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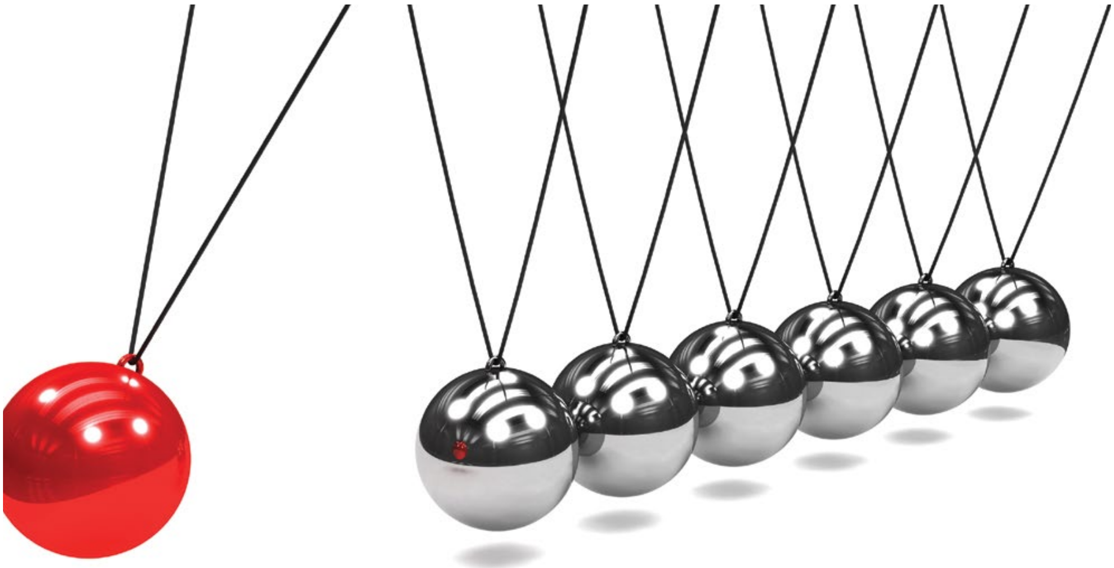

PLAN4DEMAND

Realising the full potential of demand planning – Part 4. in a series

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In this series, we explore how the longer-term demand plan should play a more prominent role in businesses. The first two parts dealt with the key elements in setting up the demand planning and forecasting process, and this time, we will explore what the key behavioural elements are, i.e. what we do with the process and the outcomes when we get them. You can read Part 1. here: https://bit.ly/2MpyPzS and Part 2. here: https://bit.ly/2ALsebk. Part 3. is available here: https://bit.ly/2sff6pU.

8. Make the gap visible

Most companies can easily identify the gap to budget but a couple more things are needed to make it really work: 1) How do we achieve gap visibility to the longer-range three-to-five-year plan and 2) even further out, to the five-to-10- year strategic plan?

There are several layers that can be deployed to give visibility at the same time as not 'drowning in the data' (see Figure 1.). The first and most common layer is to use a three-year management horizon in the IBP process.

This resolves the medium-term gap analysis, but also means assumptions need to be time-phased over the same period, and time also needs to be set away each month for the review.

> 'For nine or 10 months of the year, I'm told only good news about hitting the budget, not to mention strategy, and then all hell breaks loose in the last two months as we do everything possible in the hope of achieving budget,'
>
> **CEO's dilemma.**

RIGHT: Figure 1. Making the gap visible: top-down, bottom-up.

To augment this, and make sure we're not looking at too much data, it is common for the three-year horizon to be aggregated into quarters, or even just annual time buckets, while the shorter term is kept in monthly buckets, e.g. as a rolling 12-month view.

The next layer is to make sure we define critical success factors, or key strategic drivers, that are linked to the strategic outcome. This can be as simple as several traffic light indicators on the management information pack each month, or more popularly, using a balanced scorecard to assist with strategy deployment.

The final layer is to ensure the monthly management meeting has a quarterly deep dive section. The important element is that there is a more thorough check on key strategic characteristics of the business as a matter of routine.

BEHAVIOUR CHECKLIST 3.

a. **Gaps need to be visible for the whole business planning horizon, not just budget.**
b. **Cycle through deep dives of business model characteristics to uncover 'bad news early'.**

A TYPICAL CADENCE IS:

Month 1: review key metrics for relevance, tolerances, and targets, and adjust accordingly.
Month 2: review relevance of key assumptions for alignment with strategy and their effectiveness as a 'hard-wired' driver of plans.
Month 3: review the cost of managing uncertainty, i.e. inventory policy, which includes safety stock, customer promise by SKU by customer, SKU rationalisation, demand-supply strategy, and segmentation.
Month 4: strategic initiative review and relevance of critical success factors.
Month 5: start the cycle again.
There are many variations on this cycle of 'deep dives', but the important point is that changes need to be captured early. Key 9. expands on this further.

9. Focus on the gap

The gap is not the main point here, the important thing is to make sure change is accepted early while the impact is small. Golfers will know that unless you get the club face absolutely square to the ball at impact, the ball may take off straight enough but the spin created by the off-square strike will eventually tug the ball sideways.

