TRUST THE PLAN

Demand Management for Business Leaders

Greg Spira

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CONTENTS

Foreword v
Preface vii
Acknowledgments viii
About the Author ix
WAV page xi
SmartCorp Organizational Chart xii

CHAPTER 1: Planning for Success 1
CHAPTER 2: Working *On* the Business 11
CHAPTER 3: Working as a Team 31
CHAPTER 4: Gaining Alignment Through Integrated Business Planning 43
CHAPTER 5: Trust 63
CHAPTER 6: Customers of the Demand Plan 73
CHAPTER 7: Assumptions 85
CHAPTER 8: Reaching Consensus in the Demand Review 107
CHAPTER 9: Achieving Business Goals and Objectives 133
CHAPTER 10: Aggregate and Detail Planning 151
CHAPTER 11: Staying Focused on End Users 167
CHAPTER 12: Measuring Performance 183
CHAPTER 13: Trusted Advisors 197
CHAPTER 14: Conclusion 209
APPENDIX A: Analytics and Technology in Demand Management 213
Creating a Statistical Forecast 215
Disaggregation—Planning the Mix 218

Cause-and-Effect Relationships 219
Benchmarking 220
Finding and Grouping Similar Items 220
Demand Planning Tools and Technology 224
Lakes and Warehouses 227
Summary 229
Endnotes....229

Index....231

FOREWORD

By Colleen "Coco" Crum

Anthropologists cite the role that trust has played, since the first humans walked this earth, in sustaining the well-being of people as they interact with others, trade goods, and seek to borrow and loan something of value to one another. Adam Smith, the father of modern economics, wrote of the value of trust in economies and societies. "Without trust, nations and societies fail to thrive," he observed. Energy is consumed in just surviving, and there's little left to create the best opportunities for oneself and one's society and nation.

In this book, Greg Spira breaks new ground on creating trust within companies and business cultures. In essence, businesses are tiny economies. They produce and distribute goods in response to demand from consumers, which is the definition of economies. As such, the same economic principles for nations and societies apply to businesses as well, albeit on a much smaller scale.

When trust is lacking within the business culture, companies, too, fail to thrive. Business leaders spend an inordinate amount of time managing crisis after crisis, trying to achieve the next quarter's financial promises. They run hard—like a mouse on a treadmill with no exit in sight. Little time remains to develop strategies and tactics for increasing revenue and profits over the long term—or what Greg calls *focusing on the business*.

Economists attribute lack of trust to bringing down entire global economies, such as in 1929 and 2008. With the economies of companies, lack of trust is often the unacknowledged root of business failures. Few companies collapse as spectacularly as Enron. Most businesses disappoint their boards and investors in small ways that incrementally accumulate until lack of credibility brings them down. The board and investors simply do not believe the leadership team's explanations and do not have confidence in their plans to right the ship. Executives may be replaced. Companies may be acquired for far less than they might have been worth had trust existed. Or, sometimes,

businesses cease to exist. And the mad scramble by business leaders to survive has been a massive waste of energy.

Greg takes a unique approach in this book. He narrows the issue of trust to the Demand Management of businesses. This focus makes sense considering that market-based economies *respond to* consumer demand. Within this context, Greg considers the impact on the business *as a whole* when demand plans or business forecasts are not considered credible or trustworthy.

Greg's focus on trust and Demand Management is not a theoretical pursuit. What makes this book particularly valuable for executives is its practical and actionable approach. Readers learn how to create credible demand plans through a wealth of examples that can be readily implemented. The behaviors Greg cites that are needed for all business functions to trust the demand plans should cause executives to pause and self-assess their actions and leadership.

While Greg's focus is on Demand Management, I hope you will widen your perspective and imagination for your business as you read his recommendations and real-life examples. The same principles and many of the approaches detailed in this book apply to other business processes as well, including the supply chain, product management, and Integrated Business Management. Making use of these approaches will keep your company's economy healthy.

PREFACE

Nearly 20 years ago, Colleen "Coco" Crum and George Palmatier wrote *Demand Management Best Practices: Process, Principles and Collaboration*. Before that, there were very few resources that comprehensively addressed the principles and best practices of Demand Management. That book established Demand Management as being more than just an activity within a company. It established Demand Management as a profession.

I began my professional journey around the same time that book was written. I was given a copy of *Demand Management Best Practices* when I took on the role of leading Demand Management at BlackBerry, and it has helped me tremendously in my career.

Over the past 20 years, the profession of Demand Management has continued to evolve. I have participated in that evolution firsthand—as a practitioner, coach, mentor, educator, and author. As a business advisor working with Oliver Wight Americas, I spend most of my time working with executives, coaching them on how to work together effectively as a team. I believe that while there has been much written about Demand Management for planners and practitioners, there remains an opportunity to address the topic in a way that is relevant to executives. That is what I aim to address with this book.

This book covers the best practices of Demand Management from the perspective of leadership roles, responsibilities, accountabilities, and behaviors. This book will not get into the nitty gritty of statistics or detailed performance measurements. Instead, it focuses on the key enablers of *trust*. Trust in the people, processes, and information being shared. Businesses achieve their goals through teamwork and teamwork is anchored in trust.

Greg Spira

ACKNOWLEDGMENTS

The inspiration, support, and experiences that have gone into the writing of this book have come from many sources. First and foremost are my clients and Oliver Wight colleagues, from whom I have been able to collect so many wonderful illustrations and examples. Jim Matthews, Mary Adamy, and Crystal Lee have supported and shaped my journey with Oliver Wight in ways that I am deeply thankful for.

One of my Oliver Wight colleagues, despite being in "retirement," has gone well above and beyond in supporting me on this journey. I initially approached Colleen "Coco" Crum for feedback on a first draft—which led to a year-long journey of revisions and improvements that have truly made this book something that I am extremely proud of. It has certainly been worth it, and I am extremely thankful for the time she has invested in helping to make this book what it is.

I would also like to thank my father, Allen Spira, and my colleague, Charity Lopez, for providing feedback and support on various drafts of the book along the way. I also owe sincere thanks to Timm Reiher, with whom I teach the Oliver Wight Demand Management course, for allowing me to use a few of his own stories.

Through my years in industry as a practitioner of Demand Management, I have had the good fortune of working with many talented leaders. Adam Michaels, Jay Cooper, Larry Di Nicola, Brian Forrest, and Pat Laflamme all deserve my sincere thanks for the impact they have had on my career experiences.

Last, and most important, I would not have been able to complete this endeavor without the support of my wife, Carol, and our two sons, Patrick and Christopher. They have supported me without question as I have invested countless hours in the writing of this book.

ABOUT THE AUTHOR

Greg Spira, a business advisor with Oliver Wight, is an expert in Demand Management and Integrated Business Planning. He has written and coauthored many whitepapers on Demand Management and is an instructor of the Oliver Wight Americas Demand Management course.

Greg has particularly deep experience in the consumer goods industry, having helped many well-known large food companies improve their planning processes. He has also supported companies in a wide range of other industries, including packaging, chemicals, healthcare, medical devices, and fashion.

Prior to joining Oliver Wight, Greg held several roles at Mondelez International, one of the world's largest snack companies. He established their Integrated Business Planning process in Canada and led the Integrated Business Planning process for the Nabisco business in the United States. He also had various roles leading forecasting and planning across North America.

Prior to joining Mondelez, Greg spent several years at BlackBerry where he led the global team responsible for planning smartphone demand. There he navigated a rapidly evolving environment with long lead times, short product life cycles, evolving business models, and intense competition. Greg also held roles as a controller and as an information technology manager with a midsize retail fixture company.

Greg received his MBA, CPA, and CMA from McMaster University, where he has since been a sessional lecturer.

