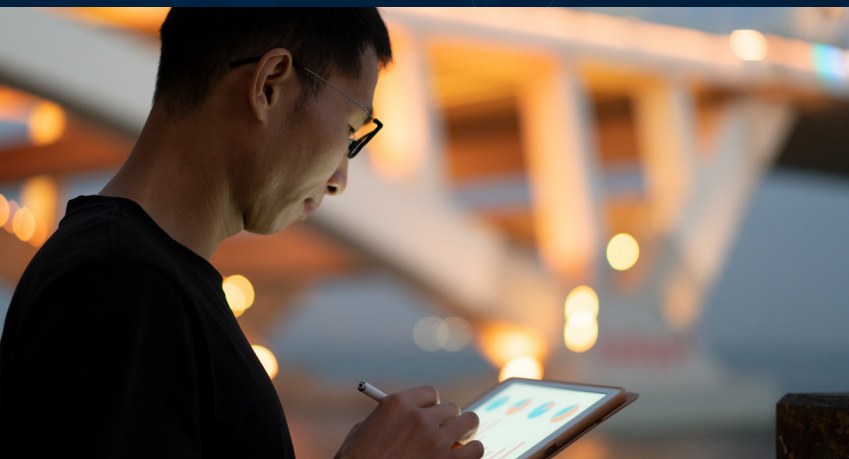




CORPORATE TRANSFORMATION SERVICES

ADAPTING TO A STAGNATING MARKET: PROACTIVE SALES AND OPERATIONS PLANNING IN CHALLENGING TIMES



“Although the peak impact of monetary tightening is likely to be behind us and real incomes are rising as inflation falls and wages increase, growth remains shallow. Over the past 18 months, the recovery has repeatedly been weaker than anticipated.”

Isabel Schnabel, member of the European Central Bank's Executive Board, October 2024¹

In today's volatile, uncertain, complex and ambiguous (VUCA) environment, businesses across industries are facing significant challenges. Global disruptions, geopolitical tensions and fluctuating consumer behavior are hurting the economic recovery from the pandemic, making it imperative for companies to adapt swiftly.

Businesses are grappling with a stagnated market, characterized by declining demand, excess supply and economic uncertainty, which is causing a severe impact on operational efficiency and profitability. In recent months, we have observed many companies looking for a rapid transformation of their Sales and Operations Planning (S&OP) to adjust to these evolving market conditions. This requires a shift in focus for each role within the S&OP framework.

Our recent client experiences highlight the need for a strategic approach to adapt roles and responsibilities to align with these new market realities. This article explores how changes in the market environment have influenced the S&OP process and the steps businesses must take to remain flexible and prioritize operational efficiency and profitability.

S&OP AS A STRATEGIC FRAMEWORK

The term “stagnated market” refers to a period where market demand has flat or declining growth, leading to excess capacity, increased cancellations and inefficient inventory management. Industries worldwide are struggling to maintain profitability and operational efficiency in this environment. In Europe in particular, the economic outlook is mixed at best.

Although inflation and interest-rate increases have likely peaked, growth remains shallow and manufacturing activity continues to struggle². Germany, the European Union's largest economy, is expected to contract for a second year in a row.³

