APPENDIX 3

TRANSITIONING FROM SALES & OPERATIONS PLANNING TO INTEGRATED BUSINESS PLANNING

THE QUESTION

Companies have been achieving improved business performance for close to three decades by implementing and operating with an Integrated Business Management process known as Sales and Operations Planning (S&OP). A significant number of companies have led the way in evolving the S&OP process from fundamental demand and supply balancing to an internal strategic deployment and management process. The vast majority of companies, however, have not progressed beyond this basic Demand, Supply, and Inventory Management process.

The lack of progression is unfortunate from a business performance point of view since those who have not evolved their process are missing out on the real benefits of a dynamic Strategic Management process. Missing out on those benefits takes on greater significance given the volatility of the business environment. This volatility and uncertainty is expected to continue, which means increased risk for business owners, leaders, and managers to navigate.

Operating in this environment raises the question: How do we effectively manage in this ever-changing landscape of economic surprises, increased competitive pressures, and unrelenting customer and shareholder expectations?

THE EVOLUTION OF S&OP INTO INTEGRATED BUSINESS PLANNING (IBP)

It is helpful to understand a little bit of history. S&OP has evolved over the past 30 years from Fundamental Production Planning in the 1970s to Demand, Supply, and Inventory Management in the '80s and '90s. These advancements led

S&OP to evolve into an Integrated Business Management process connecting to strategy in the late '90s (see Figure A3.1).

Companies that continued to evolve this integrated approach to business management have been rewarded with improved business performance which, when benchmarked, shows they are at the top of their industry segment. Significant benefits were rewarded to those companies that implemented this integrated approach to business management (see Figure A3.2).

Earlier company implementations of S&OP were primarily focused internally. As companies evolved their S&OP processes, the focus of attention shifted to a better understanding and influencing of demand.[1] This was a major step forward and critical to successful implementations since the most effective S&OP processes are Strategy and Demand Driven.

Within the last decade, an additional effort to more effectively collaborate with customers has helped to further improve visibility of demand. It has also helped to more effectively manage demand through collaboration.[2] These collaborative efforts are often referred to as Supply Chain Management or Integrated Supply Chain Management. An industry-standard process known as Collaborative Planning, Forecasting and Replenishment (CPFR®) has also been developed to assist trading partners in these collaborative efforts.

One effect of this greater attention on demand has been the shift of the primary focus of S&OP processes toward managing business strategy. Better forecasts of product and service sales require a better understanding of demand and Demand Plans.

Development of improved Demand Plans is dependent upon a better understanding of markets, customers, technology, and the outside influences on the business.

In short, the focus of attention on S&OP has been shifting toward a better understanding of the external environment as well as ensuring alignment and synchronization among the internal functions of the company, which was originally S&OP's primary objective. *The shift toward strategic management is a key driver in the transition to IBP.*

As S&OP has become more driven by strategy, understanding and using the business drivers in planning is becoming more clearly understood. In addition to the traditional attention to supply chain management, the use of Business Intelligence has begun to enable a company's S&OP process to be more about the *essence of the business*.

This evolving IBP (essentially an advanced S&OP) process should have key performance indicators (KPIs) and metrics. Effectively used KPIs and metrics help to understand performance to date and projected performance into the future. The use of information dashboards is important to easily monitor the KPIs and business drivers.

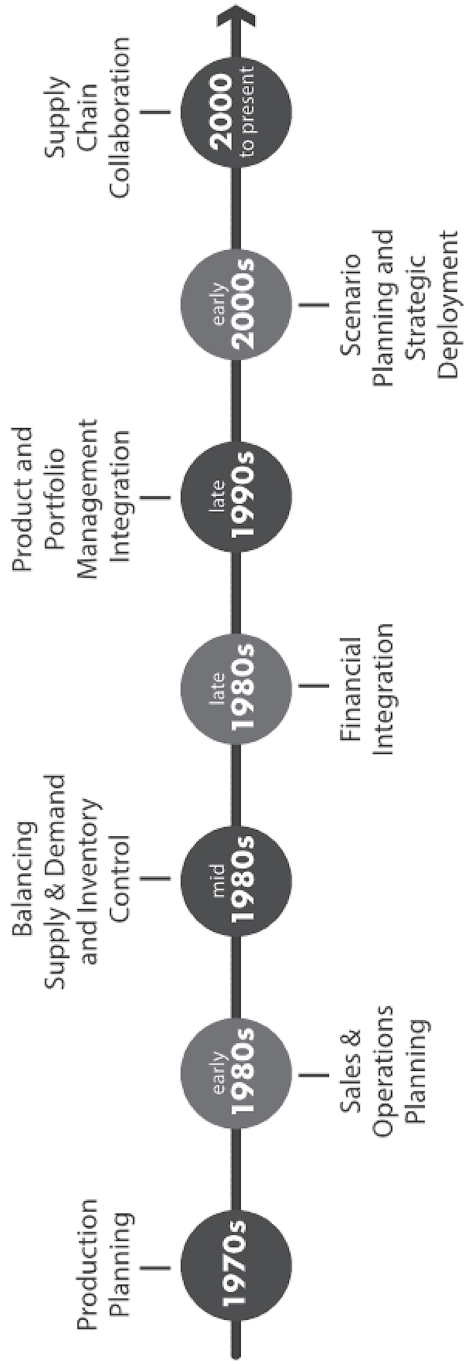

Figure A3.1 S&OP History. © Oliver Wight International.

The best practice multistep model for IBP (see Figure A3.3) has changed relatively little over recent years, but its focus of attention has continued to evolve toward business strategy. So, while the *boxes* in the figure remain the same, what happens inside each Review has evolved to a greater understanding of the business environment and linkage to strategy. This, in turn, has made it paramount that the leaders of the business not only lead but are actively involved in the process.

	COMPLETE ORDER FILL RATE	GROSS MARGIN	LOGISTICS COSTS AS % OF SALES
Best In Class (Top 20%)	**91%**	**43%**	**6%**
Industry Average (Middle 50%)	**85%**	**36%**	**12%**
Laggard (Bottom 30%)	**79%**	**30%**	**16%**

Figure A3.2 S&OP Benefits. © Oliver Wight International.

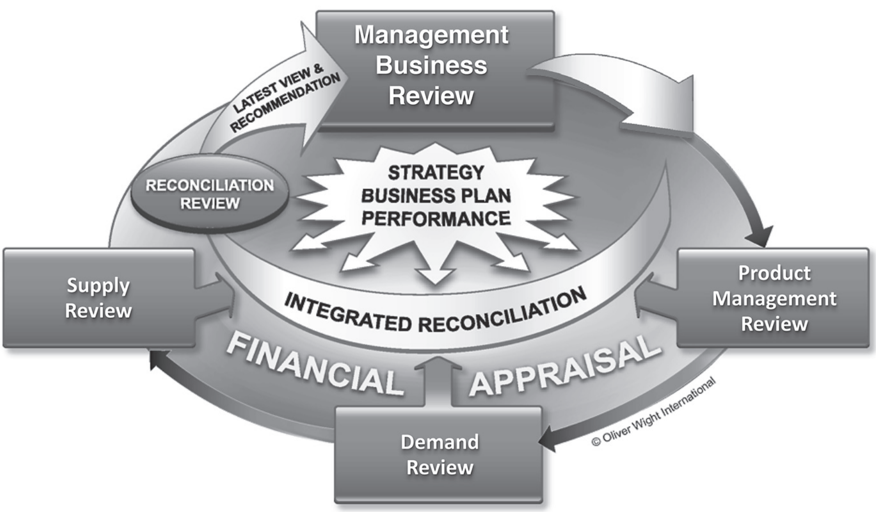

Figure A3.3 Multistep Model for IBP. © Oliver Wight International.

TRANSITIONING TO STRATEGIC MANAGEMENT REQUIRES EXTENDING THE PLANNING HORIZON

In order to transition to strategic management, the focus of attention must move further out in time. One of the pitfalls that companies experience is a continual focus of attention on the near term—this month, this quarter, and this year (as the year end approaches). One key but simple and straightforward approach is to extend the planning horizon. The management and leadership team should be able to speak not only to the near term but also to the full planning horizon. It is strongly encouraged that companies utilize a minimum of a 24-month rolling planning horizon. Anything less does not naturally encourage strategic thinking.[3] Use of an extended planning horizon enables better decision making involving what is commonly called *gap management* (see Figure A3.4).