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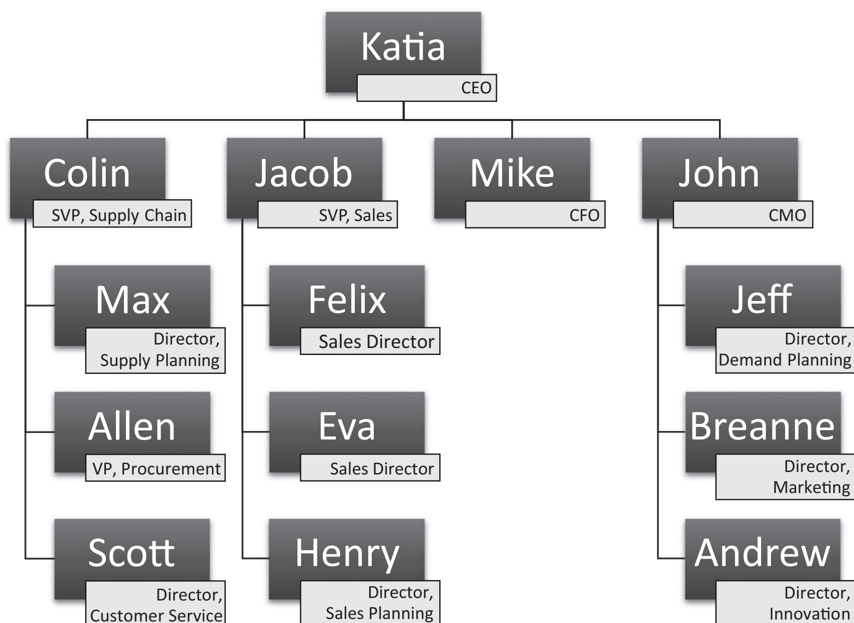
Downloads for *Trust the Plan* include numerous whitepapers to enhance the adoption of world-class Demand Management best practices.

SMARTCORP ORGANIZATIONAL CHART



CEO – Chief Executive Officer
SVP – Senior Vice President
CFO – Chief Financial Officer
CMO – Chief Marketing Officer
VP – Vice President
CIO – Chief Information Officer

CHAPTER 1

PLANNING FOR SUCCESS

Let's start by exploring the fundamental premise that *planning is a good thing*. Some may ask: Why do we plan in the first place? Why not be carefree and deal with issues as they arise? This might sound a bit exaggerated, but I have encountered people who, frustrated with ineffective planning, focus their energy solely on improving their ability to react. Let's address the question of *why we should plan* by reviewing an example.

I recently enjoyed a tropical vacation with my family. Before leaving, my wife and I laid out a plan for the trip. We had a few constraints that impacted what we could and couldn't do—timing, duration, and budget—but otherwise, we were flexible. I'm sure we could have just showed up and figured out what we were going to do day by day, but that is not what we chose to do.

Even though *we* were flexible, that didn't mean that the activities that we wanted to do would be available on a whim. For example, we wanted to take a road trip, but we needed to be careful about weather conditions. We wanted to visit one of the national parks, but tickets were limited. Dinner reservations were needed in most cases, and activities like golfing, scuba diving, and surfing all had to be booked in advance.

So naturally, we put together a plan. We made reservations, scheduled activities, and enjoyed the trip. If I look back to what made the trip a success, however, I wouldn't say it was because we had scheduled our activities in advance. Sure, planning for the trip was important, but it wasn't the plan itself that was important. What mattered most was that we all had the opportunity to do the things that we really wanted to do. My youngest son wanted to try surfing. My oldest wanted to golf. I wanted to go scuba diving. My wife wanted to spend time relaxing on the beach. Our enjoyment of the vacation was measured by whether we got to do the things we wanted to do.

In the end, the discussions we had while planning the trip weren't really about logistics. They were about understanding everybody's goals and prioritizing accordingly. We shared what was important to each of us. We made

sure everyone understood each other's desires, and then the scheduling became relatively straightforward.

Years before, we took a different sort of vacation. We drove across Canada from Ontario to British Columbia. We didn't know for certain how far we would want to drive each day. Instead of planning each hotel stop in advance, we booked hotels day by day. Our only requirement was that the hotels had a pool for the kids. Did we know where we would be on any given day? No. Did we have a plan? Absolutely. The plan reflected our approach to meeting our goals.

Even if there is no need to make advance bookings or reservations, planning is still important. If just one person is traveling, it's easy to have a conversation with yourself and prioritize. Once you expand to two or more people, communication becomes critical. Planning shifts from an activity that you do implicitly to one that is explicit and intentional. Planning includes communicating what our goals and objectives are and working together to find ways to achieve them.

Dwight D. Eisenhower is quoted as having said, "Peace-time plans are of no particular value, but peace-time planning is indispensable."[1] It's true—and not just for military leaders, but for business leaders as well.

Planning is indispensable, but it can also be challenging. In my experience, both people and organizations need to learn how to plan effectively—it doesn't always come naturally. This need is critical in larger organizations where many different people in different roles must come together to connect and align various plans.

To help illustrate some common challenges that business leaders experience in planning, let's look at the fictitious company SmartCorp. SmartCorp is like many actual companies, with a capable leadership team, smart employees, and products that customers want to buy. Like many other real companies, however, SmartCorp isn't perfect. As we progress through this book, we will use SmartCorp to illustrate common planning challenges that business leaders experience and how they can be addressed.

* * *

Let's take a look at the following situation from SmartCorp.

Katia, CEO of SmartCorp, is confused about the sales forecast, and she needs clarity quickly. She must present a financial forecast to the board of directors tomorrow.

"I don't understand the numbers," she says to Colin, the Senior Vice President of Supply. "What is shown here is a sales forecast of over $200 million for next quarter. We met with Jacob last week. He was clear that $165 million would be a stretch for the sales organization to achieve."

Jacob is the Senior Vice President of Sales. He is not participating in this meeting that Katia requested just this morning. He is making a sales call at RetailMart, SmartCorp's largest customer. He, along with Felix, the account sales leader, and John, the Chief Marketing Officer, are presenting an update on a new product. This new product will be released to the market in one month as part of Project Alpha. The sales strategy is for RetailMart to be the first customer to commit to buying the new product.

Katia's agenda for today's meeting includes reviewing a crewing plan to increase production capacity. She wants to hear Colin's proposal and needs Mike, SmartCorp's Chief Financial Officer (CFO), to weigh in on the financial feasibility.

SmartCorp has been growing rapidly for the past several quarters, driven by strong demand for their personal protective equipment products. Katia challenged Jacob in a one-on-one meeting last week when he reported strong competitive pressure was making it difficult to maintain their revenue growth trajectory. Katia expects him to propose a plan to overcome these competitive pressures.

Katia turns to Colin and asks, "Where did you get these sales revenue numbers?"

"From Jeff," Colin responds. Jeff is the Director of Demand Planning. The demand planning team meets with every account team monthly and collects their demand projections, item by item.

"I don't know why Jacob is being so conservative, but I've got all the detail and backup information behind Jeff's numbers," says Colin.

"I told you Jacob was sandbagging," Mike says. The CFO has a reputation for distrusting projections from both the sales and supply organizations.

"We have to send our plans to the board tonight for tomorrow's meeting," Mike adds. "I think we should go with the higher number. Colin has the details. Do we have enough capacity to deliver $200 million?"

"As long as we approve the crewing plan, including overtime, we should be able to hit $185 million," says Colin.

Katia pushes away from the conference table. "Great, let's do it," she says. "The plan is approved, and let's take $180 million to the board. That should give us a bit of wiggle room."

Fast forward three days. Jacob is visibly angry with his sales leadership team.

"Someone needs to explain to me how this happens. I just got a note from Katia that our target for next quarter is $190 million. I don't know how much clearer I could have been that it would be a stretch to achieve $165 million in sales revenue next quarter. But Colin tells me that my teams created that number!" barks Jacob.

"I don't like to be blindsided. No one brought the $190 million number to me," Jacob adds, clearly feeling his team undermined him.

