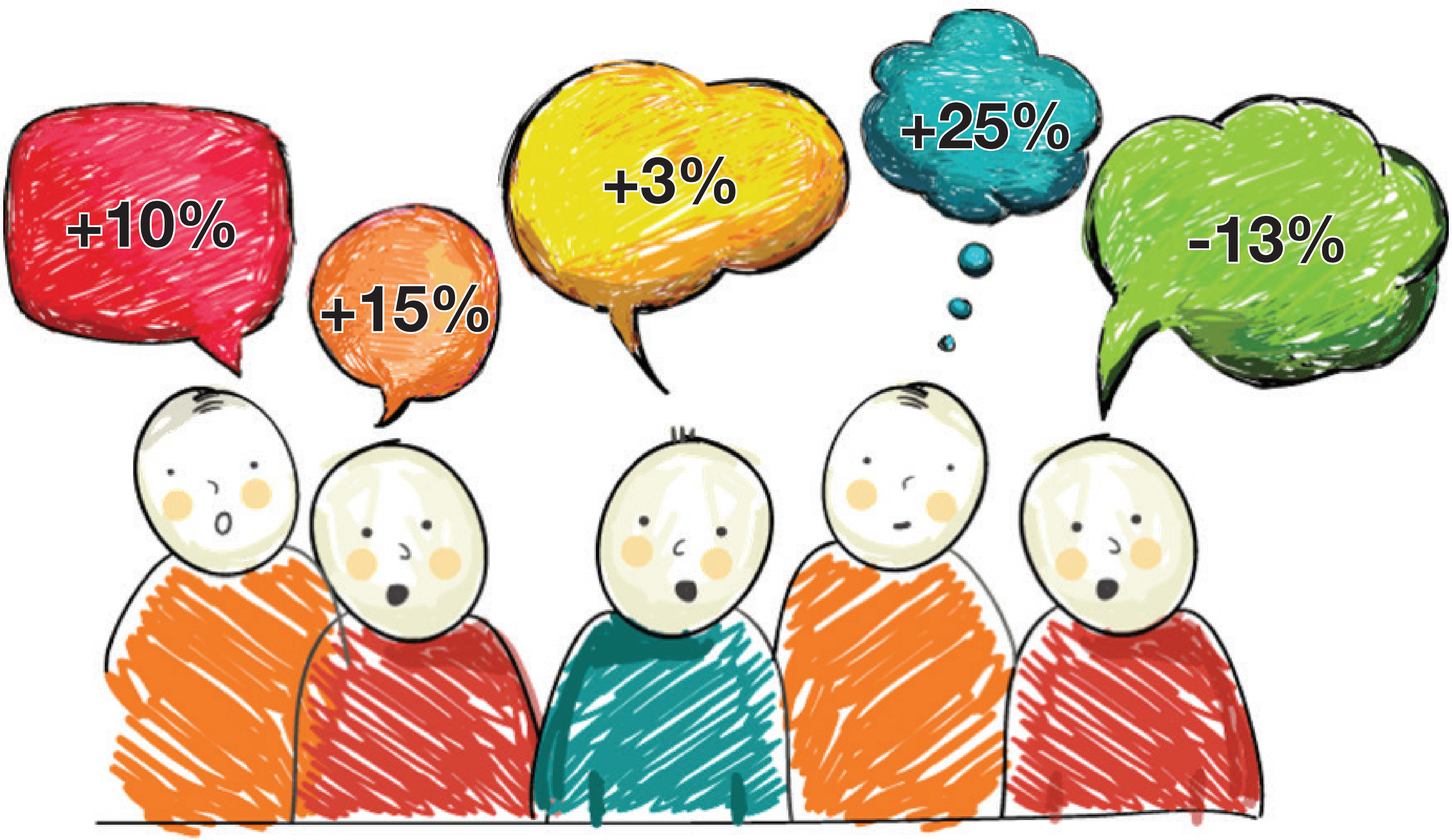
OLIVER WIGHT PAPER series

One Number Planning The Consequences – and Cure – for Misaligned Plans

Hint: Data Analytics Will Not Solve This Problem



Greg Spira - Principal, Oliver Wight Americas

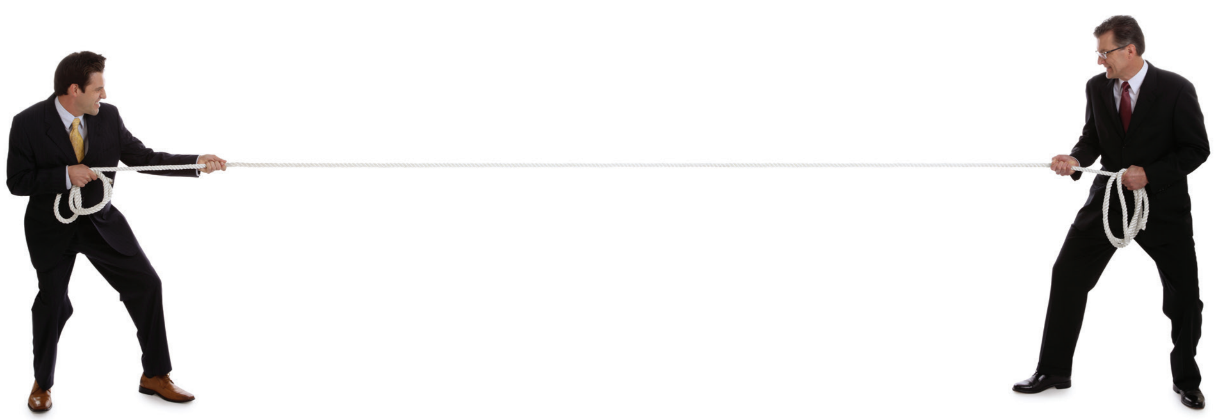
Imagine the **possibilities**, realize the **potential**.

In many organizations, forecasts are like opinions. Everybody seems to have one.

Dig deeply, and you will find confusion about the meaning of the word forecast. Some people believe forecasts are what the sales organization says they are going to sell, or possibly what their sales target is, or what the supply organization thinks that the sales team is going to sell and, therefore, what the supply organization says it will produce.

Some people think it is how much revenue the sales organization will generate and, therefore, what the finance organization will use to communicate their financial projections. And if these financial projections don't match the annual plan, they will create their own revenue projections. If the sales and supply organizations' financial projections are far enough off from the annual plan, the finance organization will "ask" them to change their forecasts.

The result? Each function – Sales, Supply, and Finance – operate based on their own opinions. Poor corporate performance is the inevitable consequence of companies operating from multiple forecasts: Excess inventories, low customer service levels, high overtime and expedite costs, and lost sales opportunities, not to mention lower than desired revenue and margins. Companies waste countless hours trying to reconcile these different views, with very little benefit derived from doing so.



What should a company do when it is driven by multiple forecasts, and the different functions seem to be at perpetual odds with one another?

Notice I did not say, "What should you do?" Notice I did not say, "What should Sales do, or Supply do, or Finance do?"

