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Realising the full potential of demand planning

Part 1: the mechanics of good process

By Rod Hozack

Realising the full potential of demand planning can contribute to the long-term success of the business

In this two-part series, we explore how the longer-term demand plan should play a more prominent role in businesses. In this first part, we look at the key elements in setting up the demand planning and forecasting process, which is a critically important 'front end' of not just supply chain planning processes, but planning for the entire business.

Often, organisations miss the opportunity to use the demand plan to guide the rest of the business, both in the short term and the longer term. With our 'five keys of demand planning', we provide readers with an insight into realising the full potential of the demand plan and how it can contribute to the long-term success of the business.

1. Make sure the monthly management process horizon is at least a rolling 24 months

When it comes to demand planning, many companies focus their time on the next month, or maybe the next quarter. Thereafter the budget is usually inserted to flesh out the rest of the financial year, but this encourages 'hockey stick forecasting', which is particularly commonplace when sales are consistently tracking behind budget.

In this situation, most organisations will still be forecasting throughout the year that they will achieve budget, so there is a resultant cumulative error, commonly known as bias.

Anyone who has been in business for a little while knows that the first draft or 'roughly right' budget plans become the anchor to which all subsequent deviations must be explained. So, a better approach is to make sure the monthly review cycle has at least a rolling 24-month horizon. This means there are six months to get the first draft of the budget as good as it can be, but avoids a 12-month budgeting process. In this way, the senior team get a view of next year's plan in full, and are freed up to focus on strategy.

2. Assign responsibilities for each layer of planning

For a successful demand plan, there should be an annual planning cycle, which aligns with the longer-term strategic plans (usually five to 10 years), agrees a more detailed business plan for the next three years, and then aligns the annual budget to the lower-range aspirations.

Everyone in a company needs to know about strategy and it is the lead team's primary area of responsibility to develop the strategic plan and cascade it down to the rest of the business.

The monthly cadence is the routine 'stop and check' to make sure projections are still on track. This is also primarily the domain of the lead team, but also integrates with middle and junior management in ensuring changes that occur each month are captured, assessed and used for re-planning the medium-term horizon, i.e. the next rolling 24 months.

3. Ensure ownership and accountabilities are defined

To get the right level of input and perspective, and to achieve consensus without 'drowning in the detail', it is important to define who owns which horizon and to what level of detail. In the ownership of the higher levels, longer-term forecasting is the responsibility of the most senior sales and marketing roles, while the bottom level focuses on execution.

Depending on how big the organisation is, there can be a cascade of ownership, defined by an increasing level of detail, as the horizon becomes shorter and closer to 'the here and now'.

4. Spend more than 75% of the time in the monthly management meetings on the four to 24-month horizon

Increasing time on the medium to long-term is easier said than done, in that it requires changing well-entrenched behaviour patterns. The structure of the monthly demand review process needs to encourage (and measure) more time spent looking at the future.

Senior marketing and sales managers should routinely spend one to two hours a month reviewing the 24-month demand plan and measure where time is spent. The key parameters can be easily jotted down or documented in a simple spreadsheet to measure the following:

- Data accuracy/integrity and process integrity discussions – there should be no time spent on these topics
- Assumption performance and key metrics – ideally this should be about 15% of the time
- The short term, i.e. next three months – ideally this should be no more than 10% of the time
- The next 12 months and this financial year – ideally about 35% of the time
- Months 13 to 24 – ideally about 40% of the time.

5. Consensus demand planning

For tangible results from consensus demand planning, the process needs to have three essential criteria:

a) The individual forecasts must be done in isolation and derived from those forecasters' perspectives

b) Key drivers or underlying assumptions have to be documented to describe the thinking behind how the numbers and plans were generated

c) The consensus is reached by rigorous challenge and debate about the different sets of assumptions and perspectives, not the actual numbers themselves.

Each of these inputs needs to be quantified and time-phased, so there can be an 'apples to apples' comparison. A good starting point is to set up different views for sales and marketing, and add statistical forecasting projections to anchor the plans, such as a sales forecast by SKUs, by customer, for the first six months – the bottom-up forecast, for example. The important point is to debate the 'thinking' behind the numbers, not the numbers themselves.

In Part 2, we will explore what to do with the demand plan once we have the process embedded in the business.

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