Felix, one of the sales directors, musters the courage to respond. "Jacob, we've been talking about this problem for months now," he says. "We're chasing dozens of opportunities, and if we don't put them into the forecast file that we pass over to the demand planning group, manufacturing won't build the product. We can't sell it if they don't build it. It's as simple as that!"

"Even worse," chimes in Eva, another one of the sales directors, "the supply planners check every single order against the forecast. Almost every time we can't deliver something, I get blamed for not having forecasted it. We're so sick and tired of their second guessing that we include everything that is a potential sale in the plan. We don't have time to deal with these interrogations from the supply people."

"I get it, but now is not the time for excuses," Jacob says. "We now have a gap between what is feasible to sell and the revenue we are expected to produce next quarter. What are we going to do to close the gap?"

"Our best bet is to lean in on Project Alpha," Felix says. "You saw during our sales call at RetailMart how excited they are about these new devices. The Project Alpha products are supposed to be ready to ship to customers at the end of the quarter. One of our biggest opportunities is to sign an exclusivity agreement with RetailMart. I'm sure we can convince them to take product early to create inventory in their distribution centers in anticipation of sales the following quarter."

"I guess that's the only feasible shot we have. If you're telling me that it was covered in the plan that was sent to the supply people, then at least we won't have them saying it wasn't forecasted. Let's do it," says Jacob.

Fast forward to the end of the quarter. Katia is visibly frustrated with her team.

"I just don't get it," she says. "I'm really tired of having to go back to the board of directors to explain why we missed our numbers. They don't trust anything we tell them. Why don't we do what we say we're going to do?"

Katia is meeting with Jacob, Colin, and Mike to review the quarterly results. Revenue finished at $160 million, far short of the $180 that had been committed.

"We have orders for $185 million, Katia. We beat our projection by twelve percent!" says Jacob. "If Colin would have delivered all the product that was

ordered, we wouldn't be in this mess. And let me be clear, I never signed up for $190 million. I told you we would deliver $165 million in sales revenue, and now my team is being penalized for doing an outstanding job."

"He's right, Colin," Katia says to her supply leader. "You said we could deliver $185 million in sales revenue. What happened?" asks Katia.

"This is silly. We received $25 million in orders for Project Alpha devices. We all knew that Project Alpha wasn't going to be ready to ship last quarter," says Colin. "I told you I could make $185 million in product, and that's exactly what my team did. It's not my fault that Jacob didn't sell it."

"Well, that's not the only problem," says Mike. "Of that $185 million in product that was produced, $20 million of that is unsold and now excess inventory. Since we've committed Project Alpha to RetailMart, they're not taking any of the old version devices."

* * *

You may see similarities between your own experiences and the events and behaviors that Katia and her SmartCorp team faced. I have certainly encountered similar situations myself.

Rarely would I describe the actions of the leaders I worked with as malicious. In almost every case, the road to hell is paved with good intentions. In our SmartCorp example, the sales directors are genuinely trying to close sales opportunities and delight their customers. Jacob is trying to make reliable commitments to Katia without overpromising what his sales team can achieve in sales revenue. Colin is working to ensure that he has a supply plan that can deliver the product that is needed. Even Mike, while calling Jacob a sandbagger, is likely doing so because he has rarely seen a sales team deliver the revenue it promises and believes that sandbagging is just the way the game is played.

One or two levels down in the organization, people tend not to have the same understanding and empathy for the challenges faced by the business leaders. It wouldn't be hard to imagine a demand planner, brand manager, or materials buyer at SmartCorp thinking that the leadership team is dysfunctional, unable to agree on a plan, and always blaming one another for disappointing performance.

I have frequently observed people lower in the organization questioning their business leaders' ability to work well together. The hard and soft costs associated with the lack of leadership trust and alignment are real and significant. When trust is lacking between leaders, it inevitably cascades down through their teams. Silos become strengthened, and the cross-functional

collaboration at lower levels in the company becomes difficult, if not impossible. People shift their energy away from proactively solving problems to preparing explanations for why they weren't at fault. It can, in extreme cases, become outright combative.

My family vacation and SmartCorp's situation share some common traits—multiple people involved, each with their own goals and objectives. SmartCorp's challenge didn't come from people not caring or not being capable. Best practices for planning, collaboration, communications, and problem solving were missing. Open and honest discussion in scrutinizing and agreeing upon the sales plan did not occur. Jacob wasn't even included in the meeting to finalize the revenue projection that would be communicated to the board of directors! A common understanding of how the forecast of sales revenue would be achieved was not agreed upon. There was no discussion—let alone agreement—on the product mix, volume, and timing of production in support of the sales plan.

One fundamental principle that is not well understood nor embraced in many companies is that *we plan not for the sake of planning, but to achieve business objectives*. Customers don't buy products and services because a company has a plan, but planning is what enables companies to deliver products and services that customers want to buy, where and when they need them. Planning is the activity that brings together people within an organization to share objectives, prioritize, and create common understanding. This sharing includes communicating sales, new product, supply, and financial plans.

Plans are rarely stagnant. That's why planning is a continuous process that allows business leaders to recalibrate when things change. While goals and objectives may remain static over a longer period, business environments are dynamic.

For example, it's not sufficient to just tell the Sales organization to go and sell what was budgeted for the year. There might be some businesses somewhere that can set an annual plan or budget and then execute it without any deviation, but I have yet to find them.

Companies that achieve their annual goals and strategies have a different leadership mindset than in the SmartCorp example. Business leaders in high-performing companies understand that goals and plans are different. Goals are expressed as outcomes, and plans are expressed as actions that will deliver a result, such as achievement of revenue and profit goals. The leadership team also understands that goals can remain fixed over time. Plans, however, can and should change to adapt to new conditions that may impede achieving the goals and strategies.

Wise leaders ensure that conversations about plans include answering the following questions:

1. Do we still agree on the goals that have been established, or are changes needed?
2. Will our current operating plans enable us to achieve the stated goals?
3. If not, what do we need to change or do differently?

Using my vacation example, we knew that my youngest son wanted to try surfing. That was one of our stated goals. Surfing, however, depends on whether the *surf's up*. As the surfing date came closer, we checked the weather forecasts to make sure that our plan was still valid. If we had to change the date or time of the lesson, we could do that, but we would also have to consider implications on our other planned activities. Our planning process was continuous and routine—every day we checked the weather and made sure everything was on track.

High-performing organizations routinely discuss the answers to the aforementioned questions. They collect, evaluate, and respond to new information. They assess whether they are on or off track when it comes to achieving their goals. They make decisions regarding whether or not to change course. As a result, they have a better rate of success in achieving their goals than companies that have less formal planning processes.

In the SmartCorp example, business leaders confused goals and plans. Katia set a goal of achieving $180 million in revenue. The goal was not achieved, however, because there was no coordinated plan on *how* to achieve the promised sales revenue. The commercial organization focused on selling the new product; the supply organization focused on making more existing products available to sell. The result was a disappointed board of directors, a disappointed customer when product could not be delivered, and an increase in inventory for product that might not be sold.

In business, the confusion of plans and goals is unfortunately quite common. In fact, the language used to describe an annual target or objective quite often uses the word "plan." I vividly remember watching a heated, fist-pounding debate between two executives over which one was the real plan—the annual plan or the demand plan. The Chief Executive Officer was adamant that the annual plan was the only plan of relevance. The Senior Vice President of Operations believed that the demand plan was more worthy of attention because it included a documented action plan.

I chose wisely at that moment not to get in the middle of the debate, but the truth is that both leaders were right (to a degree).

In principle, an annual plan or budget is a goal. It is established and remains fixed over a period of time (often one or more years). It does not change in response to new information, such as changes in the marketplace or changes in internal capabilities, like an operating plan does. The annual plan is used as a benchmark or measuring stick. Business leaders compare the annual plan to the latest operational plans of the business. This comparison shows whether the annual plan will be achieved and whether financial promises to the board of directors and Wall Street will be met.

Organizations that consistently achieve or exceed their goals generally have business leaders who distinguish between operating plans and goals. They also routinely come together to adjust operating plans in pursuit of those goals.

