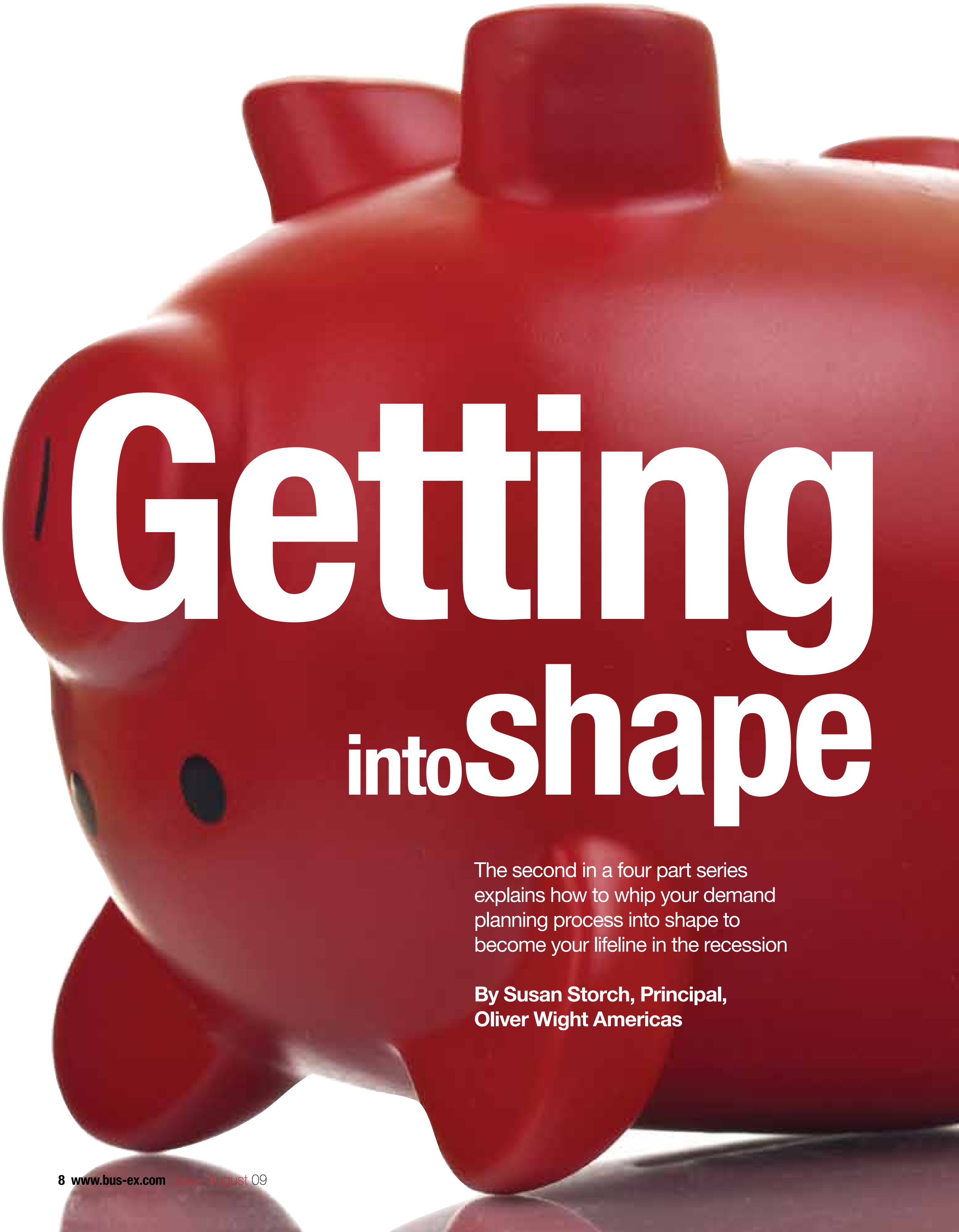