This problem will not be resolved by one function alone. If you really break it down, it is an executive leadership problem. The executive leadership team must change their expectations of forecasting, how future projections are communicated, and how decisions are made that ensures alignment on a single plan, or what we call "one set of numbers."

This change of expectations means that new planning principles must be adopted. Let's look at seven of the most important planning principles.

Principle #1: It Is a Plan, Not a Forecast

When companies use the term forecast, my radar immediately is triggered. The use of the term all too often means that: The expectations for the accuracy of the forecast are low, and that the numbers can be easily changed to suit someone's desire.

Forecasting is often regarded as a relatively low-level job. The people assigned to create forecasts are typically those with good Excel and analytical skills, and the position is a revolving door. After all, who wants to be told to change the forecast after working hard to crunch data and create something they believe is realistic? We've all heard the saying: "Forecasts are always wrong." Being wrong all the time doesn't sound like a very satisfying job.

What's the remedy? Think about projections of demand, production, distribution, and financials as a plan rather than a forecast. This mindset raises the high bar on performance expectations. The focus becomes:

- We are going to plan the sale of our goods and services and then sell the plan.
- We are going to plan what will be produced and shipped in support of the sales plan created by the commercial organization, then produce and ship the plan.
- We are going to develop the financial projections as extrapolations of the sales and supply plans and communicate those plans to executive leadership with any warnings and recommendations about financial concerns.

