventory and working capital — and when? A revenue increase is rarely evenly distributed. Seasonal peaks, promotional windows, and launch timing concentrate the inventory investment in specific quarters. Is that reflected in your working capital assumptions?

4. Where are the constraint points that will force margin trade-offs? Every plant has a ceiling. Every supply chain has a vulnerability. The budget should name them.

The frame is simple: the question isn't whether the revenue number is achievable. It's whether operations can deliver it at the margin the budget assumes. Those are different questions. S&OP is the only process in your organization equipped to answer the second one.

Four S&OP Outputs That Should Feed Your 2027 Planning Process

A well-functioning S&OP process generates four outputs that finance and the executive team should be actively consuming during Q2–Q3 strategy season. Most organizations produce some version of these. Few use them to directly challenge the budget build.

1. THE ROLLING 12–18 MONTH DEMAND VIEW

Your S&OP demand signal is the most operationally grounded view of forward volume in the business. Where it diverges from the commercial team's top-line revenue assumption is exactly where the budget is most exposed. If S&OP demand planning is projecting flat in a product family that the revenue plan is growing 15%, someone needs to explain the gap before it gets baked into an AOP.

This isn't about which number wins. It's about making the assumption explicit and owning it as a leadership team. A budget that ignores the divergence isn't optimistic, it's uninformed.

2. THE S&OP CAPACITY CONSTRAINTS MAP

Every plant has a ceiling. S&OP, when functioning at Level 3 or above, should be generating a clear picture of which lines, plants, or suppliers are already operating near capacity — and what the demand plan implies about their utilization heading into next year.

A revenue plan that ignores known capacity constraints doesn't just miss its margin target. It triggers a predictable cascade: expediting, unplanned overtime, customer fines, and reactive capital decisions made under pressure instead of with lead time.

CLIENT SPOTLIGHT

Global High-Performance Materials Manufacturer

With 11 global facilities operating on different ERP systems, this $2B+ manufacturer lacked a unified view of demand, capacity, and production across its sites in Illinois, Belgium, and Italy. Disconnected data left capacity planners, sales, and customer service teams working in silos — unable to forecast demand, identify constraints, or shift production across sites. The consequences were real: $2M+ in expedited air freight after capacity issues went undetected. TBM integrated the fragmented data into a unified Power BI platform and designed an S&OP process that gave leadership real-time capacity visibility across all three sites.

Result: $1M+ in freight costs avoided. The S&OP process now runs independently.

3. INVENTORY AND WORKING CAPITAL PROJECTIONS

Revenue growth has a working capital cost. Most S&OP and budget planning processes model the revenue without modeling what it requires in inventory investment to support it. S&OP — when demand and supply are properly connected — tells you exactly what inventory positioning the proposed plan requires and where the cash gets consumed in the cycle.

This is where CFO engagement in S&OP pays for itself. The finance leader who reviews the S&OP inventory projection alongside the revenue plan before the AOP is submitted is the one who doesn't get surprised by a working capital draw in Q1.

CLIENT SPOTLIGHT

North American Food Packaging Leader

At this $3.6B food packaging manufacturer operating across 39 plants, production was driven by machine utilization rather than actual customer demand. End-of-quarter promotions had trained customers to stockpile, creating artificial volume peaks that manufacturing struggled to absorb. The result: two to three months of inventory sitting in the system at any given time, tying up capital and creating constant firefighting. Once TBM restructured the demand and supply planning process — shifting to pull-based replenishment and statistical forecasting using regional POS data — the picture changed sharply.

Result: $1M inventory reduction on a single product line. Forecast accuracy improved from 55% to 75%. Case-fill rates improved from 97.7% to 98.5% even as inventory declined.

4. SCENARIO ANALYSIS ON KEY STRATEGIC RISKS

What happens to the 2027 revenue plan if the top customer delays their program by a quarter? If a critical raw material constraint surfaces in March? If the new product launch ramps at 70% of the projected rate?

A mature S&OP process models these scenarios before they become crises — not in response to them. The output isn't a worst-case budget; it's a set of decision-ready triggers: if X happens, here's the operational response and here's what it costs. That's the kind of input that lets an executive team build contingency into the AOP rather than absorb surprises mid-year.