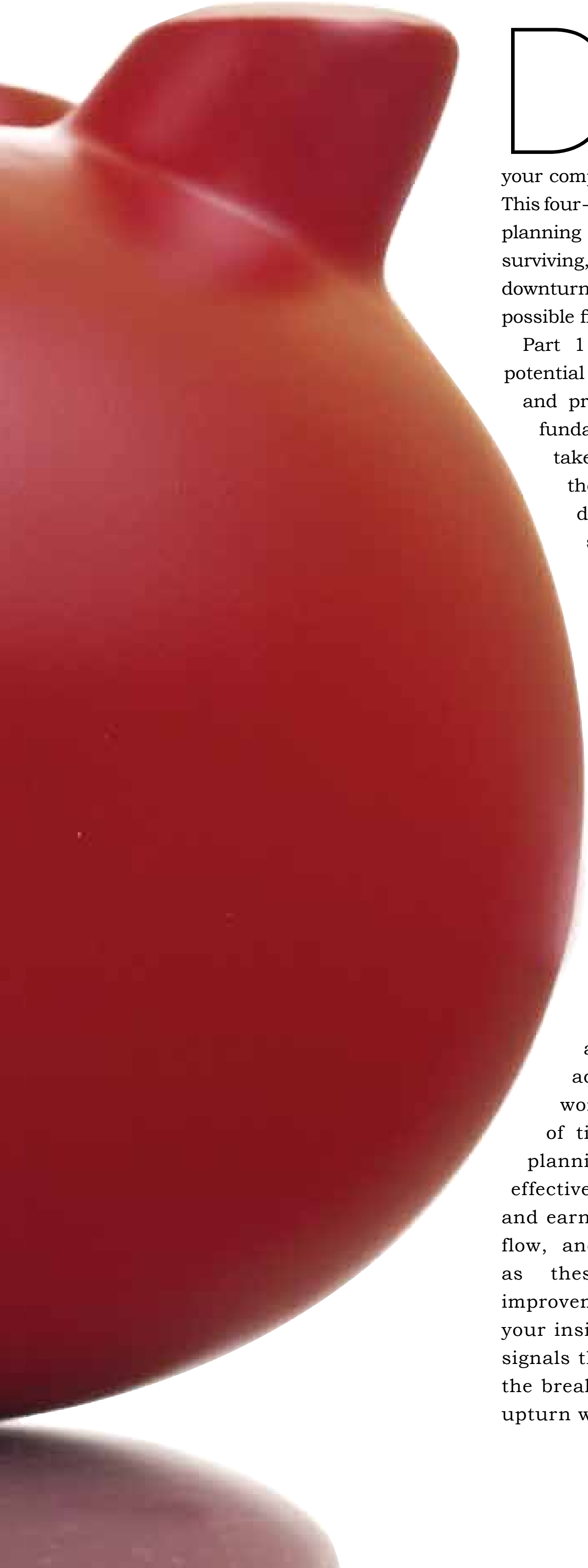