A plan is a set of actions that will be undertaken to achieve an outcome. People are much more accountable to execute a plan than to make an accurate prediction or forecast.

Principle #2: Analytical Tools Do Not Create, Align, and Execute Plans – People Do

Today's environment is data rich, and the analytics profession is booming. Advanced statistical analysis tools built on open-source programming languages, such as R and Python, are freely available and gaining in popularity. As a result, many companies are scrambling to competently deploy advanced analysis tools.

Big data tools have been touted for helping companies make better decisions. These tools have also been promoted for helping to spur practical changes within an organization.[1]

Executives have been listening to these messages and have opened their wallets. It is estimated that companies will invest more than $180 billion in business analytics solutions in 2019, an increase of 50 percent over five years.[2,3]

The investment in big data tools has democratized data analysis. More and more people have access to the data and tools. Data analysis has become increasingly more decentralized, and opinions and forecasts have proliferated.

The return on that investment and accessibility of the tools, however, is questionable. Esteemed institutions, like Harvard's Business Review, have documented that few data analysis and modeling experts even consider whether their models generate value for the business.[4,5]

My experience confirms these observations. Of equal concern is the trend for traditional demand planning teams to be supplanted by analytical teams that are evolving across organizations.

Executives tend to forget that models do not make business decisions, even when data analytics highlight possible business problems or opportunities. Top-rate demand planning teams have the perspective of achieving business goals and objectives, not pushing a number or model, which brings us to another critical principle.

[1] Data Analytics vs. Business Analytics, https://www.mastersindatascience.org/data-analytics-vs-business-analytics/

[2] IDC Forecasts Revenues for Big Data and Business Analytics Solutions will Reach $189.1 Billion, www.idc.com

[3] Thor Olavsrud, Big Data and Analytics Spending to Hit $187 Billion, www.cio.com, May 24, 2016

[4] Kalyan Veeramachaneni, Why You're Not Getting Value from Your Data Science, Harvard Business Review, December 7, 2016

[5] Thomas Spicer, Data Analysis and Data Science: Why It is Difficult to Face a Hard Truth That 50% of the Money Spent Is Wasted, https://blog.openbridge.com, December 5, 2015

Principle #3: Plans Are Built on Assumptions

It is no longer sufficient to think about planning in silos – the forecast or demand plan, the supply plan, the financial plan. These plans must be integrated and aligned with a focus on more holistic business planning, with a common set of shared assumptions. This is considered best practice and has saved many companies from extinction.[6]

Consider this example:

A large manufacturer of consumer-packaged goods was facing a tremendous opportunity. One of their largest competitors had made a strategic decision to exit Direct Store Delivery (DSD), which would, in turn, create significant shelf-space opportunities to be exploited. Upon learning the news, the organization sprang into action, establishing a project team to track and execute the activities needed to secure the incremental space.

Unfortunately, the initial volume sizing done by the project team was based on a different set of baseline assumptions than what was in the demand plan. The demand plan had already accounted for significant gains in distribution from this business opportunity. As a result, what leadership thought was a significant upside to the plan turned out to be far less incremental than they had expected.

Examples like this are unfortunately all too common. The problem usually stems from planning being done in silos. Assumptions behind the plans are not documented, reviewed, and agreed upon across functions. Without a common base of assumptions, it becomes very difficult to determine the impact of a decision. Another common example of flawed planning lies with new product introductions, where initial sizing of an innovation is often done without full cross-functional involvement via a review of assumptions.

The best way to gain agreement on a plan is to review and validate the assumptions before reaching consensus on the planning numbers. Assumption-driven plans result in better decision making about:

- Sales and marketing efforts required to support the plan.
- Changing market conditions that impact demand.
- The capabilities required to produce and ship product in order to fulfill the planned demand.
- The level of financial investment required to meet the needs of the enterprise and achieve the business objectives.

[6] The Oliver Wight Class A Standard for Business Excellence, Seventh Edition, John Wiley & Sons, 2017, pg. 56-57.

Principle #4: Plans Are Not Casually "Overruled"

When someone wants to change a plan number, the questions to ask are: "Why? Which assumption has changed, and is there agreement on the impact of the changed assumption?"