How Gap Management Works

The current plan is reviewed. This current plan should reflect reality as we know it, based upon facts and assumptions. The current plan is compared to previous targets or goals to close these gaps. This comparison enables identification of projected gaps in performance.

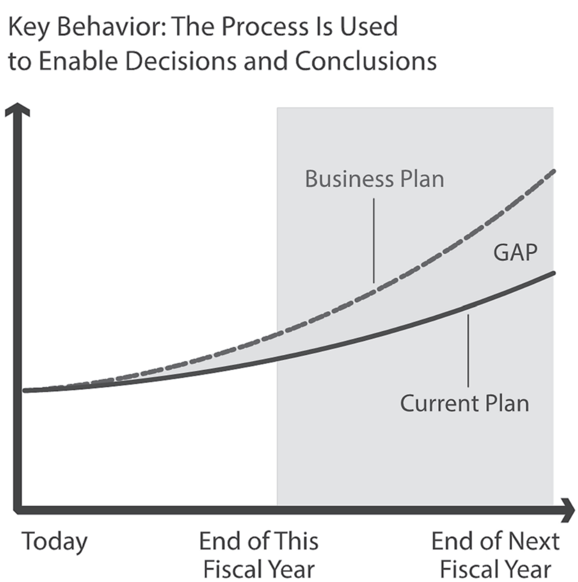

Figure A3.4 Extended Planning Horizon. © Oliver Wight International.

The basic question that must be asked when evaluating gaps is: "What, if anything, can be done to close these gaps?" If nothing can be done, then expectations need to be managed. This question should also be asked and answered: "What changes in strategy would enable us to achieve our goals?"

PEOPLE, PROCESSES, AND TOOLS ARE ENABLERS

One of the steadfast findings in implementing IBP is that effective, integrated planning processes require three primary elements to be working in concert: people, processes, and tools (see Figure A3.5).

Practitioners of IBP continue to find that business performance improvements come from how the IBP process is used, including how leadership and management teams use the process to run the business. Those company leadership and management teams that use the process as the primary process to manage the business get the most significant and wide-ranging results.

Essentially, there is one primary management process that aligns and synchronizes all the plans for the business every month; that is the IBP process. Using IBP as the sole management process provides a regular and routine forum for issues to be raised and addressed, including problems or opportunities.

One side benefit of IBP is that, done well, it frees up company leadership's time. The number of meetings is reduced—both regularly scheduled meetings and the all-too-frequent crisis meetings. They prove to be unnecessary.

The fundamental, multistep IBP process was described previously in Figure A3.3. This process structure provides the framework for a disciplined regular

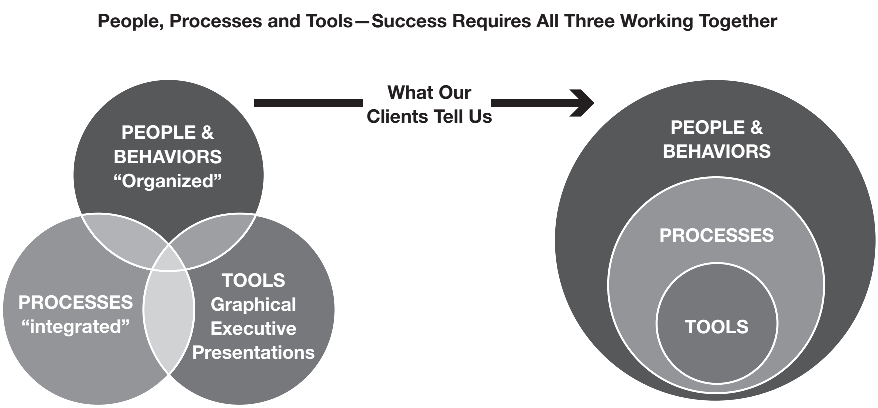

Figure A3.5 People, Processes, and Tools. © Oliver Wight International.

and routine process sometimes referred to as the *rhythm of the business*. Review sessions are typically scheduled in the company calendar a year ahead so that the participants know when and where they are expected to participate in this IBP process.

A key element of success in IBP is the people enabler. Developing the people enabler really means developing the behaviors to operate the process effectively. Some of the key behaviors include:

- Establishing a disciplined, regular, and routine process governed by a process calendar, sometimes called the *rhythm of the business*
- Demonstrating leadership participation and ownership of the process and the steps of the process
- Operating the process with open and honest communications

What is important for the leadership team to realize is that IBP is not a process for gamesmanship. Sandbagging or overly optimistic projections are inappropriate and harmful to business performance. IBP is about communicating and discussing reality as we know it.

Management is expected to either execute the consensus plan or communicate that the plan cannot be met. The principle of "bad news early is better than bad news late, and good news early is better than good news late" applies. Attention to the full planning horizon is expected.

CLASS A BEHAVIORS

Class A defines a set of criteria used to measure the quality level of an IBP implementation. These criteria are contained in the *Oliver Wight Class A Checklist for Business Excellence, Sixth Edition*.

Following are the expectations of the people who lead, operate, and contribute to the IBP process:

- Do what you say you are going to do!
- Do not promise more than you can deliver.
- Deliver what you promise . . . or communicate. . . .
- Practice open and honest communications.
- Do not *shoot the messenger*.
- Establish continuous rolling re-planning versus an annual planning mentality—manage change.
- Planning, execution systems, and communications are synchronized.
- One set of integrated numbers!!!

IBP TOOL SET

Because of the adoption of S&OP by the industry at large, a better set of tools to support the IBP process is being introduced to the market. A properly functioning IBP process has both operational numbers and financial numbers that are driven by the operational numbers.

When effective, Finance can get out of the second-guessing game they are often forced into because of a lack of credible information from nonintegrated management processes. When there is credibility in the demand, supply, price, and cost data, Finance is free to do value-added financial analysis versus forecasting.

Companies that do IBP well, operate with complete and credible information and can turn the annual planning process into a significant non-event. Because the best view of the business is seen across the full planning horizon every month, the often wasteful and ineffective annual planning process can be greatly simplified.[4]

Since IBP is an aggregate-level planning process, the tool set required to support the process is less demanding than that for the detailed item-level planning that occurs in day-to-day or week-to-week operating systems. A word to the wise: the IBP process will not be fully effective unless it is effectively connected to the detailed planning and execution systems. The good news for practitioners is that business software providers now have product offerings at the detail level for Demand Planning, Collaborative Planning, Supply Planning, Customer Order Management, Financial Analysis, and Project Management—all with associated integration capabilities.

As Collaborative Planning between retailers and manufacturers becomes more commonplace, the issue of scale becomes important. It is not uncommon for a retailer to have millions of item/location combinations to plan and communicate at the detail level. Fortunately, tools are now available to help enable the detailed planning and execution even with these massive, detail data requirements.

When implementing IBP, inevitably the question is asked: “Do we need both the detail and the aggregate data?” At the end of the day, practitioners need both aggregate and detail data to manage and operate the business.

One key element of the IBP process is that facts and assumptions need to be captured and documented along with changes in the numbers. During the Management Business Review, which is the monthly leadership team review session, they will need to understand the foundation for the numbers, not just review the numbers without explanation. Thus, the IBP tool set should have the ability to document and display both quantitative and qualitative information.

The good news for practitioners is that the large-scale adoption of IBP across the industry is driving business software companies to develop better tools for implementing and operating the aggregate planning process and its connection to detail execution systems.

WHY CHANGE THE NAME FROM S&OP TO IBP?

Fully integrated S&OP processes, including strategic management and trading partner participation, have existed in leading companies for many years. So why change the name to IBP now? (See Figure A3.6.)

Within the past few years, independent research has shown that many companies have implemented something they call "S&OP." Upon further inspection, however, the vast majority of these "S&OP" processes only have Demand, Supply, and Inventory Management integrated at the detail level (see Figure A3.7).

