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Why Private Equity Firms Cannot Afford to Ignore Sales and Operations Planning In Their Portfolios

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Key Takeaways:

- Effective S&OP reduces inventory risks, streamlines business processes, and creates agile organizations that proactively meet demand, enhancing portco profitability and operational performance.
- S&OP fosters company-wide collaboration, aligning sales, operations, engineering, and production around common goals. This improves inventory management, forecasting accuracy, overall productivity and customer satisfaction.
- For effective S&OP, leadership commitment and alignment are crucial. Leaders must promote teamwork, use unified data for decision-making, and involve all teams in monthly planning meetings.
- Leveraging external expertise accelerates S&OP implementation, while continuous adjustments refine the process and help portcos navigate challenges like high interest rates and supply chain disruptions.

Effective S&OP can drive significant value in private equity portfolio companies. Here's why and how firms can generate results both in the short and long run.

In today's higher for longer interest rate environment, manufacturing companies and their private equity backers have to pull off a delicate balancing act. With too much or the wrong inventory, they face unnecessary financing costs; with insufficient inventory, they risk delays to order fulfilment, leaving their customers without the goods they need. And the re-organization of supply chains we've seen since the pandemic only makes this more challenging.

Yet there is a solution: effective sales and operations planning (S&OP). By focusing on this, private equity backers can not only avoid these pitfalls, but also improve overall portfolio company efficiency and enhance growth prospects – and all in a relatively short space of time.

Effective S&OP sees all parts of the organization, from sales and operations to engineering and production, work together in a choreographed fashion around common goals. All too often, this only becomes an area of focus when a portfolio company is struggling with fulfilment or inventory problems. However, rather than waiting for a problem to emerge, private equity firms that implement this process systematically across all their manufacturing portfolio companies can create additional value creation and boost growth sustainably. That's because effective S&OP builds agile businesses that anticipate - rather than react to - demand.

Exploding The S&OP Myth

Private equity firms and portfolio company management teams often believe that effective S&OP entails implementing a new set of processes and therefore takes a lot of time and effort to put in place. However, the vast majority of tasks and processes involved will already be happening in any manufacturing business anyway. Building effective S&OP means removing siloes to synchronize processes and business functions across the organization so that all staff become involved, they know what is expected of them and everyone comes together around a unified set of goals that the business is working towards.

Using actual and forecast sales demand to engineer supply chains, effective S&OP helps ensure the business has the right inventory at the right time and produces goods to meet that demand in a timely fashion. It also brings all teams together for monthly discussions to plan for the next 6, 12 or even 18 months, to identify and address actual or potential issues, and to find ways of fine-tuning the process for continual improvement.

Who Benefits?

Effective S&OP brings benefits across the organization and for all stakeholders. For customers, it provides the predictability they need to manage their own business because they receive their goods on time, every time. Employees benefit from being involved in decision-making, working collaboratively, developing problem-solving skills, and from having greater visibility on demand and workflows. The business also benefits as forecasting improves, and it becomes more responsive to customer needs, manages inventory more efficiently and, ultimately, increases productivity.

All this clearly benefits private equity owners: it results in a better run, more profitable business with higher revenues, more motivated employees and improved growth prospects. It moves the business away from a constrained demand approach that might, for example, use an extra shift to increase production, and towards an unconstrained demand model. By using information from all parts of the business, it's easier to reach decisions on whether and how to expand production. Well planned expansion takes account of the answers to questions, such as: If we expand into a new geographic area, what will the demand be? How would we meet that demand? Do we need another facility? And if we were to adjust the product or enhance it, how might that affect demand? With all teams contributing information and knowledge to the process, decision-makers can cover and consider all angles, leading to effective planning and execution.

We have seen this in action. For example, we worked with a hair product manufacturer, which had been struggling to keep big box retailer shelves stocked. We helped implement the S&OP principles we've outlined to forecast and plan for demand and supply. In the space of just four months, the business managed to improve supply from 60% to 99% of retailer demand. In another business, effectively implementing S&OP brought revenue improvements of 10% without attracting new customers. That's because the business synchronized revenue, costs and cash within just three months. And by month nine, EBIT had risen from 9% to 14%.