Think about the demand planner when someone instructs that a planning number be changed without explanation. (By the way, the same goes for supply planners.) The effort behind the creation of the demand plan is undervalued and disrespected. Think about it this way: You don't look at your watch to tell it what the time is. You wouldn't hire an architect and provide them with the completed set of building plans. Yet, all too often, we find demand planning organizations that are dutifully taking forecast numbers that have been handed to them and "getting them into the system."

This behavior drives a variety of negative outcomes. For the most capable demand planners, they become demoralized about being overridden and told what to do, perhaps by stakeholders who are less skilled at planning and forecasting. The company has turned a racehorse into a mule, with all the associated behavior.

For less capable demand planners, they tend to acquiesce and take on a data entry role. This, in turn, reinforces the perception that demand planning is just a front end to supply, rather than a true business partner or trusted advisor. Worse yet, the demand planning organization is most often measured on forecast accuracy, which turns into a blame game as the demand planners simply point to the ways in which their views and insights were overridden.

The organizational and behavior implications described above should not be ignored. When accountability for business decision making is not aligned with planning activities, failure is almost assured. Companies can (and do) sink millions of dollars into systems and processes and never succeed. No amount of investment can compensate for the impact of autocratic changes to plans.

Principle #5: Planning Roles and Accountabilities Need to Be Redefined

Not only are demand planners being supplanted by analytical teams; for too long, the role of demand planning has been thought of as purely a supply chain activity. It is not. But when the commercial side of the business – which is accountable for generating demand – fails to take responsibility for creating a robust demand plan, the supply side of the business often takes control out of necessity.

There are two things wrong with the approach described above:
First, the supply organization is detached from the commercial organizations responsible for marketing, product development, and sales. The supply organization is not accountable for generating demand. The commercial organization is and, therefore, must be accountable for developing, agreeing upon, and communicating the demand plan to the rest of the organization.

Second, given that detachment, a demand plan generated by the supply organization often relies heavily on historical data. History doesn't always repeat itself. Models based on history alone rarely deliver a plan that meets business objectives, as these models do not consider business decisions and commercial activities that are driving the generation of new demand in the future.

Planning roles and accountabilities should center on the primary roles of each function in contributing value to the business (e.g. demand planning in commercial, supply planning in supply chain).

Principle #6: A Consensus Process Drives Better Decision Making

As stated in the first sentence of this white paper, forecasts are like opinions. Everyone has them.

When business decisions are based on opinions, they generally suboptimize business performance. It is far better to use a consensus process to align plans and expectations for execution and business results.

There's a reason that Integrated Business Planning (IBP) is becoming a standard practice in industry. It has proven effective in establishing cross-functional consensus on an aligned set of plans. Much has been written about IBP and how it works.[7,8]

[7] George Palmatier, Integrated Business Planning (Advanced Sales and Operations Planning): An Executive Level Synopsis, www.oliverwight-americas.com/resources/whitepapers

[8] George E. Palmatier with Colleen Crum, The Transition from Sales and Operations Planning to Integrated Business Planning, Oliver Wight International, 2013

Let's use the Demand Review as an example of consensus building in IBP:

In a monthly Integrated Business Planning process, the Demand Review step brings together sales and marketing leaders to establish consensus on the activities, assumptions, and resulting impacts on the demand plan. For this step to be effective, the upstream decision-making processes that determine those activities and assumption inputs should be supported with a consistent analytical foundation.

Where and how to invest in analytics and statistical tools needs to be well thought out. Different functions have different needs. When demand planning is part of the supply chain organization, the demand planning team typically focuses on volume projections at the level of detail required to drive manufacturing decisions. However, commercial teams may need different levels of detail over different time horizons to effectively plan and manage demand.[9]

The same is true for key performance indicators. Most successful organizations consider Demand Management to be an activity that serves the business more broadly and addresses the needs of multiple stakeholders. Thus, their KPIs need to be different from how the supply chain is measured.

Let's take the example of a large high-tech company:

The company had three distinct forecasting groups before consolidating into one Demand Management team. The team was expected to support long-range new product business cases, monthly Integrated Business Planning, and weekly short-term execution processes with product management, sales, finance, and supply chain stakeholders.

