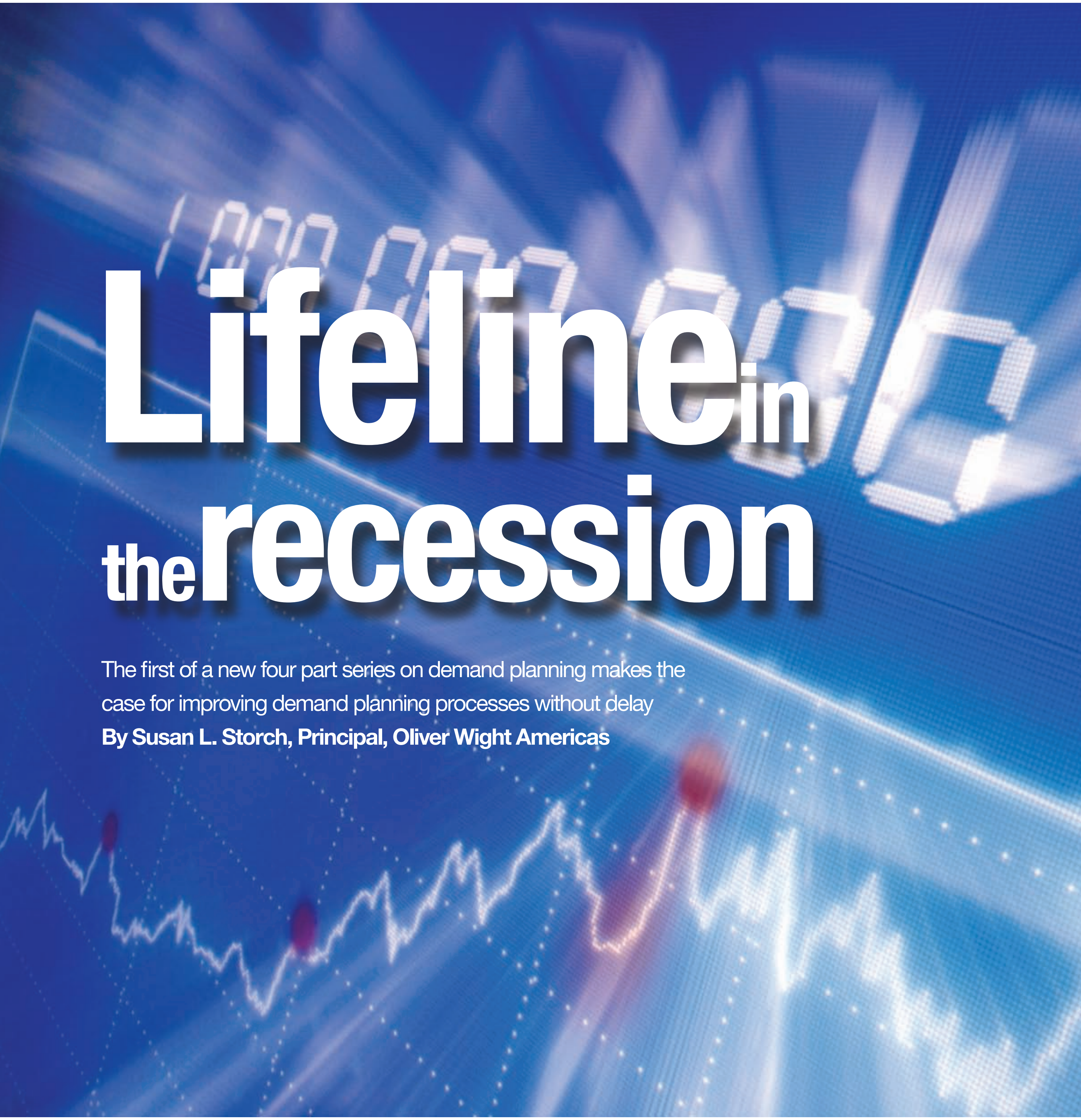

Lifeline in the recession

The first of a new four part series on demand planning makes the case for improving demand planning processes without delay

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Demand planning, often underutilized in the best of times as a means of improving cash flow and profitability, may become your lifeline in this recession. This four-part series discusses demand planning best practices in relation to surviving, even thriving, in the recessionary period and preparing to come out the other side in the best possible financial health.