Oliver Wight has tracked the performance of clients that we have helped to develop and improve their planning capability. On average, these companies have outperformed Standard & Poors 500 companies by 35 percent in terms of long-term operating income growth.[2] In our experience, when organizations routinely achieve or exceed their financial goals, they are more trusted by their board of directors. What they say and recommend is viewed as credible. This may sound like common sense—and it is, but just because something makes sense, doesn't make it easy.

The objective of this book is to show business leaders how to develop demand planning processes that increase the probability of achieving company goals and strategies. This book is also appropriate reading for business leaders from noncommercial functions. I hope it clarifies roles. I hope it creates a better understanding of what it takes to develop and execute credible demand plans. I also hope this book is useful for discussing within your company why it is necessary to trust those plans.

In the next chapter, we will discuss the roles in planning, including business leaders' roles. We will also uncover some challenges that leaders commonly face, and how these challenges apply specifically to Demand Management and planning.

SUMMARY

- We plan not for the sake of planning, but to ensure that we can achieve our goals and objectives.
- When planning involves more than one person or group, it requires each party to communicate their goals and objectives, and then work together as a group to achieve them.

- Planning is a continuous process. All businesses operate in a dynamic environment where things change regularly, requiring plans to be adjusted.
- Planning can be challenging and doesn't always come naturally to leaders.
- Plans and goals are different. Goals tend to remain fixed while plans change in response to changes in the market, customer's buying desires, internal capability, and other up-to-date information.

QUESTIONS TO ASK

- Are goals and plans clearly distinguished in your organization?
- Is your leadership team generally viewed as being high performing, dysfunctional, or somewhere in between?
- Is the process for making commercial decisions routine, coordinated, and planful?
- Are commercial decisions connected with the rest of the organization effectively?
- How broadly are commercial plans shared within the company?

ENDNOTES

1. Dwight D. Eisenhower. *The Papers of Dwight David Eisenhower, Volume XI: Columbia University.* Johns Hopkins University Press, 1984, p. 1516.
2. Nasdaq Data Link. https://data.nasdaq.com/databases/MF1/data.

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CHAPTER 2

WORKING *ON* THE BUSINESS

When explaining the concept of business planning to a leadership team, my colleague Mary Adamy uses the metaphor of a bridge. On one side of the bridge are goals and objectives. The activity of setting goals and objectives is important and is linked to business strategy, vision, and mission. On the other side of the bridge is the day-to-day running of the business which includes developing new business, negotiating with customers, transacting sales orders, operating production lines, buying materials, accounting for and controlling company resources, and much more. These activities are important—you simply can't operate your business without doing them.

This metaphor signifies that the bridge itself is the midrange planning process known as Integrated Business Planning (IBP).[1] It's what executives traverse in order to connect strategy to execution (see Figure 2.1).

The question is: On which side of the bridge should business leaders focus their time and attention? If business leaders spend all their time executing, they will find themselves in the same situation as SmartCorp. The goals were set, but everyone executed in different ways that satisfied their near-term functional needs. Leadership teams can't skip planning and execute their way to achieving long-term goals. They need to connect execution to plans that support the business objectives and will bring an optimal financial result. They also need a routine process of recalibrating and synchronizing those plans across the organization to adapt to changes in the business environment, both externally and internally. Execution primarily occurs in individual business functions. Planning involves both individual business functions and collaboration across business functions.

I frequently observe the following behavior, most often in companies or business units that are growing and expanding and in companies with leaders who have spent most of their careers in high-growth environments. There is an attitude of *just work it out* when problems arise.

As a business grows, complexity increases. The culture of *just work it out* doesn't scale. The number of communication intersection points within a

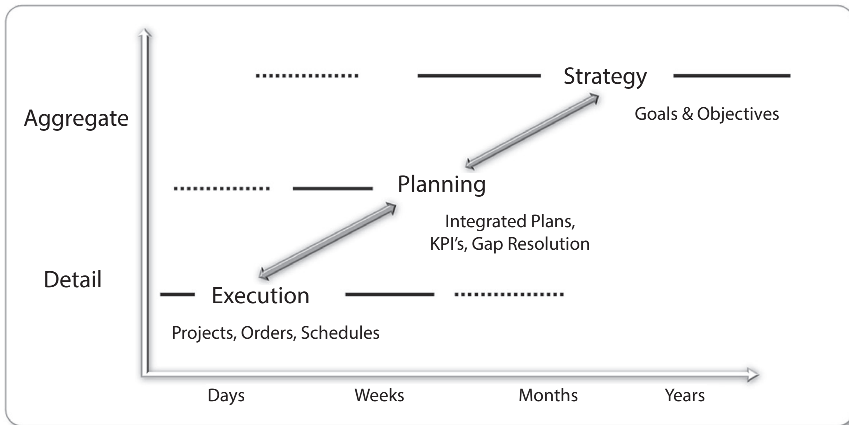


Figure 2.1 The Bridge Connecting Strategy to Execution. © Oliver Wight International, Inc. Used with permission.

company can grow exponentially if the expectation is that everybody establishes their own network. This lack of formality in problem solving often leads to what appears to be foolish or avoidable mistakes. One client used the sports analogy of increasing the number of unforced errors as complexity increases.

Much like with SmartCorp, common symptoms of informal decision processes include:

- The sales organization drives sales without alignment with what manufacturing can produce
- Decisions are made haphazardly, often with incomplete information
- Adherence to decisions is poor, and there is often confusion over what decisions have been made
- The finance team is often left deciphering misaligned information from across the business in an attempt to predict results
- People are tired and morale is low

The questions then are: Who is responsible for planning? Who should be on the bridge looking out for obstacles and steering around them, and who should be manning the oars?

A former Oliver Wight principal used to say: "If two people are trying to do the same job, fire the one who is more expensive." In other words, if the captain of the ship is manning the oars, he or she isn't really being a captain.

The leaders of an organization are chiefly responsible for planning. They certainly don't do this on their own. Chapter 4 covers in more depth the way

in which plans are developed and shared in an organization. That being said, business leaders are put in their respective positions to direct the resources of their functions and make decisions. They are therefore accountable for the plans that their teams follow and the results that those plans deliver.

A commercial leader (for example, a Vice President of Sales or Chief Marketing Officer) is responsible for directing the commercial resources of an organization, such as making advertising investments, hiring salespeople, prioritizing the time spent by marketers, and setting the prices of products and services. That leader is therefore accountable for the plans that reflect those decisions.

I spent some time evaluating the planning processes for a client that operates a chain of restaurants. While assessing the behavior of the restaurant managers, a common trait emerged: When things started getting busy, the restaurant manager tended to help prepare the meals—or what they called "hop on the grill."

On the one hand, we might think that's an admirable trait—to get down in the trenches and work with the team to muscle through serving customers. On the other hand, if leaders are all working the grill, then who is looking out for and planning around the next wave of customers or other obstacles?

It is considered best practice for a leader's first priority to be working *on* the business, as opposed to working *in* the business. Before hopping on the grill or getting into execution activities, leaders must allocate an appropriate amount of their time to plan beyond the next few hours, 2–3 days, weeks, or months—and even years. Somebody must be thinking about what will or needs to happen 6, 12, 18, and 24 months from now.

Jim Matthews and Leon Dixon put it well in their whitepaper *Is your S&OP or IBP process delivering the results you expected?* They observe: "An executive may be able to 'help' or 'rescue' a situation by dropping down and overseeing detailed execution for a time, but the reverse is impossible. The execution level and middle management are not able to rise up and do the many mid- and long-term executive tasks that allow a company to prosper and avoid crises and firefighting in the first place."[2]

Those executive tasks include planning. Planning *is* working *on* the business. Business leaders plan so they can empower others to execute. Planning and execution are separate activities.