Integrated Business Planning (Advanced S&OP) – The Issue Is:

Most companies that have Sales and Operations Planning have set too low an ambition and treat it as:

- Logistics and Supply Chain planning process only
- Demand & Supply Volume Balancing 1 to 12 months only (Fiscal year)

And they believe that they already have the process in place…so they miss out on the benefits of doing it well.

↓

Executive teams that use Integrated Business Planning (Advanced S&OP) as the primary management process to run the business achieve the greatest benefits and ROI.

Figure A3.6 Advanced S&OP. © Oliver Wight International.

Figure A3.7 Not Advanced S&OP. © Oliver Wight International.

Trustworthy financials are not integrated. Product and Portfolio Management is not integrated. Strategic Deployment and Management is not integrated. Yet, even with minimal integration, these companies have achieved significant benefits doing something they call "S&OP." Thus, the conclusion is that a minimal level of integration is still worth the effort.[5]

When only Demand, Supply, and Inventory Management are integrated, most often we find the focus of attention in these "S&OP" processes is near-term only and primarily involves only middle management. These "S&OP" processes are definitely not the primary management processes by which the business is run. They also do not yield the maximum benefits achieved with a fully integrated management process.

Companies wishing to improve their S&OP processes have found a need to differentiate between what they have historically been doing under the banner of S&OP and what they wish to do in the future. This need for differentiation has been the primary reason for moving to a new name for the more mature, Strategic Business Management process, IBP, that now constitutes industry best practice. A different name helps companies to foster the change from the current S&OP process to a new, and significantly more impactful, improved business process along with new leadership and management behaviors. Figure A3.8 shows the primary benefits of a more mature IBP process.

Figure A3.8 IBP Benefits. © Oliver Wight International.

THE MATURATION PHASES OF IBP

We are frequently asked: "Why do some companies fully evolve their S&OP process into IBP and most companies do not." The maturation of S&OP into IBP goes through four stages (see Figure A3.9).

As companies move from Stage 1 to Stage 2 and begin to move into Stage 3, they realize significant benefits and performance improvements. Often the problems that stimulated the implementation in the first place are dramatically reduced or eliminated altogether. It is, therefore, easy to stop progressing through Stages 3 and 4. Companies get *stuck* in between Stage 2 and Stage 3.

Without leadership participation and action, the process cannot develop into a fully mature IBP process. Since Stages 3 and 4 involve moving more into the area of strategy, the company leadership team is required to champion the effort or progress, or the accompanying significant benefits will simply not be made.

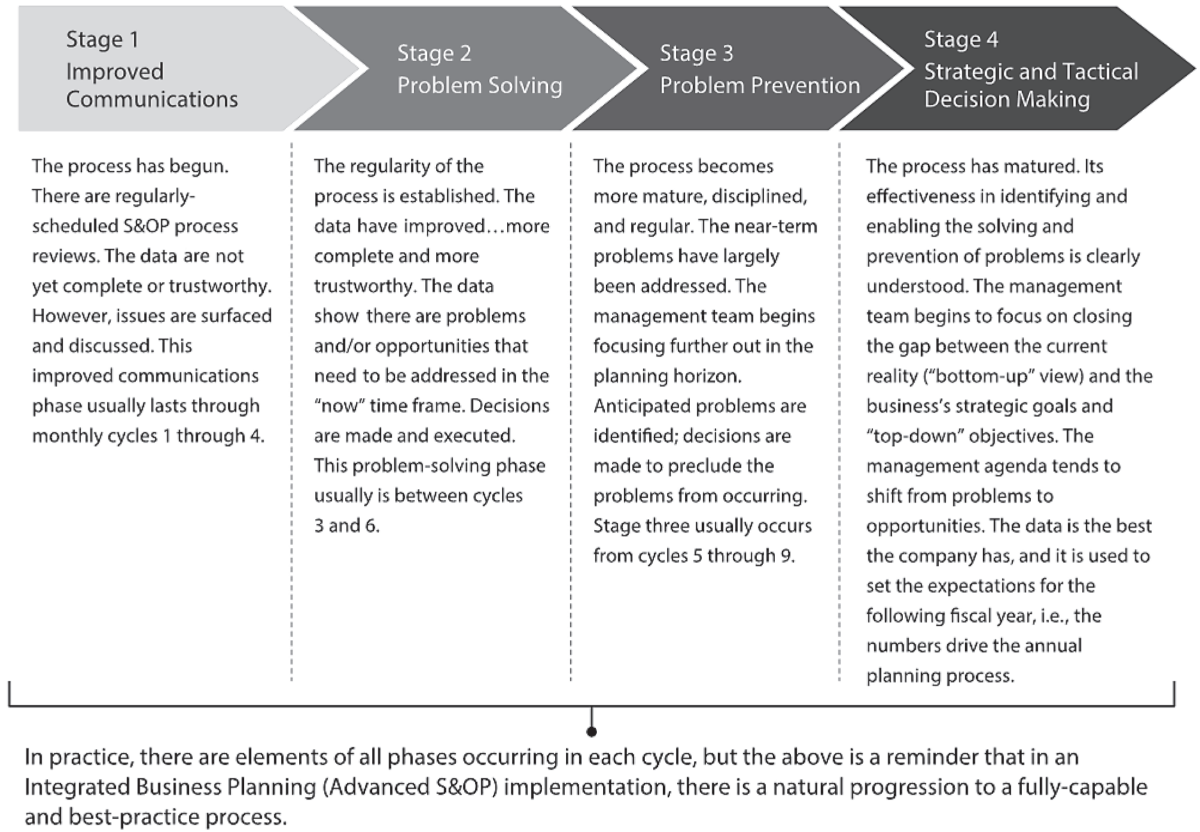

Figure A3.9 From S&OP to IBP in Four Stages. © Oliver Wight International.

Those companies that have only implemented S&OP to the Stage 2 level will find themselves with a process that helps to more effectively operate the business. They may not be in a position to gain a competitive advantage, however. In fact, they may be vulnerable to losing the competitive advantage when what has been *industry best practice* becomes *industry standard practice*. Only those companies that progress to a fully mature IBP process continue to be in a position of sustained competitive advantage in the marketplace.

WHAT NEXT?

If you believe your company is *stuck* in an immature S&OP process, the best starting point is to get an independent assessment or diagnostic of the current process using the industry best practice model as a frame of reference. The diagnostic can be performed in a matter of days by experienced IBP experts.

A proper diagnostic includes reviewing the aggregate planning management process and its connection to the detail planning and execution processes currently in place. A series of interviews with the key Leadership and Management Team members should be conducted to help the assessor understand the *essence of the business* and to help the company better understand the more holistic nature of IBP.

This diagnostic should be immediately followed up by a facts and findings session with the Leadership and Management Team. The purpose of this session is to report the status of the current S&OP process and to help inform and educate the company Leadership and Management Team on current industry best practices. From the discussion that occurs during the interviews and the facts and findings session, most Leadership Teams define a plan to move from S&OP to IBP.

Figure A3.10 shows an executive-level maturity model for S&OP to IBP. Ask key members of your leadership team where your company's management process is on the maturity chart today.

If you find your company is stuck at a relatively immature level, know that companies get stuck because of one, or all, of the following reasons:

1. Lack of awareness and understanding of what IBP really is
2. Lack of ambition or motivation for improving the process
3. Not knowing *how* to get to the next higher stage

The good news is that guidance is available. The Oliver Wight organization has worked with companies in every stage and every level of IBP for many decades. They can help by providing a diagnostic and by providing full implementation support to ensure the most rapid time-to-results for your company.