This first part will make the case for improving demand planning processes without delay. Part 2 will explain best practices in demand planning that are of particular relevance in a recession. Part 3 will discuss the people implications and change management requirements to implement and operate these processes at peak performance. Part 4 will lay out an improvement path, including implications for other business processes, in order to be successful.

Prologue

As markets deteriorated, sales fell, and 2008 became a crescendo of uncertainty in the winter months, I consistently heard one phrase, uttered in perplexity and somewhat sheepishly, in one after another of the executive suites across fast moving consumer goods, pharmaceutical, chemical, and food manufacturing companies: “We were surprised…”

Rules were no longer holding, the expected was not unfolding, customer and consumer behavior was abnormal. On top of the usual variability of demand, unprecedented trends were developing at a mind-numbing rate both in sales declines and commodity price increases. “How could we have missed the housing downturn?” Each industry failed to intercept or acknowledge some very important demand signals.

It was then with a sense of urgency that, realizing our blind spots, we dreaded being blindsided again. Most companies took the routine actions to stop the bleeding: cutting inventory, eliminating jobs or reducing hours, and placing strict limits on discretionary spending. That was the easy part, in the strict business sense, and vital; yet it did nothing to shed light on the top line blind spot. We went on to the next priority: figure out what happened. We dove in to understand what got us; was it market factors, or did we do it to ourselves, or both? “Maybe that trade loading to hit our number wasn’t the best tactic!” We took our beating. We made our plans, in order: quick fixes, then systemic fixes.

This question remains: Are we in top demand planning form to win in the recession game? For some, it will be now or never. For all, there is no better time to get in shape. We missed the downturn, and we can’t blame it all on the financial institutions and the credit market. Let’s be ready for the upturn, see it coming, and ride it up.

The role of demand planning

Demand, in its simplest definition, is products and services that a customer needs, when and where they need it. Demand planning is the process by which future marketplace demand for products and services is estimated and communicated, and where demand-creating and demand-shaping actions are formulated, monitored, and adjusted.

Demand planning is the business’s starting point for the planning and use of company resources in the pursuit of profitability. In other words, demand planning sits in the driver’s seat. It is integral to marketing and sales strategy formulation and execution. Design, price, promotion, and placement of products and services are all implicated in the planning of demand. In the challenging terrain of the recession, demand planning is at the wheel, and for the sake of the business, it had better employ all the best practices for excellence.

Best practice demand planning is not the same thing as forecasting, with its statistical foundation and its connotation of "that which cannot be known." Best practice demand planning includes statistical forecasting, but is much more, involving essential qualitative as well as quantitative information from multiple sources. This is fortunate because statistical forecasting, with its sole reliance on repeatable historical patterns to predict the future, is of limited use in the current environment. Sure we have other recessions to draw on; for example, the 1930s, 1987, and 2002. However, every recession is different in its details, and aside from some broad, generalized assumptions, reliance on them is going to be insufficient.

Even for those seemingly rare businesses, which by nature of their products and services, are unaffected or even aided by recessionary times, demand planning process improvement will be a lifeline in this recession. Best practice improvements in demand prediction, demand creation and shaping, opportunity/risk management, and compensating tactics for uncertainty can spell survival for some companies, and competitive advantage for others.

The "financial imperative" business case

There is a compelling, recessionary business case for improving demand planning right now, without delay: a clear financial imperative, in which cash is king. We have seen companies go under in a matter of days without the cash to meet their obligations. It is a quick death and a hard way to go. Demand planning, excellently done, plays an important role in cash flow health in several ways, which I will explain.