Getting into Shape

The second in a four part series explains how to whip your demand planning process into shape to become your lifeline in the recession

By Susan Storch, Principal, Oliver Wight Americas



Demand planning, often underutilized in the best of times as a means of improving cash flow and profitability, may become your company's lifeline in a recession. This four-part series discusses demand planning best practices in relation to surviving, and even thriving, in the downturn and emerging in the best possible financial health.

Part 1 explored the high benefit potential of demand planning in cash and profit and laid out the three fundamental moves you have to take to get it. Part 2 explains the first move, whipping your demand planning process into shape, and asks if you have the courage, the discipline, and the brilliance to be "process-driven" at a time when cash is scarce, resources are stretched, information is thin, and time seems too short.

My parting question last time was: "Do you have your business in top demand planning form to win in the recession game?" I challenged that we all missed signals on the way down, with deadly consequences for many and necessarily painful adjustments for most. This worst of times is the best of times to get your demand planning process performing effectively: increasing revenues and earnings, contributing to cash flow, and, at least as important as these short-term financial improvements, greatly increasing your insight and foresight into the signals that will allow you to catch the breaking edge of the inevitable upturn wave.

The logic of process discipline

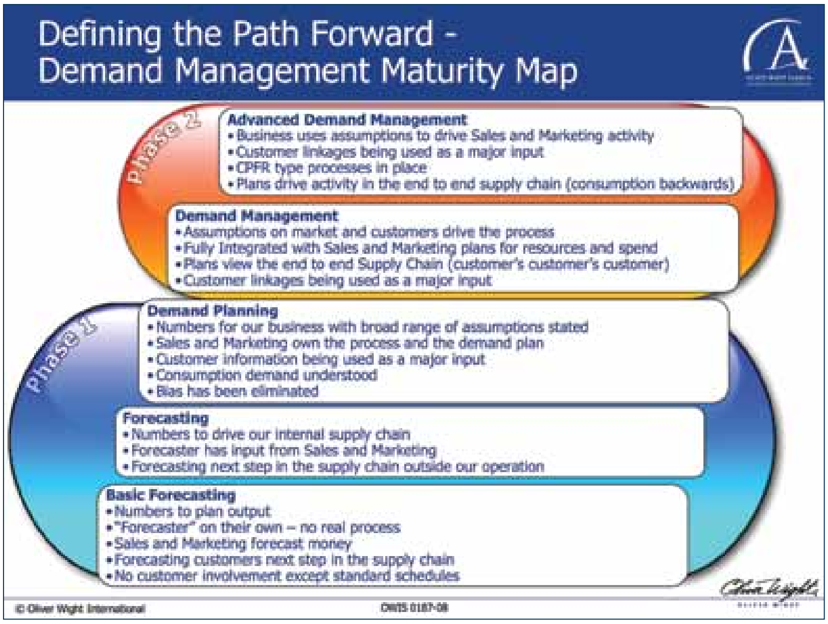
Every so often, when I am being briefed by a leadership team on their business planning processes, they confide: "We're not very process-oriented." Occasionally they reveal fears founded on rogue processes—slowness, inflexibility, and cramped creativity. Companies lacking well-designed processes, and the discipline to stick with them, abound. They may still succeed, for other reasons, but this is too risky a posture in a recession. We're talking about going for the gold here, wringing the cash out, getting stronger, and so we need a structure to discipline ourselves to attend to the details and watch the big picture, keep nose to ground yet eyes beyond the horizon, be quick on the trigger, and mindful of the consequences.

The recession financial imperative we discussed last time breeds another: a best practice demand planning process: pliable, fast, and built to serve not be served; repeatable, predictable, controllable, and self-improving. Suit up, because this may be just the weapon you need to overtake a successful but sloppy adversary. What's your fitness level as you start the campaign?

Progression of demand planning process excellence

There is a natural progression of process maturity in demand planning. I am going to describe five incremental stages of sophistication.

1. Basic forecasting: You have a forecasting system and a forecaster, for the purpose of helping you plan your output. The forecast is primarily computer-generated, based on history, and ranges from an Excel linear regression to a full-featured statistical application. There is minimal customer involvement, and the best internal source for customer information, your sales force, is not very interested because they are focused on their own



“Always keep opportunities and risks fresh, assess them with scenarios, establish action plans, and know when to light the fuses”

sales plan. Marketing has its own separate revenue forecast, and so does Finance. There is no formal process.

2. Forecasting: You have progressed to the point where your forecaster has a relationship of sorts with Sales and Marketing and gets numerical estimates from them. You are trying to predict sales to your immediate customer outside your own company. Your purpose is to help supply. You generate a time-phased forecast over a short planning horizon at an item (SKU) level to schedule production mix volumes. Production is frustrated by your inability to get the forecast right, and they come up with their own; this is in addition to the several forecasts already mentioned. There is a process, but it is probably not documented, other than an email or two.

3. Capable demand planning: You have experienced a crucial breakthrough. You have transitioned away from a forecast, with its connotation of being uncontrollable, to a demand plan. You have had the “a-ha moment” that demand isn’t something that happens to you, but happens largely as a result of actions you plan and control. You now have a highly formalized process that you use to plan and create demand in your addressable markets. Marketing or Sales has responsibility and accountability for the demand plan and reach consensus on it, at an aggregated family level, on a rolling horizon that extends at least 24 months. Documented assumptions, including as much information as can be had directly from customers, form the foundation for your unit and monetized demand plan, from which bias has been eliminated. Customer/consumer behaviors and trends are watched carefully. Scenario planning is used continuously.