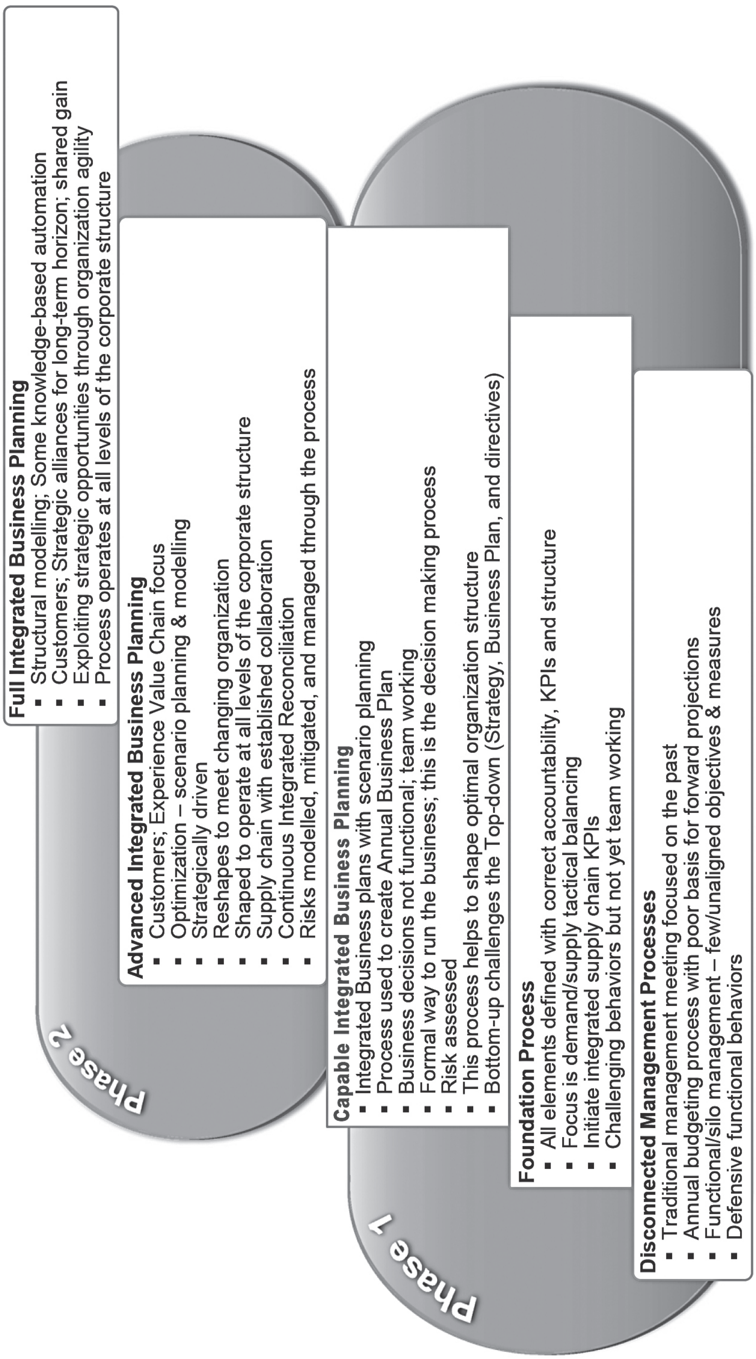

Figure A3.10 Executive-Level Maturity Model. © Oliver Wight International.

SUMMARY[6]

More and more companies are implementing some form of Integrated Business Management, often under the banner of S&OP. Leading companies have evolved S&OP to a mature IBP process—an integrated, company-wide management process used as the primary process to run the business.

This more mature process includes full integration of the key management processes of the business, both operationally and financially. Attention is focused not only on near-term issues, problems, and opportunities, but also on longer term, more strategic management issues and opportunities. This more mature process is now becoming known in the industry as IBP.

IBP (Advanced S&OP) requires a combination of people exhibiting the appropriate supporting behaviors, a process that is regular and routine, and tools with the ability to process aggregate and detail plans, facts, and assumptions. Properly implemented, the process provides both leadership and management with regular and routine visibility and transparency of past and projected performance. Key performance indicators and metrics are an integral part of the IBP process. The most current and best view of the business, both quantitative and qualitative, allows Leadership and Management the opportunity to make the best decisions at the optimal time, helping to ensure optimum business results.

Industry research continues to show that companies that do IBP get benefits from the process. Further, those companies that do it well get significantly greater benefits than those that only operate with basic demand, supply, and inventory balancing in the near term.

The best place to start an IBP (Advanced S&OP) improvement project is to get an independent view of the state of your current S&OP process today. From this diagnostic, a plan to move from S&OP to IBP can be developed and implemented. Companies that implement IBP fully in line with the best practices can expect continued improvement in business results and should gain an edge on competitors that operate with a less mature process or no process at all.

As one company leader stated, "IBP is a *team sport* at the highest level of the organization."

Here is a sampling of the range of improvements achieved by 40 Oliver Wight clients:

- Increased Demand Plan Accuracy by 18 to 25%
- Increased Sales Revenue by 10 to 15%
- Increased On-Time Delivery by 10 to 50%
- Inventory Reduction by 18 to 46%
- Safety Stock Reduction by 11 to 45%
- Increased Productivity by 30 to 45%

These achievement results should cause companies to ask: "What if our company improved its performance by the listed amounts? How would it impact customer satisfaction? How would it improve our financial performance?"

A study by Aberdeen sheds light on the answers to the previous questions. Refer back to Figure A3.2 to review the results documented by companies using IBP, categorized by best in class, industry norm, and industry laggards.

These results clearly show the impact of doing IBP well. Look at the profit margin achieved by the best-in-class companies compared to the industry norm and laggard companies. Ask your Financial people and CEO what a gross margin of 13 percent above your competitors means to stock performance and return to shareholders.

This study also shows that it pays to have a reliable delivery performance. The study reported that the best-in-class companies averaged a 91 percent customer retention versus laggard companies, which only averaged a 70 percent customer retention.

AUTHORS:
George E. Palmatier
Colleen Crum

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APPENDIX 4

STRATEGIC PLANNING: AN EXECUTIVE'S AID FOR STRATEGIC THINKING, DEVELOPMENT, AND DEPLOYMENT

Strategic Planning is an ongoing process and carries an intense customer/community, shareholder, and employee focus. The Strategic Planning process provides direction to all elements of the company and drives decisions and actions. Employees at all levels can articulate and share the company's vision and its overall strategic direction. They can also articulate their roles in the implementation and execution of the strategic plan.[1]

STRATEGIC PLANNING PROCESS—GENERAL OVERVIEW (SELECTED PASSAGES FOR A COMMON UNDERSTANDING)

"We can now attempt to define what strategic planning is. It is the continuous process of making present entrepreneurial (risk-taking) decisions systematically and with the greatest knowledge of their futurity; organizing systematically the efforts needed to carry out these decisions; and measuring the results of these decisions against the expectations through organized, systematic feedback.

"As such, planning, whether long range or short range, is nothing new. It is the organized performance of an old task. But we have learned that the task will rarely get done unless organized. Above all, it will rarely become achievement unless done purposefully."[2]

A Strategic Planning process is comprised of four primary elements:

- Strategic Planning (Development/Creation of Strategy)
- Strategic Deployment (Communication, Feedback, and Execution)
- Integration with other processes (Alignment and Synchronization)
- Monitoring and evaluation (*Continuous* Strategic Management)

Number 1—Strategic Planning (Development/Creation of Strategy)

Strategic Thinking is a process that enables the management team to . . . think through the qualitative aspects of its business and the environment it faces. The team can then decide on a common and shared vision and a strategy for the future of its company.[3]

"The most fundamental strategic decision is: What should the scope of our products and markets be?"[4]

In its most basic form, three fundamental questions are to be answered in Strategic Planning:

- Where are we? (performance analysis, assessment, and evaluation)
- Where do we want to go? (vision/mission and goal setting)
- How are we going to get there? (strategy development and deployment)

"Planning what is our business, what will it be, and what it should be needs to be integrated. The skill we need is not long-range planning but strategic decision making . . . The work starts with the questions, 'Which of our present businesses should we abandon? Which should we play down? Which should we push and supply new resources to? Strategic Planning does not deal with future decisions. It deals with the futurity of present decisions. What do we have to do today to be ready for an uncertain tomorrow?'[2]

"The strategic planning process is initiated by Top Management and represents input from key people throughout the organization. Each and every strategy is documented and is linked to and supports the strategic goals.[1]

"Strategic goals are recognized as ends to which efforts are to be directed. Strategic goals require significant changes in the way in which the business operates and may take several years to implement."[1]

Strategic Questions to Keep Asking Ourselves

- What is our business?
- Who is our customer?
- What is value to our customer?
- What are his or her unsatisfied wants?
- What are our success requirements?
- What is our match with these success needs?
- What are our strategic dependencies?
- What is our strategic position in the market?
- What must it be to gain lasting uniqueness?
- What should our business be in the future?