How to Achieve S&OP Results With Speed

As these examples demonstrate, the benefits of effective S&OP are clear. Yet achieving them means implementation must also be effective, and for this, there are four main elements that are critical to success.

1. **Ensure leadership is committed and aligned.** It's almost impossible to stress this point too much: the S&OP initiative has to come from, and be led by, top leadership to ensure that all staff understand expectations and can deliver on them. After all, breaking down the siloes that usually exist in a business will likely require employees to approach how they work with a different mindset. Leadership therefore needs to set out clear expectations and put in place appropriate KPIs to measure progress and performance across all areas of the business, from sales and engineering right through to human resources, which will be responsible for ensuring staffing levels are right for the company's plans.

   Leaders themselves need to be incentivized in a way that removes competing priorities and promotes working as a team on S&OP - to make this work, they must use their combined expertise to bring the business together. There is little point, for example, in incentivizing the sales function for demand that a business can't yet meet (because this lets down customers) or rewarding it for promises on demand that does not exist (as this leads to excess inventory). Leaders also need to instill a commitment across the business that all teams meet every month to discuss demand, needs and execution in what is a collective effort.

2. **Use the right data to provide a single source of truth.** A common issue in many businesses is that different teams use different systems and data, which creates siloes of information. Getting effective S&OP up and running requires a business to identify the right data to use and then to unify it so that all teams can see the impact of the decisions they make and what they do. It also needs regular updating with actual and forecast demand patterns that, where appropriate, account for seasonal fluctuations. This takes the form of hard data, plus assumptions or projections, which might include, for example, what the impact of a sales promotion could be or how an engineering upgrade could affect demand. These kinds of insight can then feed into timescales and a clear path to achieving the specific actions needed – all of which should be recorded in the same place.

   This allows planners to warn suppliers of future need and to keep them in the loop so they can manage demand at their end. With this kind of system in place encouraging open communication, we've even sometimes seen suppliers proactively offer solutions or support to businesses. That's a win for both sides.

3. **Use experts to accelerate internal ramp up.** This is a new way of working for most businesses and so getting all parts of the business to work collaboratively and seamlessly is no easy feat. It's therefore unlikely that an existing employee can become an instant expert and make this work as it should.

   Bringing in outside expertise pays off here. A hired third-party S&OP expert can offer objective insights and will know how to assess where the business really is and where some of the current issues lie. They will know what good looks like and what steps the business needs to take to get there.

Importantly, they will also have the experience to know where the pitfalls lie in getting effective S&OP off the ground and how to avoid them. None of this requires the cost of a permanent in-house hire, but getting the most out of a move to S&OP does require advice and support from a subject matter expert on an interim basis until leadership and staff are trained and processes are working well.

4. **Make iterative adjustments.** Implementing effective S&OP is not a one-and-done job. That's partly because the process is unlikely to be perfect from day one. Yet it's also because demand patterns will shift or evolve over time and the business needs to react to, or preferably get ahead of, these changes. As well as discussing upcoming demand and how to meet it, monthly meetings should set aside time to examine what has worked, what hasn't and identify actions for improvement or, if necessary, to course correct. This is often the part of the process that falls away when leadership changes, the business returns to firefighting or when not all teams are not contributing. However, continuous improvement is an integral part of the process – it is vital for creating effective S&OP in the first instance and then to optimizing and refining it.

S&OP for the Win

Effective S&OP has the potential to add significant value to manufacturing portfolio companies in a relatively short space of time and – contrary to popular opinion – it doesn't require putting in place a whole raft of new processes. At any point in time, ignoring this is a missed opportunity and risks delaying a portfolio company reaching its full potential. Yet as these manufacturing businesses face the twin challenges of high interest rates and shifting supply chains, implementing effective S&OP becomes more important than ever.

Meet the Experts

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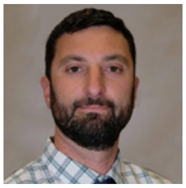

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