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Realising the Full Potential of Demand Planning Part 2: Influencing behaviour and what to do with the outcomes of good process

In the second instalment of this two-part series Oliver Wight Asia Pacific Partner, Rod Hozack explores what to do with the demand process and plans once they are properly established. To get to grips with the remaining five keys, it is crucial to understand that unless there is a behaviour change, it doesn't matter how good your processes are, how capable your people are, or how sophisticated your computer systems are, it will all amount to nought unless there is a different behavioural outcome.

So, let's look at how this might apply to the demand planning process, with keys six to 10.

6. **Assumption Management of the Whole 24-Month Horizon**

It is crucial that companies first document the assumptions for the business model in their strategic and business plans, wording them in such a way as to be more easily quantified, such as with costs, percentages and numbers.

Once we have this, we can measure accuracy – yes, measure accuracy. This way we drive continual improvements, and if it is hardwired to the outcome plan, once an assumption is changed, the plan must also automatically change.

7. **Understand and Use Uncertainty**

By definition, an opportunity is not in the demand plan, but if certain assumptions come true, it could be an upside. A vulnerability, on the other hand, is something that is in the plan but if certain other assumptions come true, it may reduce the plan.

In a robust demand planning environment, these opportunities and vulnerabilities should be balanced on either side of the expected outcomes in the longer-term plan, and importantly, accompanied by agreed contingency plans to facilitate swift responses if these assumptions come true.

8. **Make the Gap Visible**

There are several techniques that can be deployed to give visibility to gaps in the budget whilst not 'drowning in the data'. The first and most common layer is to use a three-year management horizon in the IBP process. To augment this, it is common to aggregate this period 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 in doing this is that there is a more thorough check on key strategic characteristics of the business as a matter of routine.

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

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. Impact assessment must extrapolate out to the longer term to make sure there Is time to respond effectively, without a knee-jerk reaction.

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.

10. **Integrated Business Model**

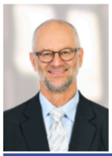
In a robust Integrated Business Planning process, everything hangs from the demand plan, especially the longer-range projections. This monthly process is designed to re-evaluate the three core plans (product portfolio, demand, and supply) each month. The major elements are closely aligned with the previous 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.

In summary

The key to success here is ensuring 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.

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 has been taken from Oliver Wight's latest whitepaper, *Realising the Full Potential of Demand Planning | Part 2: Influencing Behaviour and what to do with the outcomes of good process.*



Based in Sydney, Australia Rod has 15 years hands-on experience in the pharmaceutical industry and 15 years consulting to match. He has delivered many successful business improvement programmes with large blue-chip organisations, including Abbott Laboratories, British American Tobacco, Caterpillar, and Wrigley's; helping these companies on their journey to Class A business excellence. An accomplished strategist, Rod has a proven record of effective implementations that deliver tremendous value for his clients.

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