

foresite·S·P·A[®]

Integrated Business Planning

Demand planning &
forecasting

Driving efficiency & profit



Executive Summary

Integrated Business Planning (IBP) processes vary according to the type of organisation and the specific functional areas that are involved. The key requirement for IBP is that two or more functional process areas are involved to maximise financial value for the organisation.

In this paper we examine IBP in the sense of corporate performance management; specifically the Sales and Operations Planning (S&OP) processes which strive to achieve focus, alignment and synchronization among all functions within the organization within the framework of the business strategy.

APICS (American Production and Inventory Control Society) defines S&OP as the "function of setting the overall level of manufacturing output (production plan) and other supply chain activities to best satisfy the current planned levels of sales (sales plan and/or forecasts), while meeting general business objectives of profitability, productivity, competitive customer lead times, etc., as expressed in the overall business plan". Its application however extends beyond manufacturing businesses to include wholesale distributors and service providers; the essence being the collaborative processes that align demand-side with supply-side planning and management.

S&OP processes provide the core building blocks for Financial Planning and Analysis (FP&A) and link high-level strategic plans with day-to-day operations.

Demand Management – current state of play

Demand management has now been recognised as the key requirement of S&OP and demand-driven value networks (DDVN) as well as all FP&A plans. Gartner have cited a massive shift in companies creating digital connections within and across their supply chain operations in their 2017 “Supply Chain Top 25” report (24 May 2017).

The core driver, however, of all DDVNs, ERP systems, FP&A plans and S&OP processes is the demand forecast. In August 2017 Foresite investigated the current market for S&OP systems. Most SMEs still rely on excel spreadsheets; although some have invested in complex macro-driven excel planning models that feed their ERP systems via API connections. Many larger organisations have invested heavily in developing their own bespoke software solutions. However it is ERP vendors who unsurprisingly have picked up the baton, as their product has the greatest need and benefits the most from sound demand forecasting.

However, from Gartner’s work with companies and their benchmarking studies, they’re all too aware of how inaccessible this data is in most companies, particularly within a realistic time frame. Moreover, although some companies may have some of the data they seek, there are vast inconsistencies in how these metrics are calculated from company to company. Of the top 15 ERP vendors surveyed by Foresite, 10 incorporated demand planning modules; typically statistical modelling based on historical sales data to hand (typically SOP and sales analysis) manipulated through an algorithm engine, in some instances with the input of additional internal or external data. It may therefore be questionable how reliable such demand plans are as a basis for committing resources and working capital to a supply-side plan.

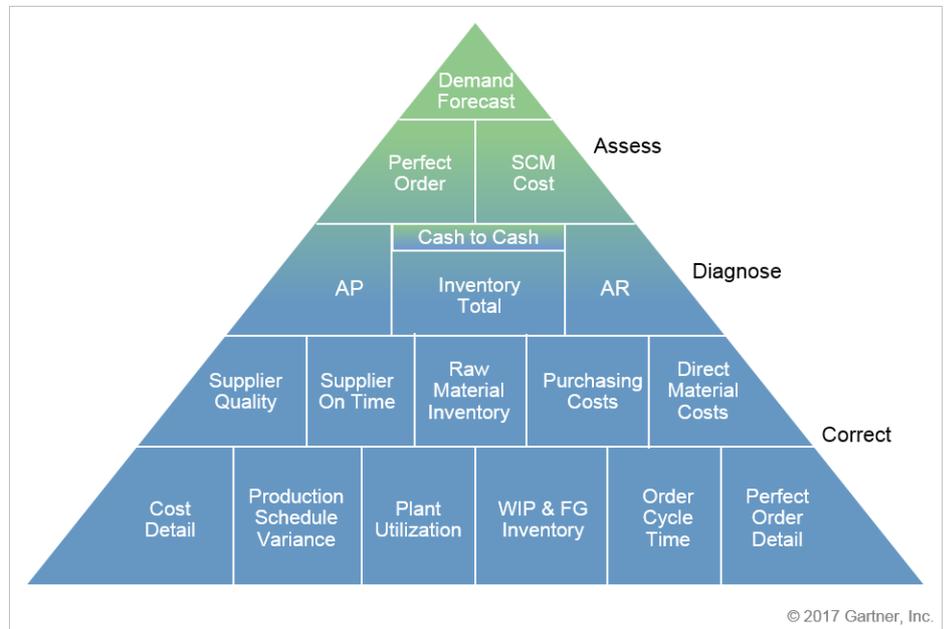
Demand-Driven Planning

A recent study by Aberdeen Group showed that 85% of all companies implementing a formal demand management program have generated significant performance improvements. Average gains include 13% improvement in overall forecast accuracy, 24% gain in inventory turns and 5% improvement in gross margin.

Furthermore Gartner’s “Supply Chain Top25 2017” cites demand-driven leadership as key in promoting supply chains that orchestrate a profitable response to demand. Most notable trend in 2017 is a massive shift in companies creating digital connections within and across their supply chain operations over the past few years. Leading companies view digitalisation as an opportunity not only to provide agile support for existing products, but also to reduce time to market for new ones. Leaders are adopting solutions combining Internet of Things (IoT) sensors, cloud computing and advanced analytics.