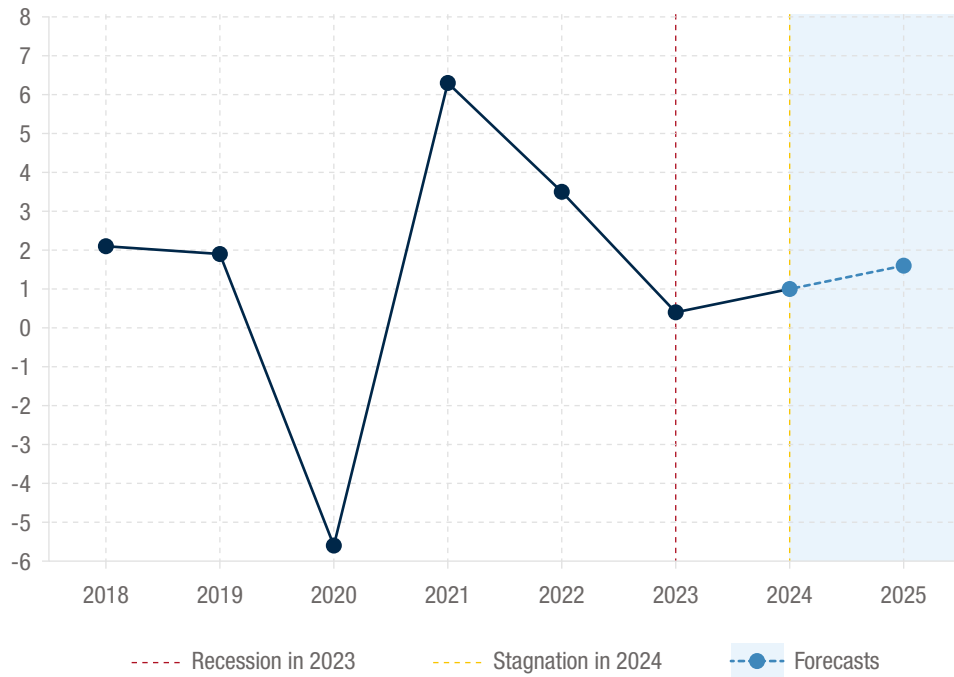
In such a scenario, S&OP acts as a strategic framework that empowers companies to navigate stagnation periods by optimizing resources, aligning strategies with shifting market realities and maintaining operational and cost efficiencies.

¹ https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp241002_2~4fbb6ea450.en.html

² <https://www.euronews.com/business/2024/09/02/why-is-european-manufacturing-still-in-such-a-critical-state>

³ <https://www.reuters.com/markets/europe/german-economy-expected-contract-again-2024-economy-minister-says-2024-10-09/>

Annual Growth Rate of the European Union (2018-2025)



Source: Eurostat

The S&OP process is a critical management tool that integrates various business functions with the goal of balancing supply and demand effectively. In a stagnated market, roles and responsibilities must be reviewed and adapted to help manage risk, enhance organizational agility and maintain employee engagement.

Let's take a look at different roles in the S&OP process and how each should be adapted.



Demand/Supply Planning

Focus on realistic demand planning and flexibility



Operations

Focus on cost control



Sales

Focus on more conservative forecasting and intensifies market analysis



Executive Leadership

Focus on clear strategic & communication



Finance Team

Cash management and scenario analysis

01

DEMAND/SUPPLY PLANNING:

FOCUS ON REALISTIC DEMAND PLANNING AND FLEXIBILITY

With capacity no longer a bottleneck and supply exceeding demand, demand planners must adopt more conservative forecasting methods. Supply chain managers need to pivot strategies to handle more frequent cancellations and rescheduling. To do that, the following areas must be emphasized:



Demand forecasting and management

This includes:

- Adaptive forecasting, leverage advanced analytics and artificial intelligence (AI) to create flexible forecasting models that can adjust to market changes.
- Developing multiple future scenarios to prepare for various potential changes in demand.
- Using real-time data from various sources to improve the accuracy and responsiveness of demand forecasts.



Supply chain resilience

Building resilience in the supply chain involves:

- Identifying and mitigating potential supply chain risks.
- Building strong relationships and negotiating flexible contracts with suppliers to ensure reliability.
- Reducing dependency on single sources by diversifying supply sources and logistics networks.
- Aligning with affiliates and partners for capacity sharing, resulting in better synergies.



Inventory optimization

This involves balancing inventory to ensure sufficient stock without excess, using just-in-time principles and maintaining strategic safety stock.