So, instead of landing in the middle of the fairway, it could be as much as 100 metres either side. The same with small gaps and changes occurring in the short term. Impact assessment has to extrapolate out to the longer term to make sure you give yourself time to respond without a knee-jerk reaction.

> The problem with keeping aligned to strategy is that small changes to assumptions noted today, can lead to a massive gap in two-to-three years if left unaddressed.

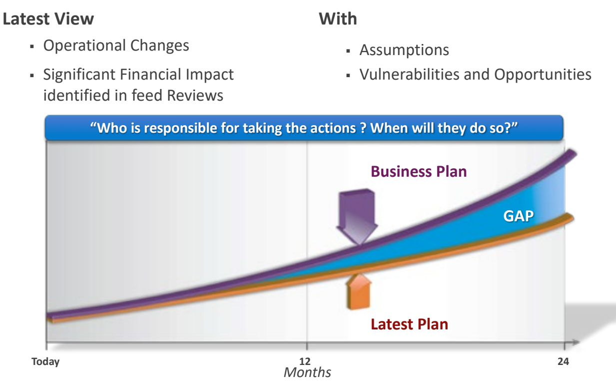


Figure 2. Focusing on the gap and underlying assumptions.

Once the impact assessment is done to identify whether a larger gap could arise in the future, contingencies need to be put in place to close the gap. Keep in mind, that this is not only for the current budget year, but what might happen over the next two-to-three years.

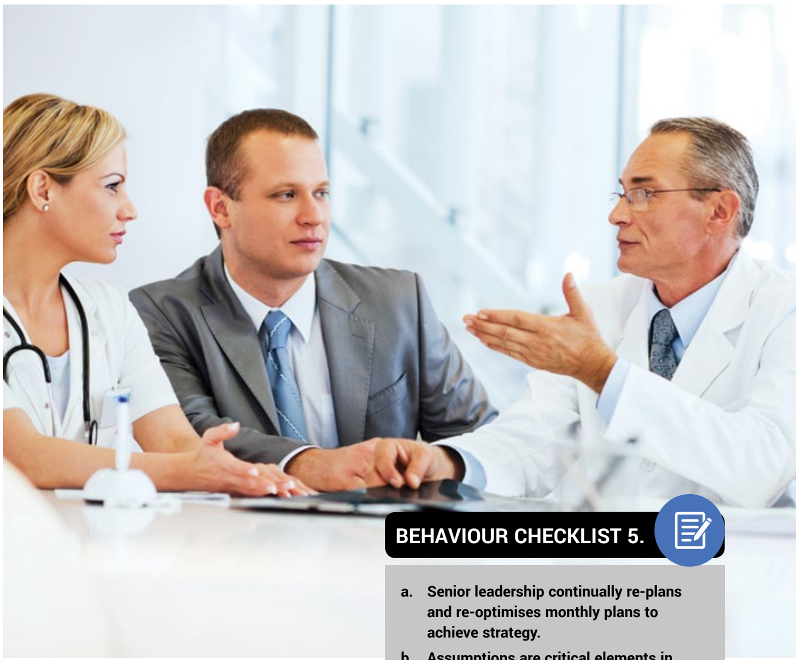
BEHAVIOUR CHECKLIST 4.

a. **Pay attention to the small deviations today – they could lead to massive changes in the future outcomes.**
b. **Impact assessment needs to be done to extrapolate out those small changes occurring today.**
c. **Contingencies need to be developed and owned.**

10. Integrated business model

In a robust integrated business planning process, everything hangs from the demand plan, especially the longer-range projections. This monthly process is designed to re-evaluate the three core plans (product portfolio, demand, and supply) each month. The major elements are closely aligned with the previous nine keys and become the decision-making framework for the business. It is a forward-looking, assumption- driven process that is designed to continually align back to strategy.

> ‘There is no simple mechanism for the senior team to come to a consensus.’
>
> **When growth stalls.**



BEHAVIOUR CHECKLIST 5.

a. **Senior leadership continually re-plans and re-optimises monthly plans to achieve strategy.**
b. **Assumptions are critical elements in ‘tying it all together’.**
c. **Most of the monthly review time needs to be spent on the future.**

There are many articles written about the IBP model (Figure 3.), which can be found on the Oliver Wight website, so there’s no need to go into further detail in this paper but this behaviour checklist captures the important elements. With acknowledgment to the authors of ‘When Growth Stalls’, the overarching sentiment for ‘Fully Realising the Potential of Demand Planning, can be summed up as follows:

87 per cent of the root causes for successful companies to lose momentum and stall, are within management’s control.

BELOW: Figure 3. Oliver Wight Integrated Business Model.

IN SUMMARY

The key to minimising this potential is to ensure the process of generating the business’ forward projections are robust, routinely re-aligned with strategy, underpinned by a raft of quantified and time-phased assumptions, and mechanisms for identifying and managing the inherent uncertainty that predicting the future brings.

If that wasn’t evidence enough to drive focus on the demand planning and forecasting process, then consider this. Only three companies that were in the top 10 of the Global Fortune 500 list in 1996 are still there, and there are only five still in the top 20.

So, do you have enough focus and rigour being applied to the 10 keys of fully realising the potential of your demand planning process?

This article is the concluding one in this series. Watch out for more Oliver Wight articles in future issues of MHD Supply Chain Solutions magazine.

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