Some Considerations for Strategy Development

- Driving Force—the one strategic area that is most important to a company and is the engine that propels, or drives, the company forward to success.
- "Value Disciplines—Driving Force:
    - Product
    - Operational Excellence
    - Customer Intimacy"[5]
- Core Competencies—what gives the company lasting uniqueness?
- Internal SWOT (strengths, weaknesses, opportunities, and threats).
- Facilitator—a facilitator has a very specific role: to keep the discussion moving forward in a constructive manner. The facilitator also keeps the process honest, balanced, and objective. He or she will strive to ensure everyone has a chance to speak his or her mind on the various subjects. (This is called the *nominal* approach.)

Areas for Strategic Thinking and Direction

- Product/service concept
- User/customer class
- Market type/category
- Production capacity/capability
- Technology knowledge
- Sales/marketing method
- Distribution method
- Natural resources
- Size/growth
- Return/profit
- Functional Strategies—Engineering, Marketing, Sales, Manufacturing, Distribution, Financial

NUMBER 2—STRATEGIC DEVELOPMENT (COMMUNICATION AND EXECUTION)

A study of 275 Portfolio Managers reported that the ability to execute strategy was more important than the quality of the strategy itself. In the early 1980s a survey of management consultants reported that fewer than 10 percent of effectively developed strategies were successfully implemented. A 1999 Fortune cover story of prominent CEO failures concluded that the emphasis placed on strategy and vision created a mistaken belief that the right strategy was all that was needed to succeed. "In the majority of cases, we estimate 70 percent, the real problem isn't bad strategy but . . . bad execution. . . . With the rapid changes in technology, competition, and regulations, the formulation and implementation of strategy must become a continual participative process.[6]

"Execution will help you as a business leader to choose a more robust strategy. In fact, you can't craft a worthwhile strategy if you don't, at the same time, make sure your organization has or can get what's required to execute it, including the right resources and the right people. Leaders in an execution culture design strategies that are more road maps than rigid paths enshrined in fat planning books. That way they can respond quickly when the unexpected happens. Their strategies are designed to be executed.[7]

"A process exists whereby the strategies and goals are deployed throughout the organization to gain focus, alignment, and engagement throughout the company."[1]

Strategies are paths to a goal. A strategy without a goal is a path to nowhere. From the top down, an organization needs to set a combination of goals with strategies to meet them. As one goes down through the organization, these goals become targets or subgoals with substrategies or tactics to achieve them. Every goal needs to be explicit, understandable, measurable, and time bound. This enables them to be integrated into the company's other planning processes to identify gaps in expectations and synergies within the company.

NUMBER 3—INTEGRATION WITH OTHER PROCESSES (ALIGNMENT AND SYNCHRONIZATION)

"All goals and strategies are integrated into the business plan, which is used to develop and communicate annual financial plans that incorporate input from all operating departments of the company.[1]

"The company has a business plan which covers market share and projections, financial performance, new product development, customer service levels, resources, and desired inventory levels. The business plan is used in the Sales and Operations Planning (S&OP) process."[1]

As a practical matter, the goals and strategies developed through Strategic Planning need to be integrated with the company's other management processes. This is necessary to ensure minimization of conflicting directives/direction to individuals tasked to execute the plans.

NUMBER 4—MONITORING AND EVALUATING (*CONTINUOUS* STRATEGIC MANAGEMENT)

"It is recognized that strategic goals and strategies are deployed from management throughout the organization and that results are reported from the organization to management. A process exists to monitor progress against plans and to take corrective action when needed.[1]

"Systematic reviews are done throughout the year to determine how annual goals are being achieved. These reviews include: methods deployed, study of data and comparison of plans against activities, and plans against results.[1]

"Executive management, individually or as a group, dedicates time to reassess the logic of their strategies and related goals and their achievements."[1]

In most companies top management is expected to do three things:

1. Run the business well
2. Grow the business
3. Improve the capabilities of the enterprise

Number 1—run the business well—is supported by Class A planning and control processes and behaviors. We would expect properly managed product portfolios, visibility of demand, supply chain effectiveness and efficiency, satisfied customers, and respectable financial results. However, without a strategic view to the future, the company may be at risk in achieving Number 2 and Number 3. Strategic Planning, properly performed, will establish growth goals and strategies and improved capabilities goals and strategies. Measures supporting these goals are an integral part of Class A Strategic Planning.

Kaplan and Norton, in *The Strategy-Focused Organization*, expound on the use of the balanced scorecard to help top management measure the strategy—both financially and nonfinancially.[6]

Done correctly, these measures can address the three previously mentioned management areas. The balanced scorecard focuses on the following measures:

1. Financial perspective (traditional financial performance measures)
2. Customer perspective (basic requirements, differentiators)
3. Internal perspective (internal capabilities, operational excellence)
4. Learning and growth perspective (to achieve our vision, how must our organization learn and improve?)

Numbers 1, 2, and 3 are about running the business well. Numbers 4, 3, and 2 are about growing the business and improving capabilities. Once strategies have been agreed upon in support of strategic goals, appropriate measures should be in place to measure the strategy.

FOOD FOR THOUGHT

Strategy is an element in a hierarchy (note: the following is a variation of a hierarchy presented in The Strategy-Focused Organization[6]).

- Mission—why we exist
- Core values—what we believe in
- Vision—what we want to be
- Strategic goals—what we want to be—quantified
- Strategy—how we will get there
- Balanced scorecard—implementation and focus strategic initiatives—what we need to do
- Individual objectives—that I need to do

The desired outcomes include delighted customers, satisfied shareholders, effective processes, and a motivated and prepared workforce. Do the current corporate communications fulfill the mission, core values, and vision elements? Strategic Planning provides:

- Better informed, more timely decisions through communication.
- What the company will do and perhaps more important, what it will not do. Focus is achieved not through prioritization, but through deciding what will not be done. This frees up synchronized, cross-functional resources to do what top management has strategically chosen to do.
- Greater empowerment with clearly understood boundaries communicated to the entire organization. Every element of the organization understands the direction and his or her actions required to support the company's strategies.

TERMS OFTEN USED IN STRATEGIC PLANNING

- Strategic Theme: a statement or reflection of what top management believes must be done to succeed. Strategic themes reflect executives' views of what must be done internally to achieve desired outcomes. Strategic themes do not directly reflect financial outcomes. As such, strategic themes typically relate to internal business processes.
- Strategic Thinking: a process of analyzing, evaluating, and reflecting on the nature of the business—understanding its current situation, conceiving possible future states, creating a vision of the organization's future, developing potential means and methods to achieve the vision, weighing the choices and deciding upon a course of action.

- Strategic Plan: an agreed-upon plan of action in support of the company's vision and mission incorporating top management's strategic themes.
- Strategy Map: a logical and comprehensive method for describing and communicating strategic plans demonstrating the linkages from strategic goals to tasks/actions.
- Strategic Measures: key performance indicators of the degree of success in achieving the organization's strategic goals.

AUTHOR
George E. Palmatier

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APPENDIX 5

CONNECTING STRATEGY TO EXECUTION WITH INTEGRATED STRATEGY MANAGEMENT

The president of a manufacturing company hated surprises, especially financial surprises. Jack had more than a decade of experience in leading companies. Yet, those companies rarely achieved their strategies as planned. It seemed he would always learn in the fourth quarter that the strategies were not driving the growth anticipated and promised to the board.

He and his executive team had implemented Sales and Operations Planning (S&OP) several years ago, and it was operating well. They now had a rolling planning process that looked 18 months ahead and aligned demand, supply, and financial plans every month.

Jack began to realize, however, that the process did not align strategy with plans. In fact, investments and plans seemed to be disconnected from market opportunities. Jack began scrutinizing the process more thoroughly and found several other limitations to the current process. It paid little attention to how the business unit (BU) plans and strategies aligned to both corporate and functional strategy. The business was being driven by the forecast, absent an integrated strategy. This turned out to be as big an issue as not connecting strategy to execution.