Think for a moment about your business. Can you clearly delineate planning activities from execution? Do long-term planning discussions inevitably devolve into what we need to do in order to deliver the expected results for the month or quarter ahead? Do you regularly jump on the grill, so to speak?

The most effective leaders empower their teams to work *in* the business, executing the plans that they have set. They trust their teams to execute because:

1. They have confidence that their teams will follow the plan, and will escalate decisions up the chain of command when deviations to the plan are anticipated or occur.
2. They are confident that the plan they helped develop and approve can be executed.
3. The business leaders and their teams understand how the plans are connected across business functions and how the plans will enable them to achieve the company's business corporate objectives.

When any of these three elements are missing, leaders struggle to manage an appropriate balance of their time between planning and execution. As quarter-end or year-end approaches, does your leadership team tend to become more involved or less involved in the day-to-day execution activities? I can't recall a single executive saying that they wanted to be micromanaging at quarter-end, yet I have worked with many who felt they *had* to. The tendency to "hop on the grill" is often explained by the three enablers of empowerment as mentioned before, or rather by the lack of those enablers being in place.

Unfortunately, leaders often don't appreciate the negative behavioral consequences of being caught up in execution. They may see themselves through a positive lens of working shoulder-to-shoulder with their teams. In my opinion, this belief is often a delusion.

There's a reason my former colleague suggested that the leader should be fired when he or she is performing the same job as a lower-level team member. The reason goes beyond cost savings. This type of behavior can be very demoralizing to teams. Teams are deprived of the opportunity to succeed on their own.

Keep in mind, success can only truly be achieved when the chance of failure exists. In my view, leaders need to get out of the way and let their teams demonstrate their ability to succeed on their own. Planning helps leaders get out of the way. It gives leaders confidence that their teams have the tools to succeed and will ask for help if needed.

The distinction between working *on* vs. working *in* the business applies directly to Demand Management. Philip Kotler is considered the father of modern-day marketing. His book, *Marketing Management*, is the most widely used textbook on marketing around the world.[3] He is recognized for defining Demand Management as influencing the level, timing, and composition of demand to accomplish a company's business objectives and goals. The Kotler

approach to Demand Management can be thought of as a holistic activity involving both planning and execution of demand (see Figure 2.2).

In order to make better decisions about demand and to manage demand well, it helps for business leaders to first establish the definition of demand in their business. The word *demand* is often used, but frequently understood differently by different people.

Demand is what your customers need, when and where they need it. This definition may sound overly simple, but it has several powerful implications.

First, the focus is on what a company's customers need, not what the company is capable of supplying. Given the definition of demand, the next step is that demand should be planned without being overly concerned about whether the products or services can be delivered by the supply organization. Separation of customer demand from supply capability is critical to better serving customers in the most profitable way. It enables the ability to identify gaps between anticipated demand and supply capability—and to resolve those gaps before they become problems or crises. This behavior is a best practice.

Defining what a customer needs can be a tricky exercise. A senior vice president of a chain of successful retail stores once pointed out to me that they didn't sell anything that anyone actually needed. Her definition of demand would substitute the word *want* for the word *need*. In my view, the difficulty with using the word *want* is that customers often don't know what they want.

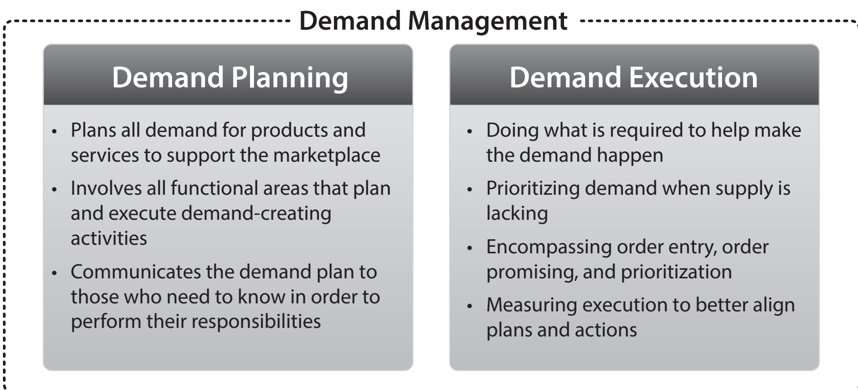


Figure 2.2 The Difference Between Demand Planning and Demand Execution. © Oliver Wight International, Inc. Used with permission.

Nobody said managing demand was easy. As a marketer, influencing customers to buy a company's products and services is paramount. An excellent marketeer does the following well:

- Creates awareness of products and services with customers
- Demonstrates why customers should buy those products and services
- Explains why the marketeer's company is the best company to buy them from

Consider this quote from Steve Jobs: "We have a lot of customers, and we have a lot of research into our installed base. We also watch industry trends pretty carefully. But in the end, for something this complicated, it's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them."[4]

I believe there is value in assessing both the wants and needs of customers. In either case, demand for a product or service reflects a customer wanting or needing it, and then acting accordingly to buy it.

It is important to note here that customers don't typically buy dollars, euros, or rupees (unless your company is a currency exchange). Customers buy products and services in a finite volume at an agreed upon price. That is why it is a best practice to express demand in both volume and value. Volume is a physical measurement, such as cartons, pounds, liters, or cases. Value is the corresponding revenue that will be generated from selling that volume of product at a specific price. This explanation may seem like a trivial point, but it is important to be explicit so that there is no confusion when demand is communicated.

As we have now started to illustrate, demand typically doesn't happen all on its own. This statement may be controversial for some people. I have worked with more than one cynic who thought that salespeople just stood around taking orders. It sometimes might appear that way, but in reality, there's nothing further from the truth. If you believe that salespeople do nothing, I suggest that you spend some time walking in their shoes, getting to know their day-to-day activities, and learning the challenges and obstacles that they face.

When I was responsible for Demand Management at a smartphone manufacturing company, it certainly felt like the orders just kept piling in regardless of what we did. But when I traced things back and kept asking why we were getting so many orders, I found there were many reasons why people bought smartphones; those reasons went far beyond the phones simply being available for sale.

A Vice President of Revenue Management at one of my clients said it well: "Sales don't materialize based on our declaration that we have inventory." At

the smartphone company, the products fulfilled the needs that customers had expressed for secure mobile communications. The products also fit into the *wants* category, as having a smartphone was very much a status symbol at the time.

Knowing what consumers and customers want and need along with paying attention to how their desires shift over time is critical in planning demand. The degree of influence over demand may vary, but the premise that your company is doing *something* to create or influence the demand for your products is foundational. Demand doesn't happen without the efforts to influence people to buy your company's products and services.

With demand defined, we can now extend that understanding to a definition of a *demand plan*. Recall the differentiation between goals and plans—goals are results or outcomes, whereas plans are expressed as the actions that will deliver those results. The demand plan is therefore the set of planned actions that will create or influence demand for a company's products or services. It is the list of actions that the sales, marketing, and product management teams are going to take to influence customers to buy the company's products and services.

Appreciating that a demand plan can be thought of as a to-do list for sales and marketing can be a significant adjustment in the mindset of those who think of demand as just a number. Do you know what the product, sales, and marketing teams are doing to influence customers to buy your company's products and services, not just next week, or next quarter or this year, but next year and beyond? If you don't, you need to find out.

A demand plan communicates the actions that will be taken to influence demand as well as the expected result of those actions in terms of product or service volume and value. The inclusion of "when and where they need it" in the definition of demand is therefore critical.

To be actionable, a demand plan needs to be communicated over specific points of time with an appropriate level of detail—or what some people call *granularity*. This form of communication is termed a time-phased demand plan.

An "appropriate level of granularity" refers to specifying what is expected to be sold in a specific time period with enough detail to be useful. For example, the supply organization must plan to acquire materials and manufacture products in the near term. The supply plan may need to be time phased in daily or weekly points of time, or what is known as time buckets. The supply organization's need for this level of granularity in demand information over the short term may require that the demand plan likewise be communicated in that same level of granularity.

