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Lessons from the Shop Floor

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Service companies can cut costs by borrowing techniques from their manufacturing brethren.

by Muir Sanderson, Piyush Doshi, and Christine Korwin-Szymanowska

When companies in service industries run into trouble meeting capacity or boosting sales, they rarely look to their brethren in manufacturing for solutions. The few companies that have, however, may have discovered a process called sales and operations planning (S&OP) that can help service organizations lower costs and increase customer satisfaction.

S&OP has been successfully employed in manufacturing companies for more than 10 years. It is a way to systematize interdepartmental cooperation and joint planning by ensuring that marketing teams alert operations and IT when they plan a promotion; by increasing communication among product managers, sales executives, and processing-center leaders; and by establishing a regular forum to resolve cross-functional issues, for example. Smarter manufacturers have found that better coordination between the sales and operations departments, as well as planned rather than ad-hoc decision making, can make the difference between profit and loss, and even, sometimes, between survival and failure.

The securities division of a diversified financial-services company learned just how valuable S&OP can be when it attempted to streamline its operations. The division, which serves brokerage clients, employs about 3,000 people, who perform more than 600,000 transactions per month. Its operations department had always followed the unspoken mantra, "Give everything to everybody, as best we can," which resulted in a sprawling system that tried to serve a variety of customers with no regard for their individual needs. The department was wildly inefficient and the costs of delivering services were far higher than they should have been; for example, skilled customer-service representatives handled almost every client contact. Using the principles of S&OP, the operations department staff worked more closely with the demand side of the business to create a clear set of service policies for different customer segments, they implemented tools to better manage demand, they put processes in place to improve the accuracy of field forecasts and data, and they established metrics to effectively measure and manage performance. As a result, costs decreased by 15 percent, the time it took to open new accounts fell by as much as 60 percent, document-reject rates dropped from 30 percent to 10 percent, and accuracy of response rose across all channels by more than 10 percent.

A tool to improve coordination between functions, S&OP begins with the recognition that different parts of an organization have different goals. In a manufacturing company, for example, production's desire for limited variety, stable designs, and long lead times is naturally at odds with marketing's desire for endless variety, extreme

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design flexibility, and the ability to make last-minute orders. In the absence of a solid planning system, each unit typically looks out for its own interests. The resulting compromise depends on how much power each department has to force its will, rather than on a collective decision about what is best for the company as a whole.

Obviously, manufacturers and service companies implement S&OP differently. Most service companies have little or no inventory, logistical costs, or monthly production runs — all key in manufacturing S&OP. But the fundamental insight remains the same: recognizing that maximizing profitability depends on striking the right balance among competing claims for resources. As in manufacturing, a services S&OP process begins by answering a set of operational questions that have strategic implications, such as:

- How long should it take customers to open an account or buy a product from us?
- How accurate should our response rates be across channels?
- How do we prioritize our new product introductions, taking into account operations and IT capacity?
- What flexibility should we build into our operational capacity, taking into account the trade-off between cost and service quality?

Once those decisions are made, a variety of mechanisms must be put in place to ensure that the give and take between marketing and operations happens clearly and consistently. With S&OP, these kinds of questions can all be answered thoughtfully and thoroughly, rather than via bucket brigades.

Executives setting up an S&OP program must undertake five building-block tasks:

1. **Set service and supply policies.** This works in much the same way as service levels negotiated with a third-party vendor. For example, executives might decide how long is acceptable for a customer to wait in line, or how long mortgage applicants can be left waiting before they are given an answer.
2. **Tighten forecasts.** Often, companies can improve forecasting accuracy by focusing on the factors that drive demand volatility (such as promotion, pricing, and advertising) and then examining their degree of past correlation with demand for that product. For many service companies, any forecasts that factor in market information would be a big improvement over current practices.
3. **Develop analytical models.** Almost every product or service has a point of diminishing returns, after which the value created begins to decline relative to its cost; executives must be able to find this point in order to determine the right trade-off between the cost to the company and the service provided to the customer. A model for finding that point makes it much easier for managers to set policies.
4. **Communicate across functions.** Manufacturers who have had success with S&OP say it is important to schedule a monthly meeting of executives from each department to review their current activities and goals for the next month, discuss whether a forecast is still on track or needs to be adjusted, and decide whether the models or goals must be modified in light of new results.
5. **Track metrics to monitor results.** Appropriate metrics, such as average use by customer-service repre-

sentatives, processing errors, or data-entry accuracy, should be identified in the course of the modeling to determine how well the plan is being executed and to reveal weak spots in either the model or the process.

Finally, even though these five elements are frequently executed in the order presented above, it is best to view S&OP more as a wheel than as a line, because a well-executed S&OP process tends to lead to iterative improvements over time.

As competition for customers grows, both locally and globally, service executives must move beyond the old hit-and-miss guesstimates that are now often used to determine the proper level of service and support. Companies that are even modestly more adept at S&OP than their competitors will gain share over time. +

Resources

Muir Sanderson, Piyush Doshi, and Christine Korwin-Szymanowska, "Lessons from the Shop Floor: Applying Sales & Operations Planning to Financial Services," Booz Allen Hamilton white paper, 2006: The piece on which this article is based goes into more detail for industry leaders. www.boozallen.com/media/file/Lessons_From_The_Shop_Floor.pdf

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