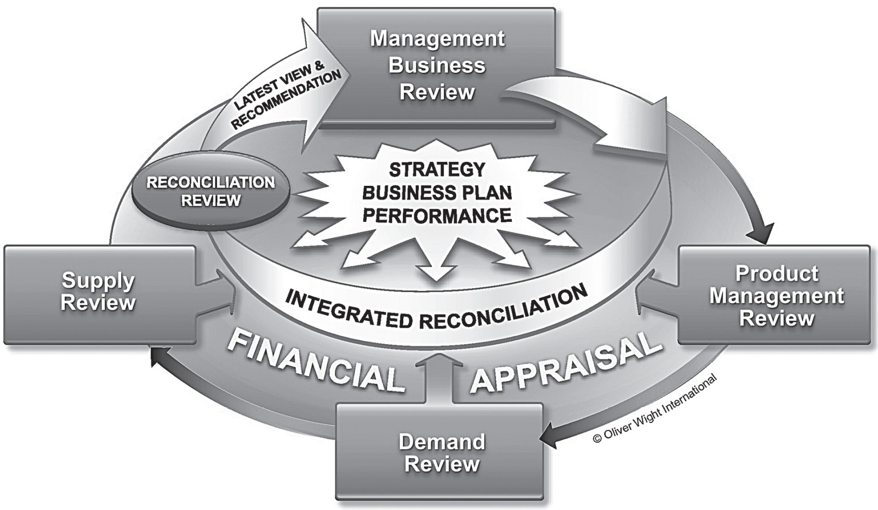
Rather than criticize his executive team, Jack decided to respond differently to this year's annual disappointment. He vowed to spearhead a drive to connect strategy with plans and execution. He and his team had to become better informed and make better decisions throughout the year to ensure the strategy and financial goals would be achieved.

This company's situation is not unusual. Few companies consistently achieve their strategies and financial goals. Those that do are top performers in their industries.

Jack was correct in diagnosing the disconnect between strategy, plans, and execution as a problem. In fact, Jack believed that to have an effective planning process, it must be preceded by an integrated set of strategies. But much to his surprise, it was not the only impediment to success.

Jack had noticed the word "Strategy" in the Oliver Wight Integrated Business Planning (IBP) model (see Figure A5.1) and contacted the authors. "Is there a way to integrate strategy, plans, and execution, using IBP as the focal point?" he asked.

There is. It's called Integrated Strategy Management (ISM) and this appendix gives an overview of how ISM works to drive business growth.



What Is Integrated Business Planning

Integrated Business Planning is a decision-making process to align strategy, portfolio, demand, supply, and resulting financials through a focused and exception-driven monthly re-planning process. The result is a single operating plan, over a 24+ (or as appropriate to cover the strategic plan horizon) month rolling horizon, to which the senior executives hold themselves and their teams accountable for achieving. Done well, it is the formal way that the business is managed and strategy is connected to execution.

Figure A5.1 Oliver Wight IBP Model. © Oliver Wight International.

ALIGNING CORPORATE AND BUSINESS UNIT STRATEGIES THROUGH INTEGRATED STRATEGY MANAGEMENT

When Jack assessed why strategies failed to achieve expectations, he found two flaws in the company's past approach:

1. The corporate strategy and BU strategies diverged over time.
2. No formal way to monitor the execution of strategies at the BU level and within the functions of each BU had been established.

Jack tackled alignment of corporate and BU strategies first. If those strategies were not aligned, the execution of strategies at the BU level would chronically disappoint. He introduced ISM to create a structure for improvement (see Figure A5.2).

As part of ISM, Jack and his team implemented a different approach for creating the strategies to profitably grow the business. This approach created

What Is the Definition of… ?

Strategic Plan

A broadly-defined plan aimed at creating a desired future state, i.e., vision, mission, and values.

The plan may be characterized as a map that includes different perspectives, including financial, customer, process, people and culture, that are consolidated into an integrated set of goals, objectives and timed deliverables.

Strategies

Strategies and tactics are needed to achieve the strategic plan.

Strategy is the means to achieving an objective. For example:

The marketing strategy decides where and how to win business in a manner that satisfies the overall company growth targets.

Supply chain strategy decides how to create a make/buy/deliver capability to achieve the commercial ambition while managing the tradeoffs of cost, service, and inventory.

Integrated Strategy Management

A process of managing an organization's strategy, plans, and resources to achieve its goals and objectives.

It connects the business unit strategy with functional strategies and plans to ensure the best investment and resource choices are made to achieve the business aspirations.

Integrated Business Planning is a means for connecting execution of strategy to business results.

Figure A5.2 Integrated Strategy Management. © Oliver Wight International.

greater clarity around the role of each BU in developing a growth game plan that aligned with corporate strategies and goals. Here's what was different from the way that strategies were developed than in the past.

1. The Expectation to Align Corporate and Business Unit Strategies and Execution

Executives at the corporate and BU level committed to aligning (and re-aligning) strategies and execution at four levels, as shown in Figure A5.3:

- *Corporate* with an emphasis on profitable growth and return on invested capital (ROIC)
- *BU* for developing a growth game plan that matched corporate strategy and expectations
- *Functional* for translating the growth game plan into innovation, sales, marketing, supply chain, and other functional strategies
- *IBP* for operationalizing strategy, plans, and execution

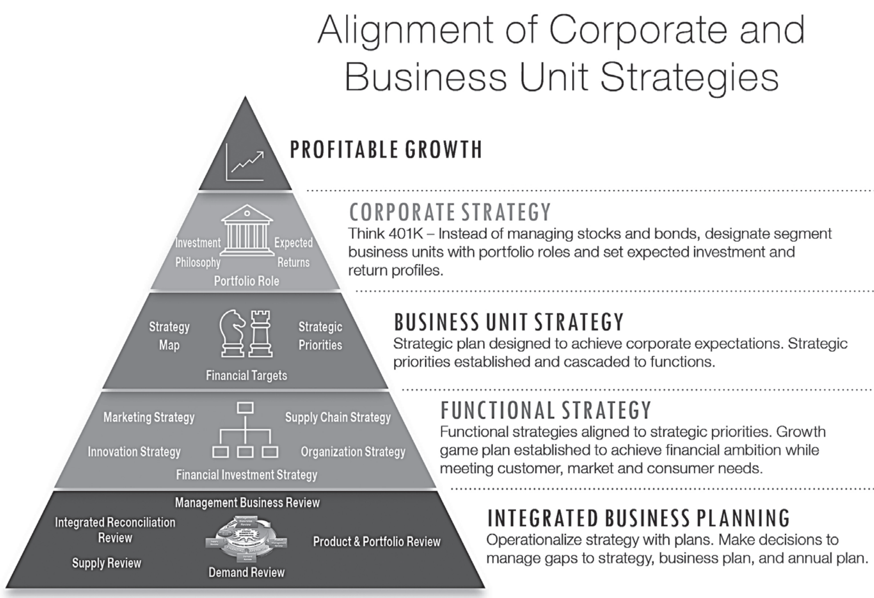


Figure A5.3 Alignment of Corporate and Business Unit Strategies. © Oliver Wight International.

2. Portfolio Allocation Investment Approach, Assigning Portfolio Roles, Setting Expected Returns

In developing a corporate strategy, it is typical to determine the role of each BU in delivering overall corporate strategy and goals. The new approach involved taking more time than usual to develop a growth and investment profile for each BU. Jack and his team named it the 401K approach. They used the analogy to emphasize how the corporation would designate a "portfolio role" for each BU based on past performance and future market growth potential. The corporation would no longer manage by investing in a broad range of "stocks and bonds" with the hopes of yielding an expected return on investment. Now, the corporation would allocate their investment funds to specific BUs to yield a specific stated expected return (see Figure A5.4).