In the longer term—over the next month, quarter, or year—it usually is unnecessary to communicate demand plans at that level of detailed granularity. It is sufficient to plan at a category or product family level in monthly time buckets, or what is often called the aggregate level.

As for "where customers need the product," knowing the location to warehouse and ship the product can be essential. That is what enables planning the logistics of timely and most cost-effective delivery to customers.

The previously mentioned planning examples focus on the information in the demand plan that the supply organization needs in order to develop its own plans. Keep in mind that there are other stakeholders as well who use the demand plan to create their own plans. These stakeholders include the finance, product management, and strategy organizations. These other organizations may require that the demand plan be expressed at different levels of detail over different time horizons. The demand plan must serve the needs of all stakeholders (see Chapter 6 for more detail). This is a best practice.

The over-arching goal of Demand Management is to create a trustworthy demand plan, and then execute it. The best way to develop a credible demand plan is to base the plan on reality and reflect the truth. To create trustworthy plans, the commercial organization must ensure that the plans are unbiased and reflect the best estimate of what customers will order. The plan should not turn out to be consistently high or consistently low. The commercial organization should feel as likely to over-deliver a demand plan as to under-deliver it.

When a demand plan has a bias (consistently high or consistently low when compared to actual sales), it creates a strong incentive for other stakeholders to second-guess or disregard it. Second-guessing undermines the value of cross-functional planning. Finance will be tempted to create its own forecast, for example, and so will the supply organization. These forecasts will suffer from lack of ownership by the commercial organizations. The forecasts inevitably will be misaligned with other functional plans, as was the case with SmartCorp. The importance of cross-functional planning will be explained in more detail in the next chapter.

With a better understanding of demand and the users of the demand plan, it is time to consider the definition and best practices of demand planning.

A best practice demand planning process involves developing, influencing, reaching agreement, and communicating what the commercial organization intends for customers to buy. The most effective demand planning processes consider what is likely to happen in the future that will result in demand for a company's products and services. This view of the future usually considers:

- Various perspectives of the marketplace
- Knowledge of competitors' pricing and product plans
- Understanding a company's own internal strategies, capabilities, and actions to generate demand

Understanding what is likely to happen (or is desired to happen) in the future requires collecting information and creating assumptions about what the company will offer and what customers are expected to buy in the future. The information and assumptions should not be taken at face value. They should be evaluated, cross-checked with members of the commercial team, and discussed. This analysis and discussion should lead to agreeing to a set of actions, responses, and expected results that optimize how products and services are commercialized, marketed, and sold.

Demand Management, critically, involves the commitment to follow the demand plan and execute it accordingly. Recall that Jacob, the Senior Vice President of Sales at SmartCorp, was not committed to executing the demand plan that Colin, the Senior Vice President of Supply, convinced Katia, the CEO, to approve. Also, recall the result: SmartCorp did not achieve the expected sales revenue.

This is why I am very careful not to confuse the term *forecast* with plan. People feel much more accountable to execute a plan than to make an accurate prediction or forecast. It is true that the demand plan will include some degree of forecasting. Not every assumption in a demand plan is completely within the commercial team's control. But agreeing on the plan means agreeing to execute the plan—and communicating when conditions change that put that commitment at risk. This is a best practice.

At one point during my time with a food manufacturer, I was responsible for planning demand for cough drops. Of the factors that influenced customers to buy our company's cough drops, two factors stood out: first, the price of the cough drops. Second, the level of seasonal cold and flu sickness. At the time, a single case of the flu would, on average, create demand for eleven cough drops.

The level of seasonal cold and flu sickness was completely outside our control. We did, however, make an assumption as to what the sickness levels would be. This assumption was derived from historical trends. Once the assumption was agreed upon, we monitored actual cold and flu sickness levels and adjusted our assumptions and resulting projections accordingly.

The price of cough drops, by contrast, was completely within our control. It was up to us to set the price. We made assumptions about our competitors' pricing, and our pricing decisions were influenced by the competitive environment.

The point of this example is that the demand plan must consider what is in a company's control and what is outside a company's control. Along with the demand plan numbers and time phasing of that plan, a demand plan should clearly convey both types of assumptions (we will talk more about assumptions in Chapter 7).

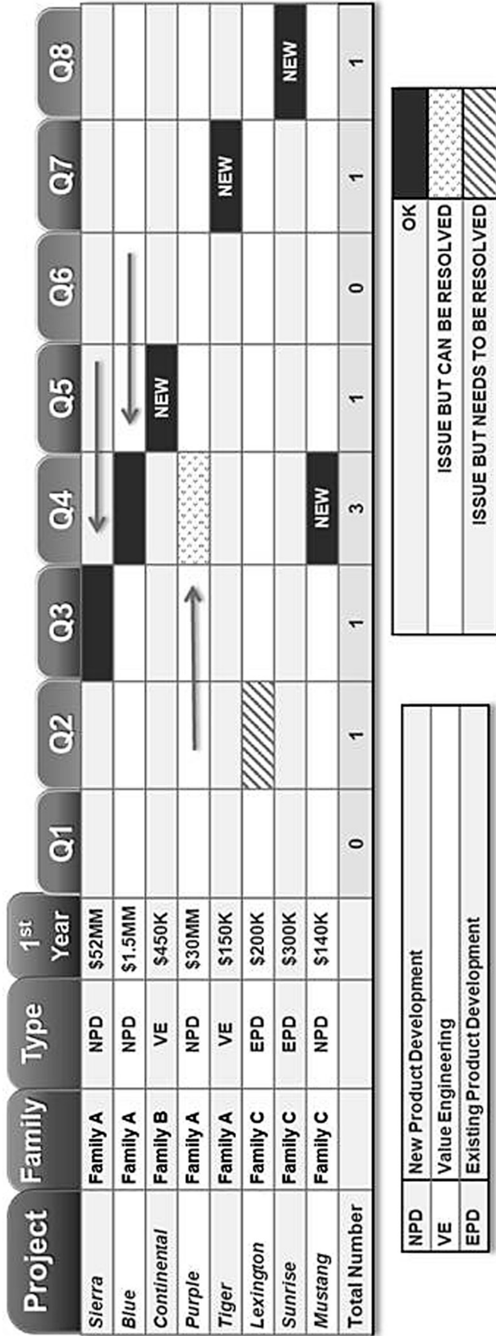
According to the definition of demand, a demand plan should also include the activities of developing new products and services. In practice, however, these activities are often split into separate but connected portfolio plans.

A portfolio plan defines the activities and expected results of evolving the portfolio of products and services that are offered to the market over time. The time horizon for a portfolio plan typically covers two to three years, but in some cases may be much longer, depending on industry circumstances. This plan includes new products being introduced; existing products being changed, repositioned, or sold into new geographies or channels; and existing products being removed and discontinued. The portfolio plan identifies and allocates the required resources, which might include investments in capital, research and development, regulatory, legal, quality, and other factors.

A portfolio plan has at its core a list of every project or initiative that is being actively worked on by the business that would impact the product portfolio (see Figure 2.3). This list is often referred to as the project master plan. New products are a vital part of the portfolio plan, but other types of projects or initiatives are as well. Some examples include projects that require substantial investment in time and money to reduce product costs, adjust product formulations to meet compliance requirements, retire or discontinue products, modernize critical production assets, and secure regulatory approval to launch an existing product in a new market.

Having a project master plan is the first step in developing a portfolio plan. I have, on more than one occasion, worked with companies to develop the project master plan and found business leaders surprised at what was being worked on. Typical reactions included: "Didn't we cancel that project three months ago?" or "Why are we working on a cost reduction for a product that we're about to discontinue?" These types of questions (and issues) surfaced simply by putting together the list and sharing it with business leaders.