4. Demand management: Your demand planning process has matured to become the business management process for the commercial organizations. Marketing and Sales planning for resources and funding is fully integrated into the process, linked top to bottom from strategic growth and profitability goals down to release of monies to develop short-term demand. Demand plans encompass all levels of customers and the end user. Direct communication paths are systematically in place where practical.

5. Advanced demand management: Your focus is on the consumer, or the consumer’s decision maker, and you are actively gaining more insight into them. In support of this, you are telescoping your demand planning process, using relationships, computerized linkages, and analytical tools. Your assumption-based, customer-linked, demand plans are finding additional revenue and margin opportunities and reducing risk. You

are collaborating with intermediate customers to set service levels and inventories, resulting in working capital being freed for research, new products, and marketing programs. There is external collaboration on new products and services. Gaps between the strategic plan and the latest projections for the next two years are actively managed.

The recession lifeline

Where did you find yourself? If you are not at least at capable demand planning, you are in "recession jeopardy." The good news is that getting to this process maturity level does not have to take long or cost much. Approached correctly, you could expect to see cash benefits within 90 days, and more to come, making it a lifeline worth grabbing. It will put you on top of and in command of recession essentials like these:

Strategy reassessment: We are going to be in this uncertain mess for quite a while, and change is happening at the speed of light. McDonald's finished its global strategy in October and reconvened in December for a redo. Where are your competitors most vulnerable? Can you grab share? Is a competitor suddenly a potential partner or a merger target? What companies or products are "on sale"?

Time frame for analysis: There is necessarily an increased short-term emphasis (quarter, month, week, even day) in a crisis. However, if you become solely focused here, your myopia will endanger you. Keep your vision clearly focused on the rolling intermediate term (4 to 24 months) for opportunities, risks, and signals of turnaround.

Planning frequency: Plan and monitor demand more frequently. Some of my clients in commodity-driven markets are doing it daily now. Increase your focus on cash flow and balance sheet aspects; add them to your demand plan metrics. Define thresholds of change that will "trigger" pre-planned actions, then execute with alacrity. I have watched accounts go "underwater" in a matter of days because of sales force reluctance to pull a pricing trigger.

Customer segmentation: Does your current customer segmentation serve you in the recession, or should you segment by recession mentality/ability to buy and pay? Witness Saks Fifth Avenue changing product mix to include more affordable brands. Reevaluate cost to serve and customer profitability in the industrial sector. Understand your price/profit relationship: a small reduction in price can have a many times greater reduction in profit.

Assumption management: Use assumptions to precision-engineer demand revenue and spend to be laser focused on what the customer wants and the business needs.

Consumer/customer: Watch for and anticipate behavior changes. In the candy industry in the last few months, shopping behavior shifted to best price, not promotion. Those quickest to understand it adjusted their demand plans and gained share.

Competitor: What are they doing, what can they do, what are they likely to do? Look for new sources of information. This might be Internet blogs and social networks.

Spend: Should you shift spend to influence buying patterns? It is commonly said that increasing advertising on brands in a recession can improve share and return; also that distributors will be influenced by early-buy allowances, extended terms, and return policy.

Pricing: Evaluate your pricing often. Understand gross to net revenues. These may be as high as 20 percent if products are heavily promoted with generous trade allowances.

Product: Get serious about product portfolio considerations, like what to bring in or take out of your product line, cannibalization, and life-cycle implications.

Economic factors: Outside of your control, yes, but know your leading indicators. Agree on what conditions will predict the turning-point timing for your business. Put hedging tactics in place to cushion the uncertainty.

Opportunity and risk management: Always keep opportunities and risks fresh, assess them with scenarios, establish action plans, and know when to light the fuses.

With a capable demand planning process in place, you can seize the recession by the horns. In the last recession, according to McKinsey, 24 percent of US industrial companies moved from the bottom to the top quartile of their industry. Why not your company?

Summary

The first fundamental move to getting at the recession-busting cash richness of your demand planning process is to get it quickly improved to a capable level. Use it to boldly address essential recession issues and get on top of them: strategy upset, defensive and offensive competitive actions, customer/consumer behavior change, pricing and profitability, and management of risks and opportunities.

My next article in this series will discuss the people aspect and change management requirements to win with your capable demand planning process. ■

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.