Over time, the consolidated Demand Management team earned credibility with each of the stakeholder groups to truly become a trusted advisor. They were sought out to assist in decision making because they had the right tools, the right skills and, importantly, excellent cross-functional visibility to what other groups were planning. This resulted in fewer surprises, reduced bias, and improved plan accuracy.[10]

[9] Robert Hirschey, Aggregate Planning: How to Overcome the Mindset and Perils of Detail Dysfunction, www.oliverwight-americas.com/resources/whitepapers

[10] Colleen Crum and George Palmatier, Demand Management: Lessons Learned, www.oliverwight-americas.com/resources/whitepapers

Principle #7: Willingness to Accept the Truth

To drive improved business performance, companies need more than the right people, the right processes, and the right analytical and planning tools. Executives also must develop the right behaviors around truth.

Let's continue with examples relating to Demand Management, while noting that the same behaviors must be part of the culture across all functions and all levels in an organization.

An effective Demand Management process requires support from the top of the organization, especially from a behavior standpoint. Putting one group in charge of creating projections of the future means that all other stakeholders need to be open to accept what that group has to say.

In my experience, 10 percent of the effort in demand planning is getting the "right" answer. The other 90 percent is spent convincing others that the answer is, in fact, right and that they should do something with it.

When the "right" answer shows that the business is achieving or exceeding targets, it is easy to accept the demand planning group's projections. It is not so easy when the projections are less than the annual plan numbers. The existence of the gap can drive poor behavior from less mature leadership teams.

For an organization, especially the leadership team, to accept the truth that a gap exists, they must have confidence that people have identified ways to close that gap or will try everything reasonably possible to do so. That means that in communicating the latest demand projections, the actions and responsibilities for closing the gap are also communicated.

When a high degree of confidence is lacking, all too often, leaders will simply override the plan out of fear and hope – fear of communicating the gap to the board and hope that somehow the demand plan is wrong and no gap exists.

The good news is that, with strong executive leadership, the proper behaviors can be developed and embedded in the organization's culture. We call these Class A behaviors (see chart). Creating one set of numbers requires that executive leadership, management, and planners embrace and tell the truth.

Top performing companies expect the following behaviors at all levels of the company:

1. Management expects the "truth as we know it".
2. Do what we say we are going to do.
3. Do not promise more than we can deliver.
4. Deliver what we promise, or communicate that we cannot deliver.
5. News – good and bad – is communicated early.
6. Open and honest communications.
7. No "shooting" the messenger.
8. Continuous rolling replanning versus an annual planning mentality.
9. Planning, execution system, and communications are synchronized.
10. One integrated set of numbers.

ABOUT THE AUTHOR

Greg Spira, a principal with Oliver Wight, has a concentration of experience in Demand Management and Integrated Business Planning (IBP). Greg works with companies to implement lasting change by building organizational capability and developing high performing teams. Greg navigates all levels and functions in an organization to overcome roadblocks and achieve success.

At Mondelez International (one of the world's largest snack companies) Greg established and led the business forecasting team – architecting the vision, processes, tools, and attracting top talent. Leveraging the IBP process to align planning assumptions, leadership became accountable for coordinated execution of activities to achieve targets. Mondelez achieved a "one number" operating model with financial and operational plans tied to the monthly IBP process.

Prior to that, Greg was IBP Lead for Biscuits. Reporting to the North American Category President, he was responsible for the execution of IBP across the business unit to take decisions, close gaps, and achieve business targets. Mondelez successfully entrenched the IBP process within the business culture, with over 80% of participants confirming that the benefits from IBP significantly outweighed the time and effort invested.

At BlackBerry, Greg was Director, Demand Management where he led a global team responsible for device forecasting. They navigated a rapidly evolving environment with long lead times, short product lifecycles, evolving business models, and intense competition. Greg established the rules of engagement between demand and supply, including time fences, consumption rules, and an abnormal demand process, clearly defining accountabilities for planning and execution. They eliminated chronic bias, driving down excess inventory by $300M and saving $50M per quarter in capacity underutilization expense.

Greg also held roles as a Controller and Information Technology Manager with a midsized retail fixture company.

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

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