Establishing integrity of the project master plan is the second step of portfolio planning. The timelines, milestones, volumes, margins, and other key data points associated with each of the projects must reflect reality—at least the most realistic assumptions that are available. For example, the projects and timelines in the portfolio plan must be balanced against the resources to deliver them, such as research and development capacity. If the project master plan lists 10 projects to be delivered next year, but the research and



Project	Family	Type	1st Year	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Sierra	Family A	NPD	$52MM								
Blue	Family A	NPD	$1.5MM								
Continental	Family B	VE	$450K					NEW			
Purple	Family A	NPD	$30MM								
Tiger	Family A	VE	$150K							NEW	
Lexington	Family C	EPD	$200K								
Sunrise	Family C	EPD	$300K								NEW
Mustang	Family C	NPD	$140K				NEW				
Total Number				0	1	1	3	1	0	1	1

NPD	New Product Development
VE	Value Engineering
EPD	Existing Product Development

Figure 2.3 Example of Project Master Plan. © Oliver Wight International, Inc. Used with permission.

development team only has the capability to deliver five of them, then it isn't a valid plan. Similarly, if the projects themselves tend to be biased—either overly optimistic or pessimistic in terms of the volume or margin that they will deliver—then the plan won't be trusted.

Once the project master plan is validated, it then becomes a reliable input to both demand and supply planning. The commercial and supply sides of the business can rely on the project master plan for the latest information and see what is planned well beyond 12 months. This knowledge significantly reduces the churn and surprises that inevitably come from a portfolio plan that is anchored more in hope than reality.

Creating a *reliable* portfolio plan is not always easy. A common problem is that the same people who are being asked to create a sufficient pipeline of innovation are also establishing the volume and price projections that drive the business cases for new products. This overlap of duties can create an incentive for new product business cases to become overly optimistic. At one client, optimistic business cases were so chronic that the new president reduced volume projections in all new product business cases by 25 percent. The percentage of reduction coincided with the historical level of bias and underperformance in sales. The president's actions exposed another problem for the product development and commercial teams. They needed to develop additional products to create 25 percent more sales revenue or develop different strategies to boost the sales of the company's other new and existing products.

A key objective of Portfolio Management is to address the linkage of the portfolio plan with the company's strategy and goals. This linkage helps to ensure that the overall portfolio of products, services, and capital investments are aligned with the long-term strategic objectives of the business.

For example, Mondelez International established a strategic objective to achieve half of its revenue within five years from products that consumers considered healthier. This strategic objective was monitored through their Portfolio Management process. Attention focused on ensuring sufficient investment in initiatives that would create healthier snacks.[5]

Some people ask why portfolio planning is a separate and distinct activity from demand planning. The answer is that it reflects a company's organizational structure. Commercial activities for existing products and activities involving the development of new products are usually led by different executives. Here's an extreme example of this leadership separation in a high-technology business: the two activities were led by different CEOs, whereas in most companies, the leaders are vice presidents. This organizational distinction makes sense, whether at the CEO or vice presidential level. The required

skill sets for new product development and commercial development involving sales and marketing are distinctly different.

To be clear, these activities are highly codependent, and should be integrated. One of the defining characteristics of IBP is the connectivity between Portfolio Management and Demand Management (see Chapter 4). That being said, plans must be owned by the executive leader who will direct the company resources to execute the plans. It would be futile to put a sales executive in charge of a portfolio plan if he or she did not have the authority to direct research and development activities.

I am frequently asked: Who should own the demand plan? Hopefully by this point, the answer is clear—a commercial leader in the organization must own the demand plan. Given that the demand plan reflects the planned sales and marketing activities of the organization, and that there must be commitment to execute that plan, only a sales or marketing leader could be accountable for it.

I am also being very intentional in saying that a commercial leader must own the demand plan. Sometimes, in the case of companies with different leaders of sales, marketing, and product management, there is a question as to which commercial leader that should be. The executive leader of the business must decide which commercial leader should own the demand plan. While the demand planning process requires multiple inputs and consensus, there must be one accountable owner of the plan.

I have seen organizations try to split ownership of the demand plan into different time horizons. For example, some people would argue that the top sales executive should own the near-term demand plan because the selling organization is closest to the customer. Therefore, the sales team should have the best perspective on what the customer will buy in the upcoming months. Similarly, some people believe the top executive for marketing or product management should own the long-term demand plan because these organizations have better insight into the long-range plans of the commercial side of the business.

This delineation of responsibility inevitably leads to problems. It fragments the planning process, leading to time and effort spent trying to figure out why planned demand in the two separate time horizons are inconsistent. When the short-term and long-term plans are joined together, it often becomes evident that different approaches, inputs, and assumptions are used by the different groups. Simply connecting the plans leads to something that makes little sense and is difficult if not impossible to explain. Worse, splitting the ownership accountability encourages behavior that is counterproductive and degrades collaboration and teamwork. Often, the two groups spend more

time complaining about or blaming the other than reaching consensus on the plan for their horizon of responsibility. The following paragraph describes a case example.

At one client company, the Vice President of Sales was given ownership of the first two months in the planning horizon. The Vice President of Marketing was given ownership of everything beyond two months. When the demand plan transitioned from month three into month two of the sales horizon, the sales team frequently complained that the plan being handed over was unrealistic and inflated. It was not a plan that the selling organization could commit to executing. The marketing team, in response, complained that the sales organization wasn't pulling its weight and feared that the near-term plans would drive the wrong supply chain actions in response. Both groups spent more time criticizing the demand plan in the horizons that they did not own than they did focusing on the demand plan in the horizons that they did own.

It is worthy to consider why commercial business leaders decided to separate the two horizons in the first place. I think it's not too dissimilar from when my two boys would fight as children. My default response was to separate them and send them to their bedrooms. The problem with that approach is if you stop there, it doesn't teach them how to resolve their disagreements. Best practice is for leaders to work *on* the business together, as a team. That involves resolving disagreements rather than finding convenient ways to avoid conflict and live with a lack of consensus.

It is true that the sales organization generally is more focused on the near term—closing sales to customers (unless the company has extremely long lead times for selling; think of airline manufacturers and defense companies). This near-term focus naturally results in the selling organization generating many of the near-term assumptions, such as executing promotions, gaining distribution, securing contracts, etc.

Likewise, the focus of the marketing and product management organizations is frequently on the longer term. Their efforts to influence demand have longer lead times (think of the time it takes to design new products or developing branding and other marketing campaigns). This longer term focus naturally results in the marketing and product management teams generating many of the assumptions covering the longer term.

One commercial leader in the business must be assigned accountability bringing it all together. That leader is responsible for:

- Ensuring that assumptions are collected and incorporated into the demand plan decisions

- Making sure that consensus is reached on the demand plan over the entire planning horizon
- Making sure that there is commitment by the executives of sales, marketing, and product management to execute the demand plan

Choosing the business leader who should be accountable for, or owns, the demand plan is not always straightforward. The decision is often influenced by company strategy and the degree to which different commercial functions impact demand. It is also influenced by where decision-making authority is placed in the organization.

For example, in a company where growth is primarily being driven by geographic expansion led by the sales team, the Vice President of Sales would be the natural owner of the demand plan. Alternatively, in a product-driven company where growth is primarily the result of new product innovation, the product management leader would be a better fit.

It is not uncommon to find the role of demand planning being thought of as a supply chain activity. In many companies, demand planners are part of the supply chain organization. The demand planning function being in the supply organization isn't the result of someone having done something wrong per se. Often it reflects an outdated view of demand planning—one that is more heavily (or exclusively) based on forecasting than planning.

When the commercial side of the business fails to take responsibility, for whatever reason, for creating a robust demand plan, the supply side of the business often takes control out of necessity. There are two problems with that approach.

First, the supply organization is often detached (both organizationally and physically) from the functions responsible for marketing, product development, and sales. The supply organization is not accountable for generating demand and is not involved in knowing the actions that the commercial teams are taking to influence and generate demand.

Second, given that detachment, a demand plan generated by the supply organization often relies heavily on historical data and statistical modeling. The problem with this approach is that history doesn't always repeat itself. Models based on history alone rarely deliver a plan that meets business objectives. Models based predominantly on history and statistics do not consider the business decisions and commercial activities that will generate new demand in the future.