When in the Calendar This Has to Happen

The window to use S&OP outputs effectively in the planning process is narrow — and most companies miss it because the two processes run on parallel tracks with no formal handoff.

- **Q2–Q3:** S&OP outputs should be actively informing the strategic planning conversation — demand mix, capacity headroom, working capital requirements for growth scenarios. This is the moment to surface divergences between the S&OP demand view and the commercial team's revenue assumptions. Waiting until Q4 means the budget is already drafted around the wrong assumptions.

- **Q3 budget build:** S&OP data should be a formal, named input to the AOP — not a post-hoc validation. The supply chain leader and the CFO should be sitting in the same room comparing the latest S&OP projection to the draft revenue plan before it goes to the executive team.

- **Q4 budget approval:** Any material divergence between the approved budget and the latest S&OP projection should trigger an explicit conversation — not be quietly absorbed by operations. If the budget assumes 18% volume growth and S&OP is projecting 11%, someone needs to own that gap in writing before January.

The companies that get this right don't treat S&OP and the AOP as separate processes. They treat S&OP as a live feed into the budget build — one that updates the assumptions in real time and flags when the plan is drifting from operational reality.

What CFOs Should Be Asking in the Budget Room

If your S&OP process isn't feeding the budget build, these are the questions that surface the gap — and tell your operations team the two processes need to connect.

- "Show me the S&OP demand projection for the next 18 months next to this budget's revenue assumptions. Where do they diverge — and who owns closing that gap?"

- "What capacity constraint most threatens this revenue plan — and what's the cost of hitting it unplanned versus managing it proactively?"

- "What inventory investment does this revenue plan require? Is that working capital need reflected in our cash flow assumptions?"

- "What are the top three scenarios that could change this plan — and have we modeled what each costs us operationally?"

Ask these in September, and you skip the margin conversation in April. The data already exists in your S&OP process. The question is whether anyone's connecting it.

The Most Common Gap — and How to Close It

Most manufacturers have two separate calendars: an S&OP calendar and a planning and budget calendar. They run in parallel and rarely converge. The S&OP team doesn't know when budget assumptions are being set. Finance doesn't know how to consume S&OP outputs. And the result is a budget built on commercial optimism that operations spends the next 12 months trying to reconcile.

The fix requires three things:

1. A defined handoff moment in the annual calendar — typically late Q2 or early Q3 — where S&OP outputs formally feed the strategy and budget build. Not informally. Not "the supply chain leader attends the planning offsite." A structured, documented input with named owners.

2. A shared language between S&OP and finance. The S&OP process speaks in volume, mix, utilization, and turns. Finance speaks in revenue, margin, and working capital. Someone in the organization needs to translate between them consistently — and that translation should happen before the AOP is drafted, not after it's approved.

3. A closed-loop escalation mechanism. Once the budget is set, monthly S&OP reviews should compare current projections against approved AOP targets. When the gap exceeds a defined threshold, it escalates to the executive team for a decision — not to the supply chain team for a workaround.

None of this requires new technology. It requires governance — a deliberate decision by the CEO, COO, and CFO to connect the two processes and hold both accountable to the same plan.

Stop Building Budgets You'll Be Apologizing for in Q2

The 2027 revenue number your organization is preparing to approve was built from commercial assumptions, historical trends, and a set of operational inputs that may or may not reflect what your supply chain can actually deliver — at the margin, in the mix, at the volume.

Your S&OP process has the data to pressure-test every one of those assumptions. The question is whether your planning cycle is structured to use it — or whether you'll find out in Q2 that the plan and the reality were never aligned.

TBM's Supply Chain practice has helped manufacturers across industries connect S&OP outputs to strategy and budget processes — turning planning cycles that run in parallel into a single, connected system that protects EBITDA and eliminates budget surprises. If your 2027 plan is being built without S&OP inputs, now is the time to start the conversation.

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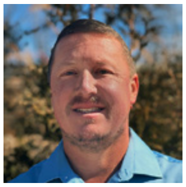

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