Extending the 401K analogy, each BU would receive money for capital investment and would be assigned an expected annual return on that investment. The corporation's philosophy for moderate fund portfolio investment required its growth businesses (i.e., "stocks") to yield a 12% annual return. The businesses designated for earnings (i.e., "gold") were expected to manage a 7% return. The businesses designated for the harvest of cash (i.e., "bonds") were expected to yield a 3% return. Combined, these approaches were designed to achieve an overall 8.5% return on investment.

Analytical and presentation tools were introduced to facilitate decision making on market opportunities, revealing some previously unknown potential.

Figure A5.4 Corporate Strategy. © Oliver Wight International.

The BU profiles were communicated within the management team of each BU. Follow-on discussions were conducted to ensure understanding and clarity of the contributions expected of each BU. Gaining concurrence was critical to creating and aligning BU growth game plans and strategies to the corporate strategy.

3. The Business Unit Growth Game Plan

Once the BU role was assigned at the corporate level, each BU executive team developed its growth game plan and strategy. The deliverables from this effort included defining the roles of each core function in delivering the growth game plan and strategy (see Figure A5.5).

Just like with assigning BU roles, the functional roles were communicated throughout the BU organization. The purpose was to ensure clarity of expectations, which was crucial in creating functional strategies and tactics.

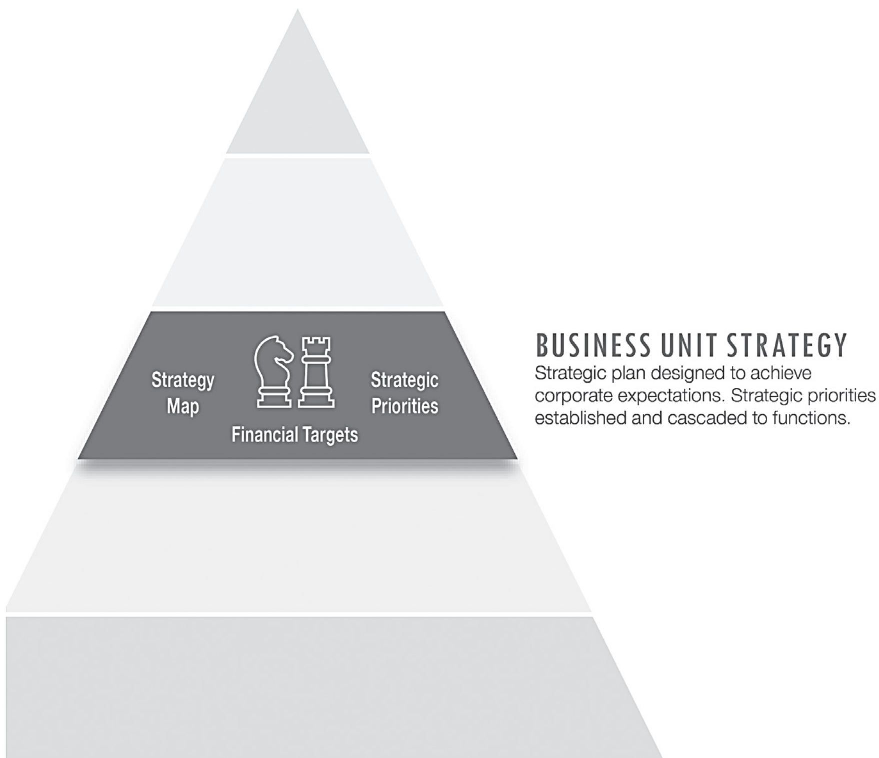


Figure A5.4 Business Unit Strategy. © Oliver Wight International.

4. Functional Strategy Alignment

Aligning functional strategies with the BU strategy was key to improving the execution of the BU strategy and, by extension, the corporate strategy. The functional strategies developed by Jack's BU leaders included sales, marketing, innovation, product and portfolio, and human resource functions.

Previous approaches to investing were based on last year's budget plus a little management by objectives improvements. These approaches were not disproportionally based on future growth assumptions and market opportunity across the portfolio. This commonly labeled "peanut butter approach" consistently yielded lower returns than planned.

Now, the BUs and functions were expected to make sharp choices that supported the new growth game plan. Making sharp investment choices required analysis to decide where the BU would—and would not—invest (see Figure A5.6).

Not every product manager was initially happy with the new investment approach. They were not accustomed to connecting investment and returns to the realization of strategy at both the BU and corporate levels.

Soon, the functional managers learned the skill of making sharp choices. They utilized proven analytical frameworks to segment product categories and invest disproportionally where the market was going and growing. It is a skill that is now becoming the natural way of doing business. The strategies

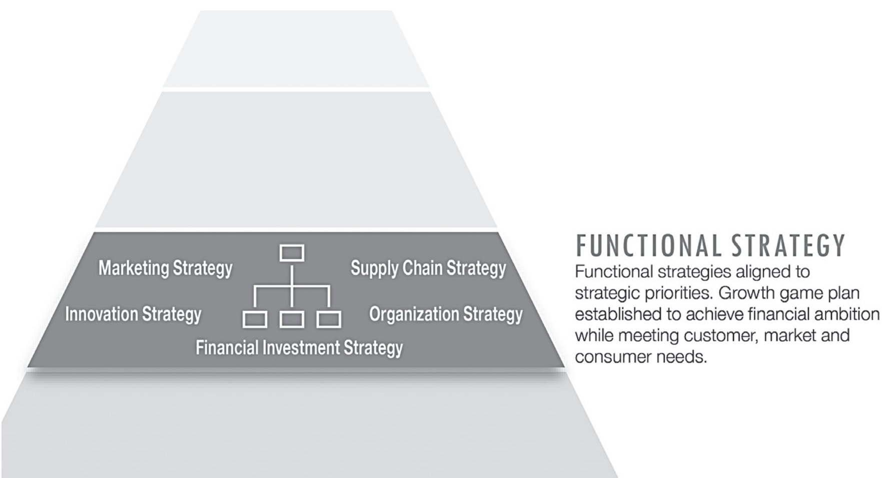


Figure A5.6 Functional Strategy. © Oliver Wight International.

for supply chain, sourcing, manufacturing, and distribution were structured to support the market-driven growth game plan. Those strategies were also considered essential for helping to achieve the profit strategy and goals.

5. Operationalize the Strategy and Plans

Jack's leadership team was grateful that IBP had been established in the BUs and, for the most part, was operating well.[1] As the IBP process improved in each BU, the leaders' view of their business was becoming more strategic. This is a natural maturation of an IBP process (see Figure A5.7).

As pressure mounted to improve the execution of business strategies, the leaders also became more mindful of why businesses fail to achieve strategic goals (see Figure A5.8).

They admitted not spending enough time focused on strategy beyond establishing it in the first place. They agreed that operationalizing strategy required monitoring execution performance and that the IBP process was the best venue for doing so.

The right executive and management players attend each IBP review. They were accustomed to looking at high-level, aggregate projections over a 36-month planning horizon. The mindset in the reviews was to identify and close gaps between the current projections and the stated goals. The decision-making process and boundaries were also well defined (see Figure A5.9).

In relation to operationalizing strategy, the BU leadership teams found that IBP provided the means for routinely:

- Monitoring the effectiveness of strategies and tactics in driving growth
- Aligning tactics, timing, and resources across the core functions of the business
- Measuring the impact of tactics and overall achievement of the strategic goals
- Adapting strategies and tactics as needed to achieve growth goals

They also realized that some behavior habits would need to change. Sometimes decisions were put off in the hope that performance would improve. Avoiding year-end disappointments required making more timely decisions to clear roadblocks that impeded the execution of BU strategies. That meant business leaders needed timely information on the execution of strategies and tactics.