- Revenue generation: Demand planning places an intense focus on the quality of activities designed to increase top line revenues, resulting in higher predictability of the content, value, and timing of customer demand. More predictable, more accurate demand plans are a likely contributor to higher customer service levels because better direction will be given to production about the volume, mix, and timing requirements to meet customer needs. Poor customer service, on the other hand, means delayed revenue generation in the best case, and, as it damages customer satisfaction, can lead to permanent loss of business in the worst case.
- Operating cost reduction: More certain demand plans contribute to greater stability of supply plans, preventing what can be wild swings in demand within days. With fewer disruptions; less fits and starts to respond to customer demand not reflected in the demand plan, production becomes more efficient and predictable, labor costs become more controllable, and the need for costly expediting is reduced.
- Purchase cost reduction: Along with the stability and improved predictability provided to production, and in conjunction with a lengthening of the visibility of demand, comes the opportunity to negotiate lower prices and/or volume discounts with suppliers, reducing purchase cost and avoiding expensive, unplanned buys on short notice.
- Working capital improvement: Increases in demand plan accuracy reduce inventory investment in two ways. The level of safety stock can be lowered because there is less variability in customer demand to be protected against with inventory. In addition, improving product mix accuracy results in less unnecessary inventory being built and becoming an obsolescence risk. Altogether, inventories are reduced, freeing cash.
- Increased productivity and employee well-being: A more subtle, but very real benefit, as the workforce is almost inevitably trimmed, is that best practice demand planning increases the work effectiveness, efficiency, and productivity of many, many people. It also reduces stress, which makes it easier to retain your good, remaining workforce. The old wasteful and nerve-wracking competing for resources, the explaining and defending, the finger-pointing, the "do and redo," the excessive time spent in meetings without decisions or advancements; all these things undertaken in an attempt to keep the eye on the ball, but, in effect, taking the eye off the ball, melt away.

Thriving in the recession

To improve your processes and get at the cash-rich benefits of high-performing demand planning is not difficult, given executive endorsement and support, and a willing, flexible organization. It can be done in three fundamental moves that will be explored further in the remaining three parts of this article series.

The first fundamental is to move your current demand planning process to a best practice "capable" level and maintain process discipline. This will ensure that the fundamentals are in place, providing you with a secure platform from which to make performance improvements. Normally you will need some basic technical tools to support your planning process.

The second fundamental, weaving itself in and around the first, is to move your people to a new level of understanding and preparation to operate at the level of excellence

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represented by the improved demand planning process. This involves communication, education, participation in process design upgrades, and perhaps some organizational realignment, tweaking of roles, and new skills and attitudes.

The third fundamental move is to integrate and align the upgraded demand planning process with other commercial processes, as well as with research and development, procurement, operations, logistics, and finance, and set the upgrade in motion. All that remains is to use the demand planning process to find the new money trail: who will buy and why; and keep a close watch on demand plan execution and cash flow results.

Summary

In the face of unprecedented economic adversity in recent memory, chaos ensued. Companies that did not fall in the first onslaught performed triage and are limping along. An excellent demand planning process is essential for surviving and provides the potential for thriving in the recession. Because of its strong connection to cash flow, there is an urgency to make process improvements now. The need for speed, in reaction time and more importantly *pre-action* time, to capitalize on market changes is always fundamental to competitiveness, but good times mask its importance. Getting to the benefits is not hard, but takes leadership commitment and involvement and an organization which will embrace change. Some of the best teamwork originates in adversity. ■

Susan L. Storch is a principal with Oliver Wight Americas. She is recognized as a leading expert in demand planning and change management, the two going very much hand in hand. Susan's experience spans thirteen years with Oliver Wight and twenty years of executive management positions in industrial, CPG, and service sectors. Susan has led and coached many businesses to *Class A* business excellence certification.