02

OPERATIONS: FOCUS ON COST CONTROL

In a stagnated market, the operations team must manage reduced demand and financial pressures while also maintaining the capability to scale back up when conditions improve. To achieve a successful balance, the following steps are crucial:



Efficiency improvements to maintain profitability despite lower sales volumes.



Flexibility in manufacturing capacity to respond to fluctuations in demand.



Here are a few examples of how businesses could enhance flexibility and improve efficiencies in processes:

Possible approach	Description
Adjustable shift	Implement flexible work shifts, introducing multiple shift models, weekend shifts or seasonal shifts, depending on demand forecasts.
Cross-training Employees	Cross-training employees to perform multiple roles or handle various machines and processes increases the flexibility of the workforce.
Subcontracting and Outsourcing	Allows companies to maintain their core competencies in-house while leveraging external resources for non-core or overflow tasks.
Temporary or Part-Time Workers	Hiring temporary or part-time workers provides additional labor that can be scaled up or down based on current needs without the long-term commitment of full-time staff. This is particularly useful in industries with seasonal peaks or varying project loads.
Modular Machinery and workplaces	Investing in modular or easily scalable machinery and workspace can also provide operational flexibility. These types of machines and workplaces can be quickly adjusted or expanded to increase production capacity or adapted to different production needs.



03

SALES:

PROACTIVE CUSTOMER COMMUNICATION AND INTENSIFIED MARKET ANALYSIS

While demand/supply and operations planning may appear to be the most important business functions to address among S&OP roles, a comprehensive response to a stagnated market also calls for adaptation in other departments, chiefly sales, finance and the leadership team. The sales team plays a vital role in adapting to decreased demand and increased market volatility. It must ensure:



Shift towards proactive customer communication to understand their evolving needs and concerns.



Collaboration with marketing to develop targeted promotions or incentives to stimulate demand.

04

EXECUTIVE LEADERSHIP:

STRATEGIC DECISION & COMMUNICATION

Executive leadership is also crucial. We recommend the following steps for successful navigation in challenging times:



Strategic decision-making focused on long-term sustainability rather than short-term gains.



Transparent communication with S&OP team about the challenges and measures.

05

FINANCE TEAM:

CASH MANAGEMENT AND SCENARIO ANALYSIS

Lastly, the finance team can also make significant contributions towards managing S&OP processes effectively, by ensuring the following:



Enhanced focus on cash flow management to ensure liquidity during periods of lower revenue.



Analysis of cost structures to identify areas for cost reduction or optimization.



Scenario planning and sensitivity analysis to assess the potential impact.

CONCLUSION

Adapting to a stagnated market requires a proactive, flexible approach to the S&OP process. By focusing on realistic demand planning, flexible supply chain management, optimized inventory levels and robust financial strategies, businesses can better navigate the challenges of a difficult market, maintaining efficiency and profitability even when external conditions are unfavorable.

This strategic adjustment will also prepare the organization for future fluctuations in market conditions, making it resilient and flexible in the face of uncertainty.



HOW A&M CAN HELP

It can be challenging to navigate the complex and evolving landscape of supply chain planning capabilities while remaining focused on tangible performance improvements. This requires not only operational expertise and an innovative vision, but also a shareholder mindset with a strong focus on realizing value.

This is what distinguishes the support you will receive from A&M:



Senior resource depth

We are seasoned professionals with in-depth operational experience, which enables us to keep the analysis phase short and move straight into action. Where necessary, we can also provide interim leadership to ensure rapid implementation of advanced planning.



Restructuring heritage

We leverage A&M's restructuring heritage to deliver tangible outcomes. With a focus on speed-to-results, we ensure that all aspects of advanced planning in the implementation plan have a tangible bottom-line or cash impact that is aligned with the business' long-term ambition, while also initiating short-term action.



Complex transformations

We have a proven track record of managing complexity in high-profile situations. We understand organizations and their processes and ensure that advanced planning is embedded in the operating model.



Independence

As independent advisors, we base our recommendations on facts alone. We do not participate in partnerships with any of the advanced planning vendors.

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