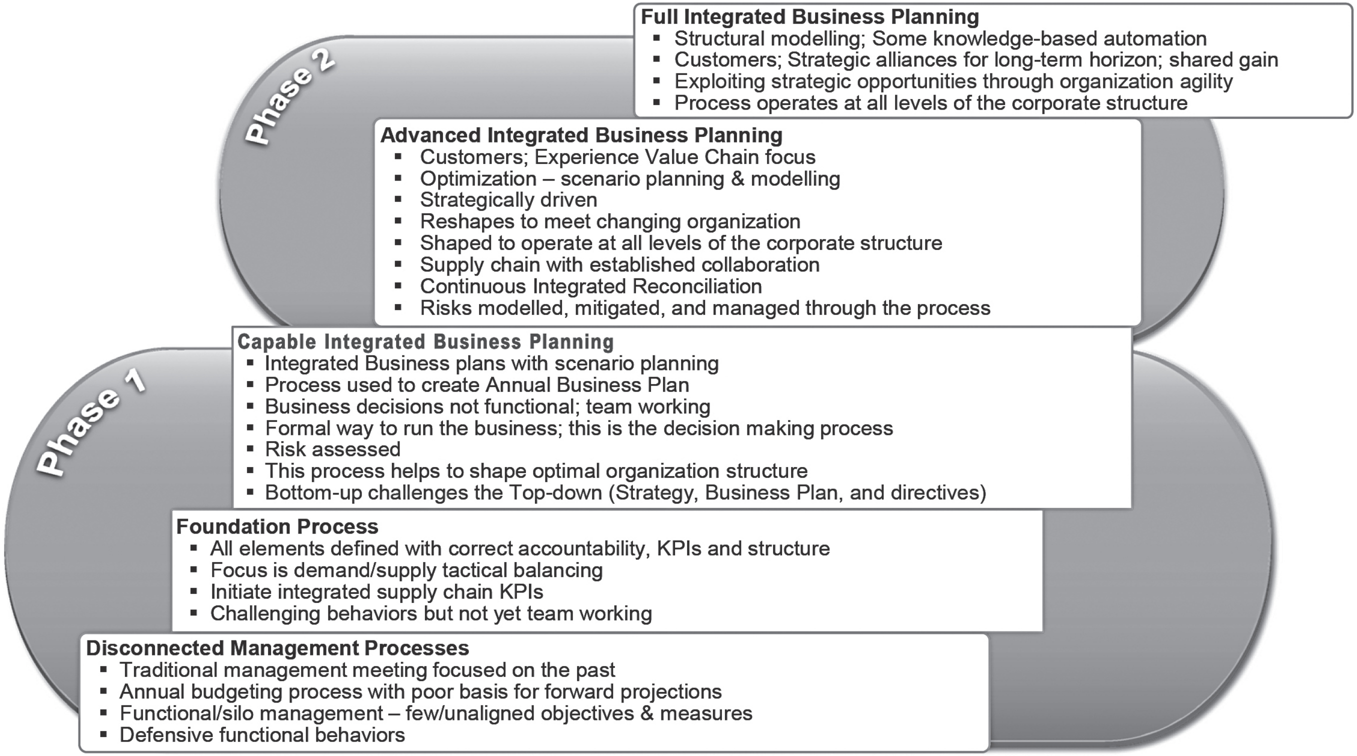


Figure A5.7 Maturity Journey. © Oliver Wight International.

Organizations fail to achieve strategic goals in four ways

5%
UNCLEAR VISION & STRATEGY
Only 5% of the workforce understands the strategy

25%
LACK OF ALIGNMENT
Only 25% of managers have incentives linked to overall strategy achievement

40%
DISJOINTED PLANNING & PROCESSES
Only 40% of organizations link budgets to strategy

15%
INABILITY TO MONITOR, TEST AND ADAPT STRATEGY
Only 15% of executive teams spend more than one hour per month discussing strategy

Figure A5.8 Why Businesses Fail to Achieve Strategic Goals. © Oliver Wight International.

Figure A5.9 Operationalize the Strategy and Plans. © Oliver Wight International.

DEVELOPING STRATEGY PLAYBOOKS AND DASHBOARDS

Jack's team found the challenge in operationalizing strategy, just like when first establishing IBP, is the following:

- Developing the salient information in easy-to-grasp graphics
- Visualizing functional strategies with plans in volume and value
- Quickly updating the graphical presentations each month
- Ensuring that review participants understood what the graphs depict about the business

The information also needed to quickly tell the story:

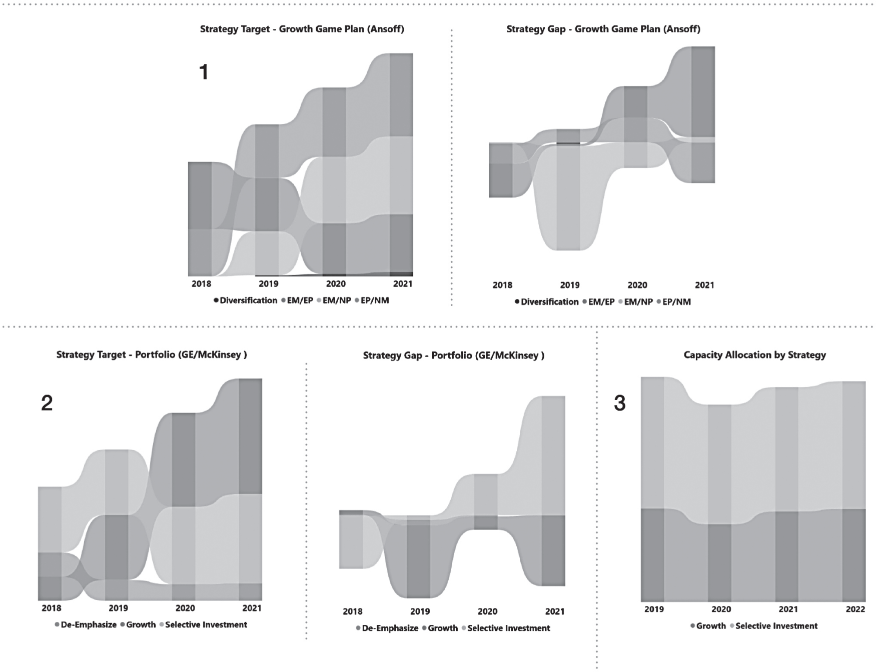
- Where are the gaps in the desired business performance?
- Are the key strategies delivering the expected value?
- How do these gaps tie to strategy and tactics?
- How do we best prioritize the issues and link actions to ownership?

Oliver Wight developed a business playbook to quickly assimilate strategy and performance data into information graphics. The playbook information was presented in dashboard formats in each IBP review. To translate strategy to plans, product families and sub-families were assigned strategy attributes using proven strategy frameworks, such as Ansoff, BCG, GE McKinsey, etc. These frameworks enable visualizing and understanding the impact of strategies on volume and value. This approach facilitated the above-described analysis and decision making (see Figure A5.10 for examples of the types of information shown in strategy dashboards).

THE VALUE OF CONNECTING STRATEGY TO EXECUTION

Looking at the playbook dashboards in Figure A5.10, imagine it is the last quarter of the fiscal year. Would a company have enough time to make up for a 21% gap in the Go-to-Market/Growth Plan? Without the playbook views, how long would it take to compile the information to alert the executive team that it was on the verge of not achieving the strategy?

Now imagine that it is the first quarter of the fiscal year. Would a management team have enough time to close that 21% gap in the Go-to-Market/Growth



1. Shows the portfolio strategy over a four-year period (left) and the projected gaps in realizing the portfolio strategy (right). This is a key chart for the Product Management Review.
2. Depicts the growth game plan over a four-year period (left) and the projected gaps in realizing the plan (right). This is a key chart for the Demand Review.
3. Shows the allocation of supply capability in support of the strategy. This is a key chart for the Supply Review.

Figure A5.10 Information Examples. © Oliver Wight International.

Plan? How would the decision-making process be different than if it was the last quarter of the fiscal year?

The primary value of connecting strategy to plans and execution can be summed up in two words: *dependability* and *credibility*. Boards need to be able to trust the plans and strategy. When companies consistently achieve their financial goals and strategy, there is less second-guessing. There is also a greater likelihood that the capital investment plans will be trusted—and the funds will be more readily approved.

In the authors' experience, connecting strategy to execution has a cultural impact as well. People acquire strategic planning skills. As they address strategies and gaps in their business functions, they learn how to think like an executive. They understand what it takes to truly realize the strategic aspirations of the business and the strategic goals are considered when making decisions day-to-day and month-to-month. Strategy is not an afterthought.

AUTHORS:
Jimmy Dixon
Marc Bergeron

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