Gartner concludes that the DDVN model is characterised by an understanding of customer value with processes and metrics that enable business trade-offs to deliver products and services profitably. Companies that work toward the DDVN ideal use demand management as a key differentiating capability, so they can plan, sense and shape in a way that brings profitable balance to the business. They also design supply networks to be more closely aligned with the development of product platforms that enable innovation, agility and responsiveness.

Align demand-side forecasting with supply-side planning



AP = accounts payable; AR = accounts receivable; FG = finished goods; SCM = supply chain management; WIP = work in process

Demand-side S&OP processes

S&OP is a formal process that aligns demand-side forecasting with supply-side planning in order to maximise supply chain efficiency and customer service, at the same time as improving gross margins. Plans are typically based on a rolling 12 or 18 month demand forecast (dependant on the type of business) and are frequently reviewed and updated (normally every month).

Ownership of the process typically rests with the Finance Director and reports to the board of directors because of its direct relevance to the company’s integrated business planning (IBP). It not only matches demand with supply capability, but is pivotal to FP&A and strategic planning; ultimately driving business value. It drives resourcing, investment and funding decisions, and gives the whole business a forward looking, results oriented mind set.

week	Action	responsible
1	Draft demand forecast review	CSO/Sales team/CFO
2	Demand forecast sign-off	CSO/Sales team/CFO/COO
3	Draft supply plan review	COO/Ops. Planning/CFO
4	Supply plan sign-off	COO/Ops. Planning/CFO/CSO
4/5	Formal adoption	Board of directors

Typical S&OP process timetable

The construct of demand forecasts has been hotly debated forever, and the only thing that everyone agrees on is that no forecast is accurate and will always be wrong. That is mainly because they are often predictive and/or aspirational, being largely based on supposition and probability. Demand forecasts need to be brutally honest, not reckless optimism or cautious conservatism. They need to accurately profile future sales and objectively forecast demand by removing subjectivity, speculation and delinquency, and should always be sensitised.

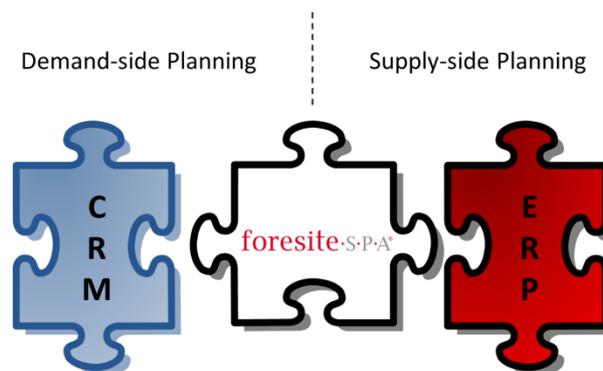
The first issue is that not all of the data required to produce ‘accurate’ forecasts exists in the normal accounting, management information and CRM metrics. Statistical modelling based on incomplete and historical data is equally questionable; particularly (as Gartner have shown) nobody can agree on the methods of calculation.

At the heart of the problem are several fundamental issues:

1. Demand is not the same as committed sales plus orders and contracts in hand. It includes pipeline, sales churn and qualified lead attrition i.e. include every qualified enquiry for supply
2. Sales trajectory also includes qualified sales pipeline and is affected by sales performance and competitive factors which impact customer acquisition, retention, rate of sale and lead conversion; all of which are under the businesses control.
3. Markets only impact demand to the extent that companies are unable to increase market share and penetration by outperforming their markets and competitors. Remember - market data is for planning, not forecasting!
4. Sales performance data is derived externally (from your customers and qualified leads) as well as internally. This is hard data feedback that enables companies to influence sales performance. It is available free by turning impact events (sales churn and lead attrition) into data capture opportunities, but cannot be bought.

Demand planning is therefore a bit more complex but not impossible and requires some dedicated systems which are not found in the financials, SOP or CRM and therefore cannot be extrapolated by ERP or even BI systems – at best these are indicative of trends alone. It's up to us to influence future sales trajectories and close sales gaps between trajectory and target.

Systems like Foresite SPA not only provide reliable demand data for supply-side planning, but also the metrics to support a delivery road map for the business to follow.



Supply-side S&OP planning

Armed with reliable and latest demand forecast data, the business can set about pragmatically planning its supply chain dynamics over the planning horizon; identifying and addressing capacity, capability and logistics challenges that the demand plan exposes:

- Production planning
- Capacity and line loading planning
- Procurement and supply planning
- Inventory and warehouse planning
- Retail planning
- Store operations planning
- Transport planning
- Pricing and revenue management

Identify and address capacity and logistics challenges

Not only does the full value of ERP systems become exploited, but management silos are broken down and functional management become more agile and collaborate on achieving one integrated business plan which delivers the strategic objectives established by the business stake-holders.

Sources:

1. Gartner Inc.
2. Aberdeen Group Ltd
3. American Production and Inventory Control Society
4. Fortek Ltd

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If you would like to learn more about Foresite's philosophies and methodologies, please visit their website at www.foresitespa.com or call on +44 (0) 121 314 8331.

Brian Hawkes FCMA, CGMA, MIIM is CEO of Foresite. Conceived in 2004 with international blue chip development partners in Europe, Scandinavia and the USA, Foresite SPA leads the way in demand-side management and linking it with supply-side processes (S&OP) and financial planning and analysis (FP&A) and is the leading sales performance application (SPA) which aligns business functions to one integrated business plan.