Also remember that you shouldn't have to forecast that which you already know. I often find demand planners spending more time predicting the behavior of salespeople than they do predicting the behavior of customers or

consumers. One of these is a value-added activity and one is not when it comes to developing trustworthy, credible demand plans.

There may be many reasons why there is little appetite to shift the demand-planning function to the commercial side of the business. If that's the case, it is nonetheless important that the demand planners be perceived as part of the commercial team. Something as simple as having the demand planners physically located near their sales or marketing counterparts helps establish that relationship. It also facilitates demand planners to more easily know the commercial activities that are planned and how these activities will result in generating demand.

It is important to distinguish between being the accountable owner of the demand plan and being responsible for supporting the demand planning process by maintaining and updating the demand plan. A team outside of the sales or marketing functions may play the role of supporting the process. In fact, they may be best equipped to document the assumptions, perform analysis, and develop and update the time-phased plan. This is especially the case when an outside team has technical and analytical skills that the sales and marketing functions have not developed.

It is possible, and in many cases advisable, to achieve this best-of-both-worlds by the sharing of skills. For this arrangement to work, the team responsible for the process must remain properly equipped and supported to deliver what the relevant stakeholders need. This team also must be thoroughly trusted by the sales and marketing teams. A commercial leader of the business must accept accountability for owning the demand plan, and all commercial executives must accept accountability for reaching consensus on the plan and executing the plan.

Chapter 1 pointed out that plans need to be revisited and updated on a routine basis. It is common to be asked how frequently a demand plan should be updated. A demand plan is a living document and should be updated as needed to reflect new information and changes to assumptions. The frequency of your demand planning process should therefore follow the frequency with which new information is received.

Different time horizons may warrant updating the demand plan with different frequencies. Typically, a mid- to long-term demand plan, covering 4 to 24 months, is updated monthly. This frequency coincides with many inputs that tend to change monthly, such as:

- Month-end close reports where the prior month's sales volume and revenue are confirmed
- Receipt of syndicated point-of-sale data (such as Nielsen or IRI)

- Updates from the sales and marketing organization on customer plans and planned promotional activities
- Updates to customer relationship management systems to reflect new tenders or contracts
- Publication of industry reports and macroeconomic indicators

Updates of the demand plan in the near-term horizon, typically between one and three months, may be more frequent. Depending on the industry and circumstances, the demand plan within this horizon may need to be updated weekly, or even daily by exception.

Deciding on an appropriate frequency for updating the demand plan over specific planning horizons is a bit of a balancing act. On the one hand, it is important to know about new inputs as soon as possible to provide as much lead time as is necessary to digest and decide whether to adjust the demand plan. On the other hand, the cost versus the value of changing the plan must be considered, especially in the near-term horizon. Capturing planning inputs requires time and effort. Given supply lead times for making changes in the near term, it may be more practical to not alter the plan and manage delivery promising dates. Thinking about sales inputs, the trade-off of asking the sales team to spend time communicating changes to assumptions and numbers must be weighed against spending their time interacting with customers.

Considering how frequently to update plans is where the distinction between planning and execution becomes important. The planning activities for the longer term have a lower level of urgency, and it is usually sufficient to collect and review new information and update the plan on a monthly cadence. Changes that are within the execution horizon, typically between one and three months, can then be managed on an exception basis depending on the level of significance.

It is important to delineate between information and data—and how both are put to use in creating a credible demand plan. Technology makes it possible to acquire a growing amount of data that can be used in planning. As a result, more companies are attempting to consume large volumes of data on a more frequent basis, ostensibly for helping inform their decision making. Keep in mind, though, that just because we can, doesn't mean we should.

One example is the ability to perform *social listening*. Social listening technology collects data from various social networks in real time to monitor consumer sentiment and trends. Social listening certainly can serve as a helpful way to keep the consumer top of mind—but in a planning context, it has its drawbacks. Companies need to balance the availability of data with the capability to process and do something useful with it. Tracking

consumer sentiment daily or hourly is not necessarily helpful for a process that updates its plans monthly. The value of a piece of information should be based on its ability to influence a decision. Gathering data and processing it into information that does not impact a decision is, therefore, a waste of energy and resources.

The smartphone maker dealt with these kinds of trade-offs as well. The primary attribute of its products was the speed with which email and other communications could be sent and received. The company's culture expected real-time visibility to everything. The company's demand-planning tools were initially configured to send a new demand plan to the supply planners four times per day. The result, in my view, was chaos. Imagine a conversation between a demand planner and supply planner: "Was that promotion accounted for in the demand plan at 9 a.m. on Tuesday or 12 p.m. on Wednesday?" The supply chain planners largely ignored the changes to the demand plan.

The company shifted from updating the demand plan four times per day to a weekly cadence and established demand/supply governance around that process. Despite fears that real-time visibility and, consequently, agility would be lost, performance to the demand plan improved. The company later shifted from weekly to monthly communication of demand plans, with communication of exceptions during the month as deemed appropriate. Again, performance improved.

The key to how frequently the demand plan changes were communicated was in determining the cadence at which the supply chain team could reasonably digest and respond to the demand plan. An important change in mindset also occurred. The company's leaders stopped fooling themselves into thinking they were more agile than they were. Changing a plan faster than you can execute those changes is futile. Doing so only introduces noise and confusion to the process and inhibits decision making and execution.

This book chiefly covers the process of developing a credible demand plan that is trusted by a company's business leaders and stakeholders. When consensus is reached on a demand plan that is considered credible, all stakeholders are expected to follow it. This is a best practice. The appropriate commercial actions are taken to generate demand and achieve the results articulated in the plan. The supply organization, in turn, takes the appropriate actions to deliver the volume and product mix within the timing communicated in the demand plan. This, too, is a best practice.

The best practices outlined in this book are anchored in the understanding that demand leads and drives the business. Hence the term *demand driven*, which is commonly used to describe best practice business models. In demand-driven businesses, demand planning requires cross-functional collaboration, alignment

of plans, and teamwork. These, too, are best practices—and are the subject of the next chapter.

SUMMARY

- Leadership teams can't execute their way to achieving long-term goals; planning and replanning is required.
- The leaders of an organization are chiefly responsible for planning.
- Demand is what your customers need, when and where they need it.
- The demand plan has the following attributes:
  - A documented plan of actions that the commercial organization will take to drive or influence demand.
  - The communication of assumptions about what will influence customers to buy a company's products or services; these assumptions are a mix of what is within the control of a company and what is outside of the company's control.
  - A time-phased view of what a company's customers will order as a result of the aforementioned—expressed in both volume and value, and at an appropriate level of detail for the time horizon.
  - This time-phased view is unconstrained by what people in the commercial organization think that the supply organization is capable of delivering.
  - An unbiased view of demand; the demand plan numbers are not adjusted based on making corporate or the board happy, or pleasing one's boss—the demand plan is based on reality and what is most likely to happen.
- The demand plan is owned by a commercial leader, typically a sales or marketing executive.
- The demand plan is updated regularly to reflect the latest information, but not more frequently than necessary to be useful for decision making.

QUESTIONS TO ASK

- Where does your leadership team spend most of its time? Planning or executing?
- How often are your company's operating plans checked against business objectives? How often against strategy?

- How executable are your company's operating plans? Is there trust that the operating plans will be followed and will deliver the expected results?
- Is ownership of the demand plan clear? Do sales and marketing leaders take accountability for executing it?

ENDNOTES

1. George Palmatier and Colleen Crum. *The Transition from Sales and Operations Planning to Integrated Business Planning: Practices and Principles, Second Edition*. J. Ross Publishing, Inc., 2022.
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5. "Mondelez to Boost Ad Spending, Healthier Offerings." CNBC, September 10, 2015. https://www.cnbc.com/2015/09/10/mondelez-to-boost-ad-spending-healthier-offerings.html.

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